ANNEX 1

2023-2027 Financial Planning and Budget Process:

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

North Tyneside Council

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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 2023/24 to meet statutory duties and provide services such as social care and environmental services. For the Housing Revenue Account (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 Council services. It is also illegal for an authority to budget for a deficit in its HRA or use HRA reserves for General Fund expenditure.

1.1.3. The duties and responsibilities imposed on local authorities through the Local Government Act 2003 are covered in sections 8 and 9, 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.

1.1.4 The Authority's 2022/23 Budget and MTFS were agreed in February 2022. At that time, it would have been impossible for the Authority to foresee the global economic impact of the Russian invasion of the Ukraine which has had and continues to have a long-lasting impact on the world economy. 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 inflation has reached 10.1% and it is expected that it will rise further towards the end of the financial year. This will have a significant impact on the cost of delivering essential Services and it will increase the costs associated with delivering the Investment Plan.

A number of pressures within the Authority's budget are driven by Central Government decisions, including elements of pay and price market pressures which are linked to the National Living Wage, social care reform, and pressures relating to assumed reductions in funding (for example the New Homes Bonus grant in 2023/24).

1.1.5 Despite the level of uncertainty, reviewing the Medium-Term Financial Plan remains essential to ensuring the Authority's medium-term financial sustainability. The Authority will have to make very difficult choices in the years ahead about which services to prioritise. To avoid cuts to services, the Authority continues to explore alternative options of service delivery to ensure that services remain fit for purpose in the context of smaller budgets. This may mean revisiting the expectations of residents to protect services for the most vulnerable. The opportunity to work with partners and neighbouring authorities remains to maintain and improve outcomes against a backdrop of reducing public spending.

2. Our North Tyneside Plan

2.1.1 The Our North Tyneside Plan 2021-2025 (the Council Plan) sets out the overall vision and policy context within which the Financial Plan and Budget proposals will operate. Since 2015 the Authority 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.

2.1.2 On 23 September 2021, Council approved the updated Our North Tyneside Plan, which was refreshed following the Mayoral election on 6 May 2021 to reflect the policy priorities of the incoming administration and to consider feedback during the internal and external engagement carried out between 2 July 2021 and 15 August 2021.

2.1.3 The Our North Tyneside Plan is structured in five key themes and each theme has a clear set of policy priorities as set out below:

- A thriving North Tyneside
  - We will regenerate the high streets of North Shields and Wallsend, and in addition to the Master Plan for North Shields, we will bring forward Master Plans for Wallsend and Whitley Bay town centre areas. We will also bring investment and improvements to the North West area of the Borough and ensure that regeneration delivers ambition, opportunity and benefits for all our residents.
  - We will bring more good quality jobs to North Tyneside – by helping local businesses to grow and making it attractive for new businesses to set up or relocate in the Borough.
  - We will invest in adult education and to support apprenticeships to make sure people have the right skills for the job.
  - We will keep our libraries and leisure centres open as part of a vibrant range of cultural and sporting activities to support the health and wellbeing of our residents.
  - We will continue to be the destination of choice for visitors through the promotion of North Tyneside's award-winning parks, beaches, festivals and seasonal activities.
  - We will reduce the number of derelict properties across the Borough.
  - We will review how the Authority purchases and contracts for goods and services to maximise value for money, social value and environmental sustainability.

- A family-friendly North Tyneside
  - We will support local schools, making sure all children have access to a high-quality education with opportunities to catch up where needed after the pandemic.
  - We will provide outstanding children's services, events and facilities so North Tyneside is a great place for family life.
  - We will ensure all children are ready for school including through poverty proofing for the school day – giving our kids the best start in life.

- A caring North Tyneside
    - We will provide great care to all who need it, with extra support available all the way through to the end of the pandemic.
    - We will work with the care provision sector to improve the working conditions of care workers.
    - People will be cared for, protected and supported if they become vulnerable, including if they become homeless.
    - We will support local community groups and the essential work they do.
    - We will work to reduce inequality, eliminate discrimination and ensure the social rights of the people of North Tyneside are key to council decision making.

- A secure North Tyneside
    - Council wardens will work in partnership with Northumbria Police to prevent and tackle all forms of antisocial behaviour.
    - We will continue to invest £2m per year in fixing our road and pavements.
    - We will maintain the Council Tax support scheme that cuts bills for thousands of households across North Tyneside.
    - We will tackle health and socio-economic inequalities across the Borough including through our Poverty Intervention Fund to tackle food poverty; and
    - We will provide 5,000 affordable homes.

- A green North Tyneside
    - We will keep increasing the amount of waste that can be recycled and introduce food waste collections and deposit return schemes.
    - Council environmental hit squads will crack down on littering.
    - We will secure funding to help low-income households to install low-carbon heating.
    - We will increase opportunities for safe walking and cycling, including providing a segregated cycleway at the coast.
    - We will publish an action plan of the steps we will take and the national investment we will see to make North Tyneside carbon net-zero by 2030.

<u>Performance against the priorities in the Our North Tyneside Plan</u>

2.1.4 Our North Tyneside Plan 2021-2025 was approved on 23 September 2021 by Council, to reflect the policy priorities of the incoming administration following the Mayoral Election on 6 May 2021. A refreshed Our North Tyneside Plan Performance Report has been developed to monitor progress against the new priorities and objectives set out in the Council Plan. The latest performance report was received by Cabinet at its meeting on 19 September 2022. An overview of current performance against the key themes for the Our North Tyneside Plan is set out below:

- **A thriving North Tyneside**
    - **Regenerate high streets;** Master Plans are being developed for Whitley Bay, Wallsend and the North West area of the borough.
        - Work is underway in North Shields including public realm improvements, a new integrated transport hub, town square, planning permission has been granted for new family homes at the former Unicorn House Site,

  grant funding has been secured to develop a Cultural and Creative Zone and a bid has been submitted to the Levelling Up Fund for the Fish Quay;
  - Northern Promenade improvement works completed at Whitley Bay and Active Travel Fund Bid successful;
  - At Wallsend, funding secured for a range of improvements at Segedunum Roman Fort and Museum. An expression of interest submitted to the National Heritage Lottery Fund. A bid has been made to the Levelling Up Fund to deliver public realm improvements along the High Street, transport connections and enhance Segedunum.
- **Adult education and apprenticeships;** The number of advanced and higher apprenticeship starts increased during 2021. Intermediate apprenticeships decreased, in part due to national changes.
- **Libraries and leisure centre offer;** visits severely impacted by the COVID-19 pandemic, but is showing recovery. Visits to Sport and Leisure Facilities in 2021/22 were two thirds the usual number pre-pandemic. Visits to Customer First Centres have reduced by 55% and Branch Libraries by 59%. Customer First Centres and Branch Libraries are being further developed as Community Hubs.
- **Visitor destination of choice;** All three beaches retained their Blue Flag international status, as well as attracted Seaside Awards. Seven managed parks retained their Green Flag Awards after Preston Cemetery applied for the first time. Resident satisfaction with beaches and parks remains high.
- **Derelict properties;** long-term vacant dwellings are at the lowest level in seven years at just over 1,000 dwellings.
- **Contracts for goods and services;** a social value requirement has been included in the Authority's procurement and commissioning processes contribute to environmental sustainability and additional social benefits. By 2029 all our contracts will incorporate a 'greener target'.

