

North Tyneside Council

Report to Cabinet

Date: 28 November 2022

Title: 2023-2027 Financial Planning and Budget Process: Cabinet's Initial Budget proposals

Portfolio(s):	Elected Mayor	Cabinet Member(s):	Mrs Norma Redfearn
	Deputy Mayor		Councillor C Johnson
	Finance and Resources		Councillor M Rankin
	Housing		Councillor J Harrison
Report from Service Area:	Senior Leadership Team		
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Wards affected:	All		

PART 1

1.1 **Executive Summary:**

- 1.1.1 On 19 September 2022, Cabinet agreed its 2023-2027 Financial Planning and Budget Process incorporating the associated Engagement Strategy. This report represents a key milestone in the development of the 2023/24 Budget and 2023-2027 Medium-Term Financial Plan (MTFP), as it sets out Cabinet's initial Budget proposals for the next financial year and beyond.
- 1.1.2 The Budget is driven by the Authority's key priorities that make up the Our North Tyneside plan – A thriving, secure, family friendly, caring and green North Tyneside. North Tyneside Council has a very clear and ambitious plan to ensure anyone who needs support can access it, to help the most vulnerable members of the community and to continue investment in all parts of the Borough.
- 1.1.3 The Authority's Budget was already stretched following years of Government cuts and uncertainty, with the long-term impact of the covid pandemic, rising energy costs, inflation and the long-term impact of the war in the Ukraine exacerbating this. However, the Authority has a robust and fair approach to budget setting meaning that wherever possible, these challenges had been foreseen and provided for as the Authority headed into the current financial year.

- 1.1.4 Significant uncertainty remains around the planning position for 2023/24, and this report summarises the remaining steps required in the process leading to the Budget being set in February or March 2023. Recognising the scale of the Budget gap to be addressed, the Budget planning process for 2023/24 includes a further round of Efficiency Programme development which will enable proposals to be brought forward at the January Cabinet meeting.
- 1.1.5 The Medium-Term Financial Plan (MTFP) position will need to be updated once Government funding announcements are made. In particular, the scale of the impact of both social care reform announcements and any implications of the cost-of-living crisis on the Authority will have a material impact on the Authority's financial forecasts. The most up to date information will be reported to Cabinet in January 2023 and considered by the Overview Scrutiny and Policy Development Committee as the Budget-setting process progresses in advance of the full Council meeting in February 2023.
- 1.1.6 Cabinet decisions based on the information in this report will ultimately support the development of a robust, balanced 2023/24 Budget for the Authority. However, the level of uncertainty does make financial planning extremely difficult and requires the Authority to be flexible and adaptable as it considers setting the 2023/24 Budget and the MTFP for 2023/24 to 2026/27.

1.2.1. Recommendation(s):

It is recommended that Cabinet:

- a) agree the key principles being adopted in preparing the Medium-Term Financial Strategy for the Authority, subject to an annual review;
- b) note performance against the Our North Tyneside Plan outcomes (Annex 1 and 2);
- c) consider and agree the initial Budget proposals in relation to the 2023/24 General Fund Revenue Budget and Dedicated Schools Grant, including the assessment in relation to the current year's Budget monitoring information (Section 1.6);
- d) consider and agree the proposed 2023-2028 Investment Plan, including initial prudential indicators for 2023-2028 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 (Appendix B(i) & B (iii));
- e) note the draft Capital Investment Strategy and note that this Strategy will now be subject to consultation as part of the Budget Engagement Strategy (Appendix B (iv));
- f) note that all approved schemes within the 2023-2028 Investment Plan will be kept under corporate review by the Investment Programme Board;
- g) consider and agree the initial proposals in relation to the Treasury Management Statement, Annual Investment Strategy for 2023/24 and Treasury Management Practices (TMPs) (Appendix C & H);

- h) note the formal Reserves and Balances Policy for the Authority, subject to review at least annually (Appendix I);
- i) note the Provisional Statement by the Chief Finance Officer (Annex Section 8);
- j) consider and agree the 2023/24 rent policy for housing; and consider and agree the initial Budget proposals in relation to the 2023-2027 Housing Revenue Account budget, and associated Business Plan, including an assessment in relation to the current year's budget monitoring information (2022/23) (Annex Section 4);
- k) note the proposed 5.0% rent increase from April 2023 (subject to results of Government consultation and imminent issuing of new Direction on Social Housing Rent Policy to the Social Housing Regulator), and the initial proposals in relation to housing service charges and garage rents for 2023/24;
- l) authorise the Director of Resources, in consultation with the Director 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 2023/24 in line with the school funding arrangements set out in the report; and
- m) authorise 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 initial Budget proposals.

1.3 Forward Plan:

- 1.3.1 Twenty-eight days' notice of this report has been given and it first appeared on the Forward Plan that was published on 7 October 2022.

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 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.
- 1.4.3 The Budget proposals will also be presented to the Overview, Scrutiny and Policy Development Committee during the Budget-setting process. The priorities in the 2021-2025 Our North Tyneside Plan provide the strategic framework within which Budget resources are allocated.

