2023-2027 Financial Planning and Budget Process:

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

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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 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 Medium-Term Financial Strategy 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 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 10.5% (December's Consumer Prince Index (CPI)) and it could potentially 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 were successful;
  - At Wallsend, funding has been secured for a range of improvements at Segedunum Roman Fort and Museum. An expression of interest was submitted to the National Heritage Lottery Fund. A bid has also 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% of 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 At the Autumn Statement 2022 the Government announced its intention to increase referendum principles to 3% for core Council Tax and up to 2% for the Adult Social Care precept, with additional flexibilities for some other authority types for both 2023/24 and 2024/25. Recognising the impact of rising bills, the Government will be distributing £100m of new grant funding in 2023/24 for local authorities to support economically vulnerable households in their area with council tax payments. On 23 December 2022 the Authority was notified of its allocation and an additional grant award has been made for 2023/24 of £0.427m.

3.1.3 To supplement the Local Council Tax Support scheme (LCTS), the Government expects that billing authorities will use their grant allocation to:

- Fund further reductions in the council tax liability of individuals receiving LCTS with an outstanding council tax liability, by up to £25.
- Local authorities are also able to use a proportion of their allocations to determine their own local approaches to supporting economically vulnerable households with council tax bills.
- This will be delivered using the discretionary powers under s13A(1)(c) of the Local Government Finance Act 1992.
- Funding will be allocated to local authorities on the basis of their share of the LCTS claimants, based on Q2 data from 2022/23. The money will be paid out as soon as possible to local authorities through a grant under section 31 of the Local Government Act 2003.
- Where a taxpayer's liability for 2023/24 is, following the application of council tax support, less than £25, then their liability would be reduced to nil. Where a taxpayer's liability for 2023/24 is nil, no reduction to the council tax bill will be available and those bills should not be credited.
- There should be no need for any recipient of LCTS to make a separate claim for a reduction under this scheme. The billing authority should assess who is eligible for support and automatically apply the discount.
- Council tax reductions should be applied from the beginning of the 2023/24 financial year for existing LCTS recipients and discounts should be reflected in council tax bills issued in March. It is for local authorities to decide how to treat households that become eligible for LCTS during the financial year.
- Authorities will want to make their local populations aware of how the grant support package will be delivered e.g. through providing information on their websites.
- It is the Government's intention that any assistance provided from the Council Tax Support Fund will not affect the eligibility of recipients for other benefits.

Discretionary support

3.1.4 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. Cabinet's draft Budget proposals will see this level of support continue into 2023/24 and the additional grant awarded will support the affordability of the discretionary payment.

3.1.5 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.

3.1.6 At its meeting on 23 January 2023 to approve the Council Tax Base Cabinet approved an administrative change which has been consulted on as part of the Budget Engagement process which will make it easier for new Universal Credit (UC) claimants to claim Council Tax Support. The change means that the Authority would use information that the Department for Work and Pensions provides about customers who have made a new claim for UC and are interested in claiming Council Tax Support, as an actual claim for Council Tax Support where possible, thus reducing the need for a separate new claim. Whilst this was approved by Cabinet this does require Full Council approval which is being sought at it's meeting on 16 February 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 Autumn Statement sets out a package of targeted support to help with business rates costs which is worth £13.6 billion over the next 5 years. The business rates multipliers will be frozen in 2023/24 at 49.9p. Authorities will continue to be compensated for the reduction in income as a consequence. Upward transitional relief caps will provide support to ratepayers facing large bill increases following the revaluation. The relief for retail, hospitality and leisure sectors will be extended and increased to 75%, and there will be additional support provided for small businesses.

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.

3.3 Provisional Local Government Finance Settlement

3.3.1 The provisional Local Government Finance Settlement was published on 19 December 2022 and confirmed a number of increases in funding for local government mainly as a result of the £2 billion of additional core grant funding for local authorities in 2023/24, increasing to £3 billion in 2024/25. At the same time funding from the Lower Tier Services Grant, New Homes Bonus and the Services Grant has been repurposed to finance the 10.1% increase in Revenue Support Grant (RSG) and the 3% funding guarantee (impacting mainly on District Councils). The final settlement is expected to be published in February 2023. The additional funding provided to local authorities with details of the Authority's Settlement provided below:

(a) Confirmation that the Core Spending Power (CSP) will increase by 9.2% (£5.003 bn). This is a real term increase in resources and represents the fourth settlement in a row to increase resources in real terms. In calculating CSP, it has been assumed that authorities will increase Band D by the maximum amount, and that each authorities Council Tax base has increased in line with their average Council Tax base growth since 2017/18;