- **A family-friendly North Tyneside**
  - **High quality education;** 96% of primary schools in North Tyneside are rated as good or outstanding by OFSTED, higher than the national performance. 88% of secondary schools are rated as good or outstanding, which is in line with the national performance.
  - **Outstanding children's social care services, events and facilities;** demand for children's services increased significantly during the COVID-19 pandemic and has remained high during 2021/22.
    - 257 children were subject to a child protection plan in 2021/22, higher than during the last 6 years;
    - 11,393 children safeguarding contacts received, 22% increase compared to previous year;
    - 12.1% of children in care have experienced 3 or more placements, reverted to pre-pandemic levels.
  - **Best Start in life;** 98.6% of children had a development review at 2-2 ½ years. 84% met the expected level of development in relation to communication, physical ability, social skills and problem-solving.
  - Just over a third of pupils with an Education, Health and Care Plan (EHCP) are educated in special schools, which is showing a decrease and better than regional performance. However, the authority continues to maintain a

disproportionate number of EHCPs compared to national averages and has submitted a High Needs Recovery Plan to the Department for Education.

- **A caring North Tyneside**
  - **Provide great care to all who need it;** During 2021/22, 86% people who received a short-term service subsequently received either no ongoing support or support of a lower level. Performance has improved in line with regional performance and is better than national performance.
  - **Improve working conditions of care workers;**
    - Continued to increase fees to external social care providers to take account of the increase in the National Living Wage;
    - Included an added element in the fee increase calculation to allow home care and extra care services providers to pay the Real Living Wage with the aim to support sufficiency in provision to support hospital discharge;
    - Continued to develop the Social Care Academy to support care providers and employees, also potential employees to get into care jobs in North Tyneside;
    - Endorsed the recommendations from the Home Care Study Group (a sub-group of the Adult Social Care and Health Scrutiny Sub-Committee) to support improvements in home care provision in North Tyneside.
  - **People will be cared for, protected and supported;** despite an increase in homeless presentations, priority acceptances are consistent at 5% of all presentations.
  - **Support local community groups, carers and young carers;** continue to work with VODA on a range of initiatives and support capacity via the Sector Connector project. Highlights include:
    - Spirit of North Tyneside Hub at Wallsend Customer First Centre;
    - Delivering £400k grant fund to 15 VCSE organisations on projects to support Equally Well Strategy;
    - Supported volunteers to welcome Ukrainian families to the borough;
    - Piloted a leadership programme for VCSE sector CEOs;
    - Created free online safeguarding training for VCSE sector.
  - **Reduce inequality and eliminate discrimination;** since September 2021 the Embedding Equality Programme has made good progress updating policy and procedures, developing training, improving accessibility, attracting grant funding, developing strong staff networks and diversity allies. As well as promoting equality in North Tyneside at UK Pride in Newcastle.

- **A secure North Tyneside**
  - **Working in partnership to prevent anti-social behaviour;** almost half of residents perceive anti-social behaviour and crime as an area that needs to be improved and less than half feel safe in their local area after dark. A multi-agency North Tyneside Anti-Behaviour Task Force has been established to develop and deliver a shared plan to tackle ASB.
  - **Additional £2m on road and pavement repairs;** Only 2% of principal roads and 2% of non-principal roads managed by the Authority should be considered for maintenance, significantly better than the national benchmark (4% principal roads and 6% non-principal roads). Resident satisfaction with road and pavement maintenance is consistently lower compared to other Authority services and is identified as most in need of improvement.

- **Council Tax Support Scheme;** as part of the 2022-2026 Financial Planning and Budget Process Proposals the Council Tax Support Scheme was extended, allowing applicants to backdate claims up to 26 weeks, rather than 4 weeks. The Hardship Support Scheme for working age claimants with payments of £150 was also extended. There has been a 6% decrease in claims since 2019/20, as more residents are now in work.
- **Tackling health and socio-economic inequalities;** a range of activity is underway as part of the Holiday Activities and Food Programme, Household Support Fund and Poverty Intervention Fund.
- Provisional figures for 2020/21 show that 24% of children under the age of 16 are living in relative low income families and 22% are living in absolute low income families. This proportion is significantly higher in more deprived areas.
- The variance in life expectancy between most and least deprived areas is 9.9 years for women and 11.4 for men, both higher than national figures.
- **Affordable Homes Programme;** 1,934 new homes built to date, on track to meet ambitious 5,000 affordable homes target. A new 2-phased programme to meet the 5,000 affordable homes target was approved by Cabinet in February 2022.

- **A green North Tyneside**
  - **Increase recycling;** during 2021/22, household reuse, recycling and composting remains consistent at 38% and landfill fell to just above 4%. The COVID-19 pandemic impacted on the level of waste during 2020/21 and 2021/22, as residents spent more time at home.
  - **Crack down on littering;** The Environmental Hit Squad introduced in 2019 have increased capacity to manage demand. The team are used 4-5 times per day and average 900kg per day in uplift of fly tipping. Fixed penalty notices issued for litter and fly tipping offences remain consistent.
  - **Support low income households to install low-carbon heating;** £8m funding has been secured from the Green Homes Grant Local Delivery Scheme to install low carbon heating, energy efficiency measures and renewable energy systems in over 500 homes with low-household incomes. Measures have been installed in 260 homes so far.
  - **Increase safe walking and cycling opportunities;** 72.1% of adults in North Tyneside walk or cycle at least once a week, which is showing an upward trend and slightly higher than regionally and nationally. 13.1% of adults in North Tyneside cycle at least once a week, higher than regionally and nationally.
  - **Publish an action plan to make North Tyneside carbon net-zero by 2030;** Council operations carbon emissions have decreased by 53% since 2010/11. In August, Cabinet approved the Carbon Net-Zero 2030 Action Plan. A range of carbon reduction and offsetting projects are being delivered including installation of low carbon heating systems, energy efficiency equipment and renewable energy systems in council buildings and residents homes, the electrification of the council's vehicle fleet, investment in sustainable transport and the creation of a North-East Community Forest.

3. General Fund

3.1 Council Tax Support

3.1.1 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.

3.1.2 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 the 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. There is no proposed change to the cap being considered for 2023/24.