Information:

1.5 Background

- 1.5.1 The Authority's 2022/23 Budget and 2022-2026 MTFP were agreed by full Council on 17 February 2022. At that time, it was impossible for the Authority to foresee the global economic impact of the Russian invasion of the Ukraine. Rising interest rates and inflation have caused a significant impact leading to a cost-of-living crisis, which will see a real term reduction in living standards for families throughout the Borough. At the time of writing this report inflation (as measured by the consumer price index (CPI)) has reached 10.1%, with forecasts that it could rise further towards the end of the financial year. This will have a significant impact on the cost of delivering essential services and the Investment Plan.
- 1.5.2 The Authority's financial planning had previously assumed that COVID-19 pressures would abate in line with the withdrawal of Government support. However, as reported to Cabinet at this meeting in the Budget Monitoring Report for September, the Authority continues to feel the financial effects moving forwards.
- 1.5.3 Whilst the Authority carried forward COVID grants, which have been used to smooth the financial position in 2022/23, it is anticipated that these grants will be fully utilised in the current financial year with no residual funding available to meet any ongoing costs into future years. This poses a significant risk to the Authority's financial position for 2023/24 and future years and the Senior Leadership Team, supported by Senior Officers, continue to mitigate this as far as possible in budget monitoring and planning.
- 1.5.4 It is highly likely that key income sources including Council Tax, through both the Collection Fund and tax base growth, and business rates will continue to be under significant pressure in 2022/23. The current MTFP position incorporates prudent assumptions about these income streams, which will need to be reviewed over the course of the Budget-setting period. This will include Government announcements around the inflationary uplifts to business rates, which are set nationally.
- 1.5.5 Despite all this, Cabinet will be aware that the Authority's 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 have delivered balanced outturns, without the need to use reserves, in each of the last three financial years.
- 1.5.6 The cost-of-living crisis is accelerating inequalities in the Borough, pushing families further towards crisis and realigning many of the inequalities that already exist in the Borough. Cabinet is determined that this gap will not widen and will do everything it can to get support to families that need it whilst making sure that nobody is left behind. However, it is acknowledged that the Authority cannot deliver this essential work alone, so officers and Members continue to engage with the brilliant voluntary and community sector who help the Authority get the right support, at the right time, to the right people.
- 1.5.7 Whilst the approach to Budget-setting this year continues to be challenging and there is a significant amount of risk and uncertainty, Cabinet continues to plan for the future, listening to and focusing on the priorities of residents and businesses. The proposals for a balanced Budget for 2023/24 and a MTFP over 4 years will be based

on a reasonable and prudent set of assumptions. Despite the unknowns, this will give the residents and businesses in the Borough as much certainty as possible that the Authority continues to deliver services that meet their needs and that their money is being spent well.

1.6 General Fund MTFP

- 1.6.1 At the Council meeting in February 2022, the MTFP for 2023/24 to 2025/26 set out a gap of £21.534m over the 4-year period, with a gap of £10.655m for 2023/24. The gap in the February Council report for 2023/24 was calculated prior to the increase in council tax (1.99%) and adult social care precept (1%), which was agreed at that meeting. The additional resources agreed (£3.184m) reduces the revised gap for 2023/24 to £7.471m, which will be the base line position for the remainder of this report.
- 1.6.2 Before looking at the new and emerging pressures since the Budget was set, Cabinet should note that the robust approach to financial planning in North Tyneside served its intended purpose. Had new pressures not arisen, a review of changes to Government funding assumptions and reductions to growth pressures from management action, would have reduced the residual MTFP gap for 2023/24 from £7.471m to £1.059m. This would have been a manageable gap to address in the current budget round.
- 1.6.3 However, since the development of the 2022/23 Budget and MTFP in February 2022, a number of further significant risks have emerged that are impacting on the 2022/23 budget outturn position, as well as increasing the £7.471m gap identified for 2023/24. These risks are anticipated to add £15.635m to the gap and are summarised in Table 1.

Table 1: Estimated Financial Impact on 2023/24

	£m
Social care fees – 2022/23 increase impact into 2023/24	1.200
Pay Award	4.000
Energy Inflation	4.772
Contractual inflation 2023/24	5.663
Total Emerging Impact of Risks	15.635

- 1.6.4 Social care fees – following the 2022/23 budget being set, the in-year home care negotiations resulted in a further uplift in fees, reflecting the current market pressures facing the sector. As such, an additional amount has been added into 2023/24 estimates to ensure the base budget reflects these contract values.
- 1.6.5 Pay award – the current year pay award is based on the pay offer made by Local Government Employers, being a flat rate of £1,925 per full time equivalent employee. At the time of writing, 2 Trade Unions have accepted the offer, with one 1 rejecting it – it is expected to be formally agreed in November and paid to staff in December. For both in-year monitoring and future budgeting purposes, this rate, which equates to an average increase across the Authority of between 5-6%, has been used. The impact on the 2022/23 financial position is included in the Budget monitoring report elsewhere on this agenda, but for 2023/24 the base budget would need to increase by a further £4.000m to ensure the base budget is sufficient moving forwards.

