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North Tyneside Council

Cabinet

22 January 2021

Monday, 1 February 2021 commencing at 6.00 pm. This meeting will be held virtually and will be live streamed via the Council's YouTube channel.

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 verbally **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.	
3.	**2021-2025 Financial Planning and Budget Process: Cabinet's Draft Budget Proposals** To consider a report on the 2021-2025 Financial Planning and Budget Process: to seek approval for Cabinet's Draft Proposals for 2021/22 for the General Fund Revenue budget, Dedicated Schools Grant, Investment Plan and Housing Revenue Account (HRA)	**3 - 204**
4.	**Date and Time of Next Meeting** Monday 8 February 2021 at 6.00pm.	

Circulation overleaf …

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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.

North Tyneside Council
Report to Cabinet
Date: 1 February 2021

Title: 2021-2025 Financial Planning and Budget Process: Cabinet's Draft Budget proposals

Portfolio(s):		Cabinet Member(s):	
	Elected Mayor		Mrs Norma Redfearn
	Deputy Mayor		Councillor Bruce Pickard
	Finance and Resources		Councillor Ray Glindon
	Housing and Transport		Councillor Steve Cox
	Community Safety and Engagement		Councillor Carole Burdis

Report from Service Area:	**Senior Leadership Team**	
Responsible Officer:	**Janice Gillespie, Head of Resources (Chief Finance Officer)**	**Tel: (0191) 643 5701**
Wards affected:	**All**	

PART 1

1.1 Executive Summary:

1.1.1 On 3 August 2020, Cabinet agreed its 2021-2025 Financial Planning and Budget Process incorporating the associated Engagement Strategy. This report represents a key milestone in the development of the 2021/22 Budget and 2021-2025 Medium-Term Financial Plan (MTFP), as it sets out Cabinet's draft Budget proposals for the next financial year and beyond.

1.1.2 Cabinet's draft Budget proposals will ensure that the Authority continues to:
- deliver the priorities as set out in the Our North Tyneside Plan;
- protect and improve the things which matter most to residents – with no cuts to frontline services;
- drive forward the regeneration ambitions for the whole of the Borough;
- support residents and businesses to enable North Tyneside to recover and grow;
- tackle poverty and inequalities to ensure that no-one is left behind;
- keep North Tyneside as a great place to live, work and visit; and
- ensure a sustainable Medium-Term Financial Plan.

1.1.3 The Authority's 2020/21 Budget and accompanying MTFP were agreed by full Council in February 2020, prior to the significant escalation of the COVID-19 pandemic. Inevitably, the MTFP agreed in February 2020 could not foresee the adjustments which have been necessary to respond to COVID-19 during the current financial year.

The 2021/22 Budget is being prepared in exceptional circumstances and there is a significant level of risk and uncertainty in relation to the level of funding that will be available to local government in 2021/22 and beyond. Key reforms to local government funding, including the Fair Funding Review, Business Rates Retention and reform of adult social care funding have all been repeatedly delayed. Nationally, the Comprehensive Spending Review (CSR), which would have set out the Government's spending plans over the next three years, has been delayed. In November 2020, the Government announced a one-year spending round for 2021/22 and on 17 December 2020 published the Provisional Local Government Finance Settlement for 2021/22. Full details of the Provisional Settlement are included in Annex A, section 3.

1.1.4 The Provisional Settlement confirms that Core Spending Power (CSP) for local authorities will increase by 4.5% in cash terms in 2021/22. Cabinet should be aware that the Government's assumption is that to achieve this increase all authorities will implement the maximum allowed Council Tax increase of 5%: a 2% increase for general Council Tax and a 3% increase for the Adult Social Care Precept. In calculating CSP, the Government has assumed that each authority's Council Tax Base, used to calculate the total level of Council Tax resources, has increased in line with their average Council Tax Base growth since 2016/17.

The Government has estimated that local authorities will have access to an additional £1.0bn of social care resources in 2021/22. However, of this, £0.700bn is assumed to be raised from the Adult Social Care Precept and £0.300bn has been identified as additional grant funding. Cabinet should be aware that unlike in previous years there will be no New Homes Bonus returned surplus in 2021/22. The Government has used the surplus to partially fund the social care grant, the increase in revenue support grant and the new lower-tier services grant.

As in previous years, the key feature of the Provisional Settlement is the increased reliance on increasing Council Tax: 87% of the increase in CSP for 2021/22 is from assumed Council Tax increases (52% in 2020/21) and is accompanied by relatively low increases in grant funding. In recent Settlements, raising local taxation has, in the main, been the Government's short-term solution to the fact that there is still no sustainable Settlement for local government or a route to pay for rising demand and costs in social care.

1.1.5 The Elected Mayor and Cabinet's draft Budget proposals therefore include, for consideration, a 1.99% general Council Tax increase and a 3% Adult Social Care Precept increase. In proposing this rise the Authority has moved to protect those who will be hardest hit by providing discounts for Council Tax from one-off funding related to the pandemic and by continuing the Authority's work on poverty intervention. For the whole Borough, the Authority is directing those additional resources to important front-line services and investing in homes and jobs which will continue to make North Tyneside a great place to live, work and visit. The Medium-Term Financial Plan (MTFP) includes the cumulative impact of these increases for the subsequent financial years 2022/23 to 2024/25.

1.1.6 When the 2020/21 Budget and MTFP were agreed in February 2020, nobody could have predicted the financial impact of the COVID-19 pandemic both nationally and locally. Reports published by both the Office for National Statistics and the Office for Budget Responsibility describe the significant economic impact that COVID-19 has had on public sector finances; this impact has also been felt locally. Whilst the Government has provided some additional funding to cover the financial impact suffered as a result of the pandemic in relation to lost income and additional expenditure, it does not cover all the financial pressures.

1.1.7 Throughout the response to the pandemic, the Authority has provided local leadership and has taken action to maintain the delivery of vital services to residents and businesses across the Borough. Additional support has also been given to the NHS and wider health system through enhanced hospital discharge processes to free up capacity, protect vulnerable people, support businesses, and ensure the safety of all staff delivering this vital work.

1.1.8 The ongoing impact of COVID-19, along with continued uncertainty about future funding, represents a significant challenge for the Authority. This report sets out an approach for Budget-setting that takes account of this. Despite the unprecedented level of risk and uncertainty, the Authority will continue to develop its Budget plans for 2021/22 and beyond on the basis of maintaining continued progress to deliver the Ambition for North Tyneside and the priorities of the Our North Tyneside Plan (the Council Plan).

1.1.9 The Spending Review 2020 announced on 25 November 2020 and the Provisional Settlement has confirmed some of the assumptions made in the preparation of these draft Budget proposals, but there remains a need for ongoing flexibility to respond to changing circumstances, particularly in light of the forecast economic impacts. The MTFP will continue to be updated in light of future Government announcements and as the scale of the impact of COVID-19 on the Authority becomes clear.

1.1.10 There are a number of assumptions and judgements (paragraph 1.5.17) 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.

1.1.11 Cabinet, in its report of 30 November 2020, 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 2021-2025 and associated Investment Plan 2021-2026 (within Annex 1). In addition, the report outlined the proposed changes to housing rent, garage rent and service charges for 2021/22.

1.1.12 Cabinet is now formally asked to approve the proposed spending and resource plans for the HRA Revenue Budget for 2021/22 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 2021-2026 Investment Plan, the proposed 1.5% rent increase from April 2021 (in line with Government policy), and the proposals in relation to housing service charges and garage rents for 2021/22. The proposed spending plans have been updated to reflect the 2020/21 in-year monitoring position for the HRA as reported to Cabinet on 25 January 2021 and the updated balances position now anticipated for the beginning of the 2021/22 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:

General Fund Revenue Budget, Dedicated Schools Grant and Investment Plan

(a) agree the key principles being adopted in preparing the Medium-Term Financial Strategy for the Authority, subject to an annual review;

(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 18 February 2021, in accordance with the Authority's Constitution and Budget and Policy Framework Procedure Rules;

(c) Note that Cabinet's proposals for the 2021-2026 Investment Plan (Appendix D (i)), including the draft Capital Investment Strategy (Appendix D (iv)) and Prudential Indicators for 2021-2026 (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 18 February 2021;

(d) Consider and agree the estimates of amounts in relation to the 2021-2026 Investment Plan, including prudential indicators for 2021-2026 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 2021-2026 Investment Plan will be kept under review by the Investment Programme Board;

(f) Note that Cabinet's proposals for the Treasury Management Statement and Annual Investment Strategy for 2021/22 will be submitted to full Council for its meeting on 18 February 2021 Appendix E (i);

(g) Approve the Treasury Management Statement and Annual Investment Strategy for 2021/22 Appendix E (i);

(h) Consider and agree the draft proposals in relation to the Treasury Management Statement, Annual Investment Strategy for 2021/22 and Treasury Management Practices (TMPs) Appendix E (ii);

(i) Note that any implications that affect the information in this report arising from decisions of Cabinet on 1 and 8 February will be provided as a supplementary report to full Council on 18 February 2021;

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

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

(l) Note the key aspects of the 2021/22 Provisional Local Government Finance Settlement announced on 17 December 2020 and how these have 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;

(m) 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 its financial resources;

(n) Consider and agree the estimates of amounts for the 2021/22 setting of the Council Tax requirement including the General Fund Revenue Budget, 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 (2020/21) and indications for the Financial Plan for 2021/22;

(o) 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 18 February 2021;

(p) Note the conclusions of the Overview, Scrutiny and Policy Development Committee's review of the 2021/22 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 8 February 2021;

(q) Note the Provisional Statement by the Chief Finance Officer (Annex 1, Section 9);

(r) 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 2021/22;

(s) 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

(t) 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.

<u>Housing Revenue Account</u>

(a) Consider any recommendations arising from the Overview, Scrutiny and Policy Development Committee's consideration of Cabinet's initial Budget proposals for the 2021/22 Housing Revenue Account (HRA) Business Plan and Budget proposed by Cabinet on 30 November 2020 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 1 February 2021;

(b) Consider and agree the final proposals in relation to the 2021/22 Housing Revenue Account Budget and associated Business Plan;

(c) Increase individual housing rents by 1.5% as outlined in Annex 1 HRA to this report and in the HRA section of 30 November 2020 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 2021/22 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 2021/22 the increase will be 1.5%;

(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 2021/22 it is recommended that garage rents will increase by 1.5%;

(f) Note the assessment in relation to the current year's budget monitoring information (2020/21), and indications of financial plans for 2021-2025 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 18 February 2021 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 Investment Strategy will apply to the updated 2021-2026 Asset Management Strategy for the HRA;

(h) Note the draft Treasury Management Statement and Annual Investment Strategy for 2021/22 Appendix E (i) 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 £111.148m 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 2021-2026 (Annex 1 HRA 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 2021/22 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 4 December 2020.

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 Budget proposals will also be presented to the Overview, Scrutiny and Policy Development Committee during the course of the Budget-setting process. The priorities in the 2020-2024 Our North Tyneside Plan provide the strategic framework within which Budget resources are allocated.

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:

1.5.1 <u>Background</u>

1.5.1 On 20 February 2020, full Council approved a Medium-Term Financial Plan for the period 2020/21 to 2024/25, providing a financial framework to support the delivery of the Authority's priorities as set out in the 2020-2024 Our North Tyneside Plan. The Budget set in February for 2020/21 was balanced, based on a robust set of assumptions in relation to the resources available and prudent estimates of the expenditure that was necessary to deliver the Authority's Services.

1.5.2 Whilst the Authority was aware of COVID-19 at the time of Budget-setting, it would have been impossible to predict the significant escalation of the pandemic which led to the first national lockdown being implemented by the Government on 23 March 2020, and the subsequent financial implications that would follow this.

1.5.3 As Budget-planning activity progresses, Cabinet will be aware that there is a significant amount of uncertainty remaining. Social care continues to be funded by short-term one-off grant allocations and, in the absence of a sustainable funding solution, the Government has continued to suggest that local authorities apply an Adult Social Care Precept of up to 3% for 2021/22, which leaves the financial burden of supporting vulnerable adult residents with local taxpayers.

1.5.4 It is without doubt that the need for the Authority to respond to the COVID-19 pandemic has adversely impacted the financial position of the Authority. As Cabinet will be aware, in a normal year it is challenging to deliver a balanced in-year position against the Budget. The financial impact of COVID-19 has compounded this challenge and, as described in the November Financial Management report, the current estimated pressure due to COVID-19 at the end of November is £1.383m for the General Fund and £1.524m for the Housing Revenue Account.

In addition, to delivering business as usual, the Authority has needed to mobilise its workforce to undertake new responsibilities and lead the local response to the pandemic. The COVID-19 Support Hub was specifically set up to support and protect the clinically extremely vulnerable residents in the Borough during the first national lockdown when they were required to shield in their homes to protect themselves from the virus. Proactive work has continued to support the care sector to meet the additional operation costs due to COVID-19. The Authority has also effectively administered over £34.8m of grants to eligible businesses to help support the local economy, whilst also ensuring that the public and staff are protected by introducing effective control measures to public buildings and open spaces in the Borough.

Cabinet will be aware that some services had to be suspended during the initial escalation of the pandemic and due to national lockdown measures. This led to a significant loss of sales, fees and charges income, with school improvement, leisure, cultural and catering services seeing the biggest income losses. On 2 July 2020, the Government announced that financial support would be provided to local authorities for income lost on sales, fees and charges. This income compensation scheme provides support for some of the income lost; however, the Authority is required to cover the first 5% of any budgeted losses. This area poses a specific risk for 2020/21 and the medium term as it remains uncertain how quickly demand for services will recover. It is likely that the Authority will continue to see reduced income levels in relation to sales, fees and charges in future years.

The impact of COVID-19 poses a significant risk to the local economy, which will influence the Authority's ability to raise resources. Increased levels of unemployment, resulting in higher claims for Universal Credit coupled with a suppressed level of growth in new properties, means that it is highly likely key income sources, including Council Tax, will be under significant pressure in 2021/22.

Business rates income is also likely to be impacted in the event of business closures, due to increases in the number of properties claiming empty property relief where businesses either cease trading or seek to take advantage of changed working patterns to reduce property costs. Appeals against rateable values may increase where rental values have been impacted.

Demand for adult social care has increased as a direct result of the pandemic, and it is possible that some of the increases in demand will continue into 2021/22. The care market has also experienced increases in operational costs and lost income due to under occupancy in some care homes where the Authority has supported with grants that have been received by the Government. There is a risk that a rise in the underlying costs will impact market prices which will not be covered by additional funding from the Government; this would leave the Authority with increased financial pressures in 2021/22.

There is the potential for additional cost pressures in Children's Services, linked to surges in demand, particularly in relation to looked after children, as the Authority sees the impact of rising unemployment on family life, in particular for those families already managing financial hardship. In addition, there is a risk that the wider operating environment has changed, which may put pressure on assumptions about traded services with schools.

1.5.5 Cabinet will be aware that in challenging circumstances the priorities, as set out in the Our North Tyneside Plan, continue to be met and that the Authority has a good track record of delivering those priorities within the funding resources that are available. This is evidenced by the fact that Cabinet has delivered balanced outturns, without the need to use reserves, in each of the last three financial years.

1.5.6 Whilst the approach to Budget-setting this year feels very different and there is a significant amount of risk and uncertainty, Cabinet will continue to plan for the future, listening and focusing on the priorities of residents and businesses. This includes producing a balanced Budget for 2021/22 and a Medium-Term Financial Plan based on a reasonable and prudent set of assumptions. Despite the unknowns, the residents and businesses that live and work within the Borough need certainty that the Authority is continuing to deliver services that meet their needs and that their money is being spent well.

Approach to Managing Uncertainty

1.5.7 Whilst there is still a significant level of uncertainty, the Authority will continue to deliver best practice as would be expected for its residents. That means there is a refreshed four-year Medium-Term Financial Plan for both the General Fund (GF) and Housing Revenue Account (HRA) alongside a five-year capital investment programme. Those financial plans have been based on a benchmarked set of assumptions which have included information from HM Treasury, the National Office of Statistics and the Office for Budget Responsibility, CIPFA, dialogue with the Society of Municipal Treasurers, as well as the local Treasurers across the LA7 and Association of North East Councils areas.

In 2020/21, a three-year settlement was announced as part of the Local Government Finance Settlement for the Dedicated Schools Grant (DSG) covering the period to 2022/23. The final 2021/22 DSG allocation was announced on 18 December 2020, financial planning for high needs and early years is based on the revised DSG grant allocation.

The Authority's reserves and balances continued to be reviewed in light of the changing picture of risk and uncertainty, and that will be reflected in the Chief Finance Officer's Section 151 Statement, included in the Annex to this report.

1.5.8 The Authority has continued to engage effectively with its NHS partners and has worked collaboratively with partners across the care sector. In June, Cabinet outlined its approach to supporting the care sector and produced an action plan of measures which ensured that care homes across the Borough received financial support to safeguard services for the most vulnerable residents in the Borough. Cabinet will be considering options over the MTFP period, with a particular focus on a stronger approach to commissioning and demand management across the care sector, ensuring that services will meet individuals' needs, maintaining a sustainable care market and that all services offer value for money. This will take account of the changing nature of demand for adult social care services and the challenges facing adult social care nationally.

1.5.9 The latest estimates of the financial impact of the COVID-19 pandemic are set out in the November Financial Management report. Many of the additional costs, lost income and undeliverable savings in the current year will have an extended impact on the 2021/22 Budget. As at November 2020, the total estimated financial impact of COVID-19 including the HRA was £28.596m. This includes estimated additional costs of £22.399m, lost income of £12.682m and estimated savings of £6.485m this has been funded by £25.689m of grants leaving a gap of £2.907m for the Authority to fund. Further details of this are included in Table 1 below:

Table 1: Estimated Financial Impact of COVID-19

Service	Lost Income	Increased Costs	Savings	Net Impact of COVID-19
	£m	£m	£m	£m
Commissioning & Asset Management	2.653	2.329	(1.578)	3.404
Environment Housing & Leisure	7.546	0.905	(0.243)	8.208
Adult Social Care	0.017	13.495	(4.447)	9.065
Children's Social Care and Public Health	1.021	3.118	(0.097)	4.042
Law and Governance	0.342	0.000	(0.120)	0.222
Central	0.000	0.831	0.000	0.831
Corporate Strategy	0.080	0.013	0.000	0.093
Regeneration & Economic Development	0.055	0.000	0.000	0.055
Resources	0.968	0.184	0.000	1.152
Total	**12.682**	**20.875**	**(6.485)**	**27.072**
HRA	0.000	1.524	0.000	1.524
Grand Total	**12.682**	**22.399**	**(6.485)**	**28.596**
Government Grants				(25.689)
2021/22 Net Impact				**2.907**

A line-by-line review and risk assessment has been performed against all areas that have seen a financial impact as set out above. Consideration has been given to how some of those impacts may continue into 2021/22 and a set of actions has been developed to manage these. It is prudent to expect that there will be an ongoing financial impact and Table 2 below sets out the areas assessed as medium or high risk which will be closely monitored as Budget-setting activity progresses:

Table 2: Income and Expenditure Risk Assessment of the Potential Financial Impact of COVID-19 in Future Years

Income		Expenditure	
Area of Risk	**Risk Assessment**	**Area of Risk**	**Risk Assessment**
School Improvement	Amber	COVID secure buildings	Amber
Sport and Leisure	Red	Demand in Children's Services	Red
Cultural Facilities	Amber	Demand in Adult Social Care	Red
Catering Services	Amber	Cleaning	Red
Property Lettings	Amber	Home to school transport	Red
		Increased bad debts	Amber

1.5.10 The Our North Tyneside Plan 2020-2024 (the Council Plan) sets 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 Plan. These priorities have also formed the basis of the framework for COVID-19 recovery in North Tyneside.

The Our North Tyneside Plan is structured in three key themes: Our People, Our Places and Our Economy. The Authority's engagement activity over the summer in the Big Community Conversation with its Residents Panel and subsequent engagement on the Council Plan and Cabinet's initial Budget proposals that took place on 7 January 2021, has confirmed that the priorities in the Plan continue to reflect those of residents. Through the Big Community Conversation, residents were asked for their views on what is important for the Borough in recovering from the pandemic. These priorities are all included in the Our North Tyneside Plan as set out in the Annex to this report.

2021-2025 Medium-Term Financial Plan

1.5.11 General Fund

The Elected Mayor and Cabinet have worked with the Senior Leadership Team (SLT) since the summer to prepare the draft Budget proposals. The Budget assumptions used for the 2020-2024 Medium-Term Financial Plan have been revised based on national, local and internal changes.

Resources have been revised to take account of the potential impact of COVID-19 on Council Tax and Business Rates in line with the risks described in section 1.5.4. The SLT have reviewed the anticipated growth and efficiency assumptions and where necessary these have been revised. Table 3 below shows the high level Medium-Term Financial Plan for 2021-2025 prior to the provisional settlement announcement, the estimated resources available do not include any assumptions for an increase in Council Tax.

The draft Medium-Term Financial Plan for the General Fund before any income or expenditure adjustment relating to the Provisional Settlement indicates a “gap” of £6.370m in 2021/22. Without actions over the four-year MTFP period, the cumulative impact is in the region of £42.548m.

Table 3: 2021-2025 Draft Medium-Term Financial Plan

	2021/22 £m	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Spend Assumptions	166.492	159.498	172.722	173.722
Estimate of resources available	(160.122)	(145.341)	(161.492)	(162.931)
Gap	**6.370**	**14.157**	**11.230**	**10.791**
Cumulative Gap		**20.527**	**31.757**	**42.548**

Provisional Local Government Finance Settlement 2021/22

Table 4 below shows the movement in income and expenditure as a result of the Provisional Settlement and other Government announcements made since the 30 November 2020 Cabinet meeting. The Authority’s income has increased by £1.911m and expenditure has increased by £0.499m, giving a net increase in income of £1.412m.

Table 4: Provisional Settlement and other Government announcements

Movement since November Cabinet	**£m**
Resources	2.213
New Homes Bonus	0.991
S31 Grant NNDR – Indexation compensation	(0.056)
S31 Retail / Nursery Relief	(0.809)
Business Rates – Cost of Collection	(0.003)
Revenue Support Grant	(0.006)
Social Care Grant	(1.474)
Lower Tier Services Grant	(0.297)
Income Guarantee – Council Tax	(0.463)
Income Guarantee – Business Rates	(1.055)
S31 Local Council Tax Support 2021/22	(2.065)
Business Rates Volatility Reserve	1.113
Total Income Movement	**(1.911)**
Review of Growth	0.499
Total Expenditure Movement	**0.499**
Total Net Increase in Income	**(1.412)**

The financial impact of the movement in income and expenditure as a result of the Provisional Settlement and other Government announcements on the net revenue Budget is shown in table 5 below. The residual gap remaining for 2021/22 prior to any proposed increase in Council Tax is £4.958m.

Table 5: Financial impact of the movement in expenditure and income

	2021/22 £m	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Gap	**6.370**	**14.157**	**11.230**	**10.791**
Movement in Income & Expenditure	(1.412)	1.649	(0.371)	(0.371)
Gap	**4.958**	**15.806**	**10.859**	**10.420**
Cumulative Gap	**0.000**	**20.764**	**31.623**	**42.043**

1.5.12 Housing Revenue Account

Just like the General Fund, the Housing Revenue Account (HRA) continues to face financial pressures which have been impacted further by the COVID-19 pandemic. The impact of the pandemic on the economy has a significant impact for the HRA. Rent increases for next year are based on the Consumer Price Index (CPI) rate, as at September, plus 1%. The rate announced for September 2020 was 0.5% compared to the CPI target rate of 2%. This creates a reduction in assumed rental income of around £45m over the next 30 years, which will require a package of measures to mitigate the impact on the 30-year plan.