3.1.3 The financial risks the Authority is currently facing is such that there are no changes proposed to increase the cap in the current scheme. Since 2020/21 the Authority has provided additional support to residents who are entitled to Council Tax Support by way of providing an additional £150 Council Tax Hardship payment. The cost of providing this support to the Authority is in the region of £1.5m. The Council Tax Hardship payment is currently under review by Cabinet as part of their Budget policy considerations. This will form part of the Budget engagement discussions during December 2022 and January 2023.

3.2 Business Rates

3.2.1 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, the Authority currently retains 49% of the business rates it collects and pays 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.

3.2.2 The Government has yet to make any announcements which would have a direct impact on Business Rates for 2023/24. As a consequence, the planning assumptions remain unchanged until such announcements are made. Whilst the Authority are not anticipating a significant impact of any changes there is still uncertainty relating to the Business Rates resources available for 2023/24. Officers will continue to monitor the current position and will carry out further analysis when more information is available.

3.2.3 The Authority continues to carry the risk that business rates could be impacted in the event of business closures or 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. However, on a positive note, the Authority has not seen a material reduction in the Rateable value, nor a surge in appeals against rateable values to date.

4. Housing Revenue Account (HRA)

4.1 Introduction

4.1.1 The HRA 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 this in line with the same MTFP period as the General Fund.

4.1.2 Whilst the current economic situation presents significant challenges, the Authority is still able to produce an MTFP for the HRA, which enables over £299m of revenue spend over the next 4 years to manage and maintain the housing stock and meet the aspirations of Cabinet and tenants.

4.1.3 As well as protecting the significant investment in the service delivered via revenue and the MTFP, the HRA also represents a significant element of the Authority's overall Investment Plan. In line with the key priorities of Cabinet outlined above, over the next 5 years a total of £141.916m 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 £18.492m has been identified to fund the new build schemes identified in the Affordable Homes Plan.

4.1.4 The proposals to resource the revised MTFP and 30-year HRA Business Plan will be subject to the full engagement process, and consultation over the choices available to ensure the objectives can be achieved.

4.2 Background and Policy Context

4.2.1 The Authority is responsible for managing just under 14,200 homes. 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.

4.2.2 The Authority is still facing difficult times as it emerges firstly from the challenges created by the COVID-19 pandemic, seeking to move to as much of a 'business as usual' state as possible, to then be hit by the economic uncertainty caused by the conflict in Ukraine, and the significant economic downturn being experienced by all the major economies across the globe. In line with all areas of operation across the Authority, housing has continued to adapt and adjust to keep providing the most efficient services possible to tenants. Inflation rates of over 10% and shortages in obtaining certain key materials through the supply chain, continues to test the ingenuity of the Authority's procurement and operational teams. The budget proposals for 2023/24, where relevant, have sought to ensure that service delivery can be maintained in essential areas, and that resources are identified to cover increased supply chain costs where there may be material shortages and delays.

4.2.3 The Authority is still facing the impact of the continued roll-out of Universal Credit and other welfare reforms, which brings greater pressure on 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 HRA, and the quality of the services that are then provided.

4.2.4 Following the removal of the HRA debt cap in 2018, it is the responsibility of the Authority to determine the level of any unsupported borrowing it wishes to undertake to fund newbuild 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 yearly and is discussed in more detail below.

4.2.5 April 2019 saw the Housing Property Services operation established within Environment, Housing and Leisure which has now moved into the newly formed Housing and Property Services function. The first 3 years of operation have been highly successful despite the challenges posed by COVID-19 and the subsequent recovery period, and has seen over £134m of construction works and repairs delivered across the Authority’s housing stock and public buildings portfolio. The benefits identified from the benefits realisation process were baked into the HRA Business Plan in previous years, and have helped to maintain and support core service provision and enabled initiatives such as the property Health-check programme to be funded to meet tenant priorities, and also to continue supporting the Mayor and Cabinet’s ambitions in relation to the Affordable Homes Programme.

4.2.6 2022/23 has seen the continuation of a significant programme of works being delivered by Housing Property Services, being on course to deliver over £50m of additional works. This has included new challenges such as starting to address the need for significant sustainability measures to be undertaken across our stock, to help tackle the climate emergency and address Cabinet’s decarbonisation ambitions. These factors along with issues relating to pay awards, and the continued difficulties in sourcing certain materials have all been considered in refreshing Authority’s Housing Asset Management Plan. A full review of the Asset Management Plan has been undertaken, and further work is ongoing to continue to develop and improve the service, to enable it to best meet the ongoing needs of tenants and residents whilst delivering greater efficiency and improved value for money.

4.2.7 All of 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 revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that projections beyond 2023/24 are indicative at this stage. A five-year timeframe is being proposed for the Housing Capital Investment Plan once again in line with the 2023-28 General Fund Investment Plan.

4.2.8 HRA tenants will be consulted on these initial proposals, and the final HRA Budget will be presented to Cabinet in January 2023. At that meeting in January, Cabinet will be asked to approve the HRA Business Plan and Budget for 2023/24, including the housing rent, garage rent and service charge changes along with the Housing Capital Investment Plan.

4.3 Key Objectives and headline assumptions for the Housing Service

4.3.1 The over-riding objectives for the housing service which remain largely unchanged and 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;
9. Create sustainable tenancies and maximise rental income collection;
10. Undertake sustainability measures across the housing stock as appropriate and affordable to help address the Climate Change Emergency;
11. Continue to invest in the Authority's Apprenticeship programme to ensure that it develops the workforce to sustain and improve housing services in the future;
12. Continue to support the Working Roots programme to give some disadvantaged young people the chance to learn new skills, gain meaningful qualifications, and in some cases embark on a career.

4.3.2 The key headlines for the HRA Budget for 2023/24 are as follows:

1. <u>Rent and Service Charges</u>

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 5 years. The baseline for 2022/23 was the CPI rate as of September 2022 which was 3.1%. The rent increase proposed for 2022/23, in line with Government policy, was 4.1%. However, since that time as Members will be aware various economic turbulences being experienced by the world economy due to a range of factors, has seen the largest inflationary increases in over 4 decades. Due to these inflationary pressures 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. At this stage the refreshed and balanced HRA Business Plan is based on following the Government's proposed rent cap and setting rent at 5% for 2023/24.

B) The impact of these proposals on the HRA Business Plan is to increase forecast rental income, however it also brings with it the issue of significantly increased costs as well as a number of other challenges such as the 2022/23 pay award, the Government White Paper regulations following the Grenfell disaster, Craftworkers Pay Review, decarbonisation measures etc.

The package of measures within these budget proposals is intended to ensure that the HRA has a balanced plan over 30 years, and is able to support the Cabinet and Mayoral priorities of:

- a commitment to deliver more affordable housing and provide the resources necessary to maintain 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, the continued roll-out of Universal Credit and the deepening cost of living crisis;
- Ensuring that existing housing stock is maintained to the Decent Homes Standard;
- Identifying resources to undertake sustainability measures across the housing stock to start to tackle the Climate Change Emergency declared by the Authority;
- Continue to support the apprenticeship programme;
- Continue to support the Working Roots programme.