1.6.6 Energy inflation – the original £7.471m gap in the MTFP included £0.800m for utility price inflation. Since the Budget was set, energy price inflation has increased exponentially. Despite the forward purchase of energy through the North East Procurement Organisation (NEPO) framework and the in-year Government support to councils, a further £4.772m is currently forecast to be required for the 2023/24 base budget. This area remains subject to significant volatility, so further updates will be given to Cabinet in future finance papers, both budget monitoring and budget setting.

1.6.7 Contractual inflation – this figure is made up of two elements; firstly £3.000m for indexation of contracts which are pre-determined in terms of timing and inflationary measure – generally CPI or Retail Price Index (RPI). Future reports will update for any further changes in the applicable rates, as current assumptions have been used as to what they will be at the specified contractual uplift dates. The residual amount of £2.663m relates to care fee inflation, arising from a combination of price and volume assumptions. Some of this increase may be funded from Fair Cost of Care allocations, but the timing of these announcements by Government are not currently known. The revised gap for 2023/24 is therefore £23.106m as shown in Table 2 below:

Table 2: Revised general fund gap for 2023/24

	£m
Revised gap from February Council, adjusted for Council Tax increase	7.471
Emerging risks	15.635
2023/24 revised gap	23.106

1.6.8 Finance officers are continuing to work with Cabinet, the Senior Leadership Team and other senior officers across the Authority to review Business as Usual activity in a number of key areas. The key areas of challenge, which could lead to further cost pressures, include:

- Children’s Services – demand, workforce and cost assumptions;
- High needs/Special Educational Needs and Disabilities (SEND) pressures;
- Adults Social Care – demand, workforce and cost assumptions;
- Unachieved savings targets;
- Commissioning & Asset Management – impact of schools’ service level agreement reductions;
- Law & Governance Structure – use of locums; and
- Revenues & Benefits position – review of the level of benefits overpayments and subsequent recovery.

The aim of this work is to ensure actions are in place to bring the outturn forecast for normal activities in on balance.

1.6.9 With regards to Government funding, the MTFP has assumptions in relation to the continuation of certain elements of the 2022/23 funding settlement, including in particular that there will be a repeat of part of the “one-off” 2022/23 Services Grant allocation of £3.330m. The current revised gap above assumes that 50% of the grant would be reversed by Government, i.e. a loss of £1.665m. Any further reduction in the grant would result in a worsening position, but the continuation of the grant at 2022/23 level would improve the income assumption.

1.6.10 There remains significant uncertainty about the Fair Funding Review or successor approach. A consultation on the Fair Funding Review had been expected earlier this year, following several years of being repeatedly delayed. Once again, no consultation has been brought forward and any future approach will be dependent on the new Government's priorities and the current macro-economic picture. Given the restrictions of the parliamentary timetable, Spending Review timescales and the significant impacts that implementing Fair Funding could have across the local government sector, it is possible that reforms will not be brought forward until 2026/27.

1.6.11 As well as uncertainty around progress on Fair Funding over the medium term, it is unlikely that there will be any certainty about the 2023/24 Provisional Settlement until mid-December at the earliest, with some commentators suggesting that this could be delayed into the new calendar year. For the remainder of the report, the starting point for the approach to bring the 2023/24 General Fund budget into balance will be £23.106m as set out in Table 2.

Options to reduce the General Fund gap for 2023/24 – review of assumptions

1.6.12 Using the starting point of a £23.106m revised gap for the General Fund, officers have reviewed the current assumptions included in the MTFP, including revising assumptions around the level of Government funding that will be provided. There are inherent uncertainties within this exercise for the reasons set out earlier, but this reflects the latest information gleaned from a variety of sources. It is summarised in Table 3 below, with a commentary included on each section.

Table 3: adjusted MTFP assumptions

	£m
Starting position/revised gap	23.106
Review of growth items already included in MTFP	
Low risk	
Reversal of pensions deficit	(2.747)
Medium risk	
Continuation of New Homes Bonus	(0.500)
Fall out of service grant reversed	(1.665)
Higher risk	
Revenue Support Grant – additional inflationary uplift	(0.367)
Business rates multiplier – additional inflationary uplift	(1.500)
Improved Better Care Fund – additional inflationary uplift	(0.287)
Reversal of national insurance contribution increases	(1.250)
2023/24 revised gap	14.790

1.6.13 Pensions deficit – the MTFP included an estimated figure of £2.747m that would be required in the base budget to address the forecast deficit on the pension fund. In October 2022, the updated position of the Tyne and Wear Pension Fund was provided, which confirmed that the fund was in surplus so this amount will not be required.

1.6.14 New Homes Bonus (NHB) – the schedule of NHB payments was expected to reduce from next financial year due to the winding down of the scheme. However, industry commentators have highlighted that due to the delay in the Fair Funding Review,

amongst other considerations, it is expected that there could be an extension of the scheme. A one-year extension, without any residual/legacy payments, would see an additional £0.500m next financial year.