Table 6: 2021-2025 Draft Medium-Term Financial Plan – Available Resources and Estimated Spend

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Estimate of Resources Available	69.093	70.589	72.292	73.943
Spend Assumptions	71.036	70.968	72.220	73.981
Net Expenditure	**1.943**	**0.379**	**(0.072)**	**0.038**

1.5.13 2021-2026 Draft Investment Plan

The 2020-2025 Investment Plan totalling £244.320m was approved by Council on 20 February 2020. Delivery of projects within the Plan and progress to date has been reported to Cabinet as part of the bi-monthly Financial Management reports. Reprogramming of £10.284m has been identified as part of the process and this spend is now included in the 2021/22 planned spend shown below (£11.343m 2021-2026).

Table 7: Summary of the draft Investment Plan 2021-2026

Spend	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	Total £000's
General Fund	39,012	17,262	15,458	15,988	13,435	**101,155**
Housing	26,362	26,043	27,400	29,949	31,424	**141,178**
Total	**65,374**	**43,305**	**42,858**	**45,937**	**44,859**	**242,333**

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.

1.5.14 **Dedicated Schools Grant**

Cabinet will be aware that school funding is a matter for the Department for Education; either by direct funding agreements with academy trusts or delegated by local authorities to schools where budget management is the delegated responsibility of each governing body. As in previous years, Cabinet has determined the local formula to distribute funding to mainstream schools and academies for the financial year 2021/22. 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 Education, Skills and Funding Agency (ESFA), for the year starting 1 September 2021. Full details of the Dedicated Schools Grant allocations for 2021/22 are included in Section 5 of Annex 1.

1.5.15 **Mayor and Cabinet Options:**

2021-2025 General Fund Medium-Term Financial Plan

The Medium-Term Financial Plan approved by full Council in February 2020 included a 1.99% general increase in Council Tax and a 2% Adult Social Care Precept for 2020/21 only. As announced in the Provisional Settlement, the Government has confirmed that local authorities' Core Spending Power (CSP) will increase by 4.5% and that there is an additional £1bn for social care. Cabinet should be aware that the increase in CSP and the additional funding for social care includes an assumption that local authorities will increase their Band D Council Tax by the maximum allowed, which for 2021/22 has been confirmed at 4.99%: 1.99% for General Council Tax and 3% for the Adult Social Care Precept.

These draft Budget proposals include a proposed Council Tax and Adult Social Care Precept in line with the Government's assumptions. Based on the Council Tax Base as set by Cabinet on 25 January 2021, this would raise approximately £4.958m of additional funding for 2021/22 (made up of £1.977m general Council Tax, 1.99% and £2.981m from the Adult Social Care Precept, 3%). The final level of any change in Council Tax will be confirmed in February 2021 following a decision by full Council. Table 8 below sets out the impact on the Budget gap and the Medium-Term Financial Plan should an increase in Council Tax and an Adult Social Care Precept (ASCP) be agreed in 2021/22:

Table 8: 2021-2025 General Fund Medium-Term Financial Plan cumulative funding gap including the proposed Council Tax options

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Gap	**4.958**	**15.806**	**10.859**	**10.420**
General Council Tax – 1.99%	(1.977)	(1.986)	(2.001)	(2.016)
Adult Social Care Precept – 3%	(2.981)	(2.994)	(3.016)	(3.039)
Gap	**0.000**	**10.826**	**5.842**	**5.365**
Cumulative Gap	**0.000**	**10.826**	**16.668**	**22.033**

Cabinet Policy Priority - Poverty Intervention Fund (PIF)

Cabinet recognise the importance of continuing to support residents in North Tyneside who are experiencing poverty and financial hardship. In addition to the financial hardship due to the increasing detrimental impact of Universal Credit and other Government welfare reforms, families and residents in the Borough are also suffering from the financial impact of COVID-19. Cabinet are therefore proposing to set aside £0.600m to continue to support residents through the PIF during 2021/22.

Cabinet proposes to fund the expenditure using £0.250m of residual funding from the £1.000m that was set aside for the PIF during 2020/21 and a further £0.350m will be funded in the first instance by the Strategic Reserve which will be earmarked in 2021/22 for this purpose. Cabinet will look to utilise any residual COVID-19 grants where the terms and conditions of the grants allow for this in order to minimise any call on reserves.

2021-2025 Efficiency Programme

The 2020-2024 Medium-Term Financial Plan agreed in February 2020 included planned savings for 2021/22 to 2023/24 as shown in Table 9 below:

Table 9: 2021-2024 Efficiency Programme as at February 2020

Efficiency Programme	2021/22 £m	2022/23 £m	2023/24 £m
2018/19 Full Year Effect of Budget Proposals	(0.762)	(0.482)	
2019/20 Full Year Effect of Budget Proposals	(0.500)	(0.500)	
2020/21 Full Year Effect Budget Proposals	(0.530)	(0.625)	(1.035)
Total Prior Year Budget Proposals	**(1.792)**	**(1.607)**	**(1.035)**

The 2021/22 Efficiency Programme relating to prior years covers the following:

- Contractual changes
- Expenditure reduction
- Income growth
- Service provision – commissioning
- Corporate

In addition to the planned savings, the Elected Mayor and Cabinet are developing options for consideration to continue to drive down costs and balance the General Fund over the next four years of the Medium-Term Financial Plan. The aim is to do this via a range of strategic activities which include:

- Workforce planning: changing the workforce over the next four years where the need to change aligns to people's plans and recruitment and skills needs;
- Commissioning planning: looking specifically at procurement, demand management and testing joint provision with the NHS;
- Digital Strategy: cash and efficiency benefits from investing in the Authority's priority projects and delivering the Digital Strategy; and
- Asset management planning: investing capital to reduce revenue costs and improve the Minimum Revenue Provision position.

Housing Revenue Account

The options that are being developed for consideration to balance the HRA and mitigate against the estimated impact on rental income due to the low rate of the CPI are:

- An ongoing review of bad debt provisions and the associated assumptions;
- A review of levels of in-year contingency provided within both the Management and Repairs budgets;
- Review of the approach to debt management within the Treasury Management Strategy for the HRA, to slow down the rate at which the Authority repay debt over the life of the 30-year Business Plan, as the strategy was always to repay debt where prudent and if the Authority could afford to do so; and
- Continue the review of the structure of the Housing Property and Construction Service, which should deliver savings in both operational and management and support costs.

2021-2026 Investment Plan Options

In addition to the agreed 2020-2025 Investment Plan, proposals for the 2021-2026 Investment Plan for consideration as part of Budget-setting are set out below:

- Addition of an invest to save project for Streetlighting LED - in July 2019 Council declared a Climate Emergency, setting a target to reduce the carbon footprint of the Authority and the Borough by 50% by 2023 and to become carbon neutral by 2050. A key area identified to help achieve this target is to improve energy efficiency and reduce electricity used in streetlighting by the continuation of installation of LED bulbs. It is estimated that the overall project will produce a reduction in electricity kilowatt hours of over 4.6 million, reduction in CO2 emissions of 1,281 tonnes, reduced electricity spend of over £0.600m and reduced ongoing maintenance of £0.070m;
- In view of the outcome of a number of building condition surveys an additional £0.500m has been added to the 2021/22 Asset Planned Maintenance budget to reflect identified requirements; and,
- A new year five (2025/26) has been added to reflect rolling programme projects such as Asset Planned Maintenance, Additional Highways Maintenance and ICT refresh.

Dedicated Schools Grant

North Tyneside, like many local authorities both regionally and nationally, is experiencing an increase in the numbers of children with Special Educational 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 (SEMH), 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 (DSG). The pressure within High Needs has continued to increase in 2020/21 with a forecast in-year outturn variance of £3.690m, bringing the estimated cumulative pressure to £8.232m. The funding allocation for High Needs shows that the Authority will receive an additional £3.099m in 2021/22, however, it is not sufficient to address the underlying increase in need.

Where a local authority has an overall deficit on the DSG of 1% or more, it is required to submit a recovery plan to the Department for Education setting out how it plans to bring the overall DSG account into balance. The Authority is currently preparing a DSG recovery plan which will outline actions that will need to be taken to bring the DSG back into financial balance over a five-year period.

1.5.16 At its meeting on 1 April 2019, Cabinet agreed a report which set out ‘An Ambition for North Shields and the Fish Quay’. This built on the Authority’s wider regeneration objectives that were agreed at the Cabinet meeting held on 26 November 2018 where it agreed a regeneration strategy for the Borough: An Ambition for North Tyneside which identified North Shields Town Centre and Fish Quay as a specific priority. Since receiving an award of funding for £0.200m from the North of Tyne Combined Authority in March 2019, officers have been working with the North Shields Project Group, comprising the Deputy Mayor, Chief Executive and Heads of Service to refine a draft Masterplan which reflects the Authority’s policy objectives, and which contains a series of self-contained projects that can be further developed and delivered as and when funding allows. As agreed by Cabinet, the overall aim for North Shields Town Centre and the

Fish Quay is to create a smaller, more vibrant and connected town centre which combines living, working and retail and is a destination in its own right. In turn, that will be connected to an increasingly vibrant Fish Quay, both of which will be supported by better transport flows, stronger infrastructure and a higher quality-built environment.

Draft Budget Proposals

1.5.17 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. These draft Budget proposals are therefore subject to further review before they can be confirmed. The information to be assessed and finalised includes:

(a) The Final Local Government Finance Settlement announcements for 2021/22, including capital announcements and specific grants, including the Dedicated Schools Grant (DSG);

(b) Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority Precepts (due February 2021);

(c) Levies, including the North of Tyne element of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority Transport Levy (due February 2021);

(d) Tyne and Wear Joint Service Budgets (due January/February 2021); and

(e) Consideration of the impact of the economic climate on the residents of the Borough and Council Taxpayers.

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, Deputy Mayor and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these proposals.

1.6 Decision options:

1.6.1 Option 1
Cabinet can agree the proposals set out in this report.

Option 2
Cabinet can suggest that further / different options are considered by the Senior Leadership Team and be reported back to Cabinet for further consideration.

Option 1 is the recommended option.

1.6.2 As explained in 1.5.17, there is still a significant amount of external 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. Recommendation 1.2.1 (r) refers.

1.7 Reasons for recommended option:

Due to external information still to be received, Cabinet is not in a position to finalise setting its proposed Council Tax level for 2021/22 in relation to the General Fund. These draft Budget proposals include an assumed general increase to Council Tax of 1.99% and an Adult Social Care Precept of 3% in 2021/22. 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	2021-2025 Financial Planning and Budget Process – Cabinet's draft Budget Proposals for the General Fund
Annex 2	2021-2025 Financial Planning and Budget Process – Cabinet's Final Budget Proposals for the Housing Revenue Account
Appendix A	2020-2024 Our North Tyneside Plan
Appendix B (i)	2021-2025 General Fund Medium Term Financial Plan
Appendix B (ii)	2021-2025 Budget and Financial Plan Draft
Appendix C (i)	HRA Business Plan 2021-2025
Appendix C (ii)	HRA Financial Plan and Reserves Contingency Movement
Appendix D (i)	2021-2026 Investment Plan Summary
Appendix D (ii)	2021-2026 Housing Investment Plan
Appendix D (iii)	Prudential Indicators 2021-2025
Appendix D (iv)	Capital Investment Strategy
Appendix E (i)	2021/22 Treasury Management Statement, Annual Investment Strategy and Credit Criteria
Appendix E (ii)	Treasury Management Practices (TMPs) 2021/22
Appendix F	Budget Engagement Summary 2021/22
Appendix G	Reserves and Balances Policy 2021/22
Appendix H	2021/22 Financial Planning and Budget Timetable of Key Future Decision Milestones
Appendix I	2021/22 Report of the Overview, Scrutiny and Policy Development Committee – January 2021
Appendix J	Glossary of Terms

1.9 Contact officers:

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1.10 Background information:

The following background papers/information have been used in the compilation of this report and are available at the office of the author:

(1) 2021-2025 Financial Planning and Budget Process, Cabinet's Initial Budget proposals Cabinet 30 November 2020. The report items are as follows:

https://democracy.northtyneside.gov.uk/documents/b1603/2021-2025%20Financial%20Planning%20and%20Budget%20Process%20-%20Cabinets%20initial%20budget%20proposals%2030th-Nov-2020%201.pdf?T=9

(2) 2021-2025 Financial Planning and Budget Process, incorporating the Council Plan and associated Budget Engagement Strategy, Cabinet 3 August 2020. The report items are as follows:

https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CId=174&MId=426&Ver=4

(3) Provisional Local Government Finance Settlement

https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2021-to-2022#provisional-settlement-2021-to-2022

(4) 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

(5) 2020/21 Financial Management Report to 30 November 2020 – Cabinet 25 January 2021.

https://democracy.northtyneside.gov.uk/documents/g430/Public%20reports%20pack%2025th-Jan-2021%2018.00%20Cabinet.pdf?T=10

(6) 2020/21 Financial Management Report to 30 September 2020 – Cabinet 30 November 2020.

https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CId=174&MId=429&Ver=4

(7) Local Council Tax Support Scheme 2020/21

https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/North%20Tyneside%20Council%202020-21%20PDF_0.pdf

(8) General Fund Budget Summaries

(9) MHCLG's Guidance on Local Government Investments

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

(11) CIPFA Treasury Management Guidance Notes 2018

(12) The report also makes reference to other documents which are available at the office of the author:
- Constitution
- Annual Governance Statement
- Equality Impact Assessment – Budget Engagement
- Equality Impact Assessment – Council Tax and Housing Rent increase

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 2021/22 Budget-setting process. Decisions on the Budget in relation to the General Fund, Housing Revenue Account, Dedicated Schools Grant, 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 closely examine 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 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 Medium-Term Financial Plan for 2021-2025, as issued in guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA) in July 2014. A provisional statement to Council by the Chief Finance Officer is included in the Annex to this report.

2.2 Legal

2.2.1 This report, setting out the 2021-2025 Financial Planning and Budget and draft Cabinet Proposals, has been prepared in compliance with the Authority's Budget & Policy Framework Procedure Rules contained in the Authority's Constitution. As stated in the body of the report, once approved by Cabinet the draft proposals will be submitted to the Overview, Scrutiny and Policy Development Committee as part of the Budget-setting process. The outcome of that Committee's review will be reported to Cabinet in February 2021 so that the review can be considered by Cabinet prior to the proposals for 2021-2025 Financial Planning and the 2021/22 Budget being submitted to full Council for approval.

2.2.2 In accordance with legislative requirements and the Authority's Budget and Policy Framework decisions as to the Authority's Budget are matter for full Council.

2.3 Consultation/community engagement

2.3.1 Internal Consultation

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.

2.3.2 External Consultation/Engagement

The 2021/22 Budget Engagement Strategy and approach were agreed by Cabinet on 3 August 2020. Engagement with residents took place over the summer during the Big Community Conversation activity. Due to restrictions with the pandemic, this activity was more limited than the usual annual exercise. However, through the Residents Panel the Authority was able to ask residents for their views on what the priorities should be to enable the Borough to recover from the pandemic. These views and priorities have been considered both in the proposals for the Our North Tyneside Plan and Cabinet's draft Budget proposals as set out in this report. Further engagement on the Our North Tyneside Plan and Budget proposals has taken place during December 2020 and January 2021 in line with the Budget Engagement Strategy agreed by Cabinet on 3 August 2020.

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 Budget-setting process the Authority's aim will always 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 (EIA) has been carried out on the Budget Engagement process and in relation to the proposed Council Tax and Housing Rent increases. The aim of the Budget Engagement EIA is to remove or minimise any disadvantage for people wishing to take part in the engagement programme. Mitigating actions will be taken as a result of the Council Tax and Housing Rent EIAs. Specific proposals on how services will seek to meet budgetary requirements will be subject to EIAs, which will be informed by the findings of the Budget Engagement process.

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 register(s) 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 1998 Crime and Disorder Act, 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(s) of Service X
- Mayor/Cabinet Member(s) X
- Chief Finance Officer X
- Monitoring Officer X
- Head of Corporate Strategy and Customer Service X

ANNEX 1

2021-2025 Financial Planning and Budget Process:

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

North Tyneside Council

ANNEX 1

INDEX

1. Introduction

1.1.1. 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. 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.

1.1.2. The Authority is legally required to set a balanced Budget for the General Fund for 2021/22 to meet statutory duties and provide services such as social care and environmental services. For the HRA, the Council Taxpayer cannot subsidise those living in social housing and the rents and service charges paid by the tenants cannot be used to fund unrelated Authority services. It is also illegal for an authority to budget for a deficit in its HRA or use HRA reserves for General Fund expenditure.

1.1.3. The duties and responsibilities imposed on local authorities through the Local Government Act 2003 are covered in section 10, which covers 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 consider 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 online and face to face engagement or consultation exercises on different key issues, if permitted under Covid19 regulations 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 2021/22 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 2 December 2020 and 20 January 2021. This was done via:

- an online questionnaire published on the North Tyneside Council website; and
- online sessions with the Residents panel and other key stakeholder groups.

2.1.4 During the online sessions, attendees were shown a short film and presentation setting out the Authority's Budget and Cabinet's initial Budget proposals as agreed by Cabinet on 30 November 2020. Attendees were able to have their questions answered and were asked to give their views on the Our North Tyneside Plan and the Budget proposals.

2.2 Target Audiences

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.

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

<u>Approach</u>

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 3 August 2020, 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 an online session on 7 January 2021. Attendees were provided with information in advance and asked to pre-submit questions. The session 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 businesses, schools, young people, community and voluntary sector, trade unions and the North Tyneside Strategic Partnership. Staff were targeted through email and the staff Facebook group. Due to the COVID-19 restrictions the Authority could not hold drop-in sessions or any other face to face activities.

2.2.6 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. Engagement opportunities were publicised in the Our North Tyneside magazine and on all of the Authorities social media platforms, which explained how people could get involved. Posters were also displayed in our 5 leisure centres and sent to all of the Authority's North Tyneside Living accommodation residents and the Voluntary and Community Sector contacts. This sign posted them to the online engagement and provided contact information for those who required different formats.

3. Our North Tyneside Plan

3.1 The Our North Tyneside Plan 2020-2024 (the Council Plan) sets 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 formed the basis of the Framework for COVID-19 Recovery in North Tyneside.

The Our North Tyneside Plan is structured in three key themes: Our People, Our Places and Our Economy. The Authority's engagement activity over the summer in the Big Community Conversation with its Residents Panel and subsequent engagement on the Council Plan and Cabinet's initial Budget proposals that took place on 7 January 2021, has confirmed that the priorities in the Plan continue to reflect those of residents. Through the Big Community Conversation, residents were asked for their views on what is important for the Borough in recovering from the pandemic. These priorities are all included in the Our North Tyneside Plan as set out below:

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

3.2 Performance against the priorities in the Our North Tyneside Plan

Inevitably the pandemic has had an impact on service delivery, particularly during the first national lockdown period in 2020 from March to July where many services were not able to be delivered in the usual way. There has continued to be an impact since September as the area has been through a series of local tier restrictions and two further national lockdowns, the latest of which is currently ongoing. An overview of current performance against the key outcome measures for the Our North Tyneside Plan is set out below:

Our People:

- In North Tyneside, 8 in 10 young people attend a school that is ranked as Good or Outstanding.
- At the end of August 2020, 3.58% of 16 to 17-year olds are classed as NEET (Not in education, employment or training), which is in line with previous years and significantly lower than the North East rate at 5.64%;
- Schools were closed during lockdown except for children of keyworkers and vulnerable pupils and reopened at the beginning of the school year. During that period, the School Improvement Service provided extensive home learning resources and led the DFE laptops for school's project during the lockdown period. The Catering Service delivered nearly 16,500 free school meals and 700 food hampers to children.
- The number of children in care remains consistent. 300 in September 2020, compared to 309 in September 2009.
- Only 56 people were accepted as homeless in 2019/20 compared to 52 in 2018/19. The Homeless Reduction Act placed a greater focus on prevention and triage work in order to prevent an individual becoming homeless. During the pandemic all rough sleepers have been placed in emergency accommodation throughout.
- In March 2020, the Authority set up a Local Support Hub to support residents identified by the NHS and general practitioners as clinically extremely vulnerable and a higher risk of serious complications from COVID-19. There were 10,000 residents identified as clinically extremely vulnerable and the Local Support Hub provided regular support with shopping, prescriptions, welfare calls to over 1,800 residents. The Local Support Hub was reactivated in November as clinically extremely vulnerable residents were advised to stay at home.
- The Authority has continued to serve our customers through customer services in a Covid Secure way

Our Places:

- All the council housing stock continues to meet the Decent Homes Standard and 99% of homes are occupied, including the North Tyneside Living schemes;
- Delivery of the council's Affordable Homes Programme remains on track to deliver 3,000 affordable homes across the borough between 2014/15 and 2023/24. 1,570 affordable homes have been completed so far;
- At the end of March 2020, the Authority's carbon footprint has decreased by 46% since 2010/11 and it is likely that the Authority will achieve the 50% reduction target by the 2023 target date. In July 2019 North Tyneside Council declared a Climate Emergency and set the ambitious target to become carbon neutral by 2050. A Climate Emergency Board has been established to oversee a wide range of projects. Projects completed so far include the introduction of Air Source Heat Pumps and Solar PV electricity generation at the Killingworth depot site, expanding the range of recycling materials in kerbside recycling to include plastics, securing funding to retrofit 69 businesses to reduce carbon dioxide and nitrogen oxide and introducing age and emissions standards for taxis and private hire vehicles. As well as securing grant funding to upgrade taxis, so they meet Clean Air Zone compliance standards coming into operation in 2021. the end of March 2020, the amount of waste collected boroughwide reduced by 1,200 tonnes compared to the previous year and the proportion of reuse, recycling and composting increased to 39%. The amount of waste sent to landfill in year was also at its lowest level recorded for any year. This improvement is largely due to the introduction of alternate weekly waste collections and improvements made at the Household Waste Recycling Centre. The introduction of an appointment system at the centre during the pandemic period has not had any detrimental impact and has been received very positively by customers;
- The Ambition for North Tyneside continues to successfully deliver a broad range of regeneration improvements across the borough. Achievements in the last year include public realm improvements to Forest Hall shopping centre; successful opening of the Centre for Innovation; the restoration of Grade 2 listed Georgian terrace on Northumberland Square; replacing derelict and eyesore sites along the coastline with attractive high quality family housing and significant investment in highways and schools across the borough. Plans continue with: North Shields Master Plan; improvement works on the Northern Promenade; investment in Segedunum.
- Three beaches in North Tyneside have been awarded the Blue Flag beach award, the internationally recognised gold standard for beaches. In addition, Longsands Beach, Tynemouth, has been placed in the top 10% of attractions worldwide in the 2020 Trip Advisor Travellers' Choice Awards and has attracted a Seaside Award for excellence
- Once able to restart services in line with Govt guidance, a full range of services resumed delivery including housing repairs, highways and construction schemes. Leisure Centres and swimming pools have been significantly impacted by lockdown periods. They were reopened in a Covid Secure way in line with government guidance in July but were closed again in November when the national lockdown began. Library Services have also been significantly impacted and the range of services have been reduced. A Click and Collect Service is available, as well as online services.