(b) Band D Council Tax; 3% Council Tax referendum limit, 2% ASC precept. District councils can increase Band D by the higher of 3% or £5. Police element of GLA precept can increase by up to £20. A £5 referendum principle on Band D bills for all fire and rescue authorities. A £15 referendum principle on Band D bills for Police and Crime Commissioners;

(c) **Better Care Fund £600 million** in 2023/24 rising to £1 billion in 2024/25 – Local government and the NHS will each receive 50% of this grant providing additional funding of £300 million in 2023/24 and £500 million in 2024/25. The funding has specific grant conditions with local government and the NHS pooling budgets with the aim of improving the discharge of patients from hospital. The Authority will receive £1.343 million in 2023/24 and a forecast £2.223 million in 2024/25 equating to 0.44% of the national allocation;

(d) **Market Sustainability and Improvement Grant increase in grant of £562 million** in 2023/24 rising to £845 million in 2024/25 – in 2022/23 the Government announced additional funding of £2 billion to enable the implementation of adult social care charging reforms and the outcomes of a fair cost of care review. The first £160 million tranche of this funding was allocated in 2022/23 with the Authority receiving £0.696 million which was utilised in increasing fees to adult social care providers in 2022/23. In the Autumn Statement however the Government announced that the social care reforms had been deferred from October 2023 to October 2025 and that the remaining £1.8 billion of funding would be repurposed into the Social Care grant to provide support for both adults and children's social care. The Authority will continue to receive the £0.696

million in the future but in a repurposed Market Sustainability and Improvement Grant. This grant will be £2.414 million in 2023/24 and is forecast to increase by a further £1.216 million in 2024/25. The additional grant in 2023/24 is expected to have broad grant conditions requiring that this funding is utilised to support early discharge of patients from hospital;

(e) **Social Care Grant additional £1.265 billion in 2023/24** rising to £1.877 billion in 2024/25 after discounting transfer of specific grant (Independent Living Fund) – this funding is to be utilised to support demographic and cost pressures in children's and adult's social care. This funding is being apportioned to local authorities based upon the Adults Relative Needs Formula (RNF) alongside an element of equalisation to consider that local authorities can raise differing amounts from Council Tax increases due to varying size of council taxbases. This funding is only payable to upper tier authorities who provide social care services. Net of the transfer of £0.612 million of Independent Living Fund specific grant funding the Authority already receives, the Authority will receive an additional £6.525 million in 2023/24 increasing further by a forecast £2.767 million in 2024/25, equating to 0.91% of the national allocation, increasing our Social Care Grant to £17.005 million in 2023/24 and to a forecast £19.772 million in 2024/25. These sums will not however fully address the demographic and price inflationary pressures in Children and Adult Social Care alone (excluding price inflation and energy) of £18.712 million in 2022/23, with further pressures of around £8 million expected in 2023/24;

(f) **Revenue Support Grant (RSG) –** local authorities will receive an inflation uplift of 10.1% in line with the September 2021 Consumer Price Index (CPI) on their 2022/23 RSG allocations. The Government are transferring three specific grants into RSG from next year, these being the Local Council Tax Administration Grant (allocation currently £0.285 million), the Family Annex Council Tax Discount Grant (not currently received by the Authority) and the Natasha's Law grant (allocation currently being £0.006 million). After discounting the transfer of these specific grants into RSG the Authority will receive an additional £1.487 million next year, increasing RSG received to £13.284 million. CPI is forecast to increase again in 2023 and as at September is forecast to be 7.4%, so a further increase of £0.983 million in 2024/25 has been factored into the MTFP;

(g) **Reduction in New Homes Bonus (NHB) funding –** it was previously forecast that the NHB may be abolished from 2023/24. The Government have however agreed to continue the NHB funding for one more year. The Authority received £1.700 million of NHB in 2022/23 which will reduce by £1.075 million to £0.625 million in 2023/24. Nationally the sum payable via NHB will reduce by £265.4 million in 2023/24 with this sum being diverted to ensure all authorities, but particularly district councils, receive a minimum 3% increase in funding in 2023/24 and also to partially finance the 10.1% increase in RSG. At this stage it is forecast that the £0.625 million of NHB received by the Authority will continue in 2024/25 and will be fully withdrawn in 2025/26;