C) It is proposed to increase service charges for 2023/24 in line with the Government proposed cap of 5%.

D) 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 in 2021/22, so for 2023/24 it is recommended that garage rents will increase in line with service charges being based on the Government proposed cap at 5%.

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

F) An initial review of service charges attached to North Tyneside Living schemes has been undertaken, and service charges attached to those schemes will be increased in line with CPI i.e. 5.0%. However, as the schemes continue to become established and fully operational, the Authority is endeavouring to gather more accurate trend data and ensure that service charges reflect actual costs as closely as possible.

G) The Authority also continues to monitor the impact of welfare reform changes. Service charges on affordable rent properties are not exempt, as the 80% of market rent calculation includes any service charges. The importance of ensuring that tenants continue to be kept fully informed of the requirements of the scheme is fully recognised and ensuring that they are supported in managing the impact of any further changes. In North Tyneside Universal Credit numbers continue to increase, at the end of March 2022 there were 3,712 tenants on Universal Credit with arrears totalling £2.934m, by the beginning of November this number had risen to 4,171 with total arrears of £3.264m. The Authority has already allocated additional resources to support those tenants affected by the changes in previous year's Budgets. There is a continued focus on trying to ensure that tenants are getting the support they need, and the information they need in relation to avenues they can explore not just for managing their rent, but also for accessing other sources of help during the current cost of living crisis. The impact of the additional resources allocated in this area has been evidenced by a slow-down in the rate at which arrears have been increasing, albeit they are still increasing overall. Members will continue to be updated of any significant further welfare reform changes.

H) The policy of tenants' weekly rent being spread over 52 weeks will continue, although for those residents that wish to continue paying over 50 weeks this option has been available.

2. <u>The Housing Capital Investment Plan 2023-2028</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 2023-2028 are as follows:

A) Ensuring post COVID-19 pandemic, that any necessary lessons were learnt in relation to keeping work sites COVID-secure and ensuring any necessary measures are followed in the workplace and out on site to protect the workforce and our residents;

B) Review of Housing 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 £141.916m over the next 5 years 2023-28, plus new build spend of £18.492m based on continuing where possible the existing approach to HRA new build within Cabinet's overall Affordable Homes Strategy; and

C) Spend for 2023/24 of £29.597m including £2.533m for the continuation of a new build / conversion / acquisition council house programme.

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

3. <u>Housing Repairs Budget 2023/24</u>

Cabinet was presented two years ago with a proposal to create a Tenant Priorities budget 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 the last three years the following have been given priority:

- 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.

These priorities were extended due to the delays caused by the pandemic. In the light of the continued positive reaction of tenants to the property health-checks and the improved Empty Homes Standard, it is recommended that these areas remain the focus of the tenant priorities budget for 2023/24, as the objectives remain key to meeting tenants' aspirations.

4. Unified Systems ICT Project

2021/22 saw the start of a major exercise to fundamentally review all the Housing ICT systems currently in use across the service, as well as elements that would apply across the whole authority, namely, Asset Management systems. Northgate had never been fully reviewed to assess its ongoing suitability and whether it needs to be replaced or upgraded. The original contract for the Accuserv system used to support HPS's activity was coming to an end and so it was critical that this was also reviewed. A full procurement exercise was undertaken to engage with the market and seek a unified systems solution. On August 30, following the completion of the tender process, the council selected NEC Software Systems (formerly Northgate) to create and provide this new system.
The system will cover elements of a number of services across the council, including:

- Housing, including rent payments and neighbourhoods
- Property Services
- Strategic investment and Property
- Revenues and Benefits
- Health and Safety teams
- Leisure services
- Schools
- Information Technology team

This is a major project requiring dedicated resources along with a proper governance process to ensure success. Revenue and capital resources have been identified and put into the HRA Plan for a 4-year period starting in 2021-22 to enable this work to be carried out. The figures have been refreshed and will continue to be revised each year as the project develops, to confirm and ensure that the appropriate revenue and capital resources are in place to successfully deliver this change.

5. HRA Unallocated Working Balances

Sustain unallocated working HRA balances at a minimum of £2.5m across the life of the 30-year Business Plant 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	115
2021/22	169
2022/23 to-date (Sept)	69

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 3 years. In 2021/22 these rules were relaxed slightly to allow up to 5 years for the money to be spent, with an intervention rate of up to 40%. This agreement has seen an additional £8.654m of additional Capital Receipts retained to the end of 2021/22, which has helped deliver £23.425m of new build schemes. The trend in RTB sales is reflected in the 2023/53 Business Plan profile for stock numbers.

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 the Authority, this meant borrowing £128m of loans from the Public Works Loan Board to pay the 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 £23.425m to the end of 2021/22. By the end of March 2022, the Authority's actual HRA debt stood at £244.672m compared to the £290.825m "cap", and by March 2023 it is anticipated that the debt will drop further to £242.005m. The Authority has already created some headroom through the prudent approach agreed to its Treasury Management strategy.

The 2023/24 draft Budget proposals are based on the existing Cabinet agreed policy approach to debt. Last year there was a slight adjustment to the approach, as the rate at which debt is repaid was slowed down, in order to help fund a package of savings that countered the loss of an estimated £45m of rental income due to the low rate of CPI in September 2021. In order to balance the proposed plan for 2023-53 there will need to be some further reduction in the amount of debt repaid. Based on the current approach to debt management it is still estimated however that up to a further £69.731m of debt could be repaid over the next 30 years, compared to £81.166m in the base model based on an assumed 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 2023-53 of Revised Business Plan

Description	Debt Movement £m
Opening Self-Financing Debt	290.825
Opening HRA Debt 01/04/2023	242.005
Closing HRA Debt after 30 Years	172.274
Debt Repaid over 30 years	69.731
Debt Repaid from start of SF	118.551

8. Self-Financing and Depreciation

From 2017/18 the Government has required that all local authorities calculate a true depreciation charge as an actual 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.

4.4 HRA Summary Financial Plans

4.4.1 In summary, the HRA Business Plan modelled to create the draft proposals has the following key assumptions, most of which are based upon continuing with current Mayoral and Cabinet policy priorities:

- Additional rental income of with a proposed increase for 2023/24 of 5%, with a longer-term assumption based on CPI target equivalent to 3% per year (to be reviewed annually).
- Garage rent and service charges will increase in line with the proposed rent increases of 5% for 2023/24.
- The Tenant Priorities budget created last year will be maintained particularly given the positive reaction to the approaches being taken by tenants, and the focus will remain on the currently identified priorities.
- Appropriate revenue and capital resources will be identified and maintained in place over the next 3 years to complete the full implementation of the Unified Systems solution, replacing current ICT systems and solutions to help support the development of more efficient and effective services.
- Continue supporting the Authority’s Apprenticeship programme and the Working Roots scheme.
- The base 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.
- Resources have also been identified to tackle the Climate Change Emergency declared by the Authority, to undertake a range of sustainable measures across the housing stock to reduce its carbon footprint.