- 1.6.15 Fall out of services grant – as noted earlier, £3.300m was received in 2022/23 for a one-off service grant. The assumed position in the MTFP was that this would be partially extended, with an assumption that 50% would be retained in 2023/24. Latest intelligence suggests that the full grant could be repeated in 2023/24, therefore an additional £1.665m would be available for the Budget next year.
- 1.6.16 Inflationary uplifts – the MTFP assumed a prudent assumption around inflation in the Revenue Support Grant, business rates and Improved Better Care Fund. Whilst it is not certain, these assumptions have been uplifted from 2% to 6.5%, although confirmation will be required from Government in the Provisional Settlement, which is expected in December. Although there have been indications from Ministers that there will be no increase in funding for inflation, the sector is currently lobbying for increases – so a partial uplift, compared to current CPI levels, is included at this stage.
- 1.6.17 Reversal of national insurance contribution increases – the full year effect of this could be up to £1.250m. However, Cabinet should note that there is a potential that the Government funding provided, in part, to cover the original increase could be reversed.
- 1.6.18 Unidentified growth – each year of the MTFP has an item in for unidentified growth of £1.000m. For 2023/24, this will be required to address various staffing restructures addressed in the current year, including the use of agency and locum staff in shortage areas. There is no change to the MTFP gap as a result, but this is included here for transparency. Future year proposed usage will be confirmed in MTFP considerations for next year's Budget-setting.

Further options to reduce the General Fund gap for 2023/24

- 1.6.19 The MTFP approved by full Council in February 2022 included a 1.99% general increase in Council Tax and a 1% adult social care precept for 2022/23. Cabinet will be aware that it remains a major concern that the Government continues to place significant reliance and expectations on locally raised income.
- 1.6.20 The Government has yet to announce the Council Tax referendum limit for 2023/24 but it is expected that a general Council Tax increase of 2% will remain in place. Since 2016/17 the Government has also allowed local authorities to raise additional income to support the rising costs of providing Adult Social Care by way of levying a precept, without having to hold a referendum. Following the failure of the Government to provide authorities with sustainable funding to support rising costs of supporting the Borough's most vulnerable residents the Authority, in line with the Government's expectations, has made full use of the precept raising ability. At the time of writing this report, no announcements have been made in relation to any precept levy which will be available to local government for the 2023/24 financial year, although this is widely expected to be announced.
- 1.6.21 Whilst no proposal about Council Tax and/or Adult Social Care levies are being made in this report, it is useful to set out what this would mean for the Authority for illustrative purposes. Should Cabinet consider the increases in Council Tax, based on current tax base estimates, this would raise approximately £3.294m of additional

funding for next year (made up of £2.192m general Council Tax (1.99%) and £1.102m from the Adult Social Care Precept (1%)). The precise final level of any change in Council Tax will be confirmed in February 2023 following a decision by full Council.

- 1.6.22 Strategic Reserve – the MTFP assumed that a contribution would be made to the strategic reserve each year to take account of usage in previous years. Given the current financial position, it is proposed to defer the 2023/24 contribution, but future years' contributions are left in the MTFP for planning purposes.
- 1.6.23 Minimum Revenue Provision (MRP) – Cabinet will be aware that a change was made to the way in which MRP is calculated towards the end of 2021/22. This has now been subject to external audit and no concerns were raised. As well as the savings made to date, it is estimated that this will lead to an underspend on the debt charges budget in 2023/24 in the region of £4.000m. Given the residual gap, as well as the inherent uncertainty, it is considered prudent at this stage to put this forward as a saving for illustrative purposes.
- 1.6.24 Table 4 below summarises the impact of these options:

Table 4: Revised General Fund gap following illustrative options

	£m
Revised gap from Table 3	14.790
1.99% council tax	(2.192)
1.00% adult social care precept	(1.102)
Defer replenishment of the strategic reserve	(1.500)
MRP saving	(4.000)
2023/24 revised gap	5.996

- 1.6.25 For completeness, the Mayor and Cabinet have already made decisions in previous years which result in savings during the MTFP period, which are already included in the MTFP gap calculations used in this report. These are summarised in Table 5 below for ease of reference.

Table 5: 2023-2026 Efficiency Programme as at February 2022

Efficiency Programme	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
2020/21 Full Year Effect of Budget Proposals	(1.035)	0.000	0.000	0.000
2022/23 Full Year Effect of Budget Proposals	(0.639)	(0.208)	(0.185)	0.000
Total Prior Year Budget Proposals	(1.674)	(0.208)	(0.185)	0.000

- 1.6.26 In addition to these planned savings, the Elected Mayor and Cabinet are developing further options for consideration to balance the General Fund over the next four years of the MTFP, with updates to be brought to the January 2023 Cabinet meeting. The aim is to do this via a range of strategic activity which includes:

- a) 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;

- b) Commissioning, Procurement and Commercial Planning: looking specifically at procurement, demand management testing joint provision with the NHS, direct service delivery and meeting need differently;
- c) Digital, Data and Customer Strategy: cash and efficiency benefits from investing in the Authority's priority projects and delivering the Digital Strategy; and
- d) Asset Management Planning: investing capital to reduce revenue costs and improve the Minimum Revenue Provision position.

1.6.27 Work will also continue before January 2023 to update the revised gap to take account of the Provisional Settlement (expected in December) along with any wider Government announcements, including the impact of policy initiatives. In particular, the residual gap around adult social care is hoped to narrow based on the allocation of Fair Cost of Care funds. However, in the absence of any detailed information, no attempt has been made to quantify this and the full extent of the social care growth already in the MTFP assumptions has been left unchanged.