(h) **Lower Tier Services Grant** – the Authority has a budget of £0.319 million from this grant but similar to NHB this funding is being top sliced to ensure all authorities, but particularly district councils, receive a 3% increase in funding in 2023/24 and to help finance the 10.1% increase in RSG. The Authority has lost 100% of this funding from 2023/24;

(i) **Services Grant** – the Authority currently receives £3.330 million from this grant which for 2022/23 was specified as a one-off grant. In 2023/24 the Authority will receive £1.876 million, a reduction of £1.453 million. The grant has been reduced to reflect that the withdrawal of the 1.25% employers' national insurance increase from November 2022. In addition, the Government have top sliced this grant to increase the Supporting Families Grant, which is a specific grant in Adult and Health Services and to partially cover the 10.1% inflation uplift to RSG and to help fund the 3% funding guarantee; and

(j) **Council Tax Support Fund** - The provisional settlement contained £100 million of additional one-off funding for local authorities to support the most financial vulnerable households in England in 2023/24. The Council Tax Support Fund is aimed at providing further support to those low income financially vulnerable households already receiving some element Council Tax Support. North Tyneside has been allocated £0.427 million to fund further reductions to those still facing financial hardship as part of its Local Council Tax Support Scheme (LCTSS) for 2023/24. The Government expects that the grant allocation is used to fund further reductions in the Council Tax liability of individuals receiving LCTS but still left with an outstanding Council Tax liability, by up to £25 in 2023/24. Local authorities are also able to use a proportion of their allocations to determine their own local approaches to supporting economically vulnerable households with Council Tax bills. The Government guidance stipulates that the support of up to £25 should be provided to both Working Age and Pensioner claimants.

3.3.2 The Government has also announced that the implementation of the Fair Funding Review (FFR) would be delayed until at least 2025/26. Overall, the Settlement is better than was originally forecast by the Authority. The additional funding to be received next year is £19.737 million, however, £7.007m, 35.5% is assumed to be raised through the Governments assumed increases in Council Tax.

The concern for the Authority is in relation to the certainty or lack of certainty for financial settlements from 2025/26 onwards, where it is forecast that funding uplifts for the public sector will be limited to an average of 1% real terms uplifts for the period 2025/26 to 2027/28. If as expected the NHS, Education and Defence are protected then it is highly likely that local government would face funding reductions. At this stage for modelling purposes, it is forecast that there will be cash flat settlements for local government which are funding reductions in real terms.

3.4 Core Spending Power (CSP)

3.4.1 The provisional CSP figures for the council, which factor in assumptions on council tax increases in line with the referendum limits and the maximum permissible under the Adult Social Care Precept, would indicate a more positive position compared to previous years, provided that the Council utilises the additional council tax flexibilities that have been provided. The England average is a 9.2% increase next year, whilst North Tyneside's position is forecast to be 9.8%. A number of issues need to be considered in this regard however:

(a) the CSP calculation forecasts that the Authority will increase Council Tax by the full 4.99% available i.e. the revised 2.99% referendum level plus the 2% adult social care precept raising powers. Any 1% below the 4.99% assumed would reduce the CSP by 0.5%;
(b) the CSP includes the additional Better Care Fund which comes associated with a new burden and as such is not available to support core council service provision.

In terms of comparative CSP per dwelling Table 2 below compares North Tyneside with the LA7 and ANEC authorities and the England average. If North Tyneside received CSP to the national average of £2,348 per dwelling the Authority would have received an additional £15.118m.

Table 1 – Comparison of Core Spending Power Per Dwelling

Area (LA7, ANEC)	Core Spending Power Per Dwelling £
ANEC	2,348
North Tyneside	2,198
Northumberland	2,280
Newcastle	2,371
South Tyneside	2,504
Gateshead	2,486
Sunderland	2,390
Durham	2,193
Hartlepool	2,460
Stockton	1,944
Middlesbrough	2,297
Redcar and Cleveland	2,096
Darlington	1,895

Overall, the provisional settlement is to be welcomed with additional funding being provided to the Authority next year, although part of the additional funding is one-off and not certain for 2024/25 and beyond and there is no clarity on the future of the NHB.

4. Housing Revenue Account (HRA)

4.1 Introduction

4.1.1 Cabinet is being asked to approve the Housing Revenue Account (HRA) Business Plan and Budget for the financial year 2023/24. This includes housing rent, garage rent and service charge changes, and the HRA elements of the Investment Plan. The Housing Revenue Account is required to produce a 30-year Business Plan; however, a four-year Medium-Term Financial Plan (MTFP) for revenue has been produced 2023-2027 which brings the HRA in line with the same MTFP period as the General Fund. The HRA elements of the General Fund and Housing Revenue Account Investment Plan spans a five-year period 2023-2028, in line with the Authority's overall Capital Investment Strategy.