Our Economy:

- The COVID-19 pandemic has had a significant impact on both businesses and residents from an economic point of view. During the first national lockdown from

March this year, 29% of employments in North Tyneside were placed on the Job Retention Scheme. The number of Universal Credit claimants living in the borough sharply increased in April from 11,000 claimants in March 2020 to 19,100 in November. Almost half of Universal Claimants in North Tyneside are searching, planning or preparing for work.

- The number of registered businesses in North Tyneside has grown every year since 2011. There were 5,315 businesses registered in the Borough at the beginning of 2020.
- The Authority has supported businesses to recover and grow through access to practical and financial support, advice and information and signposting to local and national grant opportunities. Some of the initiatives include:
    - Securing match funding through the North of Tyne Capacity Fund which enabled the Voluntary and Community Sector to continue to deliver their employability project
    - Establishing a dedicated helpline for businesses
    - Administering £34m of Govt grant funding to over 3,000 eligible businesses
    - Delivering a joint communications campaign with the North Tyneside Business Forum to inform, support and signpost businesses to relevant help
    - Introducing a pavement licensing scheme to support the hospitality sector
    - Developing a Town Centre Recovery Plan
    - Successfully reopening town centres in June in a Covid Secure way
    - Supporting 8 categories of suppliers with supplier relief
    - Providing free advertising for local businesses in the Our North Tyneside magazine

4. General Fund

4.1 Council Tax Support

4.1.1 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.

Under national rules pensioners are protected from any capping of maximum awards to ensure they are not subject to a reduction in Local Council Tax Support and may still be awarded reductions of up to 100% of their Council Tax liability.

Council Tax Support under our current scheme for working age claimants 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. Cabinet is not proposing any changes to Council Tax Support in 2021/22.

It is noted that COVID-19 has led to an increase in the numbers of claimants of Local Council Tax Support. This is a direct cost to the Authority as it ultimately reduces the Council Tax base as Council Tax Support is applied as a discount.

4.2 Business Rates

4.2.1 The level of Business Rates is set by the Government and is based on the rateable value of non-domestic properties across North Tyneside. Prior to April 2013 the Authority had no direct financial interest in the collection of Business Rates and acted purely as an agent of the Government. However, for the financial years 2013/14 through to 2018/19 the Authority has retained 49% of the business rates it collects and paid the other 51% over to the Government (50%) and the Tyne and Wear Fire and Rescue Authority (1%). This was due to the introduction of the Business Rate Retention Scheme. This resulted in a direct financial incentive to maximise the amount of business rates collected in North Tyneside.

For the financial year 2019/20 the Authority, together with Newcastle City Council and Northumberland County Council, submitted a joint bid to the Ministry of Housing, Communities and Local Government and were successful in being granted pilot status for a 75% Business Rate Retention scheme. The reason for submitting a bid is to benefit from the retention of a higher level of Business Rate income over and above the baseline level set by Government. It was agreed that any gains achieved by the 75% pilot scheme would be allocated by the North of Tyne Combined Authority in line with its vision and investment priorities.

The Authority reverted back to 49% Business Rates Retention in 2020/21 and this will continue in 2021/22.

4.2.2 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 since 2017/18. However, the impact of COVID-19 on demand and occupation of business premises may subsequently see fluctuations in market rental levels. As rateable values are directly linked to market rental levels this may lead to a reduction in rateable values and ultimately business rate income.

4.2.3 The Government have continued to announce packages of support for business throughout COVID-19. These include:

- Providing 100% business rate relief for businesses in the retail, hospitality and leisure sectors for the financial year 2020/21;
- 100% business rate relief to nurseries providing childcare for the financial year 2020/21;
- Providing business grants of £10,000 to small businesses and grants of up to £25,000 for businesses in the retail, hospitality and leisure sector dependent on their rateable values; and
- Recent announcement of further support during local lockdown tiers in the form of monthly grants and additional lump sum payments to qualifying businesses.

This money is fully reimbursed to local government through Section 31 grants.

4.3 <u>Provisional Local Government Finance Settlement</u>

4.3.1 The Provisional Local Government Finance Settlement is a key part of annual Budget setting. It provides the annual determination of funding to local government. The Provisional Local Government Finance Settlement was announced on 17 December 2020 by the Secretary of State for Housing, Communities and Local Government. The highlights of the Provisional Settlement are detailed below and have been included in the 2021/22 Budget proposals where appropriate:

- Confirmation that the Core Spending Power (CSP) will increase by 4.5% (£2.2bn). This is a real term increase in resources and represents the third settlement in a row to increase resources in real terms. In calculating CSP, it has been assumed that authorities will increase Band D by the maximum amount, and that each authorities Council Tax base has increased in line with their average Council Tax base growth since 2016/17;

- Band D Council Tax; 2% council tax referendum limit, 3% ASC precept. District councils can increase Band D by the higher of 2% or £5. Police element of GLA precept can increase by up to £15;

- Local Council Tax Support grant (£670m) is a new grant outside core settlement which will fund authorities for the expected increase in local council tax support in 2021/22;

- There is an additional £1bn for social care, including the 3% ASC precept and the £300m social care grant. Allocations of the £300m grant have been equalised for each authority's ability to generate income from the ASC precept (equalisation has been limited to £240m). All other social care grant funding in 2020/21 continues unchanged into 2021/22;

- Settlement Funding Assessment (SFA) increases by £13m – i.e. by the increase in Revenue Support Grant. There is a new £111m lower tier services grant. Distribution is based on the SFA but also includes an element that ensures "no council – either upper or lower tier – will have less funding available in 2021/22 than 2020/21";

- Rural Services Delivery Grant (RSDG) will increase by £4m (from £81m to £85m, a 4.9% increase);

- New Homes Bonus (NHB) allocations of £622m will be made in 2021/22. There is no NHB Returned Surplus in 2021/22. For 2021/22 the surplus has been used to fund the social care grant (£150m), the increase in revenue support grant (£13m) and the new lower-tier services grant (£111m). The Government is inviting views on a replacement for NHB (where housing most needed, where councils most ambitious);

- Authorities will be allocated £1.55bn of additional COVID funding. All authorities now have "forward guidance" on funding for expenditure and income losses to the "middle of the next calendar year";

- There is further funding for Rough Sleepers, £750m in total next year, a 60% increase on previous spending review. £165m is available for the troubled families programme;

- Information about applying to the £4bn "levelling up" fund (UK Shared Prosperity Fund) will be published early next year. Any local area can apply directly, with the focus on town centre regeneration and culture;

- £15m has been allocated to implement the Redmond Review; and

- The Government will seek to find a new consensus for broader reforms for local government (including BRRS and FFR) when the post-COVID future is clearer. Local Government can expect multi-year settlements from 2022/23 but the Government will need to consider the economic circumstances.

5. Dedicated Schools Grant (DSG)

Background

5.1.1 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.

5.1.2 In September 2017, the Department for Education (DfE) published the response to the stage 2 National Funding Formula (NFF) consultation and confirmed the details of the NFF for the Schools block. In 2021/22, the DSG will continue to be comprised of four blocks covering: Schools, High Needs, Early Years and the Central School Services. Each of the four blocks has its own funding formula.

5.1.3 The 2021/22 DSG allocation for North Tyneside is £179.472m, which is an increase of £13.599m (8.17%) on the funding received in 2020/21. Table 1 below shows the funding allocated to each of the funding blocks. The 2021/22 Schools block allocation includes teachers pay award and teachers pension grants which in previous years were allocated to schools outside of the DSG funding.

Table 1: Schools Block 2021/22 Allocation compared with Prior Years

Block	2017/18 Baseline £m	2018/19 £m	2019/20 £m	2020/21 £m	Actual for 2021/22* £m	Increase 2020/21 to 2021/22 £m
Schools	115.395	116.594	120.926	126.794	**137.231**	10.437
Central School Services	2.500	2.315	2.343	2.051	**1.877**	(0.174)
High Needs	18.680	19.291	19.818	23.319	**26.418**	3.099
Early Years Block	12.064	13.553	13.514	13.749	**13.946**	0.197
TOTAL	**148.639**	**151.753**	**156.601**	**165.913**	**179.472**	**13.559**
Change from 2017/18 Baseline £	-	3.114	7.962	17.274	**30.833**	
Change from 2017/18 Baseline %	-	2.1%	5.4%	11.6%	**20.74%**	
Change per Year £	-	3.114	4.848	9.312	**13.559**	
Change per Year %	-	2.10%	3.19%	5.95%	**8.17%**	

* Includes pay award and pension grants previously separate to DSG

The DfE initially proposed a two-year transition period (2018/19 and 2019/20) where local authorities would continue to set a local formula to distribute funding to individual schools. However, in July 2019, as a result of the significant movement witnessed nationally towards the NFF, the Government confirmed that these transitional arrangements would continue into at least 2020/21. In 2020, the DfE confirmed that the transitional arrangements will continue into 2021/22, with the expected move to "hard" NFF being likely in 2022/23.

5.1.4 As in previous years, the Authority will determine the local formula to distribute funding to mainstream schools and academies for the financial year 2021/22. 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 Education Skills and Funding Agency (ESFA), for the year starting 1 September 2021. 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.

5.1.5 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 benefit favourably from a local ratio of total funding per pupil (1:1.42 in both financial years), compared to the national average ratio of 1:1.29 on which the NFF was based. The decision to maintain the LFF in full in 2018/19 and 2019/20 afforded secondary schools a period of financial stability whilst preparing for future changes to their funding. In addition, it allowed the Authority to consider how the move to the NFF would affect individual schools.

Following a review of the Local Funding Formula during 2019/20 the Authority took the decision to start the process of moving towards the National Funding Formula. The LFF factor values were set 50% towards the NFF in 2019/20 which moved the ratio of funding from 1:1.42 to 1:1.35 in favour of secondary schools.

During 2020/21 the Authority has continued to review the Local Funding Formula and in October 2020, Schools Forum received a report which provided the results of the review and the preferred options for consideration which would form the basis of the 2021/22 LFF consultation with all schools. The Authority has a has a duty to consult with all schools over proposed changes to the LFF. The consultation took place from 26 October to 20 November and the results were considered by Schools Forum at its meeting on 26 November 2020.

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 decreased slightly from 68% in 2019 to 54% in 2020 with responses received from 38 schools and 7 governing bodies.

The majority view from the consultation responses received was to support a move from the current LFF, to the full National Funding Formula factor values for 2021/22. 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 13 January 2021 Schools Forum agreed to the Authority's final proposals for the LFF. Therefore, resource allocations to schools for 2021/22 will be made on that basis.

5.1.6 At its meeting on 30 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 2021/22 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 2021 as required by the deadline. Schools will be notified of their allocations no later than 28 February 2020.

5.1.7 The Schools NFF for 2021/22 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 2021/22 are:

- The minimum per pupil funding levels will be set at Primary £4,180, Key Stage 3 £5,215 and Key Stage 4 £5,715;
- The funding floor will be set at 2% per pupil, in line with forecast inflation to protect per pupil allocations for all schools in real terms. This minimum increase in 2021/22 allocations will be based on the individual school's NFF allocation in 2020/21;
- Schools that are attracting their core NFF allocations will benefit from an increase of 3% to the formula's core factors; and
- Growth funding will be based on the same methodology as in 2020/21, with the same transitional protection ensuring that no authority whose growth funding is unwinding will lose more than 0.5% of its 2020/21 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 2021/22 must be between +0.5% and +2.00%. 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.

5.2 <u>Schools Block</u>

5.2.1 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.

5.3 <u>High Needs Block</u>

5.3.1 The £26.418m figure outlined above for the 2021/22 High Needs block reflects the increased funding announced by the DfE and includes funding previously paid as separate grants for pay award and pension increases. The £3.1m year-on-year increase is therefore covering these costs going forward.

5.3.2 The High Needs block outturn for 2019/20 was an overspend of £4.542m, with an in-year pressure of £3.690m occurring in 2020/21. Despite an increase in funding of

£3.006m in 2020/21, the pressure within High Needs has continued to increase with a forecasted in-year outturn variance of £3.690m and therefore an estimated total cumulative overspend of just over £8.232m.

5.3.3 The factors driving the pressures shown above were outlined in the November budget monitoring report to Cabinet. The latest position on these pressures is shown in table 2:

Table 2: Forecast High Needs Overspend as at December 2020

Provision	Budget £m	Forecast £m	Variance £m	Comment
Special schools and PRU	13.000	15.054	2.054	Increased numbers of places required, approximately 100 extra over budget.
Additional Resourced Provision/Top ups	3.655	4.551	0.896	Pressures in pre-16 and post-16 top-ups
Out of Borough	2.515	3.170	0.655	Increased number and costs of out of borough, plus increased complexity of cases
Commissioned services	3.957	4.042	0.085	
Sub-total	**23.127**	**26.817**	**3.690**	
2019/20 B/Fwd			4.542	
			8.232	

Special Schools and the Pupil Referral Unit (PRU)

5.3.4 There is a pressure of £2.054m relating to this area. The Authority has seen increasing numbers of children and young people within the education system with significant needs requiring specialist provision. This is particularly relating to Autism Spectrum Disorder (ASD) and Social, Emotional and Mental Health needs (SEMH). The Authority has increased the numbers of places within in special schools to cope with this additional demand. Number of places have increased as follows:

Table 3: Increase in Special School Places in 2020/21

Special schools and Moorbridge	Planned Places	October Census 20	Movement
Beacon Hill	180.4	190	+9.6
Benton Dene	116.6	122	+5.4
Silverdale	83	102	+19
Southlands (Main Site)	123	129	+6
Southlands (Melrose Site)	0	32	+32
Woodlawn	106.2	122	+15.8
	609.2	**697**	**+87.8**

5.3.5 Special schools are funded with £10,000 per place, with this increase in numbers representing an increased spend of £0.878m, plus a top-up based on a banding which is reflective of the needs of each individual child. Funding values for each banding is shown in Table 4 below. The majority of pupils attending special schools attract band 4 and band 5 top-up levels. The forecast cost of special school top-ups has risen from a planned £4.928m to £6.152m.

Table 4: Special School Top Up Values by Banding

Band	Top up value £
Band 1	0
Band 2	3,341
Band 3	6,682
Band 4	9,507
Band 4	19,221

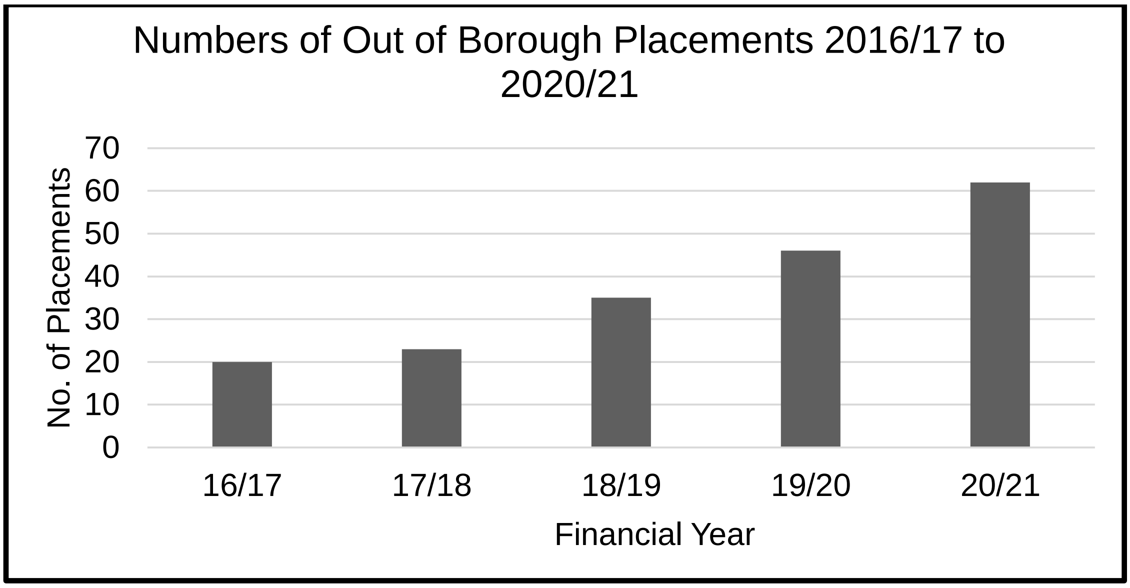
ARPs and Mainstream Top Ups (Pre-16)

5.3.6 There are pressures of £0.896m within Additional Resourced Provision (ARP) and top-up costs within mainstream schools due to increasing numbers of children and young people with additional needs and the rising average complexity of those needs. Top-up funding is paid to support children with additional needs in mainstream school. This is paid on the basis of an hourly rate reflecting the costs of additional staffing support outlined within the individual child's Education, Health and Care Plan (EHCP). Levels of top-up payments to mainstream schools have risen in the last four years with an overall increase in the numbers of children and a rise in larger packages of support reflecting the increasing complexity of needs.

Out of Borough Placements

5.3.7 In some instances, the Authority is unable to meet the needs of an individual child or young person and an Out of Borough placement is made. This can be made with a local private provider. This area of expenditure is showing a pressure of £0.655m due to increasing numbers of placements made with 62 children attending out of borough providers at November 2020 compared to 35 in 2018/19 and only 20 in 2016/17. The increasing use of these placements in illustrated in Chart 1 below:

Chart 1: Numbers of Out of Borough Placements 2016/17 to 2020/21



High Needs Recovery Plan

5.3.8 A team of officers from Health, Education, Care and Safeguarding and Commissioning and Asset Management are working on a High Needs recovery plan in line with Department for Education requirements, with support from Finance officers. The plans to mitigate the pressures on High Needs include measures described in the following paragraphs.

Refusals to Assess

5.3.9 There is an increase in children and young people who, on receiving a request for an Education Health and Care Needs Assessment, are now determined that their needs can be met within the Local Offer. The same is true for those where, at the conclusion of the Assessment, the Authority determine that they do not require an Education Health and Care Plan and that their needs can be met within the Local Offer. This has been an upwardsshift of 1% in 2019 to 20% in 2020.

Developing the North Tyneside Inclusion Strategy

5.3.10 A new North Tyneside Inclusion Strategy is currently being developed to strengthen the Authority's capacity to meet the needs of children with SEND in line with our North Tyneside Children's Services pledges to:

- Intervene early with evidence based, family focussed services;
- Work in partnership to keep children in school; and
- Keep children safe at home and connected to their local communities.

5.3.11 The Authority, schools and partner agencies will ensure a whole system approach to inclusion across education, health and social care. The new strategy will:

- seek to clarify the Authority's vision for inclusion and build consensus around our shared expectations and consistency of approach across the Borough;

- describe our shared purpose, principles and priorities across education, social care and health;
- provide the framework and direction to ensure that the right provision is in place to meet the changing needs of children with SEND;
- enable us to identify the actions we will take to improve the lived experience of our children and young people with SEND.

Strengthening the 'Graduated Response' in Mainstream Schools

5.3.12 Children with SEND in mainstream schools should be supported through a four-stage cycle of: assess, plan, do and review, known as the graduated approach. Schools are expected to make reasonable adjustments and use their best endeavours to meet the needs of children and young people, before seeking statutory assessment or requesting High Needs top-up funding. The graduated response work will be a key component of the new Inclusion Strategy.

5.3.13 The development of the graduated response work also seeks to strengthen the gatekeeping around access to High Needs top-up funding, to ensure greater equity and value for money in the way funding is allocated and used.

Managing demand for out of borough placements

5.3.14 There has been an increase in requests from parents for placements in independent, non-maintained special schools and colleges. Our priority is to support as many children as possible to be educated in Borough and, for that reason, we continue to fund additional places in North Tyneside special schools. Alongside that, further resources have been agreed to strengthen the therapy offer into our local special schools. This includes a SEND project lead employed by Northumbria NHS Foundation Trust who will co-ordinate this joint working, plus additional capacity for the NHS therapy teams working directly with school staff and with children.

5.4 <u>Early Years Funding for 2021/22</u>

5.4.1 The Authority is currently awaiting guidance from the Department for Education regarding the funding arrangements for the Spring Term 2021 and the Spring Term census, following the national lockdown measures. Once clarification is received, an analysis of the implications for the Early Years block will be carried out and any additional spending pressures identified. Should any early years budget surplus exist following the Spring Term payments, a prudent contingency will be carried forward. This will protect the early years funding block in light of the continuing uncertainty and volatility facing the sector during the forthcoming financial year. Any additional surplus will be returned to providers of the early years entitlements.

5.4.2 On 19 December 2020 the Department for Education released the 2021/22 early years entitlement funding rates for local authorities. The Authority is modelling proposals for North Tyneside's early years funding formula 2021/22 and will share proposals with the early years sector for comment before finalising the local funding formula.

5.5 Central School Services Block Funding for 2021/22

5.5.1 Funding for the Central Schools Services block (CSSB) has been reduced by DfE in relation to historical funding by £0.249m, which represents a 20% reduction in funding for the historic commitments. Ongoing functions have had an increase of 9.3% as shown in table 5 below:

Table 5: Allocations for North Tyneside CSSB 2021/22

	2019/20 £m	2020/21 £m	2021/22 £m	Change £m	Change %
Ongoing Functions	0.788	0.807	0.882	0.075	9.3
Historical Commitments	1.555	1.244	0.995	(0.249)	(20.0)
Total	**2.343**	**2.051**	**1.877**	**(0.174)**	**8.5**

5.5.2 The list of services provided via CSSB funding is listed in table 5. The net reduction in funding of £0.174m is identified in this table. Authorities can challenge the reasonableness of the reduction in funding by providing relevant evidence to the DfE.

5.5.3 Following consultation with School Forum in December, the Authority will set the funding for these services as identified in table 6 below. The funding reduction has been accommodated by reducing the Schools Support Service by £0.029m, removing the contribution to High Borrans of £0.095m, the contribution to the Education Improvement Partnership has been reduced by £0.020m and the £0.030m de-commissioned buildings budget contribution has also been removed.

As agreed at the Schools Forum meeting in December for 2021/22 only the schools in financial difficulty de-delegation is to be re-designated to support the reduction for the School Support Service and High Borrans, totalling £0.124m. 2021/22 will be a transitional year, with the funding gap being met from the de-delegated allocation for schools in financial difficulty, with academies and special schools paying full commercial rates for High Borrans.

Table 6: Illustrative allocations for North Tyneside CSSB for 2021/22

Budgets which now form part of the CSSB	**CSSB 2020/21 £**	**CSSB 2021/22 £**
Budget to fund the Schools Support Service	585,013	**556,256**
Budget to support vulnerable schools.	52,044	**52,044**
Budget to maintain High Borrans Outdoor education facility	95,000	**0**
Budget for the Education Improvement Partnership (secondary schools)	100,398	**80,318**
Budget to support the informational requests of the Schools Forum and improved budgetary awareness across all schools	30,125	**30,125**
Collective contribution to ongoing pension costs incurred when allowing teachers to leave schools prematurely	624,951	**624,951**
Budget for costs associated with de-commissioned school buildings	30,000	**0**
Schools admission service	141,570	**141,570**
Former Education Services Grant (Retained)	243,572	**243,572**
National Copyright Licences	148,426	**148,169**
Total CSSB Funding	**2,051,099**	**1,877,005***

***Overallocation of £28,757 to be funded by re-designated de-delegation**

5.5.4 The Authority will continue to work with Forum to identify any solutions to manage the long-term funding gap for service provision via other means, including but not limited to prioritising key outcomes and reviewing alternative funding such as under a service level agreement or similar.

5.6 Timetable for Agreeing 2021/22 Distributions

5.6.1 The key dates which must be met in setting 2021/22 school budgets are shown in Table 7 below. This report is requesting authorisation for 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 to meet these deadlines.