4.4.2 The updated HRA Business Plan for 2023-2028 contains over £18m to support a HRA new build programme over the next 5 years, whilst continuing to repay some debt. The impact of the current global economic downturn on interest rates and inflation will continue to be monitored to assess any potential impact on the HRA Business Plan. It is prudent that Cabinet maintains its current prudent policy approach to debt management and borrowing at this stage, until more surety can be gained over future economic trends.

4.4.3 Appendix F shows the revised four-year HRA Business Plan 2023-2027, and Appendix G splits those changes between Pressures and Growth, Efficiencies and Reserves and Contingencies. The HRA Business Plan for 2023-2053 (available as a background paper) starts with an assessment of the budget monitoring position as of 30 September 2022, and the impact on HRA balances for this year. At that point, as is being reported to this meeting of Cabinet, the HRA is predicting an underspend of £0.090m against Budget for 2022/23, due to a combination of factors whereby improved rental income forecasts and savings against Bad Debt Provision and Management Contingency are covering pressures brought about by the proposed 2022-23 pay award, increased repair costs and higher energy costs. This means that the opening balances feeding into the Business Plan as of 31 March 2023 are forecast to be £3.220m as shown in Appendix F.

The five-year Housing Investment Plan 2023-2028 is included within Appendix B (ii).

Appendix G also shows a further breakdown of the movement on Reserves and Contingencies which includes a contribution from reserves of £0.383m for 2023/24. It is not proposed to adjust contingency budgets in 2023/24 following a review and revision of the levels held for the 2022/23 budget, with separate provision made for inflation and pay awards of £1.725m for 2023/24 (which includes rebasing for the additional costs of the 2022/23 pay award, as well as provision for increased material and subcontractor costs).

5. Dedicated Schools Grant (DSG)

5.1 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 2023/24, 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 their own funding formula. In 2019, the DfE confirmed that the transitional arrangements where local authorities would continue to set a local formula to distribute funding to individual schools will continue into 2023/24 with the earliest expected move to “hard” NFF now expected in 2025/26.

5.1.3 In 2023/24, as in 2019/20 to 2022/23, the Authority will receive its DSG funding based on the DfE National Funding Formula (NFF). In July 2022, the DfE published indicative allocations under the NFF at school level using October 2021 census data. This shows the funding level for each mainstream school based on the NFF using the 2022/23 Primary Unit of Funding (PUF) and Secondary Unit of Funding (SUF) with October 2021 pupil numbers.

This information is for planning purposes only as local formulae used by each local authority can still vary from the NFF within the guidance issued by the DfE. The DSG allocation to the Authority for 2022/23 will be published in December 2022 using the October 2022 census results.

5.1.4 The Schools NFF for 2023/24 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 2023/24 are:

- The minimum per pupil funding levels will be set at Primary £4,405, Key Stage 3 £5,503 and Key Stage 4 £6,033; and
- The funding floor will be set at 0.5% per pupil. This minimum increase in 2023/24 allocations will be based on the individual school’s LFF allocation in 2022/23.
- Rolling the 2022 to 2023 schools supplementary grant into the NFF.
- Increasing NFF factor values (on top of amounts added for the Schools Supplementary Grant) by:
    - 4.3% to free school meals at any time in the last 6 years (FSM6) and income deprivation affecting children index (IDACI)
    - 2.4% to the basic entitlement, low prior attainment (LPA), FSM, English as an additional language (EAL), mobility, and sparsity factors, and the lump sum.
    - 0.5% to the floor and the minimum per pupil levels (MPPL)
    - 0% on the premises factors, except for Private Finance Initiative (PFI) which has increased by Retail Prices Index excluding mortgage interest payments (RPIX) which is 11.2% for the year to April 2022

In addition, two important restrictions will continue:

- Local authorities will continue to set a Minimum Funding Guarantee in the local formula, which in 2023/24 must be between +0.0% and +0.5%. 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 School 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 Department for Education, even if the same amount was agreed in the past two years

5.1.5 The spending Review 21 confirmed another £4.7bn for core schools' budget nationally by 2024/25, which brings a suggested cash increase of £1,500 per pupil by 2024/25 compared to the 2019/20 Spending Review. Details of expressly what this mean for schools for 2023/24 remains outstanding so the following paragraphs are indicative based on current information.

5.1.6 The North Tyneside illustrative allocation for the Schools block, Central Schools Services block, Early Years and High Needs block in 2023/24 (using census 2021 i.e. static pupil numbers) is shown below.

Table 3: Indicative Dedicated Schools Grant funding allocation 2023/24

	2023/24 Schools block units of funding (£'s)	**School Block**	**CSS Block**	**Early Years Block**	**High Needs Block**	**Total Indicative DSG 2023/24**
		£m	**£m**	**£m**	**£m**	**£m**
Primary per pupil rate (£)	£4,771					
Secondary per pupil rate (£)	£6,277					
Indicative DSG Settlement		**146.813**	**1.620**	**14.673**	**31.987**	**195.093**

5.2 <u>Schools Block</u>

5.2.1 Officers from the Authority have been working to review the Authority's Local Funding Formula (LFF) for schools and what the potential impact would be for the LFF to remain aligned to the National Funding Formula (NFF). An update of that work was presented to Schools Forum on 21 September 2022 and a consultation proposal was approved to cover all schools, to enable Schools Forum to reach agreement on three proposals were put forward. These were: -

- To continue to use factors in line with NFF, funding permitting;

- To allow the Authority to set a Minimum Funding Guarantee (MFG) and capping based on affordability;

- To support a 0.5% transfer from the Schools block to High Needs block to fund the projects outlined by SEND/SST services.

A finance and resources update was also presented to schools at 2 separate briefings outlining the main changes across all blocks of the DSG and outlining the 0.5% Schools block transfer to the High Needs block. The outline consultation questions were also shared at the briefings to allow for any changes to be made in advance of the consultation launch. The consultation exercise was launched for schools to complete between 17th and 31st October 2022, with all headteachers, school leaders and governors given the opportunity to reply.

5.2.5 The outcome of the consultation w presented to Schools Forum at its meeting on 10 November 2022. The consultation results will be shared and reviewed by the Cabinet Member for Finance and Resources, Cabinet Member for Children Young People and Learning, the Director of Commissioning & Asset Management and the Director of Resources as per recommendation in paragraph 1.2 of the cover report to this Annex.

5.3 <u>High Needs Block</u>

5.3.1 In common with most authorities, North Tyneside Council is continuing to see rising pressures within provision for children with special educational needs. This is due to the increasing complexity of the needs of children and young people in addition to general rising cost levels mainly as a result of pay inflation. The number of children with an Education Health and Care Plan (EHCP) continues to increase and there are a rising number of pupils with Autism Spectrum Disorder (ASD) as their primary need. The forecast outturn for high needs as at September 2022 is estimated at £18.622m.