4.1.2 Whilst the current economic situation continues to present significant challenges, the Authority is still able to produce a MTFP for the HRA, which enables just over £312m of revenue spend over the next four 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 housing service delivered via revenue and the MTFP, the HRA also represents a significant element of the Authority's overall Investment Plan. In line with key Cabinet priorities over the next 5 years a total of £142.675m 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 £21.630m 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 have been subject to the agreed engagement process, along with 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 houses. Rents and service charges provide most of the resources available to the HRA, which is then used to fund the management and maintenance of the housing stock. This income and expenditure are accounted for in a ring-fenced account as required by law under the Local Government and Housing Act 1989. Although accounted for separately, the HRA forms an intrinsic part of the Authority's overall vision and Council Plan, and this report sets the context within which the HRA Financial Plan and Budget proposals are set.

4.2.2 The Authority, in common with all local authorities, is still facing challenging times as it continues to move to as much of a "business as usual" state as possible. Like the General Fund the HRA is also impacted 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 provide the most efficient services possible to tenants. Inflation rates of over 10% and shortages in obtaining certain key materials through the supply chain, continue to provide challenges to aspects of service delivery and have impacted the Authority's procurement functions and operational teams. Housing continues to adapt and adjust to providing key services to tenants. 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 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 now the responsibility of the Authority to determine the level of any unsupported borrowing it wishes to undertake to fund new build or decent homes work, in line with the Prudential Code, which means applying the key tests to ensure that any debt taken on is "prudent, affordable and sustainable". The approach to debt management is reviewed annually and is discussed in more detail below.

4.2.5 April 2019 saw the formation of the Housing and Property Services function, providing most of the Authority's key Repairs and Construction needs. The first three years of operation have been highly successful despite the challenges posed by COVID-19, the subsequent recovery period, and then the impact on the economy brought about by the conflict in Ukraine, with over £134m of construction works and repairs delivered across the Authority's housing stock and public buildings portfolio. The gains identified from the benefits realisation process linked to the creation of the service were included in the HRA Business Plan in previous years, which 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 well over £50m of additional works by the end of this financial year. This has included new challenges such as starting to address the need for significant sustainability measures to be undertaken across our housing stock, to help tackle the climate emergency and address Cabinet's decarbonisation ambitions. These factors along with issues relating to pay awards, recruitment and retention of key staff, and the continued difficulties in sourcing certain materials have all been considered and factored into refreshing the Authority's HRA Business Plan and the Housing Investment Plan, arising primarily through a refresh of the Authority's Housing Asset Management Plan. A full review of the Asset Management Plan has been undertaken, and this runs alongside further work to continually try and develop and improve service delivery, to enable the operation 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 purely indicative at this stage. A five-year timeframe is being proposed for the Housing Capital Investment Plan in line with the 2023-2028 General Fund Investment Plan.

4.2.8 HRA tenants have been consulted on these proposals, and the process concludes with this meeting of Cabinet which is being asked to approve the HRA Business Plan and Budget for 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 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 it to at a minimum 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 five years. The baseline for 2022/23 was the CPI rate as of September 2021 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 due to economic factors there have been significant inflationary increases in prices. 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 proposed the introduction of a rent ceiling for 2023/24 to limit the maximum amount by which rents could 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 initially proposed a cap of 5% but were consulting on a range of options between 3% and 7%. Following the consultation process and significant lobbying by the housing sector, which argued that the gap in resources created by the disparity between 5% and 11.1% would be too great for authorities to cope with, the Chancellor announced in the Autumn Statement that the cap would be set at 7%. It should be noted that subsequent to this announcement the Chancellor also announced that benefits and pensions would be increasing by CPI as at September 2022, i.e. 10.1%.

In the November initial Budget proposals, the Business Plan initially assumed a rent increase of 5%, which would have seen a gap in funding over 30 years of circa £97m, which would require significant savings and potential cuts in service to be made. At 7% the gap reduces to just below £40m, which although still requiring a significant package of savings to be made gives far more scope to protect investment in the stock and maintain services to our tenants. The proposal in this final Budget is to increase rents by 7%. However, recognising the additional difficulties that many of our tenants are currently facing what is also proposed, is to introduce a temporary package of measures over a 3-year period totalling up to £3m, which will support many of the Authority's tenants past the most difficult phase of the current cost of living crisis.