Table 7: Remaining Key dates for 2021/22 School Budget-setting

Date	**Activity**
21 January 2021	Deadline for submission of final local School Allocations to DfE (the Authority Proforma Tool)
28 February 2021	Deadline for confirmation of schools' budget shares to maintained schools (in North Tyneside the intention is to issue in advance of this deadline)

6. Cabinet's initial Budget proposals for the 2021-2026 Capital Investment Plan

6.1.1 Capital investment generally relates to spending on physical assets that have a useful life of more than one year. This can be the purchase of 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, it all has an indirect impact by providing stimulus to the economy, creating employment opportunities, supporting skills and development or contributing to confidence.

6.1.2 A Capital Investment Strategy 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 Our North Tyneside Plan outcomes and linking to the Our Ambition for North Tyneside. 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. The Capital Investment Strategy is attached as Appendix D(iv).

The 2020-2025 Investment Plan totalling £244.320m was approved by Council on 20 February 2020. Delivery of projects within the plan and progress to date has been reported to Cabinet as part of the bi-monthly financial management reports. Reprogramming of £10.284m has been identified as part of the process and this spend is now included in the 2021/22 planned spend shown below (£11.343m 2021-26).

The following adjustments are included in the draft Plan:

- Addition of an invest to save project for Streetlighting LED: in July 2019, Council declared a Climate Emergency, setting a target to reduce the carbon footprint of the Authority and the Borough by 50% by 2023 and to become carbon neutral by 2050. A key area identified to help achieve this target is to improve energy efficiency and reduce electricity used in streetlighting by the continuation of installation of LED bulbs. It is estimated that the overall project will produce a reduction in electricity kilowatt hours of over 4.6 million, reduction in CO_2 emissions of 1,281 tonnes, reduced electricity spend of over £0.600m and reduced ongoing maintenance of £0.070m;
- In view of the outcome of a number of building condition surveys, an additional £0.500m has been added to the 2021/22 Asset Planned Maintenance budget to reflect identified requirements; and,
- A new year 5 (2025/26) has been added to reflect rolling programme projects such as Asset Planned Maintenance, Additional Highways Maintenance, and ICT refresh.

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, 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 on-going projects included in the approved Investment Plan (currently 2020-2025).

Table 8 below shows a summary of the initial draft 2021-2026 Capital Investment Plan.

Table 8: Summary of the draft Capital Investment Plan 2021-2026

Spend	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
General Fund	39.012	17.262	15.458	15.988	13.435	101.155
Housing	26.362	26.043	27.400	29.949	31.424	141.178
Total	**65.374**	**43.305**	**42.858**	**45.937**	**44.859**	**242.333**

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 9: Summary of Financing 2021-2026

Spend	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
General Fund						
Council Contribution:						
Unsupported Borrowing	17.103	8.525	7.660	8.776	6.223	48.287
Capital Receipts	423	254	0	0	0	677
Revenue contribution	577	746	500	0	0	1.823
Use of reserves	0	0	0	0	0	0
	18.103	9.525	8.160	8.776	6.223	50.787
Grants & Contributions	20.909	7.737	7.298	7.212	7.212	50.368
Total General Fund Resources	**39.012**	**17.262**	**15.458**	**15.988**	**13.435**	**101.155**
Housing – HRA						
Capital Receipts	750	1.886	2.871	2.689	2.984	11.180
Revenue Contribution	10.759	9.831	9.485	11.932	12.760	54.767
Major Repairs Reserve	14.853	14.326	15.044	15.328	15.680	75.231
Total Housing HRA Resources	**26.362**	**26.043**	**27.400**	**29.949**	**31.424**	**141.178**
TOTAL RESOURCES	**65.374**	**43.305**	**42.858**	**45.937**	**44.859**	**242.333**

6.1.3 The initial draft 2021-2026 Investment Plan for the General Fund includes expenditure of £39.012m in 2021/22. Of this expenditure, £20.909m (54%) is funded through grants and other external contributions.

General Fund receipts (£0.677m), already received, and housing capital receipts of £11.180m have been assumed in the financing of housing projects within the draft Plan.

Across the life of the draft Plan, unsupported borrowing totals £48.287m, with £15.603m planned for 2021/22. Of this, £6.701m relates to invest to save projects and projects that cover the cost of borrowing through recharges: namely, Streetlighting LED, Investment in North Tyneside Trading Company and Vehicle Replacement. The cost of borrowing is included within the General Fund Revenue Budget and Financial Plan.

Work is ongoing to finalise these draft proposals. There are currently a number of projects progressing through the investment gateway process where bids have been made for external funding. It is planned that these projects will be added to the Plan once funding is secured; no spend will be committed until funding is secured.

6.2 Flexible Use of Capital Receipts

6.2.1 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 on-going 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.

6.3 Capital Allocations 2021/22

6.3.1 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 2021/22 have not yet been confirmed 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.

6.4 Annual Minimum Revenue Provision (MRP)

6.4.1 The Capital Finance Regulations require full Council to agree an annual policy for the Minimum Revenue Provision (MRP), the amount that is set aside to provide for the prepayment of debt (principal repayment). These Regulations require the Authority to determine 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 2021/22 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 that a further Voluntary Revenue Provision of £3.000m is made in 2021/22 (£3.000m in 2020/21) to reduce the overall Capital Financing Requirement.

6.5 Prudential Indicators

6.5.1 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 the Code. The proposed indicators for 2021-2025 have been prepared using this new guidance and are attached as Appendix D(iii).

7. 2021/22 Treasury Management

Background

7.1.1 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 the 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.

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.

7.1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that an organisation's treasury management policy statement adopts the following form of words to define the policies and objectives of its treasury management activities:

1 This organisation defines its treasury management activities as:
The management of the organisation's investments and 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;

2 This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks; and

3 This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement. Non-Treasury Investments are reported as part of this update. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure in an asset.

7.1.3 There are no policy changes to the Treasury Management Strategy Statement or Annual Investment Strategy which was last approved at Council on 20 February 2020; the latest Treasury Management Strategy Statement and Annual Investment Strategy have been included as Appendix E (i). The details in this report update the current treasury position in the light of the updated economic position and budgetary changes already approved.

7.1.4 Since 2 April 2020 there have been two instances of an exposure in excess of credit limits as per the Treasury Management Strategy Statement and Annual Investment Statement Credit Criteria. In Q2, Barclays' close of business balance was £0.8m over the £5m limit due to a late and unnotified receipt of cash. In Q3 2020, Barclays close of business balance £0.3m over the £5m limit, again due to a late an unnotified receipt of cash.

7.2 <u>Treasury Management Reporting</u>

7.2.1 In line with best practice, the Treasury Strategy including an Investment Strategy is considered as part of the Budget-setting process.

The Treasury Management Strategy (how investments and borrowings are to be organised), including treasury indicators; and an investment strategy.

Prudential indicators are covered earlier in this report, with detailed indicators within Appendix D(iii).

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 updates Elected 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.

7.3 Current Treasury Portfolio Position

7.3.1 The Authority's debt and investment position as at 31 December 2020 is set out in Table 7 below:

Table 10: Current Treasury Portfolio Position as at 31 December 2020

	Principal Outstanding	**Average Rate**
	£m	**%**
Fixed Rate Funding		
PWLB*	249.250	3.57
PWLB – (HRA Self-Financing)	128.193	3.49
Market Loans	20.000	4.35
Temp Loans**	32.500	0.92
Total External Debt	**429.943**	
Less **Investments**		
(UK) DMO***	14.000	-0.08
Other Local Authorities	40.500	0.40
Bank Deposits	6.455	0.01
Total Investments	**60.955**	
Net Position	**368.988**	

* Public Works Loan Board
** Loans from other local authorities
*** Debt Management Office

7.4 Prospects for Interest Rates

7.4.1 The Authority has appointed Link Asset Services as its external treasury advisor, part of their service is to assist the Authority to formulate a view on interest rates. Table 8 below sets out Link Asset Services' professional view of interest rates:

Table 11: Link Asset Services' forecast interest rates as at December 2020

	Bank Rate %	**5-year PWLB %**	**10-year PWLB %**	**25-year PWLB %**	**50-year PWLB %**
Mar-21	0.10	0.80	1.10	1.50	1.30
Jun-21	0.10	0.80	1.10	1.60	1.40
Sep-21	0.10	0.80	1.10	1.60	1.40
Dec-21	0.10	0.80	1.10	1.60	1.40
Mar-22	0.10	0.90	1.20	1.60	1.40
Jun-22	0.10	0.90	1.20	1.70	1.50
Sep-22	0.10	0.90	1.30	1.70	1.50
Dec-22	0.10	0.90	1.30	1.70	1.50

7.4.2 Link Asset Services currently forecast that the Bank of England base rate (the Bank Rate) will remain unchanged for the foreseeable future. The coronavirus outbreak has had a huge economic impact to the UK and economies around the world. After the Bank of England took emergency action in March to cut the Bank Rate to 0.25%, and then to 0.10%, it left the Bank Rate unchanged at its meeting on 6 August 2020 and the subsequent September meeting, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in the Bank Rate is expected within the forecast horizon ending on 31 March 2023, as economic recovery is expected to be only gradual and prolonged.

7.5 Economic Update (Provided by Link)

7.5.1 Economic performance has been driven by COVID-19 and the continued fallout for this worldwide pandemic. The Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10% and has remained at this level since. The Bank of England has committed to quantitative easing (QE) of £745bn. The fall in GDP in the first half of 2020 was revised from 28% to 23% and then subsequently to -21.8%, one of the largest falls in output in any developed nation. Peak unemployment has been revised down from 9% in Q2 to 7.5% by Q4 2020. It is currently forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022.

7.5.2 Any possibility of negative rates has been reduced in at the least the next six months or so; negative interest rates will be less effective when other methods are available. Whilst QE is the main method of economic stimulus, the £300bn announced between March and June meetings will continue into next year, suggesting a slow of purchases are to be expected to about £4bn a week. This allows the Bank of England to allow the economy to progress and be ready to dip in as necessary.

7.5.3 Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

Some longer-term adjustments to account for such as office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

7.6 COVID-19 Impact on Cash

7.6.1 The impact of COVID-19 on cashflow for the Authority has resulted in several large grants being front-loaded to the Authority. In March 2020, the Authority drew down £25.000m of PWLB to bolster the Authority's cash position, de-risk our borrowing requirement and take advantage of historically low levels in PWLB, and by doing so has contributed to the surplus cash balance. Whilst a proportion of this is currently invested out for a fixed term, the Authority is currently carrying a cash surplus balance. However, it is anticipated this surplus will unwind as COVID-19 restrictions are reduced. Projected reduced revenue streams, increased costs and repayment of outstanding debt is forecast to utilise cash balances within the year. It is therefore prudent to assume that the Authority will be in a deficit cash position to the amount of the projected budget pressure.

7.6.2 The Authority is under-borrowed to the value of £57.655m as at 31 March 2020 and, whilst the Authority cannot borrow to fund this revenue pressure, it can look to utilise reserves, unwind its under-borrowed position and externalise borrowing.

7.7 Municipal Bonds Agency (MBA)

7.7.1 The MBA has, since the last mid-year update, undertaken two bond issuances with Lancashire County Council (LCC). The first bond issuance was undertaken in February 2020. A £350m inaugural five-year floating rate bond which is linked to SONIA was successfully issued. The second issuance was a £250m ultralong maturity (40-year) fixed rate bond. As noted by the bond denominations, bond issuances are particularly useful for raising large amounts of capital, and whilst the return of bond issuances is a favourable development for local authorities, the application to North Tyneside Council is limited. Nonetheless, the development of UK local authority bond market will be watched closely.

7.8 Development of Derivatives in the Local Authority Space

7.8.1 A recent development in the local authority treasury space has been Plymouth City Council which has undertaken the first interest swap deal since a High Court ruling in 1991 banned local authorities from undertaking such transactions. That ruling declared that local authorities had no power to engage in interest rate swap agreements because they were beyond their borrowing powers.

7.8.2 Plymouth Council undertook a £75m swap stating that the Localism Act 2011 gave local authorities in England a “general power of competence”. Section 1 of the Act says: “A local authority has power to do anything that individuals generally may do.” The legislation has enabled Plymouth to go through with the swap transaction. CIPFA and Link Asset Services, advisors to North Tyneside Council, are of the view that the derivative is ultra vires i.e. outside its legal powers.

7.9 Negative investment rates

7.9.1 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next six to twelve months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grant funding to local authorities to help deal with the COVID-19 crisis; this has caused some local authorities to have sudden large increases in cash balances to be invested, some of which was only very short term until those sums were able to be invested.

7.9.2 As for money market funds (MMFs), yields have continued to reduce. Some fund managers have suggested that they might resort to reducing fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market. This has seen a number of market operators, now including the Debt Management Account Deposit Facility, offer nil or negative rates for very short-term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions.

7.9.3 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

7.10 Non-Treasury Investments

7.10.1 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.

7.10.2 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.

7.10.3 At 31 March 2020, the Authority held the following investments on its balance sheet:

- <u>Equity:</u>

Newcastle Airport Holding Company Ltd	£7.272m (£10.886m at 31/3/19)
North Tyneside Trading Company	£7.568m (£5.159m at 31/3/19)
LIFT Co	£0m

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 £5.568m, relates to investment in affordable homes in line with the Cabinet's priorities using section 106 funding. The second, amounting to £2.000m, relates to investment in Aurora Properties (Sale) Ltd for the provision of housing for sale on the open market.

- <u>Loans</u>

High Point View	£1.329m (£2.650m 31/3/19)
Aurora Properties (Sale) Ltd	£4.000m (£2.059m 31/3/19)
Sub ordinated debt – Dudley and Shiremoor JSC	£0.160m (£0.160m 31/3/19)
Sub ordinated debt – Whitley Bay JSC	£0.110m (£0.110m 31/3/19)

High Point View: It is anticipated that this amount will be repaid over the next few months as the properties are sold.
Aurora Properties (Sale) Ltd. The loans are expected to be repaid over the next 3 years upon completion of the property developments.

7.10.4 The current 2020/21 and proposed 2021-2025 Capital Investment Plan includes further planned investment in the Trading Company of £8.005m (which includes £3.997m in section 106 funding). 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 (2020-2025), income from these investments is expected to be over £2.000m from staff recharges, interest and dividends.

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

8.1 Summary

8.1.1 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 2021-2025 Financial Planning and Budget process.

8.1.2 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.

8.1.3 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 2021-2026 Investment Plan and the 2021/22 Treasury Management Statement and Annual Investment Strategy at its meeting on 1 February 2021.

8.1.4 The sub-group met on 17 December 2020 and 12 January 2021 where senior officers presented Cabinet's Initial 2021-2025 Budget proposals. The following Cabinet members were in also in attendance to provide further insight if/when required.

- Councillor Bruce Pickard
- Councillor Ray Glindon

8.2 Budget Sub-Group Considerations

8.2.1 The sub-group acknowledged that the Authority has delivered a balanced budget in the last three years without the use of reserves. However, it is clear many challenges lie ahead to delivering the priorities of Our North Tyneside Plan.

8.2.2 It was also acknowledged that if the Budget is unable to be balanced there would be a requirement to use funding from the strategic reserve. The sub-group acknowledged that this option should be one of last resort and understood that the financial plan was to maintain the strategic reserve at a minimum planned level of £10m over the lifetime of the Medium-Term Financial Plan. It also understood that the strategic reserves consists of funding that is not accessible as they are ring-fenced for planned projects.

8.2.3 The sub-group wished to highlight the benefit of the Poverty Intervention Fund that was a one off fund of £1m from the strategic reserve and accessible for use during 2020/21 and praised the foresight of the Authority as this fund had benefited the community through the pandemic.

8.2.4 There is concern to the loss of use and income that had shown the risks to sport and leisure & the demand for school meals offer. It is understood that this will bring a challenge for the Authority to encourage consumer confidence and to come back and reuse services in the future.

8.2.5 There is concern to the costs and risks and impact of increased demand in children's service, the support for families and care homes how to support them.

8.2.6 There is concern to the possible reduction in rental value of commercial property and risk in reduction in office values in our business parks.

8.2.7 With consideration to the Budget proposals and consideration to all the work the Authority and its services have delivered to its community throughout the pandemic is admirable.

8.2.8 The risks and uncertainty to have final Budget proposals due to delays have again arisen this year. It is understood that the COVID-19 pandemic has affected budget planning, however the continual delays to key local government reforms such as Fair Funding Review, Business Rates Retention, reforms to adult social care and a one-year settlement only increases difficulty for local government to plan effectively.

8.2.9 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 presentations from officers that the outcome of the proposed 2021/22 Budget was a balanced Budget.

8.2.10 The sub-group acknowledged to respond to emerging changes in the future the Authority has developed plans and strategies that will aid the delivery of efficiencies.

8.2.11 Through the Budget the Authority continues to be ambitious in delivering the priorities of residents and businesses through it's Our North Tyneside Plan and the sub-group endorses the approach taken.

8.2.12 The sub-group wishes to commend officers of the Authority, its partners and volunteers for their work in the delivery of the services throughout the pandemic. It also wished to thank the Finance team for providing clear coherent information throughout this budget process.

8.2.13 There were two themes that the Committee considered needed to be emphasised further, these being:

1. The level of strategic reserve is provided each year and the Budget Sub-group is provided with a comprehensive explanation to the levels of committed/ringfenced funds for future use. The Committee raised that there continues to be some misunderstanding with residents and the press as it is often reported that the Council has access to an extensive level of reserves.

   The Committee's recommendation is that the levels and use of the strategic reserve be more widely explained to the public.

2. The Committee discussed the reporting of funding provided by Central Government to local authorities. It was expressed that the information provided by Central Government is given with a national context view and often reports the funding in billions and hundreds of millions.

The concern was that the funding received by North Tyneside Council from Central Government is not clearly understood at the local context by residents and businesses.

The Committee's recommendation is that a simple graphical representation of what funding has been or will be received by North Tyneside Council from Central Government may provide a greater understand to the public.

8.2.14 There were no recommendations made in relation to Cabinet's engagement approach or the initial Budget proposals for the General Fund, HRA, the 2021-2026 Investment Plan and the 2021/22 Treasury Management Statement and Annual Investment Strategy.

8.2.15 A further meeting has been arranged for the Budget sub-group to reconvene and consider Cabinet's draft Budget proposals for 2021-2025 that will take place on Tuesday 2 February 2021, where implications of this report will be considered. Any recommendations made at that meeting that may have an impact on the final Budget proposals will be considered by Cabinet on 8 February 2021.

9. Provisional Statement to Council by the Chief Finance Officer

9.1.1 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, Elected 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 the 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 guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) in relation to the adequacy of reserves and balances will also be taken into account.

The intention would be to make a full Statement as part of the report to the Council meeting on 18 February 2021, when all outstanding information should be available.

9.1.2 The 2021/22 Budget needs to be prepared with reference to the Financial Management Code (the FM Code) published by CIPFA. The FM Code provides guidance about the principles of good and sustainable financial management and requires authorities to demonstrate that processes are in place which satisfy these principles. It identifies risks to financial sustainability and sets out details of a framework of assurance which reflects existing successful practices across the sector. In addition, the Code establishes explicit standards of financial management and highlights that compliance with these is the collective responsibility of Elected Members, the Chief Finance Officer and the wider Senior Leadership Team. Full compliance with the FM Code is required when setting the 2021/22 Budget.

9.2 Robustness of Estimates

9.2.1 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 Financial Strategy;
- Ongoing financial impact of COVID-19 in relation to income and expenditure for both the General Fund and the Housing Revenue Account (HRA) on the General Fund Medium-Term Financial Plan and the HRA 30-year Business Plan;
- Future Budget pressures and growth proposals, including the impact of prudential borrowing for the 2021-2026 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 2019/20 Statement of Accounts, presented to the Audit Committee on 18 November 2020; and

- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority.

The level of contingencies currently remains at £6.877m as these are draft Budget proposals which will be finalised by Cabinet once consultation is concluded and the final Local Government Finance Settlement is known.

Reserves, whilst relatively low, are adequate for the risks the Authority faces and can support the Efficiency Plan that is being set out.

9.2.2 The Cabinet is aware it must keep under review its Medium-Term Financial Strategy and four-year Financial Plan, in the context 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 2021/22 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 four-year Investment Plan, the 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 recognized as set down in the Authority's Financial Regulations and in the roles and responsibilities section of the Authority's Budget Management Handbook.

9.3 <u>Capital Investment Strategy</u>

9.3.1 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 2021-2026 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 Capital Investment Strategy 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 Council Plan outcomes.

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

9.4.1 <u>General Fund</u>

The 2021-2025 Financial Plan currently assumes £0.350m use of reserves of the Strategic Reserve to support the Budget. My view is that the current Financial Plan should aim to maintain the Strategic Reserve at a minimum planned level of £10.000m over the life of the Financial Plan. Any unplanned use of the Strategic Reserve over the 2021-2025 Financial Plan 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 9 below shows the reserves as at the 31 March 2020 and the projected reserve levels over the period of the Financial Plan:

Table 12: Reserves and Balances as at 31 March 2020 and from 2021/22 to 2025/26

Reserves and Balances	Projected Opening Balances					
	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Reserves						
General Fund ringfenced	22.492	22.981	21.805	21.191	20.626	19.300
General Fund unringfenced	19.181	17.990	16.640	16.140	16.140	16.140
General Fund Grants	9.435	2.781	2.255	1.956	1.687	1.582
Dedicated Schools Grant	(3.262)	(8.232)	(8.232)	(8.232)	(8.232)	(8.232)
HRA	19.102	18.752	19.048	19.522	19.934	20.282
Reserves Sub Total	**66.948**	**54.272**	**51.516**	**50.577**	**50.155**	**49.072**
Balances						
General Fund Balances	7.000	7.000	7.000	7.000	7.000	7.000
School Balances	0.165	(2.201)	(4.201)	(6.201)	(8.201)	(10.201)
HRA Balances	7.803	4.955	3.012	2.633	2.705	2.667
Balances Sub Total	**14.968**	**9.754**	**5.811**	**3.432**	**1.504**	**(0.534)**
Grant Total Reserves and Balances	**81.916**	**64.026**	**57.327**	**54.009**	**51.659**	**48.538**

9.5 Housing Revenue Account (HRA)

9.5.1 Table 10 below sets out the movement in reserves of the HRA. The Budget proposals ensure that a minimum of £2.500m is retained in HRA revenue balances each financial year covering the two years of the Financial Plan to ensure some measure of contingency and financial stability. The proposals, as they currently stand, also balance the Plan over the longer 30-year period, which is what the Government requires authorities to demonstrate as part of self-financing.

Table 13: 2021–2025 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Opening Reserve Balance	(4.955)	(3.012)	(2.633)	(2.705)
Contributions (to)/from balances	1.943	0.379	(0.072)	0.038
Predicted Reserve Balance Carried Forward	**(3.012)**	**(2.633)**	**(2.705)**	**(2.667)**

9.5.2 Guidance on local authority reserves and balances is given in CIPFA's Local Authority Accounting Panel (LAAP) Bulletin 99. This states that *"Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option"*, and so the proposed 2020/21 Budget does not contradict the issued guidance. The Bulletin does then go on to say *that "It is not normally prudent for reserves to be deployed to finance current expenditure"*. The 2021-2025 Financial

Plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long-term reliance on reserves.

10. Overall Financial Risk Assessment

10.1.1 Financial risks are driven by changes to Government policy and the national financial climate, issues arising throughout the year and reported as part of the financial management reporting process and those risks highlighted as part of the Authority's risk management procedures and 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.