2023-2027 General Fund MTFP estimates

1.6.28 As Cabinet will be aware from the information in this report so far, the level of uncertainty in this year's planning process is higher than previously experienced. As such, it is not yet possible to confirm the 2023/24 position with any certainty at this stage. This has a consequential impact on the 4-year planning horizon for the MTFP.

1.6.29 Normally this report would include a detailed forecasting of the MTFP, taking into account the full roll forward of year 1 (in this case 2023/24) into future years. However, given the increased uncertainty, a simplified approach has been taken at this stage to set out the 4-year MTFP period, which assumes that the 2023/24 year is balanced.

1.6.30 Table 6 below sets out the key areas of movement each year, plus adds in a "new" year 4 into the MTFP i.e. 2026/27:

Table 6: General Fund MTFP summary

	2024/25 £m	2025/26 £m	2026/27 £m
Estimated growth required	6.532	6.080	11.827
Existing efficiency programme	(0.208)	(0.185)	0.000
Replenish Strategic Reserve	1.500	1.000	0.000
Change in council tax base/business rates	(0.546)	(2.012)	(0.465)
In-year gap	7.278	4.883	11.362
Cumulative gap (assumes 2023/24 is balanced)	7.278	12.161	23.523

1.6.31 The estimated growth required assumptions are largely in line with previous year estimates for 2024/25 and 2025/26. 2026/27 has been added, to take the MTFP to a 4-year planning period, by rolling forward the majority of the assumptions from 2025/26. The notable exception is with regards to the pension fund deficit, as the next triennial valuation will have taken place. An indicative growth item of £5.000m has been added to address the potential deficit balance which could arise in the actuarial valuation. This figure will be revised each year based on the latest indications from the pension fund.

1.6.32 The change in the Council Tax base/Business Rates is the net impact of forecast changes to the Collection Fund. The spike in income in 2025/26 (£2.012m compared

to circa £0.500m in the other years) reflects the end of the COVID-19 accounting arrangements, which saw the deficit arising during the pandemic being spread over 3 years. After this one-off reset, the position on the Collection Fund is expected to return to normal levels.

Review of General Fund Reserves

- 1.6.33 The Authority maintains a level of reserves to plan for and manage financial risk. As Cabinet will already be aware, it is important to remember that reserves can only be used once, and that they are maintained to provide a degree of financial resilience and flexibility for the Borough.
- 1.6.34 Reserves balances have fallen from 2021/22 primarily due to the planned use of balances relating to COVID grants, which were partially received in advance of the intended spend. By the end of 2022/23, grants relating to COVID will either be utilised or repaid in line with the grant condition which were attached, with the Authority maximising the benefit to the Borough's business and residents.
- 1.6.35 The Authority bought forward reserves' balances of £80.298m into 2022/23, based on the latest forecast of planned usage, it is anticipated £17.050m will be drawn down in 2022/23 to support service delivery. This would result in a 2023/24 balance bought forward for reserves of £63.249m. The planned usage does not incorporate the potential requirement of the strategic reserves to support the 2023/24 revenue budget pressure being forecast of £5.996m for 2023/24. Neither does it take into account any use of the strategic reserves to support the 2022/23 in-year pressures, as reported in the Financial Management report elsewhere on this agenda.
- 1.6.36 Reserves balances are forecast to fall to £54.369m by the end of the financial year 2026/27. This assumes no utilisation of the strategic reserves to underwrite revenue budget pressures over the MTFP. Should the Authority utilise the strategic reserve to underwrite the revenue budget pressures, this could lead to the Authority being in breach of the internal requirement to maintain a level of strategic reserves no less than £10m as per the Reserves and Balances Policy.
- 1.6.38 Whilst there is still a significant level of uncertainty, the Authority will continue to deliver best practice as would be expected. That means there is a refreshed 4-year MTFP for both the General Fund and HRA, alongside a 5-year Capital Investment Programme. Those financial plans have been based on a benchmarked set of assumptions which have included information from HM Treasury, the Office of National 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 ANEC areas. The prudent use of reserves forms a vital part of this financial planning.

1.7 Housing Revenue Account

- 1.7.1 Financial Planning for the Housing Revenue Account (HRA), like the General Fund, is driven by the Council Plan vision and priorities. The HRA will set a Budget and updated four-year MTFP, supported by the updated 30-year Business Plan.
- 1.7.2 The Authority, in line with most Local Authority Registered Providers, follows the Government's social housing rent policy, which for the last two years has seen rent increases based on the Consumer Prices Index (CPI) rate, as of September, plus 1%. The CPI rate for September 2021 was 3.1% which led to a rent increase for

2022/23 of 4.1%. However, because of the cost-of-living crisis and the current high rates of inflation being experienced, the Government is concerned about the impact this would have on rent increases for tenants in 2023/24. On 31 August 2022 the Department for Levelling Up, Housing and Communities issued a consultation document on social housing rents, which concluded on the 12 October 2022. They were seeking views on a new Direction to be issued to the Social Housing Regulator in relation to social housing rent policy. The Government is proposing the introduction of a rent ceiling for 2023/24 to limit the maximum amount by which rents can be increased. The September 2022 rate of CPI was 10.1% and following the existing policy would see a rent increase of 11.1% for 2023/24. The Government's proposal is for a ceiling of 5% or CPI + 1%, whichever is the lower. In addition, however the Government were also seeking views on limits of 3% and 7% or any other proposals.