This proposed package of measures would be phased to recognise that inflationary pressures are at their highest now and expected to reduce gradually over the next 2 years. So, the phasing of the proposed funding would initially be:

- 2023/24 - £1.250m
- 2024/25 - £1.000m
- 2025/26 - £0.750m

This would be reviewed each year as part of the budget process, and would include a range of tenancy sustainment measures, which could include but not be limited to:

i. A Tenancy Sustainment Fund – to target funding and resources at many of those who are struggling to cope and sustain their tenancies, particularly those who are unable to access assistance through other channels;
ii. Additional resources for Debt Advice to give targeted support and advice; and
iii. Funding for resources to address issues being faced around increased levels of dampness in properties, to monitor and identify specific causes, provide expert advice, and where appropriate instigate remedial and preventative Measures. This is critical in view of the increased focus on dampness issues highlighted by the death of the child in Rochdale, and the links to concerns over tenants worrying about being able to afford to turn the heating on.

It is recommended that the package of measures and any specific criteria for accessing the funding would be agreed by the Cabinet Member for Housing in consultation with the Head of Housing and Property Services, and that the development of any proposals would involve discussions with tenant engagement representatives or groups.

B) The impact of these proposals on the HRA Business Plan will 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 Inquiry, Craftworkers Pay Review, decarbonisation measures etc.

The overall package of growth and savings measures within these budget proposals is intended to ensure that the HRA has a balanced plan over 30 years, and can 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 the existing housing stock is maintained to at minimum 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; and
- continue to support the Working Roots programme.

C) It is proposed to increase all service charges for 2023/24 by 7% in line with the rent increase, reducing from the previous approach of increasing by CPI which would have seen a 10.1% increase in service charges. Alongside this will be a proposal for a further fundamental review of all service charges in view of the increasing costs being experienced in heating and communal energy costs. In addition, with the return of the Sheltered Housing Officer (SHO) service into Housing and Property Services from Adults, there is also a need to review the SHO service charge to ensure that the costs of the service are being recovered appropriately.

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 7%.

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

F) 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 are kept fully informed of the requirements of the new scheme is fully recognised and ensuring that they are supported in managing the impact of change. In North Tyneside, Universal Credit numbers continue to increase, at the end of March 2022 there were 3,712 tenants on Universal Credit with arrears totalling £2.934m, by the beginning of January 2023 this number had risen to 4,242 with total arrears of £3.373m. 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 and potential impacts on tenants.

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

2. The Housing Investment Plan 2023-2028

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 the 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 £142.675m (including re-programming) over the next 5 years 2023-2028, plus new build spend of £21.630m (also including re-programming) based on continuing the existing approach to HRA new build within Cabinet's overall Affordable Homes Strategy; and

C) Spend for 2023/24 of £33.953m including £6.130m for the continuation of a new build / conversion / acquisition council house programme (including re-programming from 2022/23).

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

3. Housing Repairs Budget 2023/24

Two years ago, Cabinet was presented 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 in 2019. 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 for a second year due to the delays caused by the pandemic. Considering 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. The current Northgate systems 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 Housing Property Services' activity was also 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 30 August 2022, 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 built into the HRA Business 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 Plan at this stage.

6. Right to Buy (RTB) Sales

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

Table 2: 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 end of Dec)	96
Total Sold since SF	**1,486**

As part of changes the Government introduced in 2012/13, the Authority signed an agreement that allows RTB receipts above the levels assumed as part of self-financing to be retained if they are used to fund new build homes at a 30% contribution rate within three years. In 2021/22 these rules were amended slightly to allow up to 5 years to spend the money, and to use the funding at an intervention rate of up to 40%. This agreement has seen an additional £8.654m of 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 2023-2053 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 this Authority, that meant borrowing £128m of loans from the Public Works Loan Board to pay the Authority's allocated share of debt to the Treasury. Each Authority was allocated a "cap" representing the maximum amount of debt that could be held by the HRA. This Authority was one of only a handful nationally where the debt held was above the "cap". Actual debt was £290.825m compared to the calculated cap of £270.585m but the Government "flexed" the cap to match the actual position.