10.2 <u>Key Financial Risks</u>

10.2.1 The key financial risks for the Authority (including the HRA), which have been considered as part of the Financial Planning and Budget process, are set out in the table below along with mitigating actions:

Table 14: 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 align proposals to the Efficiency Statement and how this enables the Authority to deliver its Efficiency Programme. This programme will then 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 on the Authority's 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 SLT 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 2020/21and into 2021/22.

Potential Risk	Initial Response
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. This includes any assumptions with regards to the ongoing impacts of the COVID-19 Pandemic.	The Authority has demonstrated robust response to financial management actions if the assumptions that have been made prove to be incorrect. The Authority continues to work closely with national, regional and sub-regional financial networks to help ensure that it 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. The announcement of the Spending Review 2020 clearly gives more information regarding spending plans and financial support to Local Government for 2021/22. More detail has been set out in the Provisional Settlement which was announced on 17 December 2020.
There is a risk that, because of financial pressures within the Clinical Commissioning Group (CCG), the Authority 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 Council.	The Policy and Framework and Guidance for 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. Following escalation to a national panel, the BCF contribution from the CCG has been agreed and a Section 75 legal agreement is being drawn up on this basis.
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 and continue to be closely monitored.

Potential Risk	Initial Response
There is a risk that specific factors arising during 2020/21 have not been fully taken into account when preparing the 2021/22 Budget.	The 2020/21 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures that factors arising during the year are highlighted.
There is a risk that the in-year pressures being reported through the 2020/21 financial management process impact on the deliverability of the 2021/22 Budget.	As at 30 November 2020, a pressure of £1.510mm was reported against the 2020/21 Budget this included the impact of COVID 19. Core Business as usual had a pressure of £0.127m, which is expected to improve as we progress to year end. Unfunded Covid pressures currently stand at £1.383m at the end of November. As assessment of the ongoing impact and risk of those COVID cost pressures and income losses may continue into 2021/22 has been undertaken and considered in light of the levels of reserves.
There is a risk that the contingency provision included in the Financial Plan for 2021/22 is insufficient.	The review of the base Budget and the reflection of the 2020/21 pressures into 2021/22 have been considered as part of the financial planning process
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 process and planning process.
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 Housing Revenue Account. 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. Further welfare reform changes, including the implementation of Universal Credit and its revised payment period, and changes proposed in the new Welfare Reform and Work Act 2016.	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 Capital 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 Authority has representation on the MHCLG and CIPFA HRA working groups. This enables specific NTC issues to be raised and allows the Authority to comment and influence change on HRA regulation.

Potential Risk	Initial Response
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 and headteachers and governing bodies. A programme of work has been identified, working with schools to improve the school's 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 Britain formally leaves the EU. This has a potentially significant financial impact due to loss of revenue grant and a potential loss of opportunities, i.e. capital grant and other revenue sources.	The potential impact from leaving the EU has been included in the Authority's 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 it 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.

ANNEX 1

2021-2025 Financial Planning and Budget Process:

Housing Revenue Account Budget, Investment Plan and Treasury Management

1 February 2021

North Tyneside Council

ANNEX 1

INDEX

1. Introduction

1.1.1. 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. 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.

1.1.2. The Council is legally required to set a balanced Budget for the General Fund for 2021/22 to meet statutory duties and provide services such as social care and environmental services. For the HRA, the Council Taxpayer cannot subsidise those living in social housing and the rents and service charges paid by the tenants cannot be used to fund unrelated Authority services. It is also illegal for an authority to budget for a deficit in its HRA or use HRA reserves for General Fund expenditure.

1.1.3. The duties and responsibilities imposed on local authorities through the Local Government Act 2003 are covered in section 3, which covers the financial risks, risk assessment and actions necessary to mitigate against the risks posed within the Budget proposals. The Act requires councillors and officers to consider the Chief Finance Officer's report on the robustness of the Budget and the adequacy of the Authority's financial reserves.

2. Housing Revenue Account (HRA)

2.1.1 Cabinet is being asked to approve the Housing Revenue Account (HRA) Business Plan and Budget for the financial year 2021/22. This includes housing rent, garage rent and service charge changes, and the HRA elements of the Investment Plan. The Housing Revenue Account is required to produce a 30-year Business Plan; however, a four-year Medium-Term Financial Plan (MTFP) for revenue has been produced which brings the HRA in line with the same MTFP period as the General Fund. The HRA elements of the General Fund and Housing Revenue Account Investment Plan spans a five-year period, in line with the Authority's overall Capital Investment Strategy.

2.1.2 Whilst the current economic situation presents significant challenges, the Authority is still able to produce a MTFP for the HRA, which enables over £288m of revenue spend over the next four years to manage and maintain the housing stock and meet the aspirations of Cabinet and tenants.

2.1.3 As well as protecting the significant investment in the housing service delivered via revenue and the MTFP, the HRA also represents a significant element of the Authority's overall Investment Plan. In line with key Cabinet priorities over the next 5 years a total of £116.708m has been provided to enable the existing stock to be maintained at the Decent Homes Standard. In addition, in line with the Mayor and Cabinet's Affordable Homes pledges, a total of £24.470m has been identified to fund the new build schemes identified in the Affordable Homes Plan.

2.1.4 The proposals to resource the revised MTFP and 30-year HRA Business Plan have been subject to the agreed engagement process, along with consultation over the choices available to ensure the objectives can be achieved.

2.2 Background and Policy Context

2.2.1 The Authority is responsible for managing just under 14,500 houses. Rents and service charges provide most of the resources available to the HRA, which is then used to fund the management and maintenance of the housing stock. This income and expenditure are accounted for in a ring-fenced account as required by law under the Local Government and Housing Act 1989. Although accounted for separately, the HRA forms an intrinsic part of the Authority's overall vision and Council Plan, and this report sets the context within which the HRA Financial Plan and Budget proposals are set.

2.2.2 The Authority is in unprecedented times due to the coronavirus pandemic. In line with virtually all areas of the economy, the provision of vital public services including housing has seen major disruption to service delivery. Where relevant, this report outlines the impact that COVID-19 has had on the housing service, and if it will have a bearing on the Budget for 2021/22.

2.2.3 The Authority is still facing the impact of the continued roll-out of Universal Credit and other welfare reforms, which brings greater pressure on the Authority's tenants in terms of managing their finances, and on the Authority's income collection teams who have a responsibility to try and help sustain tenancies, and help tenants manage their money so that they do not end up in financial hardship or significant arrears, all of which could have a direct impact on the bottom line of the HRA, and the quality of the services that the Authority is then able to provide.

2.2.4 Following the removal of the HRA debt cap in 2018, it is now up to the Authority to determine the level of any unsupported borrowing it wishes to undertake to fund new build or decent homes work, in line with the Prudential Code, which means applying the key tests to ensure that any debt taken on is "prudent, affordable and sustainable". The approach to debt management is reviewed annually and is discussed in more detail below.

2.2.5 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. The first year of operation was highly successful and saw circa £40m of works delivered across a range of areas across all the housing stock and public buildings portfolio. The benefits identified from the benefits realisation process were built into the HRA Business Plan last year and continue to support core services and adding value by funding initiatives such as the new budget for tenant priorities within Housing Repairs.

2.2.6 Nobody could have predicted that twelve months into this new service the Authority would be facing a global pandemic. Plans to deliver an even more ambitious programme of works in 2020/21 than last year had to be redrawn as the country entered the initial three-month lockdown period. As services started to return, new COVID-secure ways of working have had to be introduced to keep everybody safe and certain types of works had to be deferred because of social distancing. In financial terms, every scheme is looked at individually to see what safety and social-distancing measures are required. These issues have been considered in the sums provided to fund the Authority's Housing Asset Management Plan. As well as COVID-19 considerations, a full review of the Asset Management Plan has been undertaken, and further work is ongoing to continue to improve, and create a repairs and construction service that best meets the ongoing needs of the Authority's tenants and residents whilst delivering greater efficiency and improved value for money.

2.2.7 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 Mayor and Cabinet and the needs of tenants. For the purposes of the current Financial Planning and Budget process, a four-year MTFP has been developed in line with the approach adopted for the General Fund; Cabinet is advised that projections beyond 2021/22 are indicative at this stage. A five-year timeframe is being proposed for the HRA elements of the General Fund and Housing Capital Investment Plan once again in line with the 2021-26 overall Capital Investment Plan Strategy.

2.2.8 HRA tenants have been consulted on these proposals, and the process concludes with this meeting of Cabinet which is being asked to approve the HRA Business Plan and Budget for 2021/22, including the housing rent, garage rent and service charge changes along with the Housing Capital Investment Plan.

2.3 Key Objectives and headline assumptions for the Housing Service

2.3.1 The overriding objectives for the Housing Service are in line with the agreed Housing Strategy and, as far as possible within financial constraints, are to:

1. Ensure the application of the principles of economy, efficiency and effectiveness.
2. Continue to invest in the existing stock to maintain the Decent Homes Standard.
3. Maintain and develop effective engagement with tenants.
4. Continually monitor the impact of changes such as Universal Credit and other welfare reform on tenants and ensure they have the appropriate support.
5. Work with private landlords to refurbish stock where appropriate.
6. Undertake environmental improvements to estates to ensure that they are clean and safe.
7. Support the delivery of Affordable Homes across the Borough.
8. Specifically increase the delivery of new-build homes where practicable; and
9. Create sustainable tenancies and maximise rental income collection.

2.3.2 The key headlines for the HRA Budget for 2021/22 are as follows:

1. Rent and Service Charges

A) Rent Policy: April 2020 saw the re-introduction of rent increases based on the Consumer Prices Index (CPI) plus 1% for at least the next five years. The baseline for 2021/22 is the CPI rate as of September 2020 which was 0.5%. The rent increase proposed for 2021/22, to be in line with Government policy, is 1.5%. The base HRA Business Plan assumes a 3% rent increase per annum as 2% is the Government target for CPI. The CPI rate has been steadily falling since the start of the pandemic, and hit a low in August 2020 of 0.2%, this was believed to have been heavily impacted by the introduction by the Chancellor of nearly £0.500bn of funding for the “Eat Out to Help Out” scheme which dampened the inflation rate. Once the funding for that scheme was pulled the inflation rate has started to increase again albeit only to 0.5% in September. The impact of this on the HRA Business Plan is to reduce the forecast rental income over 30 years by just under £45.000m. Part of the process to finalise these Budget proposals was to look at putting together a package of measures to fill the gap. The key drivers were to ensure support to the Housing Investment Plan to maintain the existing stock to a decent standard, and to protect resources identified to fund the HRA elements of the Affordable Homes programme.

Because of the four-year rent reduction imposed by the Government from 2016 the Authority had already taken nearly £0.500bn out of the 30-year plan previously, and the vast majority of that had been identified by making some difficult choices within the Housing Investment Plan. The proposal that these savings needed to balance the 2021-51 Plan will be achieved from a package of revenue savings, namely:

- A review of bad debt provisions.
- A review of levels of in-year contingency provided within both the Management and Repairs budgets.
- Adjusting the approach to debt management within the Treasury Management Strategy for the HRA, to slow down the rate at which debt

is repaid over the life of the Plan, as the strategy was always to repay debt where prudent, and if the Authority were able to afford to do so.
- A review and rebasing of rental income streams to iron out any obvious variances; and
- Commence a fundamental review of the structure of the Housing Property and Construction Service, which should deliver savings in both operational and management and support costs, which will be necessary as the volume of work delivered across the entire service may well drop as a result of the impact of COVID-19 on the Authority's overall financial position.

This package of measures will be sufficient to deliver the efficiencies needed to balance the Plan whilst protecting the key Cabinet and Mayoral priorities of:

- a commitment to deliver more affordable housing by increasing the resources available for the HRA element of the Affordable Homes strategy.
- Maintaining the tenants' priorities budget within repairs to focus on key areas of need, those initial areas of focus being pest control, empty homes standard and property health checks.
- Strengthening the resources available to support tenants in coping with the changes arising from welfare reform and the continued roll-out of Universal Credit; and
- Ensuring that existing housing stock is maintained to the Decent Homes Standard.

B) It is proposed to increase service charges for 2021/22 in line with the rent increase at CPI + 1%. For most service charges for 2021/22 the increase will be 1.5%.

C) 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. This exercise was completed this year, so for 2021/22 it is recommended that garage rents will increase in line with rent and service charges being based on CPI + 1% which will see a 1.5% increase.

D) The Authority will continue to move to target rent when properties become empty.

E) 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 rents at CPI + 1% i.e., 1.5%. However, as the schemes continue to become established and fully operational, the Authority are endeavouring to gather more accurate trend data, and ensure that service charges reflect actual costs as closely as possible.

F) The Authority also continues to monitor the impact of welfare reform changes. The importance of ensuring that tenants are kept fully informed of the requirements of the new scheme is fully recognised and ensuring that they are supported in managing the impact of change. In North Tyneside, Universal Credit numbers continue to increase at the end of September 2020 around

3,000 tenants were on Universal Credit and in arrears totalling £2.525m. The Authority had already allocated additional resources to support those tenants affected by the changes in last year's Budget. Due to issues caused by the pandemic, there were delays in recruitment, but most posts have now been filled which should help ensure that tenants get the support they need. The HRA manages a number of properties charging affordable rents i.e., 80% of market rates, and these are not immune to the impact of benefit changes on housing costs as the 80% calculation includes service charges if applicable. Members will continue to be updated of any significant further welfare reform changes as they become clear.

G) In January 2014 Cabinet agreed that everybody in sheltered accommodation who held a tenancy at the point that the North Tyneside Living Private Finance Initiative (PFI) began construction would be protected from excessive rent increases. This is because at the point of completion all the properties saw a significant increase in their asset valuation, a portion of which is used to calculate the rent attached to the property. So those tenants would only be subject to the normal annual rent increase agreed by Cabinet. Also, as previously agreed all new tenancies commence at the newly calculated rents. It is estimated that this protection will cost in the region of £0.050m in 2021/22 and is steadily reducing year on year.

H) From April 2018 Cabinet agreed that the Authority would move from a 50 to a 52-week rent year to align with the continued roll-out of Universal Credit (UC). This sees tenants' weekly rent spread over 52 weeks, although for those residents that wish to continue paying over 50 weeks this option is available. This policy will continue as agreed by Cabinet and 2021/22 will continue to align to UC as it is a 52-week year unlike 2019/20 which was a 53-week year; this may have caused some short-term issues for some tenants.

2. <u>The Housing Capital Investment Plan 2021-2026</u>

The Housing Capital Investment Plan has been refreshed based on the revised Asset Management Strategy, along with revised sums identified to fund new build proposals. The key assumptions that have been made in developing the Housing Capital Investment Plan for 2021-2026 are as follows:

A) Acknowledging the impact of the COVID-19 pandemic, recognising that there will need to be additional consideration given to ensure all COVID-secure measures are followed in the workplace and out on site, which may require different welfare arrangements depending on the site, additional PPE, sanitisers etc.

B) Review of HRA elements of the General Fund and Housing Capital Investment Plan spend based on maintaining Decent Homes, continuation of a fencing programme and other core items included in the refreshed Asset Management Plan, would see core spend of £116.708m over the next 5 years 2021-26, plus new build spend of £24.470m based on continuing the existing approach to HRA new build within Cabinet's overall Affordable Homes Strategy; and

C) Spend for 2021/22 of £26.362m including £2.500m for the continuation of a new build / conversion / acquisition council house programme (including re-programming from 2020/21).

These figures are based on maintaining the key principles of Cabinet's existing approach to debt management and self-financing.

3. Housing Repairs Budget 2021/22

Cabinet was presented last year with a proposal to create a budget for Tenant Priorities from some of the savings realised from the creation of the Housing Property and Construction Service. A significant amount of work was undertaken to look at tenant priorities, and a list of options for prioritising resource allocation was put forward, and for 2019/20 the following were given priority, namely:

- Improving the Empty Homes standard.
- Free pest control service for tenants; and
- Property health checks i.e., scheduled maintenance visits as opposed to reactive ones to properties identified as high maintenance.

In the light of the delays caused by the pandemic in starting these initiatives, it is recommended that these areas remain the focus of the tenant priorities budget for 2021/22, as the objectives remain key to meeting tenants' aspirations.

4. ICT Systems Review

There is a need for a fundamental review of all the Housing ICT systems currently in use across the Service. Northgate has never been fully reviewed to assess its ongoing suitability and whether it needs to be replaced or upgraded. The Authority is also nearly two years into the contract for the Accuserv system used to support HPC's activity, and so this will shortly be under review to decide the future path for that system. A key part of any review would be to assess the benefits and market test whether there is a suitable "unified" system available that could meet most of the Service's needs. This project will be a major exercise needing dedicated resources and a proper governance process put in place. Indicative revenue and capital resources have been identified within the HRA MTFP over the next four years to enable this work to be carried out. The figures will be revised and confirmed as project plans and reviews commence, and a clearer picture is established as to what needs to change.

5. HRA Unallocated Working Balances

Sustain unallocated working HRA balances at a minimum of £2.5m at this stage.

6. Right to Buy (RTB) Sales

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

Table 1: Right to Buy Sales 2011/12 to date

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	120
2020/21 to-date (Sept)	52

As part of changes the Government introduced in 2012/13, the Authority signed an agreement that allows RTB receipts above the levels assumed as part of self-financing to be retained if they are used to fund new build homes at a 30% contribution rate within three years. This has seen an additional £6.285m of capital receipts retained to the end of 2019/20, which has helped deliver £18.842m of new build schemes. The trend in RTB sales is reflected in the 2021/22 Business Plan profile for stock numbers with circa 115 RTB sales and other disposals assumed.

7. Treasury Management Strategy (TMS) and the HRA Borrowing “Cap”

The HRA is an integral part of the Authority’s TMS. When self-financing was introduced in 2012/13, all stock-retaining authorities had to decide on their approach to debt. Each had to either take on additional debt or have debt paid off, based on the assessed ability of the level of debt that their business plans could be expected to manage. For North Tyneside this meant borrowing £128m of loans from the Public Works Loan Board to pay the Authority’s allocated share of debt to the Treasury. Each Authority was allocated a “cap” representing the maximum amount of debt that could be held by the HRA. This Authority was one of only a handful nationally where the debt held was above the “cap”. Actual debt was £290.825m compared to the calculated cap of £270.585m but the Government “flexed” the cap to match the actual position.

All authorities were in different positions regarding actual debt held and the cap, most were below but many were at or near the cap which restricted their options. Each had to decide what debt and risk approach they would take to both fund investment in existing stock and potentially any new build opportunities. Cabinet agreed at this point to set aside money where possible to repay debt each year, to bring the overall debt holdings down below the cap. The recommended strategy was not to seek to repay all debt held over the initial 30 years. This approach enabled revenue surpluses to be created, which have been utilised to fund a programme of HRA new build spend totalling £23.864m to the end of 2019/20. By the end of March 2020, the Authority’s actual HRA debt stood at £264.877m compared to the £290.825m “cap”, and by March 2021 it is anticipated that the debt will drop further to £249.673m. The Authority has already created some headroom through the prudent approach agreed to its Treasury Management Strategy.

These 2021/22 final Budget proposals are based on the existing Cabinet agreed policy approach to debt. The only real change proposed to the current plan for 2021-2051 is to slow down the rate at which debt is repaid, in order to help fund a package of savings that will counter the loss of an estimated £45m of rental income due to the current low rate of CPI. It is estimated that this change in approach would provide £35m of the estimated £45m of savings required. If this approach is taken over the life of the Plan it is estimated that just under a further £70m of debt will be repaid over the next 30 years, compared to £105m in the base model based on a target 3% rent increase per annum.

The Table below shows the reduction in HRA debt included in the current proposals:

Table 2 – Impact on HRA Debt 2021-2051 of Revised Business Plan

Description	Debt Movement £m
Opening Self-Financing Debt	290.825
Opening HRA Debt 01/04/2021	249.677
Closing HRA Debt after 30 Years	179.677
Debt Repaid over 30 years	70.000
Debt Repaid from start of SF	111.148

8. <u>Self-Financing and Depreciation</u>

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 this Authority calculates a simple depreciation charge based on splitting investment works across several component elements of a building and linking that to the way the Authority’s properties are valued using several “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, and these sums are allocated directly to fund the Housing Capital Investment Plan.

2.4 HRA Summary Financial Plans

2.4.1 In summary, the HRA Business Plan modelled to create these final Budget proposals for 2021/22 contains the following key assumptions, most of which are based upon continuing with current Mayoral and Cabinet policy priorities:

- Additional rental income of CPI plus 1%, with a proposed rent increase for 2021/22 of 1.5%, with a longer-term assumption based on CPI target that equates to 3% per annum.
- Garage rent and service charges will increase in line with rental income increases of 1.5% for 2021/22.
- The Tenant Priorities budget created last year will be maintained, particularly as much of the agreed work has been halted by the pandemic,

albeit a lot of work is being undertaken to try and make some meaningful progress in each area before the end of 2020/21.

- Resources identified over the next four years to undertake full review of current housing ICT systems and produce an options appraisal of future needs for the service, and then procure and implement the agreed best solution; and
- The base Housing Capital Investment Plan has been refreshed based on an update of the Asset Management Plan and includes continuation of a new build programme in line with Mayoral priorities and the Affordable Homes Plan.

2.4.2 The updated HRA Capital Investment Plan for 2021-2026 contains over £24m to support the HRA new build programme over the next five years, whilst continuing to repay some debt. The impact that Brexit could have on interest rates and borrowing rates and therefore the impact on the HRA debt position remains unknown at this point. It is prudent that Cabinet maintains its current borrowing policy at this stage, until more surety can be gained over future economic trends.

2.4.3 Appendix C(ii) shows the revised four-year HRA Business Plan 2021-2025, and Appendix C(i) splits the changes included in the HRA Business Plan between Pressures and Growth, Efficiencies and Reserves and Contingencies. The HRA Business Plan for 2021-51 (available as a background paper) starts with an assessment of the budget monitoring position as of 30 November 2020, and the impact on HRA balances for this year. At that point, as was reported to Cabinet on 25th January 2021, the HRA was predicting an overspend of £0.259 m against Budget for 2020/21, mainly due to the impact of the COVID-19 pandemic on service delivery in the first three months of the year. Some of the impact is mitigated by existing budgets, and some by an improving rent position, and some vacancy savings from delays in filling posts again due to the pandemic. This means that the opening balances feeding into the Business Plan as at 31 March 2021 are forecast to be £4.955 m as shown in Appendix C(ii).

The five-year Housing Investment Plan 2021-2026 is included within Appendix D(ii).

Appendix C(i) also shows a further breakdown of the movement on reserves and contingencies which includes a contribution from reserves of £1.943m for 2021/22. It is proposed to reduce contingency budgets by £0.180m in 2021/22 following a review of the levels held, with separate provision made for inflation and pay awards of £0.442m for 2021/22.

3 Overall Financial Risk Assessment – Specifically Relating to the HRA

3.1.1 Financial risks are driven by changes to Government policy and the national financial climate, issues arising throughout the year and reported as part of the financial management reporting process and those risks highlighted as part of the Authority's risk management procedures and 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.