1.7.3 This has led to the need to model a range of scenarios within the 30-year HRA Business Plan. However, until the Government confirms its final position following the consultation, it has been assumed that rents will rise in line with the Government's proposed new Direction i.e. 5%. The Authority is facing a range of pressures due to several factors including post-pandemic legacy costs, war in Ukraine, rates of inflation, and general economic uncertainty. This is no different for the HRA which is having to contend with some key issues, namely:

- 2022/23 pay award being above 2% budgeted for;
- Uncertainty over future pay awards;
- Craft Workers Pay Review;
- Additional responsibilities required of Landlords under Government Safety White Paper following Grenfell disaster e.g. Carbon Monoxide Detectors in every home and increased periodic electrical inspections;
- Increased costs for Materials across the Supply Chain; and
- Increased Sub-Contractor costs linked to inflationary issues.

1.7.4 All these issues have been factored into refreshing the HRA Business Plan, along with the current proposed rent increase with the aim of ensuring that the 30-year HRA Business Plan can be balanced, whilst meeting all the Mayor and Cabinet's key objectives. These include maintaining the existing stock, meeting increased Affordable Homes ambitions and taking steps to respond to the Authority's Climate Change Emergency, by funding increased sustainability measures and starting to address the decarbonisation agenda as part of the Authority's Carbon Net-Zero 2030 Action Plan.

1.7.5 However, with the proposed change to the Government's rent policy, regardless of whether the increase ends up at 5%, or 3% or 7%, all these scenarios would result in a significant funding gap for the HRA. Table 7 below gives an indication of the potential impact of differing rent increase rates. As stated above the current proposal has sought to balance the model using a 5% rent increase, with the "gap" being closed by a combination of slowing down the rate at which debt is repaid over the life of the plan and ultimately reducing the funding the Authority has available to undertake new build affordable housing, based on the premise that the Authority's primary responsibility as a landlord is to manage and maintain its existing homes and tenancies.

Table 7: Housing Revenue Account 2023-2053 – Potential Impact of Different 2023/24 Rent Increase scenarios on 30-year Business Plan

Rent Increase	Available Resource – Revenue & Capital £bn	Required Resource – Revenue & Capital £bn	Current Funding Gap – Revenue & Capital £bn
0%	4.653	4.888	0.235
3%	4.732	4.888	0.156
5%	4.790	4.888	0.098
7%	4.790	4.888	0.041
11.1%	4.962	4.888	(0.074)

- 1.7.6 As is consistent with the General Fund, the HRA continues to face financial pressures, some of which have been significantly increased by the current economic climate. The continued roll out of Universal Credit and other welfare reforms brings greater pressure on tenants in terms of managing their finances in a time of rising inflation. The Authority continues to focus on supporting residents to sustain tenancies, and help tenants manage their money so that they do not end up in financial hardship or significant arrears.
- 1.7.7 During the current financial year there is clear evidence of continued shortages of certain key materials such as steel and wood, accompanied by increasing prices as a result along with the current upwards pressure on inflation, effecting both the capital programme and the day-to-day repairs.
- 1.7.8 The 2023/24 budget and 4-year Financial Plan for the HRA are based on the above assumptions, balanced with small, planned contributions from reserves over the next two years and then smaller adjustments to balances in the remaining two years of the MTFP as set out in Table 5 below.

Table 8: Housing Revenue Account 2023-2027 Initial Medium-Term Financial Plan – Available Resources and Estimated Spend

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Initial Estimate of Resources Available	(73.919)	(75.648)	(77.512)	(79.451)
Spend Assumptions	74.302	75.917	77.452	79.426
Net Gap/(surplus)	0.383	0.269	(0.060)	(0.025)

Housing Revenue Account – Options to reduce the gap

1.7.9 There are a number of areas where options have been developed for consideration to help balance the HRA and provide resources to move towards meeting Cabinet and tenants’ ambitions. These have centred around:

- a) An ongoing review of bad debt provisions and the associated assumptions;
- b) A review of levels of in-year contingency provided within both the Management and Repairs budgets;
- c) Review of the approach to debt management within the Treasury Management Strategy for the HRA;
- d) Analysing Government consultation on rent policy to assess potential impact;
- e) Balancing the needs of the existing stock whilst ensuring that the HRA continues to provide funding for a new build programme to assist towards helping to meet Cabinet’s Affordable Housing ambitions;
- f) Ensure that the Authority has the resources available to continue supporting a programme of training and development through apprenticeships and the Working Roots scheme; and
- g) Identifying resources specifically to respond to the Authority’s declaration of a Climate Change Emergency, by undertaking sustainability measures within the housing stock that will reduce the Authority’s carbon footprint and help move towards net carbon zero status the Authority’s Carbon Net-Zero 2030 Action Plan.