5.3.2 In addition, in July 2022, the Authority was formally invited by the Department for Education (DfE) to take part in the ‘safety valve’ intervention programme, with the aim of agreeing a package of reform to the Authority’s high needs system that will bring our Dedicated School Grant (DSG) overspend under control. The Authority is required to demonstrate this package of reform within a DSG Management Plan which shows that it can create lasting sustainability, effective for children and young people, which includes reaching an in-year balance within five years. Where the Authority does this, the DfE will enter into an agreement with the Authority, subject to Ministerial approval. Where there is evidence of progress in reaching that in year balance, the DfE will provide additional funding over time, with a view to removing the Authority’s DSG deficit.

5.3.3 The Authority is undertaking engagement with partners across Special Educational Needs and Disabilities (SEND) to co-create the DSG Management Plan. An initial draft has been submitted to the DfE and together, with them and schools, the Authority will continue to refine the Plan before a final submission is made on 3 February 2023. The plan currently includes an assumption that there will be a 0.5% transfer from the Schools block to the High Needs block of the DSG, which needs to be approved by Schools Forum. The Secretary of State for Education will inform the Authority in March 2023 if it has been successful to enter onto the programme.

5.4 Early Years Block

5.4.1 The DfE has not yet published the expected value of the Early Years block funding. To provide illustrative values the 2022/24 actual funding allocation of £14.7m has been assumed.

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

5.5 Central Schools Services Block

5.5.1 The Central Schools Services block (CSSB) provides funding for local authorities to carry out the statutory duties they hold for both maintained schools and academies in England. Schools Forum is required to approve the proposals for expenditure from the CSSB. Schools Forum will consider certain elements of funding that are held centrally within the funding allocations (known as centrally retained and de-delegated items) which are applied to benefit pupils across the Borough.

5.5.2 The CSSB allocation has reduced again in 2023/24 by £0.159m which reflects the DfE's plan to reduce overall funding of this block. The historic commitments element has been reduced by 20% per annum, in line with strategic DfE published plans over the last two years.

5.6 Timetable for Agreeing 2023/24 Distributions

5.6.1 The key dates which must be met in setting 2023/24 school budgets are shown in Table 4 below. This report is requesting authorisation for 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 to meet these deadlines.

Table 4: Key dates for 2023/24 School Budget-setting

Date	Activity
July 2022	Department for Education (DfE) guidance issued for 2023/24
October 2022	Local consultation documents issued to stakeholders
01 November 2022	Consultation returns received and reviewed
10 November 2022	Schools Forum considers consultation response and agrees proposals for local funding allocation formula to individual schools, de-delegated and centrally retained budgets and any transfers between funding blocks.
December 2022 / January 2023	Local Government Finance Settlement announced including school funding amounts
10January 2023	Additional Schools Forum meeting (if required)
20 January 2023	Deadline for submission of final local School Allocations to DfE (the Authority Proforma Tool)
28 February 2023	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 2023-2028 Investment Plan

6.1 Background

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 new assets, improvements to existing assets, or loans to third parties for a capital purpose.

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

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 the 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 draft Capital Investment Strategy is attached as Appendix B(iv).

The 2022-2027 Investment Plan totalling £242.333m was approved by 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 proposed 2023-28 Investment Plan.

The following adjustments are included in the draft plan:

- Continued 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;
- A new year 5 (2026/27) has been added to reflect rolling programme projects such as, sustained investment in additional Highways Maintenance, Asset Planned 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 updated 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 2022-2027).

Table 5 below shows a summary of the initial draft 2023-2028 Capital Investment Plan.

Table 5: Summary of the draft Capital 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

A schedule of the individual projects included in the draft plan is attached as Appendix B(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 6: Summary of Financing 2023-2028

Spend	2023/24	2024/25	2025/26	2026/27	2027/28	Total
	£m	£m	£m	£m	£m	£m
General Fund						
Council Contribution:						
Unsupported Borrowing	13.407	14.060	8.429	10.100	8,600	54.596
Capital Receipts	0	0	0	0	0	0
Revenue contribution	0.500	0	0	0	0	0.500
Grants & Contributions	32.901	7.310	7.564	7.464	7.464	62.703
Total General Fund Resources	**46.808**	**21.370**	**15.993**	**17.564**	**16.064**	**117.799**
Housing – HRA						
Capital Receipts	2.280	2.170	2.653	1.060	0.702	8.865
Revenue Contribution	10.472	12.447	12.959	15.050	15.797	66.725
Major Repairs Reserve	16.430	15.718	16.232	16.766	16.317	81.463
Other contributions	0.415	0.130	0.800	1.930	0.800	3.355
Total Housing HRA Resources	**29.597**	**30.465**	**31.924**	**34.806**	**33.616**	**160.408**
TOTAL RESOURCES	**76.405**	**51.835**	**47.917**	**52.370**	**49.680**	**278.207**

6.1.3 The initial draft 2023-2028 Investment Plan for the General Fund includes expenditure of £46.8m in 2023/24. Of this expenditure, £32.901m (70%) is funded through grants and other external contributions.

Housing capital receipts of £2.280m have been assumed in the financing of housing projects within the draft Plan. No General Fund capital receipts have currently been assumed to support the programme.

Across the life of the draft Plan, unsupported borrowing totals £54.596m, with £13.407m planned for 2023/24. Of this, £2.634m relates to invest to save projects and projects that cover the cost of borrowing through recharges namely, Streetlighting LED 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 Capital Allocations 2023/24

6.2.1 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 2023/24 have not yet been announced and therefore indicative figures, based on previous allocations, have been included in the draft Plan. As soon as actual allocations are announced, these figures will be updated and included in subsequent reports.

6.3 Annual Minimum Revenue Provision (MRP)

6.3.1 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). The 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 reasonably commensurate with that over which the capital expenditure provides benefits.

There are no changes proposed to the existing policy. The 2023/24 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, using the annuity methodology. 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.

6.4 Prudential Indicators

6.4.1 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 2023-27 have been prepared using the current (2021) Code and are attached as Appendix B(iii). .

7. 2023/24 Treasury Management

7.1 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 security and liquidity before considering investment return.

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

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

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

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.

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 17 February 2022 the latest Treasury Management Strategy Statement and Annual Investment Strategy have been included as Appendix C. 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 1 April 2022 there has been no instances of a material exposure in excess of credit limits as per the Treasury Management Strategy Statement and Annual Investment Statement Credit Criteria.