All authorities were in different positions regarding actual debt held and the cap; most were below but many were at or near the cap which restricted their options. Each had to decide what debt and risk approach they would take to both fund investment in existing stock and potentially any new build opportunities. Cabinet agreed at this point to set aside money where possible to repay debt each year, to bring the overall debt holdings down below the cap. The recommended strategy was not to seek to repay all debt held over the initial 30 years. This approach enabled revenue surpluses to be created, which have been utilised to partially 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 therefore already created some headroom through the prudent approach agreed to its Treasury Management Strategy.

The 2023/24 final 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 to counter 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 estimated that up to a further £70m of debt could be repaid over the next 30 years, compared to £81m in the base model on an assumed target 3% rent increase per annum for the remainder of the plan.

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

Table 3 – Impact on HRA Debt 2023-2053 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 next 30 years	69.731
Debt Repaid from start of SF	118.551

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

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 these final Budget proposals for 2023/24 has the following key assumptions, most of which are based upon continuing with current Mayoral and Cabinet policy priorities:

- Additional rental income with a proposed rent increase for 2023/24 of 7.0%, with a longer-term assumption based on CPI target equivalent to 3% per annum (to be reviewed annually);
- Garage rent and service charges will increase in line with the proposed rent increase of 7% for 2023/24;
- Alongside the rent increase a temporary funding package will be introduced covering the next three years and totalling in the region of £3m, to introduce a number of measures targeted to alleviate the strain of the current cost of living crisis on many of our tenants, and their ability to be sustained in their tenancies;

- The Tenant Priorities budget created three years ago now 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;
- Continue supporting the Authority's Apprenticeship programme and the Working Roots scheme;
- Appropriate revenue and capital resources will be identified and maintained in place over the next two years to complete the full implementation of the newly procured Unified ICT Systems solution, replacing current ICT systems to help develop more efficient and effective services;
- The base Housing Capital Investment Plan has been refreshed based on an update of the Asset Management Plan and includes continuation of a new build programme in line with Mayoral priorities and the Affordable Homes Plan;
- 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 Capital Investment Plan for 2023-2028 contains over £21m to continue to support a HRA new build programme over the next five 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 policy approach to borrowing at this stage, until more surety can be gained over future economic trends.

4.4.3 Appendix C (ii) shows the revised four-year HRA Business Plan 2023-2027, and Appendix C (i) splits the changes included in the HRA Business Plan between Pressures and Growth, Efficiencies and Reserves and Contingencies. The HRA Business Plan for 2023-2053 (available as a background paper) starts with an assessment of the budget monitoring position as of 30 November 2022, and the impact on HRA balances for this year. At that point, as was reported to the 23 January 2023 meeting of Cabinet, the HRA was predicting an underspend of £0.090m against Budget for 2022/23, due to a combination of improved rental income forecasts and savings against Bad Debt Provision and Management Contingency which are covering pressures brought about by the 2022/23 pay award, increased repair costs and higher energy costs. This means that the opening balances feeding into the Business Plan as at 31 March 2023 are forecast to be £3.069m, as shown in Appendix C (ii).

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

Appendix C (i) also shows a further breakdown of the movement on Reserves and Contingencies which includes a contribution from reserves of £0.383m for 2023/24. It is not proposed to reduce 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 £1.726m for 2023/24 (including provision for increased material and subcontractor costs).

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. 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 its own funding formula.

5.1.2 The 2023/24 DSG allocation for North Tyneside is £197.763m, which is an increase of £11.209m (6.0%) on the funding received in 2022/23. Table 4 below shows the funding allocated to each of the funding blocks. The 2023/24 Schools block allocation includes teachers' pay award and teachers' pension grants.

Table 4: Schools Block 2023/24 Allocation compared with Prior Years

	2017/18 Baseline £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22* £m	2022/23* £m	2023/24* £m	2022/23 to 2023/24 £m
Schools	115.395	116.594	120.926	126.794	137.231	140.373	147.586**	7.213
Central School Services	2.500	2.314	2.343	2.051	1.877	1.724	1.621	(0.103)
High Needs	18.680	19.291	19.818	22.319	26.709	29.784	33.265	3.481
Early Years Block	12.064	12.553	12.514	12.771	13.946	14.673	15.291	0.618
TOTAL	**148.639**	**150.752**	**155.601**	**163.935**	**179.763**	**186.554**	**197.763**	**11.209**
Move from 17/18 Baseline £m	-	2.113	6.962	15.296	31.124	37.915	49.124	
Move from 17/18 Baseline %	-	1.42%	4.68%	10.29%	20.94%	25.51%	33.05%	
Change per Year £m	-	2.113	4.849	8.334	15.828	6.791	11.209	
Change per Year %	-	1.42%	3.22%	5.36%	9.66%	3.78%	6.01%	

* Includes pay award and pension grants previously separate to DSG, now rolled into funding formula
** Includes 22/23 Schools Supplementary Grant now rolled into funding formula

The DfE initially proposed a two-year transition period (2018/19 and 2019/20) where local authorities would continue to set a local formula to distribute funding to individual schools. However, in 2020, the DfE confirmed that the transitional arrangements will continue into 2023/24, with the earliest expected move to "hard" NFF being likely in 2025/26.