1.8 2023-2028 Draft Investment Plan

1.8.1 The 2022-2027 Investment Plan totalling £264.974m was approved by full Council on 17 February 2022. 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 £27.416m has been identified as part of the process and this spend is now included in the 2023-2028 planned spend shown below.

Table 9: Summary of the Draft Investment Plan 2023-2028

Spend	2023/24	2024/25	2025/26	2026/27	2027/28	Total
	£m	£m	£m	£m	£m	£m
General Fund	46.808	21.370	15.993	17.564	16.064	117.799
Housing	29.597	30.465	31.924	34.806	33.616	160.408
Total	76.405	51.835	47.917	52.370	49.680	278.207

1.8.2 A schedule of the individual projects included in the draft Plan is attached as Appendix B(i). All projects are subject to the Authority’s Gateway process.

2023-2028 Investment Plan Options

1.8.3 In addition to the agreed 2022-2027 Investment Plan, proposals for the 2023-2028 Investment Plan for consideration as part of Budget-setting are set out below:

- Projected investment of £1.000m pa to reflect the initial work underway in relation to Carbon reduction targets and enable progress to be made on this key priority; and
- A new year 5 (2026/27) has been added to reflect rolling programme projects such as Asset Planned Maintenance, ICT infrastructure refresh and sustained investment of £2m/annum on additional Highways Maintenance.

1.9 Dedicated Schools Grant

1.9.1 Cabinet will be aware that school funding is a matter for the Department for Education (DfE); 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 will need to determine the local formula to distribute funding to mainstream schools and academies for the financial year 2023/24. 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 2023. 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.

Table 6: Indicative Dedicated Schools Grant funding allocation 2023/24

	Schools Block £m	CSS Block £m	Early Years Block £m	High Needs Block £m	Total Indicative DSG 2023/24 £m
Indicative DSG Settlement	146.813	1.620	14.673	31.987	195.093

Dedicated Schools Budget - High Needs Block

1.9.2 North Tyneside, like many local authorities both regionally and nationally, is experiencing an increase in the numbers of children with 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. Responding to this increase in needs is creating pressure on the High Needs block of the Dedicated Schools Grant (DSG). The indicative funding allocation for High Needs shows that the Authority will receive an additional £2.203m in 2023/24, however, it is not sufficient to address the underlying increase in need.

1.9.3 The ringfenced DSG is received from the Government and administered by the Authority and is the main source of income for the schools' budget. The DSG first fell into deficit during 2017/18 and it is an important element of the financial management of the Authority that the DSG is not in a deficit position. As a result, there has been action to address the deficit working collaboratively with Schools Forum, however increasing numbers of children with special needs entering the education system has offset some of the progress.

- 1.9.4 DSG deficits have come under increasing scrutiny from DfE and, during 2021, the Authority was required to submit a draft DSG Management Plan to the ESFA as its DSG deficit was more than 1% of the total value of the DSG as at March 2021. As a consequence, since then, the Authority's DSG deficit has remained under review.
- 1.9.5 Liaising with the DfE during 2021/22, the Authority has been working to reduce the DSG deficit and this work is now being overseen by the Strategic Education and Inclusion Board. The Authority submitted a draft DSG Management plan to the ESFA in August 2021 which outlined the main areas of priority that focus on reducing the deficit on the High Needs block of the DSG. As of 2022/23, the Authority has been invited to be part of phase 2 of the ESFA's Safety Valve Intervention programme from September 2022. The Authority has had early discussions with representatives from the ESFA and as plans are firmed up over the coming months, the ESFA will continue to challenge and support the Authority through to the Safety Valve process.
- 1.9.6 For 2022/23 £150m of revenue funding is available to support the cumulative deficit position of those authorities who are part of the Safety Valve programme, however, the ESFA have been clear that access to this funding will only be agreed once a robust and balanced DSG Management Plan is in place. The current cumulative deficit position on the High Needs block of the DSG at the end of the 2022/23 financial year is projected to be £18.622m. This is an increase of £5.111m since March 2022.
- 1.9.7 A key risk for the Authority is that the statutory override to ring-fence DSG deficits from councils' wider financial position in statutory accounts is due to end after the accounts for the financial year 2022/23. After this point, unless the statutory override is extended, authorities will need to demonstrate their ability to cover DSG deficits from their available reserves. Due to the level of the deficit on the High Needs block of the DSG it is imperative that the Authority's DSG Management Plan meets the ESFA's requirements to ensure the historic deficit can be supported by funding that is available.

1.10. General Fund Initial Budget Proposals and next steps

- 1.10.1 Cabinet's initial Budget proposals are based upon available information and judgements at the time of the writing of this report. As noted throughout this report, there are several assumptions and judgements built into the figures presented that are outside the control of the Authority and need to be finalised.
- 1.10.2 These initial Budget proposals are subject to further review and consultation before they can be confirmed. The information to be assessed and finalised includes:
- The overall impact of the Autumn Statement due to be announced on 17 November 2022;
 - The Provisional and Final Local Government Finance Settlement announcements for 2023/24, including capital announcements and specific grants, including the Dedicated Schools Grant (DSG);
 - Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority Precepts (due February 2023);

- Levies, including the North of Tyne element of the Newcastle upon Tyne, North Tyneside, and Northumberland Combined Authority Transport Levy (due February 2023);
- Tyne and Wear Joint Service Budgets (due January/February 2023); and
- Consideration of the impact of the economic climate on the residents of the Borough and Council Taxpayers.