3.2 Key Financial Risks

3.2.1 The key financial risks for the Authority (including the HRA), which have been considered as part of the Financial Planning and Budget process, are set out in the table below along with mitigating actions:

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 align proposals to the Efficiency Statement and how this enables the Authority to deliver its Efficiency Programme. This programme will then 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 on the Authority's 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 SLT 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 2020/21and into 2021/22.
There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2024/25 may be wrong, resulting in changes to the current targeted savings by 2024/25, for the General Fund and for the HRA, which will be considered by Cabinet in February 2021. This includes any assumptions with regards to the ongoing impacts of the COVID-19 pandemic.	The authority has demonstrated robust response to financial management actions if the assumptions that have been made prove to be incorrect. The Authority continues to work closely with national, regional and sub-regional financial networks to help ensure that it 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. The announcement of the Spending Review 2020 clearly gives more information regarding spending plans and financial support to Local Government for 2021/22. More detail was set out in the Provisional Settlement which was published in late December 2020.
There is a risk that not all growth pressures have been identified in the 2021/22 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 specific factors arising during 2020/21 have not been fully taken into account when preparing the 2021/22 Budget.	The 2020/21 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures that factors arising during the year are highlighted.
There is a risk that the contingency provision included in the Financial Plan for 2021/22 is insufficient.	The review of the base Budget and the reflection of the 2020/21 pressures into 2021/22 have been considered as part of the financial planning process
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 process and planning process.
There is a risk that the Authority will be unable to protect its housing assets and services to tenants because of reduced income to the Housing Revenue Account. 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. Further welfare reform changes, including the implementation of Universal Credit and its revised payment period continue to impact on business planning.	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 Capital 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 Authority has representation on the MHCLG and CIPFA HRA working groups. This enables specific NTC issues to be raised and allows the Authority to comment and influence change on HRA regulation.
There is a risk that North Tyneside may be placed at a disadvantage following the decision to leave the European Union in	The potential impact from leaving the EU has been included in the Authority's Financial Strategy. This is helping to

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 Britain formally leaves the EU. This has a potentially significant financial impact due to loss of revenue grant and a potential loss of opportunities, i.e., capital grant and other revenue sources.	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 it 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.

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Our North Tyneside Plan 2020-2024

The Our North Tyneside Plan 2020-2024 (the Council Plan) sets 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 formed the basis of the Framework for COVID-19 Recovery in North Tyneside.

The Our North Tyneside Plan is structured in three key themes – Our People, Our Places and Our Economy. Through our engagement activity over the summer in the Big Community Conversation with our Residents Panel, it is clear that the priorities in the Plan continue to reflect those of residents. Through the Big Community Conversation, residents were asked for their views on what is important for the borough in recovering from the pandemic. These priorities are all included in the Our North Tyneside Plan as set out below:

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

2021-2025 General Fund Medium-Term Financial Plan

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Estimated General Fund Base Budget	161.361	150.154	163.849	166.509
Estimated Growth / Pressures	6.923	10.951	9.908	7.213
Estimated Resources / Carry Forward General Fund Base Budget	(150.154)	(163.849)	(166.509)	(167.986)
Funding Gap / Efficiencies	**18.130**	**(2.744)**	**7.248**	**5.736**
2018/19 Full year effect of business cases in future years	(0.762)	(0.482)	0.000	0.000
2019/20 Full year effect of business cases in future years	(0.500)	(0.500)	0.000	0.000
2020/21 Fully year effect of business cases in future years	(0.530)	(0.625)	(1.035)	0.000
Revised Resources Gap	**16.338**	**(4.351)**	**6.213**	**5.736**
Section 31 NNDR C/FWD	(13.528)	13.528	0.000	0.000
Revised Resources Gap	**2.810**	**9.177**	**6.213**	**5.736**
Adult Social Care Grant – 2021/22	(1.474)	0.000	0.000	0.000
New Homes Bonus	0.991	0.000	0.000	0.000
Minimum Revenue Provision - Voluntary contribution	(0.549)	0.000	0.000	0.000
Public Works Loans Board (1% Interest)	(0.200)	0.000	0.000	0.000
Lower Tier Services Grant	(0.297)	0.000	0.000	0.000
Income Guarantee – Council Tax	(0.463)	0.463	0.000	0.000
Income Guarantee - NNDR	(1.055)	1.055	0.000	0.000
S31 Local Council Tax Support	(0.502)	0.502	0.000	0.000
Benefit Admin subsidy	(0.096)	0.000	0.000	0.000
SFA Multiplier Compensation	(0.056)	0.000	0.000	0.000
Transport Levy Rebate	(0.219)	0.000	0.000	0.000
Business Rates Volatility Reserve	1.113	(0.371)	(0.371)	(0.371)
Business Rates - Cost of Collection	(0.003)	0.000	0.000	0.000
Funding Gap	**0.000**	**10.826**	**5.842**	**5.365**
Cumulative funding gap	**0.000**	**10.826**	**16.662**	**22.033**

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Breakdown of Financial Plan cost pressures 2021/22 to 2024/25

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Legislative / regulatory changes	**1.189**	**0.605**	**1.294**	**1.660**
- Grant related (mainly reductions in relation to Benefits Admin Subsidy, Section 31 and New Homes Bonus) and Policy Changes	0.799	0.605	1.294	1.660
- Policy Change (Car Parking)	0.390	0.000	0.000	0.000
Inflationary changes (pay and prices)	**4.521**	**7.974**	**11.271**	**4.087**
- Pay award (Incl. pension)	1.856	1.891	9.029	1.957
- Waste management	0.265	3.500	0.000	0.000
- PFI Inflation	0.400	0.400	0.000	0.000
- Impact of the National Living Wage	1.927	2.045	2.103	1.990
- Levies & Precepts	0.073	0.138	0.139	0.140
Demand led	**0.500**	**0.889**	**0.889**	**0.889**
- Children's Social Care	0.500	0.500	0.500	0.500
- Adults Social Care	0.000	0.389	0.389	0.389
Corporate pressures	**0.713**	**1.483**	**(3.546)**	**0.577**
- Investment cost of borrowing	(0.462)	0.371	(3.188)	(0.423)
- Corporate changes	1.175	1.112	(0.358)	1.000
TOTAL	**6.923**	**10.951**	**9.908**	**7.213**

Description (Amount)	Grant related changes (£0.799m in 2021/22)
How have the above amounts been calculated?	The value in 2021/22 represents the reduction in grants for Housing Benefit Admin Subsidy £0.101m, reduction in New Homes Bonus £0.425m, and reduction in S31 Grant for Under Indexation of NNDR £0.273m
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 of 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?	Changes to Central Government funding
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Policy changes (£0.390m in 2021/22)
How have the above amounts been calculated?	The value in 2021/22 represents the policy changes made to Car Parking along the foreshore in 2020/21 including the suspension of charges after 6pm.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Reduced income due to policy change
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, this supports a policy decision which is ongoing.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Pay award (£1.856m in 2021/22)
How have the above amounts been calculated?	The annual pay award, £1.856m, calculation is based on an agreed pay award of 2% applied to 2020/21 staffing budgets (including salary, employer's national insurance, and employer's pension contributions).
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 budget setting process for 2021/22.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Waste Management (£0.265m in 2021/2022)
How have the above amounts been calculated?	The figures for the 2021/22 figure are based on the price increases set to be incurred on the 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.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	PFI Inflation (£0.400m in 2021/22)
How have the above amounts been calculated?	Increases in the cost of PFI schemes
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 PFI contracts.
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.
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 (£1.927m in 2021/22)
How have the above amounts been calculated?	This cost pressure is based on potential increases in rates payable to third party providers for 2021/22 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 2021-2025 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.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Levies & Precepts (£0.073m in 2021/22)
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.
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 2021/22)
How have the above amounts been calculated?	This is based on current projected net increased cost pressure from 2020/21
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.
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 (£0.000m in 2021/22)
How have the above amounts been calculated?	This growth requirement is expected to be needed in 2022/23 onwards and is based on estimated client population growth along with known growth pressures for 2020/21 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.
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 ((£0.462m) in 2021/22)
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, £0.462m. A voluntary £3.000m contribution was made to the Minimum Revenue Provision in 2020/21 and the return of this is included in 2023/24.
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.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Corporate changes (£1.175m in 2021/22)
How have the above amounts been calculated?	These are the adjustments required to cover the impact of changes to utilities and other pressures coming from elections and reduced land charges income.
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 and land charges plus additional election costs in 2021/22.
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.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

HRA Financial Plan and Reserves and Contingency Movement 2021-2025

HRA Forecast Expenditure Plan	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Original Base Budget	2.589	1.943	0.379	(0.072)
Add:				
Pressures and Growth				
North Tyneside Living (NTL) – Unitary charge	0.106	0.109	0.111	0.114
Depreciation (formerly MRA)	0.449	0.465	0.481	0.498
Housing Investment Plan-revenue support	0.051	(0.690)	(0.346)	2.447
Pension Fund Deficit Funding	0.000	0.000	0.855	0.017
Revenue Repairs – Inflation/Pay Award	0.243	0.246	0.251	0.254
General Management Pay Award & Superannuation rate increase	0.199	0.204	0.218	0.236
Strategic Management – rebasing from HPC to HRA General Management	0.200	0.000	0.000	0.000
ICT Strategy – Unified Systems Review Project Costs	0.250	0.100	0.000	(0.100)
Bad Debt Provision	0.050	0.050	0.032	0.033
Total - Pressures and Growth	**1.548**	**0.484**	**1.602**	**3.499**
Efficiency Savings				
Council Dwellings – Rebasing and Rent Increase	(0.708)	(1.416)	(1.621)	(1.560)
Temporary and Dispersed Accommodation – Rebasing & Rent Increase	(0.105)	(0.009)	(0.010)	(0.010)
Garage & Other Rents – Rebasing & Rent Increase	(0.087)	(0.009)	(0.009)	(0.016)
NTL – Transitional Rent Protection	(0.010)	(0.010)	(0.010)	(0.010)
Service Charges – Furniture Packs – Rebasing & Rent Increase	0.079	(0.022)	(0.022)	(0.022)
Service Charges – Sheltered and Communal Areas – Rebasing & Rent Increase	(0.230)	(0.040)	(0.041)	(0.042)
Treasury Management – Existing Debt & DME	(0.024)	(0.104)	(0.149)	(0.153)
Treasury Management – New and Temporary Debt	(0.048)	0.010	0.010	0.000
Treasury Management – Debt Set Aside (MRP Equivalent)	(0.761)	(0.331)	(0.103)	(1.480)
North Tyneside Living – contribution to/from Reserve Monitoring Costs	(0.060)	(0.059)	(0.061)	(0.063)
Repairs Budget–impact of stock reductions	(0.060)	(0.058)	(0.037)	(0.033)
Total – Efficiency Savings	**(2.014)**	**(2.048)**	**(2.053)**	**(3.389)**
Reserves & Contingencies				
General Management Contingency - Review	(0.100)	0.000	0.000	0.000
Repairs Contingency - Review	(0.080)	0.000	0.000	0.000
Total – Reserves & Contingencies	**(0.180)**	**0.000**	**0.000**	**0.000**
Revised Base Budget	**1.943**	**0.379**	**(0.072)**	**0.038**

Appendix C (i)

HRA Revenue Balances	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Changes in Contingencies	(0.180)	0.000	0.000	0.000
Contribution to/(from) Balances	(0.645)	(1.564)	(0.452)	0.110
TOTAL	**(0.825)**	**(1.564)**	**(0.452)**	**0.110**

Housing Revenue Account – Revised Business Plan 2021-2025

	2020/21 Forecast Outturn	2021/22 Draft Budget	2022/23 Draft Budget	2023/24 Draft Budget	2024/25 Draft Budget
	£m	**£m**	**£m**	**£m**	**£m**
Rent, Garages and Service Charge Income	(60.524)	(60.995)	(62.491)	(64.194)	(65.838)
PFI Credits - North Tyneside Living	(7.693)	(7.693)	(7.693)	(7.693)	(7.693)
Rent from Shops, Offices etc.	(0.330)	(0.355)	(0.355)	(0.355)	(0.362)
Interest on Balances	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)
Contribution from Balances	(2.848)	(1.943)	(0.379)	0.000	(0.038)
Total Income	**(71.445)**	**(71.036)**	**(70.968)**	**(72.292)**	**(73.981)**
Capital Financing Charges	13.831	12.999	12.574	12.332	10.698
Management Costs	10.097	10.875	11.179	11.397	11.533
Repair and Maintenance	12.941	12.350	12.538	12.753	12.974
PFI Contract Costs – North Tyneside Living	9.940	9.736	9.786	9.836	9.887
Revenue Support to Strategic Investment	10.470	10.521	9.831	9.485	11.932
Depreciation / Major Repairs Account (MRA)	12.826	13.275	13.740	14.220	14.719
Bad Debt Provision	0.980	1.030	1.080	1.112	1.146
Transitional Protection	0.060	0.050	0.040	0.030	0.020
Management Contingency	0.300	0.200	0.200	0.200	0.200
Pension Fund Deficit Funding	0.000	0.000	0.000	0.855	0.872
Contribution to Balances	0.000	0.000	0.000	0.072	0.000
Total Expenditure	**71.445**	**71.036**	**70.968**	**72.292**	**73.981**

	2020/21	2021/22	2022/23	2023/24	2024/25
HRA Balances	**£m**	**£m**	**£m**	**£m**	**£m**
Estimated HRA Balances B/Fwd	**(7.803)**	**(4.955)**	**(3.012)**	**(2.633)**	**(2.705)**
Contribution to/from HRA	**2.848**	**1.943**	**0.379**	**(0.072)**	**0.038**
Estimated HRA Balances C/Fwd	**(4.955)**	**(3.012)**	**(2.633)**	**(2.705)**	**(2.667)**

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2021-2026 Draft Investment Plan

Project	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000	Financing type	£000
General Fund								
BS026 Asset Planned Maintenance	2,000	1,500	1,500	1,500	1,500	8,000	Council Contribution	8,000
CO083 Whitley Bay Crematoria	1,175	0	0	0	0	1,175	Council Contribution	1,175
DV064 Council Property Investment	60	0	0	0	0	60	Council Contribution	60
DV066 Investment in North Tyneside Trading Company	3,611	0	0	0	0	3,611	Council Contribution	1,074
							Section 106	2,537
DV073 Ambition for North Tyneside	3,228	1,885	1,898	2,000	0	9,011	Council Contribution	5,631
							Capital Receipts	677
							Revenue Contribution	1,823
							Historic England - Heritage Action Zone	880
ED075 Devolved Formula Capital	1,079	579	579	579	579	3,395	Education Funding Agency	3,395
ED120 Basic Need	2,014	113	113	113	113	2,466	Education Funding Agency	2,466
ED132 School Capital Allocation	5,171	3,534	3,534	3,534	3,534	19,307	Education Funding Agency	19,307
EV034 Local Transport Plan	3,026	2,933	2,986	2,986	2,986	14,917	Dept for Transport LTP ITA	4,687
							Dept for Transport LTP Maint	10,000
							Section 106	90
							Public Transport Funding	140
EV056 Additional Highways Maintenance	2,000	2000	2,000	2,000	2,000	10,000	Council Contribution	8,149
							Dept for Transport grant	1,851
EV069 Vehicle Replacement	1,274	762	1,248	1,676	1,123	6,083	Council Contribution	6,083

Appendix D (i)

Project	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000	Financing type	£000
EV076 Operational Depot Accommodation Review	1,102	0	0	0	0	1,102	Council Contribution	551
							ERDF	551
EV083 Streetlighting LED	4,353	0	0	0	0	4,353	Council Contribution	4,353
EV096 Tanners Bank	460	463	0	0	0	923		820
							Dept for Transport - Highway Maintenance Challenge Fund	
							Dept for Transport LTP ITA	103
EV095 Emergency Active Travel Tranche 2	1,260	0	0	0	0	1,260	Dept for Transport	1,260
EV091 Other Initiatives Climate Change	74	0	0	0	0	74	Council Contribution	74
GEN03 Contingencies (see note)	3,351	2000	500	500	500	6,851	Council Contribution	6,851
GEN12 Local Infrastructure	100	100	100	100	100	500	Council Contribution	500
HS004 Disabled Facilities Grant	2,281	0	0	0	0	2,281	Better Care Fund	2,281
HS051 Private Sector Empty Homes	393	393	0	0	0	786	Council Contribution	786
IT020 ICT Strategy	1,000	1,000	1,000	1,000	1,000	5,000	Council Contribution	5,000
Total General Fund	**39,012**	**17,262**	**15,458**	**15,988**	**13,435**	**101,155**		**101,155**
HRA								
HS015 Refurbishment / Decent Homes Improvements	22,443	20,433	21,248	21,745	22,877	108,746	Capital Receipts	11,180
							Revenue Contribution	54,767
HS017 Disabled Adaptations	1,212	1,072	1,083	1,094	1,105	5,566	Major Repairs Reserve	75,231
HS039 ICT Infrastructure Works	207	608	1,109	360	112	2,396		
HS044 HRA New Build	2,500	3,930	3,960	6,750	7,330	24,470		
Total HRA	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**		**141,178**

Appendix D (i)

Project	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000	Financing type	£000
TOTAL	65,374	43,305	42,858	45,937	44,859	242,333		242,333

Project	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000	Financing type	£000

Financing

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000
General Fund						
Council Contribution	17,103	8,525	7,660	8,776	6,223	48,287
Council Contribution - Capital Receipts	423	254	0	0	0	677
Grants & Contributions	20,909	7,737	7,298	7,212	7,212	50,368
Revenue Contribution	577	746	500	0	0	1,823
General Fund Total	**39,012**	**17,262**	**15,458**	**15,988**	**13,435**	**101,155**
HRA						
HRA Capital Receipts	750	1,886	2,871	2,689	2,984	11,180
HRA Revenue Contribution	10,759	9,831	9,485	11,932	12,760	54,767
HRA Major Repairs Reserve	14,853	14,326	15,044	15,328	15,680	75,231
HRA Financing Total	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**
TOTAL	**65,374**	**43,305**	**42,858**	**45,937**	**44,859**	**242,333**

Note

This includes match funding set aside for additional highways projects currently being progressed through the business case stage of an external funding bid.

APPENDIX D(ii) - HOUSING INVESTMENT PLAN 2021-26

Project Ref	Project Title	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000
	Housing						
HS002	HRA Schemes	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**
	Made up of:-						
	Decency Refurbishments(incl.re-programming)	17,113	15,710	16,386	16,805	17,855	**83,869**
	Disabled Adaptations (incl.re-programming)	1,212	1,072	1,083	1,094	1,105	**5,566**
	Capitalisation of Major Repairs	1,257	1,270	1,283	1,296	1,308	**6,414**
	Furniture Pack Scheme	511	516	521	526	531	**2,605**
	Asbestos Works	309	312	315	318	322	**1,576**
	Energy Efficiency & Environmental Improvements	210	211	213	214	216	**1,064**
	Fencing / Walling / Offstreet parking / Landscaping	1,195	1,377	1,464	1,491	1,519	**7,046**
	ICT Strategy (incorporating Unified Systems Review)	207	608	1,109	360	112	**2,396**
	Garages (Renovation/Demolition)	127	131	135	139	143	**675**
	Water Pipe Renewals/Fire Damage Reinstatement	133	134	135	137	139	**678**
	Apprentice Costs (split with Repairs)	210	216	223	229	236	**1,114**
	Footpaths & Communal Fire Doors	938	103	106	109	113	**1,369**
	Project Management Fee	440	453	467	481	495	**2,336**
	Potential New Build (incl. re-programming)	2,500	3,930	3,960	6,750	7,330	**24,470**
	Total: Housing	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**
	TOTAL	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**

FINANCING

HOUSING

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Council Contribution						
Capital Receipts	750	1,886	2,871	2,689	2,984	**11,180**
Revenue Contributions / House-building Fund	10,759	9,831	9,485	11,932	12,760	**54,767**
Total Council Contribution	11,509	11,717	12,356	14,621	15,744	**65,947**
Depreciation / Major Repairs Reserve	14,853	14,326	15,044	15,328	15,680	**75,231**
TOTAL HOUSING	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**
TOTAL	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**

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2021-2025 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 run 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 draft Treasury Management Strategy for 2021/22 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 2021–2025. 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

	2020/21 Est.	2021/22 Est.	2022/23 Est.	2023/24 Est.	2024/25 Est.
General Fund	16.82%	18.85%	15.06%	14.56%	14.12%
HRA	28.91%	27.90%	27.33%	26.49%	23.68%

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. A new accounting standard for leasing (IFRS16) was due to come into force for Local Authorities from 1 April 2020 due to the Covid-19 pandemic this has been delayed until 1 April 2022. Under this new standard leases that have previously been treated as operating leases and expensed to the revenue account on an annual basis, will now be 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

	2020/21 Est.	2021/22 Est.	2022/23 Est.	2023/24 Est.	2024/25 Est.
General Fund	11.82%	13.53%	10.36%	9.86%	9.68%
HRA	6.88%	5.85%	5.23%	4.85%	0.38%

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 2020/21 to 2024/25.

Table 3: Gross external debt compared to CFR

	2020/21	2021/22	2022/23	2023/24	2024/25
	Est.	Est.	Est.	Est.	Est.
	£000s	£000s	£000s	£000s	£000s
External Borrowing	460,187	462,724	459,148	454,330	452,175
Other Liabilities (including PFI and Finance Leases)	111,241	107,979	254,603	253,715	250,016
Total Gross debt	571,428	570,703	713,752	708,046	702,191
Capital Financing requirement	**632,184**	**625,551**	**688,356**	**677,868**	**660,149**

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 2021-2026 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

	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s	2024/25 Est. £000s
General Fund	43,589	39,012	17,262	15,458	15,988
HRA	25,227	26,362	26,043	27,400	29,949
Total	**68,816**	**65,374**	**43,305**	**42,858**	**45,937**

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) now comes into force for Local Authorities from 1 April 2021. 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

	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s	2024/25 Est. £000s
General Fund	316,454	315,208	383,182	377,881	363,979
HRA	315,730	310,343	305,174	299,987	296,170
Total	**632,184**	**625,551**	**688,356**	**677,868**	**660,149**

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

	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s	2024/25 Est. £000s
General Fund	181,285	188,002	185,368	181,852	179,048
HRA	11,002	7,171	3,671	274	0
Total	192,287	195,173	189,039	182,126	179,048

<u>Prudential Indicators for External Debt</u>

<u>Authorised limit for total external debt</u>

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 2022. 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

	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s	2024/25 Est. £000s
Borrowing	1,100,000	1,040,000	1,020,000	1,000,000	980,000
Other Long Term Liabilities	150,000	135,000	235,000	235,000	210,000
Total	**1,250,000**	**1,175,000**	**1,255,000**	**1,235,000**	**1,190,000**

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 2021/22 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

	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s	2024/25 Est. £000s
Borrowing	550,000	520,000	510,000	500,000	490,000
Other Long Term Liabilities	130,000	115,000	185,000	185,000	180,000
Total	**680,000**	**635,000**	**695,000**	**685,000**	**670,000**

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 2021-2025

1.42 Full Council will be requested to set an upper limit on its fixed interest rate exposures for 2021/22 through to 2024/25 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 2021/22 through to 2024/25 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%

NORTH TYNESIDE COUNCIL

CAPITAL INVESTMENT STRATEGY

2021-2026

CONTENTS

1. <u>Introduction</u>

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

<u>Asset disposals</u>

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.

<u>Asset disposals at nil consideration or below market value</u>

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 1.5-3.0% should be assumed for new borrowing in 2021/22.