5.1.3 As in previous years, the Authority will determine the local formula to distribute funding to mainstream schools and academies for the financial year 2023/24. The formula will apply directly to maintained schools for the financial year, and for academies it will form the basis for their funding, distributed by the Education Skills and Funding Agency (ESFA), for the year starting 1 September 2023. The local formula must comply with statutory guidance, but within these confines the final decision on the formula rests with the Authority after consultation with schools and the Schools Forum.

5.1.4 The Authority has continued to review the Local Funding Formula and in November 2022, Schools Forum received a report which provided the preferred options for consideration which would form the basis of the 2023/24 LFF consultation with all schools. Following the outcome of the consultation Schools Forum recommended that the LFF factor values should be maintained at the full NFF for 2023/24.

5.1.5 At its meeting on 28 November 2022 Cabinet agreed to authorise the Director of Resources, in consultation with the Director of Commissioning and Asset Management, the Cabinet Member for Children, Young People and Learning and the Cabinet Member for Finance and Resources, to undertake resource allocations to schools for 2023/24 in line with the school funding arrangements set out in that report. Resource allocations to schools have been submitted to the ESFA on 20 January 2023 as required by the deadline. Schools will be notified of their allocations no later than 28 February 2023.

5.1.6 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 local formulae, 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 Schools block to other blocks of the DSG, with their Schools Forum approval. To transfer more than this, or any

amount without their Schools Forum approval, they will have to make a request to the DfE, even if the same amount was agreed in the past two years.

5.2 Schools Block

5.2.1 As the Authority has already transitioned its Local Funding Formula to the National Funding Formula factor values for mainstream schools no further changes are recommended. On 11 January 2023 Schools Forum received an update report outlining the DSG funding for 2023/24. Schools Forum continue to support and approved a deduction from the Schools block funding for Falling Rolls of £0.250m and Growth Funding £0.250m. The residual balance remaining has been distributed through the Local Funding Formula. Calculations through the Authority Proforma Tool (APT), subject to final amendments, are showing MFG affordable at 0.5% with Capping at 3.83%. There would, therefore, be no residual funding to allocate. Schools will all achieve increased rates where their pupil numbers have increased.

At its meeting on 10 November 2022 and following a consultation with all schools Forum voted against a 0.5% block transfer from the Schools block to the High Needs block. The Authority have considered this as part of the DSG Management plan for the current pressures on High Needs and have concluded that no block transfer is assumed for 2023/24. The impact of this has been included in the draft DSG Management plan submission which is due to the DfE on 13 January 2023. The Plan submission does include an assumed block transfer for the remaining 4 years of the plan, from 2024/25. The Authority continues to engage and work with the High Needs Sub-Group to finalise the Plan in advance of the final submission date in early February 2023.

5.3 High Needs Block

5.3.1 The £33.265m figure outlined above for the 2023/24 High Needs block reflects the increased DSG funding announced by the DfE and includes funding previously included as separate grants for pay award and pension increases, as in 2022/23. The £3.481m year on year increase is therefore covering these costs going forward. It also includes a deduction of £0.341m made by the Education Skills and Funding Agency for direct funding of places.

5.3.3 In 2023 to 2024 local authorities are required to pass on a 3.4% funding increase to maintained special and alternative provision (AP) schools, and special and AP academies (including free schools), based on the number of places being funded in 2022 to 2023. This requirement will be a condition of grant attached to the additional DSG high needs funding allocated to local authorities.

5.3.2 The High Needs block outturn for 2021/22 was an overspend of £4.792m, despite the additional funding received in 2022/23, the pressure within High Needs has continued with a forecasted in-year outturn variance of £4.416m and therefore an estimated total cumulative overspend of £17.927m as at November 2022.