1.10.3 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.

1.11 Decision options:

Option 1

1.11.1 Cabinet can agree the initial proposals set out in this report.

Option 2

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

1.11.3 Option 1 is the recommended option.

1.12 Reasons for recommended option:

1.12.1 Due to external information still to be received, Cabinet is not able to finalise setting its proposed Council Tax level for 2023/24 in relation to the General Fund. This report will form the basis of Budget engagement and scrutiny over the next two months, but further work will inevitably be required before final decisions are made on the Budgets for next year, hence the authorisation recommendation referred to in section 1.10 above.

1.13 Appendices:

Annex 1 2023-2027 Financial Planning and Budget Process – Cabinet’s Initial Budget Proposals

Appendix A 2021-2025 Our North Tyneside Plan

Appendix B(i) 2023-2028 Investment Plan Summary

Appendix B(ii) 2023-2028 Housing Investment Plan

Appendix B(iii) Prudential Indicators 2023-2028

Appendix B(iv) Draft Capital Investment Strategy

Appendix C 2023/24 Treasury Management Statement, Annual Investment Strategy and Credit Criteria

Appendix D	2023/24 Financial Planning and Budget Timetable of Key Future Decision Milestones
Appendix E	Glossary of Terms
Appendix F	HRA Business Plan 2023-2027
Appendix G	HRA Financial Plan, Reserves and Contingency Movement 2023-2027
Appendix H	Treasury Management Practices (TMPs) 2023/24
Appendix I	Reserves and Balances Policy 2023/24

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1.14 Background information:

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

- 2023-2027 Financial Planning and Budget Process, incorporating the Council Plan and associated Budget Engagement Strategy, Cabinet 19 September 2022. The report items are as follows:

<https://democracy.northtyneside.gov.uk/documents/s9784/2023-2027%20Financial%20Planning%20and%20Budget%20Process%20incorporating%20the%20Associated%20Engagement%20Strategy.pdf>

- 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>

- 2022/23 Financial Management Report to 30 September 2022 – Cabinet 28 November 2022;

Link to published report

- Autumn Budget and Spending Review 2021;

<https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents>

1.14.2 The report also refers to other documents which are available at the office of the author:

- 2022/23 Efficiency Business Cases;
- Constitution; and
- Annual Governance Statement.

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 2023/24 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 The report highlights that at this stage a further £5.996m of savings are required to balance the 2023/24 Budget, and over MTFP period savings of £23.532m are required. The assumptions leading to these forecasts are likely to change when the provisional Local Government Financial Settlement is announced. It is currently unclear if a 1-year or 3-year settlement is to be expected.
- 2.1.3 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 2023-2027, 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 2023-2027 Financial Planning and Budget; Initial 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 initial 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 2023 so that the review can be considered by Cabinet prior to the proposals for 2023-2027 Financial Planning and the 2023/24 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 is a matter for full Council.

2.3 Consultation/community engagement

Internal Consultation

2.3.1 Each Cabinet Member has been consulted on the individual proposals put forward in this report, with regular discussions held between the Senior Leadership Team, the Elected Mayor and Cabinet.

External Consultation/Engagement

2.3.2 The Authority 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 as outlined in the Budget Engagement Strategy which was approved by Cabinet on 21 September 2022.

2.3.3 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 and through activities such as the Big Community Conversation and State of the Area Conference.

2.3.4 In all its engagement activity, the Authority is committed to ensuring that residents with protected characteristics, as set out in the 2010 Equality Act, can participate. In line with this an Equality Impact Assessment has been undertaken on the 2023/24 Budget Engagement Strategy and this is available on request.

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 provides for a qualified right to freedom of expression, including the freedom to 'hold opinions and to receive and impart information and ideas without interference by public authority'. Article 8 of the Convention states that everyone has the qualified right to respect for private and family life and their home.

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 the Public Sector Equality Duty under that Act.
- 2.5.2 To achieve this an Equality Impact Assessment (EIA) has been carried out on the Budget Engagement process. The aim is to remove or minimize any disadvantage for people wishing to take part in the engagement programme. Specific proposals on how services will seek to meet budgetary requirements will be subject to EIAs (Equality Impact Assessment), which will be informed by the findings of the Budget Engagement. A cumulative impact assessment of all of these will also be undertaken prior to Cabinet in January 2023 and will be made available to both Cabinet and full Council.

2.6 Risk management

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

The Authority has in place a range of services that promote the reduction of crime and disorder within the Borough and are funded through the annual Budget and are included in the Medium-Term Financial Plan. 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

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 to ensure these support the Authority's targets under the Carbon Net-Zero 2030 Action Plan.

PART 3 - SIGN OFF

• Chief Executive

• Directors(s) of Service

• Mayor/Cabinet Member(s)

• Chief Finance Officer

• Monitoring Officer

• Assistant Chief Executive