7.2 Treasury Management Reporting

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 B(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 will update Members with the progress of the capital position, amending prudential indicators as necessary, and indicate whether the Authority is meeting the strategy or whether any policies require revision; and

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

7.3 Current Treasury Portfolio Position

7.3.1 The Authority's debt and investment position as at 30 September 2022 is set out in Table 7 below:

Table 7: Current Treasury Portfolio Position as at 30 September 2022

	Principal Outstanding	Average Rate
	£m	%
Fixed Rate Funding		
PWLB*	254.250	3.59
PWLB – (HRA Self-Financing)	128.193	3.49
Market Loans	20.000	4.35
Temp Loans**	0.000	0.00
Total External Debt	**402.443**	
Less **Investments**		
(UK) DMO***	20.750	1.09
Other Local Authorities	20.000	1.19
Bank Deposits	13.053	0.01
Total Investments	**53.803**	
Net Position	**348.640**	

* 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 8: Link Asset Services' forecast interest rates – 29th September 2022

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

7.5 Economic Update (Provided by Link)

7.5.1 The latest forecast on 29th September sets out a view that both short and long-dated interest rates will be elevated for some time, as the Bank of England seeks to reduce inflation in line with its target rate of 2%, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the impact of ultra-high wholesale gas and electricity prices.

7.5.2 During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team, at the time (Liz Truss and Kwasi Kwarteng) had made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

7.5.3 Following the fiscal event, UK politics remained volatile. The Chancellor Kwarteng was dismissed on the 14th October 2022, replaced by Jeremy Hunt as new Chancellor. This was followed by the Prime Minster, Liz Truss resigning on the 25th October.
Liz Truss was replaced by Rishi Sunak on the 25th October 2022. Markets have stabilised somewhat; however it is early days.

7.5.2 CPI inflation eased from 10.1% in July to 9.9% in August, though it is anticipated inflation has not yet peaked. The easing of inflation into August due to the decline in fuel prices. Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and continued inflationary pressure expectations, markets expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%).

7.5.3 The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

7.5.4 Since August, wholesale gas prices have been highly volatile, and there have been large moves in financial markets, including a sharp increase in government bond yields globally The MPC noted that the risks around its projections from both external and domestic factors were exceptionally large, given the very large increase in wholesale gas prices since May and the consequent impacts on real incomes for UK households and on CPI inflation. Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates.

7.5.5 The labour market remained exceptionally tight. Data for July and August provided that a weaker economy is leading to cooling in labour demand. Data collected in July showered that there are now 904,000 more inactive people aged 16+ compared to pre-pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

7.6 Prudential Code and Treasury Management Code Consultations

7.6.1 In September 2021 CIPFA released the stage 2 consultation in relation to Capital Finance in Local Authorities.
Following the consultation, a revised 2021 Code was issued in Q4 of 2021, the updated code which addressed issues relating to debt for yield, was to be applied with immediate effect by Local Authorities. As such the North Tyneside Council adopted the 2021 edition code.

7.7 Non-Treasury Investments

7.7.1 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.

7.7.2 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.

7.7.3 At 31 March 2022, the Authority held the following investments on its balance sheet:

- Equity:

  Newcastle Airport Holding Company Ltd £10.856m (£7.830m 31/3/2021)
  North Tyneside Trading Company £10.508m (£9.075m 31/3/2021)
  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 £9.075m, 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.

- Loans:

  Aurora Properties (Sale) Ltd £5.125m (£5.125m 31/3/2021)
  Sub ordinated debt – Dudley and Shiremoor JSC £0.160m ((£0.160m 31/3/2021)

Sub ordinated debt – Whitley Bay JSC £0.110m ((£0.110m 31/3/2021)

7.7.4 The current 2022/23 Capital Investment Plan includes further planned investment in the Trading Company of £3.939m (which includes £1.980m 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. Any dividends from the Trading Company for 2022/23 or over the period of the Financial Plan (2023-2028) are not expected to be material. Recharge income in respect of staff time and loans is estimated to be £0.370m for 2022/23 and approximately £1.200m over the period of the Financial Plan (2023-2028).

8. Provisional Statement to Council by the Chief Finance Officer

8.1 <u>Background</u>

8.1.1 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 him 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 16 February 2023, when all outstanding information should be available.

8.1.2 The 2023/24 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 from the 2021/22 Budget and further details of how this has been achieved will be set out in the February Cabinet report as appropriate.

8.2 <u>Robustness of Estimates</u>

8.2.1 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;
- Future Budget pressures and growth proposals, including the impact of prudential borrowing for the 2023-2028 Capital 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 2021/22 Statement of Accounts; and
- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority.

The level of contingencies has been increased to £6.368m as recognition of the risks associated with inflation and delivery of efficiencies. This will continue to be reviewed as these are initial Budget proposals which will be finalised by Cabinet once consultation is concluded and the final Local Government Finance Settlement is known.

8.2.2 The Cabinet is aware it must keep under review its Medium-Term Financial Strategy and four-year Financial Plan, in the context of the 2021-2025 Our North Tyneside Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2023/24 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.

8.3 Capital Investment Strategy

8.3.1 In line with the Prudential Code's' 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 2023-2028 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.

8.4 Adequacy of Financial Reserves

8.4.1 General Fund

8.4.2 The level of un-ringfenced reserves remains of concern to the CFO in this ongoing period of uncertainty. It expected that over the course of 2022/23 the Change Reserve will reduce as planned investment in projects to support better management of demand are implemented. This year's Financial Management reports to Cabinet highlight areas of on-going financial pressure 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.

8.4.3 Since the development of the 2022/23 Budget and MTFP in February 2022, several further significant risks have emerged that are impacting on the 2022/23 budget position, as well as increasing the pressure identified for 2023/24. As detailed earlier within the report, the 2023/24 revised gap is anticipated to be £5.996m

8.4.4 The Authority bought forward reserves' balances of £80.298m into 2022/23, based on the latest forecast of planned usage, it is anticipated £18.549m will be drawn down in 2022/23 to support service delivery. This would result in a 2023/24 balance bought forward for reserves of £61.749m.

8.4.5 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 consider 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.

8.4.6 These actions together with the requirement to balance the 2022/23 in-year budget may result in the level of the Strategic Reserve falling below the minimum planned level of £10.000m over the life of the Financial Plan. Based on this included in the initial budget proposals is corrective action to restore the Strategic Reserve to the agreed level.

8.4.7 Table 9 below shows the reserves as at the 31 March 2022 and the projected reserve levels over the period of the Financial Plan:

Table 9: Reserves and Balances as at 31 March 2022 and from 2022/23-2026/27

Reserves and balances	Closing Bal.	Projected Closing Balances				
	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s
Reserves						
General Fund ringfenced	37.015	29.553	28.593	28.145	27.762	26.329
General Fund unringfenced	18.448	13.102	12.389	11.776	11.200	10.700
General Fund grants	9.421	3.400	1.947	1.648	1.390	1.098
Dedicated Schools Grant	0.000	0.000	0.000	0.000	0.000	0.000
HRA	15.414	15.694	15.977	16.357	16.688	14.741
Reserves Sub Total	**80.298**	**61.749**	**58.906**	**57.926**	**57.041**	**52.869**
Balances						
General Fund Balances	7.000	7.000	7.000	7.000	7.000	7.000
School Balances	3.398	1.898	0.398	(1.102)	(2.602)	(4.102)
Housing Revenue Account Balances	3.501	3.440	3.069	2.837	2.568	2.627
Balances Sub Total	**13.899**	**12.338**	**10.467**	**8.735**	**6.966**	**5.525**
Grand Total Reserves and Balances	**94.197**	**74.088**	**69.374**	**66.661**	**64.007**	**58.395**

8.5 <u>Housing Revenue Account (HRA)</u>

8.5.1 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 the self-financing proposals.