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 Strategy • Cycling Strategy • Network Management Plan	Employment and Skills Strategy		Human Resources-Workforce Strategy
Community Safety Strategy	Housing Strategy • Strategic Housing Market Assessment (SHMA) • Strategic Housing Land Availability Assessment (SHLAA) • HRA business plan • HRA Asset Management Plan			Financial Strategy
	Climate Emergency • Climate Emergency Action Plan • Low Carbon Plan 2016-2027	Estates Strategy		Asset Management Plan
	Flood Alleviation • Flood Risk Management Strategy • Coastal Strategy	Our Ambition for North Tyneside		Treasury Management Strategy Statement
	North Shields Master Plan	North Shields Master Plan		Minimum Revenue Provision Policy
	10 Year Plan for Waste			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 "proper practices""

"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 directly attributable 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 future economic benefits 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

2021/22 Treasury Management Statement and Annual Investment Strategy

1.1 Treasury Management Strategy for 2021/22

1.1.1 The proposed Strategy for 2021/22 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:

- Training;
- Use of External Advisors;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness; and
- Non-Treasury Investments

1.2 Training

1.2.1 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.

A training session will be provided by Link Asset Services to all members involved in the investment decision-making process.

1.3 Treasury management Consultants

1.3.1 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.

1.4 Investment and Borrowing Rates

Investment returns are likely to remain low for the next few years. Increments in investment levels will be slow and steady.
The Debt Management Office is currently at negative rates with many banks offering less than base rate for anything up to 6 months. Highly liquid Money Market

Funds are also at all time lows with some suspending investments due to the low yields being generated.

HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July.

It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).
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, investment returns remain exceptionally low as does in borrowing rates, which means it's a good time to refinance any borrowing at these historically low levels.

1.5 Borrowing Strategy

1.5.1 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 strategy is prudent as investment returns have remained low and counterparty risk is relatively high.

The Authority's borrowing strategy will give consideration to new loans in the following order of priority:

- 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 remain stagnant over the next few years, consideration will 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.

1.5.2 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 2021/22 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.

1.6 Policy on borrowing in advance of need

1.6.1 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.

1.7 Debt Rescheduling

1.7.1 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 debt 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 2021/22 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.

2.1 Annual Investment Strategy

2.1.1 Investment policy – management of risk

The Ministry for Housing Communities and Local Government (MHCLS) 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:

- 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).

2.1.2 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 within the Investments and Credit Criteria 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 within the Investments and Credit Criteria table;

7. Transaction limits are set for each type of investment in within the Investments and Credit Criteria table;

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 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.

2.3 Investment Strategy

2.3.1 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 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 Bank 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.

2.4 Creditworthiness Policy

2.4.1 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 preponderance 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 its Passport website. Extreme market movements may result in downgrade 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.

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

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Appendix E (ii)

North Tyneside Council

NORTH TYNESIDE COUNCIL

TREASURY MANAGEMENT PRACTICES

2021/22

This section contains the schedules that set out the details of how the Treasury Management Practices (TMPs) are put into effect by this organisation.

Background

CIPFA recommends that an organisation's treasury management practices (TMPs) include those of the following that are relevant to its treasury management powers and the scope of its treasury management activities:

TMP1 Risk management

TMP2 Performance measurement

TMP3 Decision making and analysis

TMP4 Approved instruments, methods and techniques

TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP6 Reporting requirements and management information arrangements

TMP7 Budgeting, accounting and audit arrangements

TMP8 Cash and cash flow management

TMP9 Money laundering

TMP10 Training and qualifications

TMP11 Use of external service providers

TMP12 Corporate governance

This section contains the schedules which set out the details of how the Treasury Management Practices (TMPs) are put into effect by the Council. There are no major changes to practices from prior year.

TMP1 - RISK MANAGEMENT

The Authority regards a key objective of its treasury management and other investments activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investments including investment properties.

The Head of Resources (Section 151 Officer) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Authority's objectives in this respect, all in accordance with the procedures set out in TMP 6 Reporting Requirements and Management Information arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1.1 Credit and Counterparty Risk Management

Credit and counterparty risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current resources.

The Authority regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisation's with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP 4 Approved Instruments Method and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Further details of the Authority's credit and counterparty limits are available within the Authority's Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS).

1. 2 Liquidity Risk Management

Liquidity risk is the risk that cash will not be available when it is needed, that ineffective risk management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will therefore be compromised.

The Authority will ensure it has adequate, not excessive, cash resources, borrowing arrangements, overdraft, or standby facilities to enable it at all times to have the level of funds available to it which is necessary for the achievement of its business service objectives.

The Authority will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

1.2.1 Amounts of approved minimum cash balances and short-term investments

The Treasury Management team shall seek to minimise the balance held in the Authority's main bank accounts at the close of each working. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.2 **Details of:**

a) Bank overdraft arrangements
A £1m overdraft at 2.5% over base has been agreed with Barclays Bank as part of the banking services contract. The overdraft is assessed on a group basis for all the Authority's accounts.

b) Short-term borrowing facilities
The Authority accesses temporary loans through brokers on the London Money Market, the Authority's own bank, banks and other local authorities.

1.3 Interest rate risk management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Authority's finances, against which the Authority has failed to protect itself adequately. The Authority will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary implications.

- Details of approved interest rate exposure limits;
- Trigger points and other guidelines for managing changes to interest rate levels;
- upper limit for fixed interest rate exposure; and,
- Upper limit for variable interest rate exposure

1.3.1 Policies concerning the use of instruments for interest rate management

a) Forward dealing
Consideration will be given to dealing from forward periods depending upon market conditions.

b) Callable deposits
The Authority will use callable deposits as part of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the Annual Investment Strategy.

1.4 Exchange rate risk management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Authority's finances, against which the Authority has failed to protect itself adequately.

It will manage its exposure to fluctuations in exchange rates so as to minimize any detrimental impact on its budgeted income/expenditure levels.

1.4.1 Approved criteria for managing changes in exchange rate levels

a) As a result of the nature of the Authority's business, the Authority may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.

b) Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity.

1.5 Refinancing risk management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the Authority for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

The Authority will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Authority as can reasonably be achieved in the light of market conditions prevailing at the time.

The Authority will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any source of funding if this might jeopardise achievement of the above.

1.5.1 Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Authority will establish through the Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reason for any rescheduling to take place will include;

a) The generation of cash savings at minimum risk
b) To reduce the average interest rate
c) To amend the maturity profile and balance volatility of the debt portfolio

1.5.2 Projected Capital Investment Requirements

The Head of Resources (Section 151 Officer) will prepare a four year plan for capital expenditure for the Authority. The investment plan will be used to prepare a four year revenue budget for all forms of financing charges. The Head of Resources (Section 151 Officer) will also draw up a capital strategy report which will give a longer term view.

The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practices as per the Code of Practice on Local Authority Accounting.

1.5.3 Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

In consideration of affordability of its investment plans, the Authority will consider all the resources currently available for the future together with the totality of its investment plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax and housing rent levels. It will also take into account affordability in the longer term beyond the three year period.

1.6 Credit and counterparty risk management

Credit and counter-party risk is the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially one due to deterioration in its creditworthiness, which causes the Authority an unexpected burden on its capital or revenue resources.

As a holder of public funds, the Authority recognises its prime responsibility to always put first the preservation of the principal of the sums, which it invests. Consequently, it will optimise returns commensurate with the management of the associated risks.

1.6.1 Legal and regulatory risk management

The risk that the Authority itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Authority suffers losses accordingly.

The Authority will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties to whom it deals in such activities. In framing its credit and counterparty policy it will ensure that there is evidence of counterparties' power, authority and compliance in respect of the transactions they may effect with the organization, particularly to duty of care and fees charged.

The Authority recognises that future legislative or regulatory changes may impact on its treasury management activities and will seek to minimise the risk of these impacting adversely on the Authority.

The treasury management activities of the Authority shall comply fully with legal statute, guidance, Codes of Practice and the financial regulations of the Authority. These are listed as appendix 1 of this document.

1.6.2 Procedure for Evidencing the Council’s Powers

The Authority’s power to borrow and invest are contained in legislation.
a) Investing: Local Government Act 2003, section 12
b) Borrowing: Local Government Act 2003, Section 1

In addition, it will make available the scheme of delegation of treasury management activities which states which officers carry out these duties and also a copy of officer’s authorised signatories.

Lending shall only be made to counterparties on the Approved Lending list. The list has been compiled using advice from the Authority’s treasury advisers based upon credit ratings supplied by Fitch, Moody’s and Standard & Poors.

1.6.3 Statement on the Council’s Political Risks and Management

The responsible officer shall take appropriate action with the Council, the Chief Executive Officer and the Leader of the Council to respond to and manage appropriate political risks such as change of majority group, leadership in the Council, change of Government and any other necessary risks.

1.6.4 Monitoring Officer

The monitoring officer is the Head of Law and Governance; the duty of this officer is to ensure that the treasury management activities of the Authority are lawful.

1.6.5 Chief Finance Officer

The Chief Finance Officer (Section 151 Officer) is the Head of Resources; the duty of this officer is to ensure that the financial affairs of the Authority are conducted in a prudent manner and to report to Council any concerns as to the financial prudence of its actions or its expected financial position.

1.8 Fraud, error and corruption, and contingency management

The Authority will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements.

The Authority will;

- seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimise such risks.
- Staff will not be allowed to take up treasury management activities until they have received training in procedures and are then subject to an adequate and appropriate level of supervision.
- An up to date record of all transactions, limits etc must be maintained by the treasury function.

1.9 Details of systems and procedures to be followed

The Authority will demonstrate compliance with statutory power and regulatory requirements for all treasury activities, if required to do so, to all parties with whom it deals on such activities.

1.9.1 Authority

The Scheme of Delegation to Officers sets out the delegation of duties to officers. All loans and investments are negotiated by the responsible officer or authorised persons.

1.9.2 Investment and Borrowing Transactions

A detailed register of loans and investments is maintained in the treasury section. This is checked to the ledger balances online (Barclays.net).

Cash flow forecasting records are maintained and support the decision to lend or borrow.

Confirmation is received and checked against the dealer’s record for the transaction.

Transactions placed through the brokers are confirmed by a broker note showing details of the loan/investment arranged. Written confirmation is received and checked against the dealer’s record for the transaction.

The loans register is updated to record all lending and borrowing.

The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Authority internally.

Workbooks maintained and updated by Treasury colleagues for the purpose of PWLB loan management calculates periodic interest payments of PWLB and other long term loans.

The Treasury Management cashflow workbook prompts the Treasury Officer that money borrowed or lent is due to be repaid.

1.9.3 Regularity and Security

All lending is only made to institutions on the Approved List of Counterparties.

All loans raised and repayments made go directly to and from the bank account of approved counterparties.

Counterparty limits are set for every institution that the Authority invests with.

There is a separation of duties in the section between dealers and the checking and authorisation of all deals.

The Authority’s bank (Barclays Bank) have a list of Council officials who are authorised signatories for treasury management transactions as well as those authorised to contact Barclays.

No member of the treasury team is an authorised signatory.

The on-line banking system can only be accessed by a password and use of an authentication reader.

There is adequate insurance cover for employees involved in loans management and accounting.

Checks

The bank reconciliation is carried out daily from the bank statement to the financial ledger.

The treasury management workbook balances are proved to the balance sheet ledger codes at the end of each month and at the financial year end.

Working papers are retained for audit inspection.

We have complied with the requirements of the Code of Practice on Local Authority Accounting and will account for the fund as Fair Value through Profit and Loss. As a result, all gains and losses and interest (accrued and received) will be taken to the Comprehensive Income and Expenditure Statement.

Calculations

The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the treasury management system.

The treasury management workbooks automatically calculates periodic interest payments of PWLB and other long term loans. This is used to check amounts paid to lenders.

Average weighted capital loans fund interest rates and debt management expenses are calculated using information from the financial ledger and treasury management system.

1.8.1. Emergency and contingency planning arrangements

Key treasury management colleagues have been provided with business continuity plan (BCP) contingencies.

All computer files are backed up as necessary, the core banking system is accessible remotely as well as without need to access the server.

1.8.2. Insurance cover details

Fidelity Insurance

The Council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees.

Professional Indemnity Insurance

The Council has a 'Professional Indemnity' insurance policy with Zurich Municipal which covers loss to the Council from the actions and advice of its officers which are negligent and without due care.

1.8.3. Market risk management

The risk that through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

1.8.5 Approved Procedures and Limits for Controlling Exposure to Investments whose Capital Value may Fluctuate

These are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Investment Strategy.

TMP 2 - PERFORMANCE MEASUREMENTS

2.1 Evaluation and Review of Treasury Management Decisions

The Authority has a number of approaches to evaluating treasury management decisions;

- Periodic reviews carried out by the treasury team
- Reviews of our treasury management advisers
- Annual review at the end of the year as reported to Full Council
- Mid-year Treasury Management monitoring update to Cabinet

2.2 Review of our Treasury Management Consultants

The treasury management team holds reviews with our consultants every regularly to review the performance of the investment and debt portfolio.

2.3 Annual Review after the end of the Financial Year

An Annual Treasury Report is submitted to Cabinet each year after the close of the financial year which reviews the performance of the debt/investment portfolios. The report contains the following:

- Total debt and investments at the beginning and close of the financial year and average interest rate
- Borrowing strategy for the year compared to actual strategy
- Investment strategy for the year compared to actual strategy
- Explanation for variance between original strategies and actual
- Debt restructuring done in year
- Actual borrowing and investment rates available through the year
- Compliance with Prudential and Treasury Indicators

2.4 Comparative Reviews & Performance Measurement

When data becomes available, comparative reviews are undertaken to see how the performance of the Authority on debt and investments compares to other authorities with similar size portfolios.
The Authority are part of Link Asset Services Benchmarking group. The Authority's investment performance is benchmarked against other Local Authorities.

Investment performance is reviewed on a weighted average basis against other Local Authorities.

2.5 Policy Concerning Methods for Testing Value for money in Treasury Management

2.5.1 Frequency and Processes for Tendering

Tenders are normally awarded on a 3 year basis with the option to extend for a further year. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

2.5.2. Banking Services

Banking services will be retendered or renegotiated every 5 years with an option to extend for further years.

2.5.3. Money-broking services

The Council will use money broking services in order to make deposits or to borrow and will establish charges for all services prior to using them.

2.5.4 Consultants Services

The Authority's policy is to appoint professional treasury management consultants.

The Authority has not appointed external investment fund managers.

TMP 3 - DECISION-MAKING AND ANALYSIS

3.1 Funding, Borrowing, Lending and New Instruments/Techniques:

3.1.1. Records to be kept

The treasury section has a transaction register in which all investment and loan transactions are recorded. The following records will be retained;
- Daily cash balances
- Market rates
- Payment documents for all money market transactions
- Brokers confirmation for investment and borrowing transactions
- PWLB borrowing confirmations

3.1.2. Processes to be pursued

- Daily cash flow analysis
- Debt and maturity analysis
- Ledger reconciliation

3.1.3. Issues to be Addressed

In respect of every treasury management decision made the Authority will;

- Above all be clear about the nature and extent of the risks to which the Authority may become exposed
- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- Be content that the documentation is adequate both to deliver the Authority's objectives and protect the Authority's interests, and to deliver good practice
- Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded
- Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.

In respect of borrowing and other funding decisions, the Authority will;

- Evaluate the economic and market factors that might influence the manner and timing of any decision to fund;
- Consider the alternative form of funding, interest rate bases available and the most appropriate periods to fund and repayment profiles to use;
- Consider the ongoing revenue liabilities created and the implications for the Authority's future plans and budgets.

In respect of investment decisions, the Authority will:-

- Consider the optimum period considering cash flow availability and prevailing market conditions;
- Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital;

TMP 4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Activities of the Treasury Management Operation

- Borrowing;
- Lending;
- Debt repayment and rescheduling;
- Consideration, approval and use of new financial instruments and treasury management techniques;
- Managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- Managing cash flow;
- Banking activities;
- Leasing.

4.2 Approved Instruments for Investments

Please seed the current Annual Investment Strategy. The latest version is available from the Treasury Management Officer.

4.2.1 Implementation of MIFID II Requirements

Since 3 January 2018, UK public sector bodies have been defaulted to "retail" status under the requirements of MIFID II. However, for each counterparty it is looking to transact with, (e.g. financial institution, fund management operator, broker), there remains the option to opt up to "professional" status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However, some non-UK banksdo not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments with. This specifies for each investment instrument and for each counterparty, whether the authority has been opted up to professional status.

A file is maintained for all permissions applied for the received for opt ups to professional status specifying name of the institution, instrument, date applied for the and date received.

A separate file is maintained for confirmations that there is an exemption from having to opt up to professional status for the regulated investment.

4.3 Approved Techniques

- The use of structured products such as callable deposits
- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument

4.4 Approved Methods and Sources of Raising Capital Finance

Capital finance will only be raised in accordance with the Local Government and Housing Act, 2003, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Local Authorities	●	●
Overdraft		●
Internal (capital receipts & revenue balances)	●	●
Leasing	●	●
Municipal bond agency	●	●

Other Methods of Financing

Government and EC Capital Grants
Lottery monies
PFI/PPP
Operating Leases

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Head of Finance has delegated powers in accordance with Financial Regulations, Standing Orders, and the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

Please see the current Treasury Management Strategy Statement and Prudential and Treasury Indicators.

TMP 5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1 Treasury Management activities will be properly structured in a clear and open method and a rigorous discipline of segregation of duties will be enforced to ensure effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance.

5.2 The principles on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

5.3 a) The Council will receive and review reports on treasury management activities, the annual treasury management strategy and the annual treasury management report.

b) The Head of Finance will be responsible for amendments to the organisations adopted clauses, treasury management policy statement and treasury management practices.

c) The Head of Finance will consider and approve the Treasury Management Budget.

d) The Head of Finance will approve the segregation of responsibilities.

e) The Head of Finance will receive and review external audit reports and put recommendations to the Audit Committee.

f) The Head of Finance in accordance with Financial Regulations will decide approving the selection of external service providers and agreeing terms of appointment.

5.4 The Head of Finance has delegated powers to take all decisions on borrowing, investment, financing and banking and all activities in this respect will be carried out by suitably trained staff.

5.5 TREASURY MANAGEMENT ORGANISATION CHART

	Head of Finance (Section 151)	
	Senior Finance Manager	
	Principal Accountant	
	Treasury Management Officer	
	Finance Officer	

5.6 The Head of Finance may delegate her power to borrow and invest to members of staff. The Treasury Management Officer will conduct all dealing transactions, the Principal Accountant and Finance Officer will act as temporary cover for leave/sickness.

5.7 Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Head of Finance to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

5.8 A list of brokers is maintained within the Treasury Team and a record of all transactions recorded against them.

5.9 The Council rotates business between brokers.

5.10 It is not Council Policy to record brokers conversations

5.11 Preliminary instructions are given by telephone followed by email confirmation, a payment transfer will be made online in Barclays.net to be completed by 1700 on the same day.

5.12 For each deal undertaken with brokers, a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

TMP 6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 Annual programme of reporting

- Annual reporting requirements before the start of the year: -
    - Review of the organisation's approved clauses, treasury management policy statement
    - Treasury Management Strategy report on proposed treasury management statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
    - Capital/Treasury Strategy to cover the following:-
        - Give a longer term view of the capital programme and treasury management implications thereof beyond the three year time horizon for detailed planning;
        - An overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance between both types of investments;
        - The Authorities risk appetite and specific policies and arrangements for non treasury investments
        - Schedule of non – treasury investments.
- Mid-year review
- Annual review report after the end of the year

6.1 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy sets out the expected treasury activities for the forthcoming financial year. This strategy will be submitted to Cabinet for approval before the commencement of each financial year.
2. The formulation of the Annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, this organisation may decide to postpone borrowing if fixed interest rates are expected to fall or borrow early if fixed interest rates are expected to rise.

3 The Treasury Management Strategy Statement is concerned with the following elements:

- Prudential and Treasury Indicators
- Current Treasury portfolio position
- Prospects for interest rates
- Borrowing requirement
- Borrowing strategy
- Policy in borrowing in advance of need
- Debt rescheduling
- Investment strategy
- Creditworthiness policy
- MRP policy

- Policy on use of external providers
- Extraordinary treasury issue

4. The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable) and highlight sensitivities to different scenarios.

5. The outcome of debt rescheduling undertaken and reported to Cabinet as soon as possible after completion of the exercise.

6.3 The Annual Investment Strategy Statement

At the same time as the Council receives the Treasury management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following;

- The Council's risk appetite in respect of security, liquidity and optimum performance
- The definition of high credit quality to determine what are the specified investments as distinct from non-specified investments
- What specified and non-specified instruments the Council will use
- The Authority's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthiness counterparties for its approved lending list
- Which credit rating agencies the Authority will use
- How the Authority will deal with the changes in ratings, rating watches and rating outlooks
- Limits of individual counterparties and group limits
- Interest rate outlook

6.4 The Annual Minimum Revenue Provision Statement

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the four options and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

6.5 Policy on Prudential and Treasury Indicators

The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.

The responsible Officer is responsible for incorporating these limits into the Annual Treasury management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to full Council.

6.6 Mid-year Review

Treasury management activities will be reviewed on a six monthly basis. This review considers the following;

- Activities undertaken
- Variations from agreed policies
- Interim performance report
- Regular monitoring
- Monitoring of treasury management indicators for local authorities

6.7 Annual Review Report on Treasury Management Activities

An annual report will be presented to Cabinet at the earliest practicable meeting after the end of the financial year, by the end of September. This report will include the following;

- Transactions executed and their revenue effects
- Report on risk implications of decisions taken and transactions executed
- Compliance on agreed policies and practices, and on statutory/regulatory requirements
- Performance report
- Compliance with CIPFA Code recommendations
- Monitoring of treasury management indicators

6.8 Publication of Reports

Reports will be published online on the Authority's website in accordance with each meeting agenda.

TMP 7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 STATUTORY/REGULATORY REQUIREMENTS

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.

The Council has also adopted the principles set out in CIPFA's 'Treasury Management in the Public Services – Code of Practice', together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 BUDGETS / ACCOUNTS/PRUDENTIAL AND TREASURY INDICATORS

The Principal Accountant will prepare an annual budget for treasury management, which will bring together all the costs involved in running the function, together with associated income.

7.4 AUDIT ARRANGEMENTS

The Council will ensure that its auditors, and those charged will regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

List of information requirements of External Auditors

- Reconciliation of loans in the financial ledger to treasury management records
- Maturity analysis of loans outstanding
- Certificates for new long-term loans taken out in the year
- Reconciliation of loan interest, discounts received, and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Interest accrual calculation
- Principal and interest charges report from the treasury management workbooks
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Calculation of Minimum Revenue Provision

TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

8.1.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this Council will be under the control of the responsible officer and will be aggregated for the cash flow and investment management purposes.

8.1.2 Cash flow projections will be prepared on a regular and timely basis. The annual and monthly cash flow projections are prepared from the previous year's daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

8.1.3 The Authority has access to all its daily banking transactions via the online Banking System. All transactions are checked to source data. A formal bank reconciliation is undertaken daily by Income Management colleagues.

TMP 9 - MONEY LAUNDERING

9.1 Proceeds of Crime Act 2002

Money Laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are;

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- Being concerned in an arrangement which a person knows, or suspects facilitates the acquisition, retention, use or control of criminal property
- Acquiring, using or possessing criminal property

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include;

- Failure to disclose money-laundering offences
- Tipping ff a suspect, either directly or indirectly
- Doing something that might prejudice an investigation – for example, falsifying a document

9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

9.3 The Money Laundering Regulations 2012, 2015 and 2017

Organisations pursuing relevant business are required to do the following;

- Identify and assess the risks of money laundering and terrorist financing
- Have policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified through the risk assessments
- appoint a nominated officer
- implement internal reporting procedures;
- train relevant staff in the subject;

- obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken;
- report their suspicions.