Table 10: 2022–2026 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Opening Reserve Balance	(5.002)	(3.440)	(3.069)	(2.837)	(2.567)
Contributions (to)/from balances	1.562	0.371	0.232	0.270	(0.059)
Predicted Reserve Balance Carried Forward	**(3.440)**	**(3.069)**	**(2.837)**	**(2.567)**	**(2.626)**

8.5.2 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 2023/24 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 2023-2027 Financial Plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long-term reliance on reserves.

9. Overall Financial Risk Assessment

9.1.1 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.

9.2 Key Financial Risks

9.2.1 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 11: Key Financial Risks and mitigating actions

Potential Risk	Initial Response
Long Term Financial Impact of COVID: There is a risk that there may be long term impact on the ongoing income from Council Tax and business rates	Revenue monitoring to understand affected services and areas; Update financial planning assumptions; A planned use of reserves; A named finance officer to be aware of and collate impacts.
There is a risk of being unable to set a balanced budget for 2023/24 and over the period of the MTFP.	Managed during the budget setting for 2023/24 and robust budget challenge.
The significant impacts of the "cost of living" crisis, exceptional inflationary pressures and the wider impact of the Russian invasion of Ukraine on the economy have the potential to drive additional cost pressures and may lead to reductions in overall income due to the wider economic impacts. The current MTFP approved by Full Council did not provide for the current extreme levels of inflation which are expected to persist throughout the remainder of the financial year and beyond.	Close monitoring of this position during 2022/23 will be required to ensure the MTFP reflects any ongoing pressure and the impact assessment of the current economic situation.
Ongoing uncertainty around local government and wider public sector finances	The Authority will continue to take part in consultations on any funding reforms and will continue to lobby the Government for additional funding where necessary.
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 will take place to ensure proposals can be delivered. All savings and income will be monitored throughout the year to identify any areas which are not delivering savings as planned so corrective action can be taken.

There is a risk that if the Efficiency Programme is not successfully implemented the Authority may be unable to deliver improved services and meet the increased demand for services within reducing resources. This could have the financial impact of the Authority not delivering on its Budget.	An overall Budget Proposal Document and Terms of Reference are in place for all existing and new Efficiency Programme projects. This spans all service redesign projects Monthly Updates to the Senior Leadership Team are provided as part of the in-year financial management process. The Customer Service Steering Group will be sighted on the outcomes from any Service reviews undertaken during 2023/24.
There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2025/26 may be wrong, resulting in changes to the current targeted savings by 2026/27, for the General fund and for the HRA, which will be considered by Cabinet in January 2023.	Through a robust approach to financial management the Authority is in a position to respond to determine actions necessary if the assumptions that have been made prove to be incorrect. The Authority work closely with national, regional and sub-regional financial networks to help ensure that the Authority is informed and aware of any national developments. Being involved in the consultation process enables any issues or concerns specific to NTC to be highlighted before final decisions are made.
There is a risk that not all growth pressures have been identified in the 2023/24 proposed Budget.	Detailed proposals have been put forward by each Director of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand - led pressures exceed Budget provision.	Demand-led pressures continue in areas such as adults' and children's social care and the impact of the Living Wage on our care providers (and the price for services the Authority then has to pay) have been taken into consideration as part of these initial Budget proposals.
There is a risk that specific factors arising during 2022/23 will not been fully taken into account when preparing the 2023/24 Budget.	The 2022/23 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to the Senior Leadership Team. This process ensures factors arising during the year are taken into account.
There is a risk that the in-year pressures being reported through the 2022/23 financial management process	As at 30 September 2022, a pressure of £15.500m (unmitigated) was reported against the 2022/23 Budget.

impact on the deliverability of the 2023/24 budget.	All Services continue to develop and deliver actions to mitigate these financial pressures and expect the outturn forecast to improve through the year. In addition, non-essential spend continues to be minimised and a detailed review of demand-led projections aims to reduce over-commitments. Progress will be monitored through bi-monthly reporting to Cabinet and monthly reporting to the Senior Leadership Team.
There is a risk that the contingency provision included in the Financial Plan for 2022/23 is insufficient.	The review of the base Budget and the reflection of the 2022/23 pressures into 2023/24 will be considered.
There is a risk that there are insufficient levels of reserves and balances.	A full review of reserves and balances is undertaken on a regular basis as part of both the in-year monitoring and planning processes.
There is a risk that the Authority will be unable to protect its housing assets and services to tenants as a consequence of reduced income to the HRA. Government policy on welfare reform is resulting in a number of direct challenges to rent collection; the spare room subsidy and the benefit cap have already had an impact.	The budget-setting process incorporates a review of the HRA Business Plan to reflect the changes. The cost and quantity of work within the 30-year Investment Plan is revised annually to help mitigate the impact of changes. In addition, the Financial Inclusion Strategy sets out how the Authority and its partners will support its residents to better manage their finances and maximise their income. The HRA budget includes proposal to increase support to tenants in managing their ability to sustain their tenancies. The Authority has representation on the DLUHC and CIPFA HRA working groups. This enables specific issues to be raised and allows the Authority to comment and influence change on HRA regulation
There is a risk that there may be a significant financial impact on school resources if the number of schools requesting deficit continues to rise at its current rate. This risk is currently driven by the number of surplus places at secondary schools.	The school deficit has been identified as a priority for the Authority, headteachers and governing bodies. A programme of work has been identified, working with schools to improve the schools deficit position. This will highlight the work that is required and through working with the schools a number of initiatives will be identified and progressed.

There is a risk that the Authority may be unsuccessful in securing additional support from the ESFA to mitigate the pressures and current deficit position within the DSG	Internal Governance processes are being developed to ensure a robust plan is submitted and ongoing discussions are taking place with the ESFA. Schools Forum are being kept up to date with all plans that are included within the DSG Management Plan, and this will form part of budget setting for the DSG for 2023/24.
There is a risk that the DSG Deficit Statutory override will come to an end in 2022/23 leaving the Authority with a significant risk to its reserves if the level of deficit needs to be covered by General Fund Reserves	The Authority will continue to submit responses to consultations with the DfE to ensure the DfE are aware that if the Statutory override was to come to an end the Authority would be at significant risk of financial sustainability.