9.4 Local Authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under to POCA but are not legally obliged to apply the provisions of the Money Laundering Regulations 2012, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly, the Authority will do the following;

i. evaluate the prospects of laundered monies being handled by them;
ii. determine the appropriate safeguards to be put in place;
iii. require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
iv. make all its staff aware of their responsibilities under POCA
v. appoint a member of staff to whom they can report any suspicions
vi. in order to ensure compliance is appropriately managed, this Authority will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and method of communicating procedures and other information to personnel
vii. the officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS

The Council is alert to the possibility that it may become the subject of an attempt to involve it in transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained. A copy of the Council's anti money laundering policy is available on the Council's intranet site and from Legal Services.

The Authority does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FCA website on www.fca.gov.uk

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

9.6 Methodologies for Identifying Deposit Takers

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on the approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through their website on www.fsa.gov.uk.

All transactions will be carried out by BACS or CHAPs for making deposits or repaying loans. Counterparty repayment details will be checked on kept on file.

TMP 10 - STAFF TRAINING AND QUALIFICATIONS

10.1 The Authority recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

a) Treasury management staff employed by the Authority
b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Professional Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Training may also be provided on the job and it will be the responsibility of the Treasury Management Officer to ensure that all staff receive the level of training appropriate to their duties. This will also apply to staff who from time to time cover for absences from the treasury management team.

Details of staff training needs will be identified, as part of the training needs analysis undertaken during staff Individual Performance Review.

Treasury Management seminars will be attended as appropriate.

10.2 Statement of Professional Practices

Where the Chief Finance Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.3 Members charged with Governance

Members charged with governance also have a responsibility to ensure that they have the appropriate skills and training for their role. Treasury Management will ensure relevant members have training available regularly.

TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS

11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS

The Authority will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in-house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks, and
- The credit rating of that government support

11.1.1 BANKING SERVICES

a) Name of supplier of service is Barclays Bank PLC.
The branch address is:

Newcastle City
Newcastle upon Tyne
NE1 7AF

Tel: 0345 734 5345

b) Contract commenced November 2016 and runs for 5 years full and extension until November 2021

c) Cost of service is variable depending on schedule of tariffs and volumes

d) Payments due quarterly/Monthly.

11.1.2 MONEY- BROKING SERVICES

The Council will use money brokers for temporary borrowing and investment and long-term borrowing. It will seek to give an even spread of business amongst the approved brokers.

Name of supplier of service:

Martin Brokers (UK) plc
Tradition UK Limited
Icap Tullett Probon
BCG/Sterling
King & Shaxton
Imperial Treasury Services

11.1.3 CONSULTANTS'/ADVISERS' SERVICES

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on the approved lending list etc.

Treasury Consultancy Services

a) Name of supplier of service is Link Treasury Solutions. Their address is:

65 Gresham Street
London
EC2V 7NQ

b) Contract commenced January 2018 for 3 years until December 2021 with an option to extend the contract for a further year.

c) Cost of the current service is maintained within the Treasury Team.

Credit Rating Agency

The Authority receives a credit rating service through the treasury management consultants, the cost of which is included in the consultant's annual fee.

TMP 12 - CORPORATE GOVERNANCE

12.1 The Authority is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

12.2 The Council has adopted and implemented the key recommendations of the CIPFA Code of Practice on Treasury Management This is considered vital to the achievement of proper corporate governance in treasury management.

12.3 The following documents are available for public inspection;

- Treasury Management Policy Statement
- Treasury Management Strategy Statement
- Annual Investment Strategy
- Minimum Revenue provision policy statement
- Annual Treasury Review Report
- Annual accounts and financial instruments disclosure notes
- Annual budget
- Capital Plan
- Minutes of Council/Cabinet/Committee meetings
- Capital Strategy

APPENDIX 1

References to Relevant Statutes and Regulations

Statutes

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- S.I. 2004 no. 3055 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) (No. 2) Regulations 2004
- S.I. 2006 no. 521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Localism Act 2011
- S.I. 2012 no. 265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012
- S.I. 2012 No. 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012
- S.I. 2012 No. 1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012
- S.I. 2012 No. 2269 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 4) Regulations 2012
- S.I. 2013 no. 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013
- S.I. 2015 no. 234 Accounts and Audit Regulations 2015
- There has not been an issue of a Local Authorities (Capital Finance and Accounting) (England) Regulations statutory instrument in 2005, 2011 and 2016
- S.I. 2017 no. 536 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017

- S.I. 2018 no. 1207 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2018
- Statutory Guidance on Investments 2018
- Statutory Guidance on MRP 2018
- 2019 No. 394 Exiting the European Union financial services: The Money Market Funds (Amendment) (EU Exit) Regulations 2019
- S.I. 2019 no. 396 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2019

Guidance and codes of practice

- CIPFA Local Authority Capital Accounting - a reference manual for practitioners latest year Edition
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2017,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2017
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2018

- LAAP Bulletins
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice

- PWLB circulars on Lending Policy
- The UK Money Markets Guide. (was formerly known as the Financial Conduct Authority's Code of Market Conduct

- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

Our North Tyneside Plan and Budget Engagement

Approach

The Authority's approach to the Council Plan and Budget engagement this year was somewhat restricted as it had to be conducted in line with Government COVID-19 secure guidelines. In person face to face engagement was therefore not able to take place and the majority of the Authority's public facing buildings were closed at all times.

Engagement with residents and other key stakeholders took place between 2 December 2020 and 20 January 2021.
This was done via:

- online sessions with the Residents Panel and other key stakeholder groups; and
- online questionnaire published on the North Tyneside Council website from 18 December 2020

In the online sessions, participants were shown a short film and presentation about the Authority's Budget and Cabinet's initial Council Plan and Budget proposals as agreed on 30 November 2020. Participants were able to have their questions answered and were asked to give their views on the Our North Tyneside Plan and the Budget proposals.

The online questionnaire was also accompanied by the short film outlining the Budget proposals as well as links to the relevant Cabinet papers, a copy of the current Our North Tyneside Plan and information concerning the Authority's Digital Strategy.

Engagement opportunities were publicised in the Our North Tyneside magazine and on all of the Authority's social media platforms to explain how people could get involved. Posters were also displayed in the five leisure centres which were open in December 2020 and also circulated to all of the Authority's North Tyneside Living Accommodation and Voluntary and Community Sector contacts. This information signposted people to the online engagement and provided contact information for those who required different formats.

Outcomes from the Engagement Activity

361 people took part in the engagement process.

The majority of the feedback for both the Our North Tyneside Plan and initial Budget proposals was positive. There was very strong support that the Our North Tyneside Plan included the right priorities for North Tyneside and the four elements within the Efficiency Programme in relation to: Commissioning; Digital Strategy; Asset Management; and Workforce.

In relation to the considerations regarding an increase in Council Tax and Social care precept, the majority of people who took part in the engagement were supportive although it was recognised that times are financially difficult for everyone and therefore any support available for people on the lowest incomes was welcomed.

The Authority reached more than 46,000 people on its two main social media platforms Facebook and Twitter. In response to information regarding the Council Plan and Budget proposals which were promoted via these platforms, on Facebook there were 200 likes, comments and shares and 3,099 link clicks (including clicks to play the video and to go to the website to view the online questionnaire. With Twitter the Authority had 161 likes, comments and shares and 77 links.

Reserves and Balances Policy

Date: 1 February 2021 **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 £7.000m. 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

2021-2025 Financial Planning and Budget Process

Timetable of Key Milestones for 2021/22

Date / Meeting	Detail
21 September 2020 **Cabinet**	Cabinet approves the 2021-2025 Financial Planning and Budget process, incorporating the associated Engagement Strategy.
21 September 2020 **Cabinet**	Cabinet agrees the 2021/22 Council Tax Support Scheme for consultation.
12 September 2019 to 16 November 2020	Public consultation period on the 2021/22 Local Council Tax Support Scheme.
30 November 2020 **Cabinet**	Cabinet considers its 2021-2025 initial Budget proposals in relation to General Fund, Schools, Housing Revenue Account & Investment Plan for 2021-2025.
30 November 2020 **Cabinet**	Cabinet considers the outcomes of the consultation on the 2021/22 Council Tax Support Scheme and proposes a scheme for Council to consider on 21 January 2021.
1 December 2020	Notice of Objection process for the 2021/22 Budget commences.
1 December 2020	Budget and Council Plan engagement process begins. Ends in January 2021.
December 2020 **Scrutiny Process**	Scrutiny of the 2021-2025 Financial Planning and Budget process.
Mid-late December 2020	Estimated timing of the 2021/22 Provisional Local Government Finance Settlement.

Appendix H

Date / Meeting	Detail
21 January 2021 **Council**	Council considers the proposed 2021/22 Local Council Tax Support Scheme from Cabinet and agrees or amends the scheme for 2021/22.
25 January 2021 **Cabinet**	2021/22 Council Tax Base agreed by Cabinet.
11 January 2021 **Overview, Scrutiny and Policy Development Committee**	Overview, Scrutiny and Policy Development Committee/Budget Study Group as appropriate considers Cabinet's final Budget proposals.
1 February 2021 **Cabinet**	Cabinet approves the final proposals in relation to the 2021/22 Housing Revenue Account budget and associated Business Plan, including an assessment in relation to the current year's budget monitoring information (2020/21). In addition, Cabinet will agree the Annual Housing Rent policy for 2021/22.
1 February 2021 **Cabinet**	Cabinet considers its Budget proposals for 2021-2025 in relation to General Fund Revenue, Schools and Investment Plan, taking into account feedback received as part of Budget Engagement.
2 February 2021 **Overview, Scrutiny and Policy Development Committee**	Overview, Scrutiny and Policy Development Committee considers the results of its review of the 2021-2025 Financial Planning and Budget and Council Plan process.
8 February 2021 **Cabinet**	Cabinet meeting to consider any recommendations of the Overview and Scrutiny Budget Study Group following its review of the Cabinets 2021/22 Budget and Council Tax proposals.
16 February 2021	4pm deadline for responses to the Authority's Notice of Objection
18 February 2021 **Council**	Reconvened Council meeting to consider Cabinet's estimates of amounts for the 2021-2025 Financial Planning and Budget process and Council Tax levels. Consideration of any responses to the Notice of Objection.
22 February 2021 (if required) **Cabinet**	Cabinet Meeting to consider any objections to Cabinet's Budget and Council Plan proposals.

	The Cabinet meeting on 22 February 2021 is now a scheduled meeting with other items of business and will proceed even where no objections are approved.
4 March 2021 (if required) **Council**	Council meeting to agree the Budget for 2021/22, the Council Tax level for 2021/22 and the Investment Plan for 2021-2025

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Overview, Scrutiny & Policy Development Committee

18 January 2021

Budget Sub-group report

Author: **Budget Sub-group**

Wards: **All**

1 Purpose of Report

To inform Overview, Scrutiny & Policy Development Committee of the work undertaken by the Budget Sub-group in scrutinising the 2021/25 Financial Planning and Budget Process: Cabinets Initial Budget proposals.

2 Recommendations

1. The Overview, Scrutiny & Policy Development Committee is recommended to refer the recommendations and/or views of the Budget Sub-group, as set out in the report to Cabinet for consideration as part of the 2021/25 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 8 February 2021.

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 Jim Allan
Councillor Sean Brockbank
Councillor Debbie Cox
Councillor Muriel Green
Councillor John O'Shea
Councillor Pam McIntyre
Councillor Anthony McMullen
Councillor Paul Richardson
Councillor Willie Samuel

The group met on the 17 December where Senior Officers presented 2021/25 Cabinets Initial Budget proposals.

Councillor B Pickard – the Cabinet Member was in attendance to provide further insight if/when required.

A further meeting took place on the 12 January 2021 where it received updated information on the level of central government funding for the Authority. Members present were Councillors S Graham, K Barrie, M Green, A McMullen, P Richardson, J O'Shea and W Samuel.

A further meeting has been arranged for the Budget Sub-group to reconvene and consider Cabinet Final Budget Proposals for 2021/25 that will take place on Tuesday 2 February 2021.

4 Budget national context

The sub-group was provided and an overview of the current financial environment, which demonstrated that there was a clear understanding that there was a great deal of National Uncertainty due to the effect of Covid-19 and the uncertainty would continue into the future.

The Authority has a good record of financial management throughout the ongoing challenging times and the Covid-19 pandemic had impacted the ability to plan a budget fully again this year.

The Comprehensive Spending Review (CSR) that was expected to provide the Governments spending plans over the next three years was delayed and a one-year spending round was announced by the Chancellor in November.

The Covid-19 pandemic will affect unprotected areas of public spending such as local government and it was projected that nationally there will be a £10bn reduction in planned spending in 2021/22 (compared to March 2020 budget).

Public Sector Net Borrowing was at a level of £55bn in March 2020 Budget and will rise to £394bn in 2021/22.

Public Sector Net Debt is expected to exceed 100% Gross Domestic Product (GDP) in 2021/22, which if interest rates rise would leave local government exposed to risk.

Consumer Price Index (CPI) had experienced a large downturn and was at 0.55% (September 2020) and forecasted to rise slowly and not achieving the 2% target until 2025/26. This has a direct impact on inflation risk and will have impact on the HRA business plan.

The Core Spending Power will see a reduction from 5.1% in 2020/21 to 4.5% in 2021/22.

Settlement Funding Assessment (SFA), made of Council Tax, Business Rates and top up grant for Business Rates and Revenue support grant, showed there was an increased reliance on council tax and specific grant funding to deliver services and there was a clear view that as SFA reduced there was a need to rely on increases in council tax.

It was noted the SFA had seen a cumulative reduction of 30% since 2016/17.

5 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 and forms the basis of the framework for COVID-19 recovery in North Tyneside.

Engagement activity occurred during the summer in the Big Community Conversations with the Residents Panel, with priorities in the plan reflecting those of residents.

6 Understanding impact on budget

The authority is required to produce a balanced budget, a Medium Term Financial Plan (MTFP) and a Housing Revenue Account (HRA) 30 year business plan each financial year.

The impact of Covid-19 has affected the costs and the loss of services income, the requirement of doing things differently and the changes in demands and risks had significantly impact on the economy.

The updated 4 year plan was benchmarked both nationally and locally against reasonable assumptions and its was emphasised that there needed to be a clear understanding to the ongoing risks arising from the impact of Covid-19.

<u>2020/21 in year position</u>

At September the position saw the General Fund being presumed at a level of £5.142m with £4.259m resulting to the impact Covid. This left a £0.883m pressure from the business as usual activity.

The starting position of the 2021/22 showed a funding gap of £6.370m.

<u>Covid-19 Impact</u>

The cost of Covid-19 at September had shown North Tyneside Council spend was £28.056m and received £22.177m Government funding, this left a gap in funding of £5.879m, (General Fund 4.289m and HRA £1.620m).

In planning the budget all services actioned a line by line review of cost and income lost to support the understanding to finding solutions to manage additional cost, lost income and develop approaches to manage risks.

The risk of Covid highlighted the highest impact risks were associated to Sport & Leisure and to the reduction to demand in school meals. It had also highlighted the highest cost impact in relation to increased demand in children’s services, increased cleaning costs and costs to school transport requirements.

Council Tax Collection

Council Tax collection is important to ensure resources are available to provide services and the percentage of net debit collected at October 2020 was at a level of 61.13% and residents had made a positive response to make arrangements to clear outstanding balance with financial year. It was highlighted that the authority had received £1.5m to pay for those eligible for Local Council Tax.

Business Rates collection

With regards to Business Rates the percentage collected at October 2020 was at a level of 64.14% with support being provided by Economic Development to businesses who had arrears with their business rates. The sub-group were reminded that retail/hospitality and the leisure sectors had no business rates to pay this year due to the Government discount.

Business Rates Risk to the MTFP

Analysis had been provided to a number of risks that could affect the MTFP which included:

- Business seeking reduced Rates through Valuation Office Agency
- Reduction in rental value to commercial property as reduced demand
- The local authority has 3 Business Parks which if occurs would have significant risks
- There was uncertainty to the number of businesses that may not reopen following furlough

Managing Social Care

The financial risk and concerns relating to Children Young People and Learning included:

Placements Spend – although children income remains stable, the spend had significantly reduced and continues to exceed the allocated budget.

Education Service funding -There is a 20% reduction in Central Schools Services Grant Funding for the School Improvement Service for each of the next 3 years and review of services and Service Level Agreements offer were ongoing.

Increased demand - There was concern of the future impact of the pandemic (e.g. increased poverty) and what increase pressure will be on services.

External Income - There was a good record of securing additional external income from services delivered for other Local Authorities, however there was a risk of this activity may reduce.

Adult Social Care

The financial risk and concerns for Adult Social Care included, the continued increase on Home Care Packages, increase residential care numbers and the impact and management of short and long-term admissions in residential placements where significant variations had been experienced throughout the pandemic.

MTFP General Fund

The sub group were provided projections of the total resources available, spending assumptions and the cumulative gap effect over the length of the MTFP together with this the best and worst case scenarios to demonstrate possible level of pressure to the general fund.

Based on 2020/21 Council Tax Collection reduction to 98% and Business Rate Rateable value reduction of 5% at the end of 2020/21 with 50% recovery in 2021/22 provided a 4 year cumulative gap of £55.974m

The best case scenario of full recovery, no impact on Council Tax would see £55.488m gap, with the worst case of Rateable Value reduction of 25% and Council Tax reduction to 97.5% would see £89.949m gap.

Housing Revenue Account

The overall impact of Covid-19 on the HRA was £1.620m.

It had been assumed that rent increases would be based on CPI 0.5% + 1% in line with the Nation Rent Policy.

The HRA 30 Year Business Plan is based on the Government target of CPI 2% + 1% = 3% rent increase per annum, the impact on the HRA plan amounts to circa £45m gap.

The 1.5% increase would also be in place for service changes and garage rents. The business plan would continue to deliver the Tenant priorities and the Affordable Homes Strategy, however, further review would need to be required to mitigate the gap.

An action plan of how the management of the business plan over the medium term indicated risks that included;

- Covid-19 impact on rental income
- Debt management in relation to potential interest rate rise
- Maintenance of the housing stock
- Right to Buy
- Covid-19 legacy impact

It was assumed that the HRA would see a budget pressure amounting to £1.943m with actions of on going service reform and treasury management being areas of possible mitigation.

Investment Programme

The sub-group was provided an insight of the projects within the Investment Programme that will be delivered through funding from Council Contributions and Grant contributions for both the General Fund and HRA, which for 2021/22 the Investment Plan totalled £62.204m

Treasury Management

Treasury management continues to be underpinned by CIPFA guidance and codes of practice that ensure security of Capital, the liquidity of investments and returns a yield.

The approach to be taken was the same that had been successful in previous years to maintain low cost balances, invest longer and securely whilst taking advantage of very low borrowing rates from temporary borrowing markets.

Efficiency programmes

The sub-group was provided a comprehensive understanding to the rationale and approaches that would be taken.

The aim would be to deliver this via a range of strategic activity which includes:

• Workforce Planning: changing the workforce over the next four years where the need to change aligns to people’s plans and recruitment and skills needs;

• Commissioning Planning: looking specifically at procurement, demand management and testing joint provision with the NHS;

• Digital Strategy: cash and efficiency benefits from investing in our priority projects and delivering the Digital Strategy; and

• Asset Management Planning: investing capital to reduce revenue costs and improve the Minimum Revenue Provision position.

The sub-group reconvened on 12 January 2021 to receive information on the Provision Settlement figures 2021/22 following the Government announcement on the 17 December.

The Government announced several measures which included £1.55bn for expenditure in quarter1 2021/22, which North Tyneside Council would receive £5.576m.

It was highlighted that a proportion of the income may need to be used to manage the in year risk to sale fees and charges compensation scheme which will be extended for the same period.

The Authority received £2.024m as direct support to residents, which meant 5,764 working age Local Council Tax Scheme (LCTS) residents (58%) with LCTS liability did not have to pay anything with 4,174 seeing their liability reduced.

Options to support residents/business were;

Residents
LCTS – relief for contributions @ £150
Poverty Intervention Fund- balance unspent from 2020/21 circa £0.250m to be considered alongside any further allocation

Business
£1.8m 2019-20 NNDR 75% pilot returned
NTCA Capacity grant £1.5m – will continue to be spent into 2021/22

It was noted the provisional settlement indicated additional pressure £1.270m to the Authority in relation to New Homes Bonus.

From the settlement statement officers provided an update position of the General Fund which indicated changes from the settlement statement. This indicated that the initial 2021/22 budget gap of £6.370m.

Following further analysis of the budget against the reassessment indicated a rise in gap of £6.905m, with core spending power to 4.5% the government assumes that Local Authorities will increase Council Tax by 2% and include 3% Adult Social Care precept. This would see the budget gap reducing to £1.947m.

It was assumed that further notification on funding from the Tax Income Guarantee Scheme and other areas that were still awaiting confirmation would enable a balanced budget to be realised. The information would be confirmed when the group meets consider Cabinets final proposals at its meeting on the 2 February 2021.

7 Conclusions

It is acknowledged that the authority has delivered a balanced budget in the last three years without the use of reserves, however, it is clear many challenges lie ahead to delivering the priorities of Our North Tyneside Plan.

It was also acknowledged that if the budget is unable to be balanced there would be a requirement to use funding from the strategic reserve. The sub-group acknowledged that this option should be one of last resort and understood that the financial plan was to maintain the strategic reserve at a minimum planned level of £10m over the life time. It also understood that the strategic reserves consist of funding that is not accessible as they are ring-fenced for planned projects.

The sub-group wished to highlight the benefit of the Poverty Intervention Fund that was a one off fund of £1m from the reserve and accessible for use during 2020/21 and praised the foresight of the Authority as this fund had benefited the community through the pandemic.

There is concern to the loss of use and income that had shown the risks to sport and leisure & the demand for school meals offer. It is understood that this will bring a challenge for the Council to encourage consumer confidence and to come back and reuse services in the future.

There is concern to the costs and risks and impact of increased demand in children's service, the support for families and care homes how to support them**.**

There is concern to the possible reduction in rental value of commercial property and risk in reduction in office values in our business parks.

With consideration to the budget proposals and consideration to all the work the Council and its services have delivered to its community throughout the pandemic is admirable.

The risks and uncertainty to have final budget proposals due to delays have again arisen this year. It is understood that the Covid-19 pandemic has affected budget planning, however the continual delays to key local government reforms such as Fair

Funding Review, Business Rates Retention, reforms to adult social care and one-year settlement 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 2021/22 Budget was a balanced Budget.

The sub-group acknowledged to respond to emerging changes in the future the Authority has developed plans and strategies that will aid the delivery of efficiencies.

Through the budget the Authority continues to be ambitious in delivering the priorities of residents and businesses through its North Tyneside Plan and the sub-group endorses the approach taken.

The sub-group wishes to commend officers of the Council, its partners and volunteers for their work in the delivery of the services throughout the pandemic. It also wished to thank the financial team for providing clear coherent information throughout this budget process.

8 Presenting Officers

The following officers presented to the sub-group:

Janice Gillespie – Head of Resources
Mark Longstaff - Head of Commissioning and Asset Management
Philip Scott - Head of Environment, Housing & Leisure
Jacqui Old - Head of Health, Education, Care and Safeguarding
Claire Emmerson - Senior Manager Financial Planning and Strategy

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:

2021-2025 Financial Planning and Budget Process: Cabinet's Initial Budget proposals

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.
Core Spending Power	Core Spending Power is a measure of the resources available to local authorities to fund service delivery. It sets out the money that has been made available to local authorities through the Local Government Finance Settlement (LGFS)
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.

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