5.3.3 The factors driving the pressures shown above were outlined in the November budget monitoring report to Cabinet. The latest position on these pressures is shown in table 5 below, full details of the pressures within the High Needs budget are included in the November financial management report:

Table 5: Forecast High Needs Overspend as at November 2022

Provision	Budget £m	Forecast Variance £m	Comment
Special schools and PRU	17.788	2.217	Pressure on places for children with profound, Multiple Learning Difficulties, Social Emotional and Mental Health problems and Autism Spectrum Disorder.
Additional Resourced Provision/Top ups	4.705	0.859	Pressures in pre-16 top-ups
Out of Borough	3.31+	1.285	Increased number of children placed outside North Tyneside Schools
Commissioned services	3.974	0.055	
Sub-total	**29.783**	**4.416**	
2021/22 B/Fwd		13.511	
		17.927	

5.4 Early Years Funding for 2023/24

5.4.1 On 16 December 2022 the Department for Education released the 2023/24 early years entitlement funding rates for local authorities. Due to the late release of final funding figures and confirmation of changes to the Early Years Funding Formula, the Authority was unable to discuss modelled proposals for North Tyneside's early years funding formula 2023/24 at its meeting with Early Years Sub-Group on 7 December 2022. The group did however discuss and agree the principles for allocation of any funding increases to be fully modelled once funding was confirmed.

5.4.2 Once the funding rates were confirmed, the proposed funding formula was shared with members of the subgroup for comment. The preferred option was discussed and agreed by Schools Forum on 11 January 2023, and it is recommended that this formula is used for distribution of the Early Years block in 2023/24.

Table 6: Early Years Funding Formula 2023/24

		2022/23	2023/24
2 Year Old Base Rate		£5.54	£5.60
3 & 4 Year Old Hourly Base Rate		£4.60	£4.64
3 & 4 Year Old Hourly Deprivation Supplement	Quartile 1	£0.17	£0.18
	Quartile 2	£0.06	£0.06
3 & 4 Year Old Hourly Quality Supplement - Teachers Pay and Pension Grant Supplement *		n/a	£0.22
Early Years Pupil Premium		£0.60	£0.62
Additional Payment to Maintained Nursery School		100% pass through of Maintained Nursery School rate allocated by DfE.	100% pass through of Maintained Nursery School rate allocated by DfE.
SEN Inclusion Fund		£8.26 per hour	£8.26 per hour
Disability Access Fund		£800	£828

* Available to provision led by a qualified teacher, who is paid according to national teacher pay scales and is a member of the teachers' pension scheme

5.5 Central School Services Block Funding for 2023/24

5.5.1 Funding for the Central Schools Services block (CSSB) has been reduced by DfE in relation to historical funding by £0.103m, which represents a 20% reduction in funding for the historic commitments. Ongoing functions have had an increase of 5.86% as shown in table 7 below.

Table 7: Allocations for North Tyneside CSSB 2023/24

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Annual Change £m	Annual Change %
Historical Commitments	1.244	0.995	0.796	0.637	(0.159)	(20.00%)
Ongoing Functions	0.807	0.882	0.928	0.984	0.056	6.03%
Total	**2.051**	**1.877**	**1.724**	**1.621**	**(0.103)**	**(8.15%)**
Change from 2017/18 Baseline £m	(0.292)	(0.466)	(0.619)	(0.879)		
Change from 2017/18 Baseline %	(12.46%)	(19.89%)	(26.42%)	(35.16%)		
Change per Year £m	(0.292)	(0.174)	(0.153)	(0.103)		
Change per Year %	(12.46%)	(8.48%)	(8.15%)	(5.97%)		

5.5.2 The list of services provided via CSSB funding is listed in table 8. The net reduction in funding of £0.103m is identified in this table. Authorities can challenge the reasonableness of the reduction in funding by providing relevant evidence to the DfE.

5.5.3 Following consultation with School Forum in January, the Authority will set the funding for these services as identified in table 8 below. 2022/23 has seen a reduction in the collective contribution to ongoing pension costs and therefore it is proposed to take the majority of the budget reduction against this element. The contribution to the Education Improvement Partnership has also been reduced by £0.020m and there has been a £0.010m increase in respect of the National Copy Right Licences.

Table 8: Illustrative allocations for North Tyneside CSSB for 2021/22

Budgets which now form part of the CSSB	**CSSB 2021/22 £m**	**CSSB 2022/23 £m**
Budget to fund the Schools Support Service	**0.415**	**0.415**
Budget to support vulnerable schools.	**0.052**	**0.052**
Budget for the Education Improvement Partnership (secondary schools)	**0.060**	**0.040**
Budget to support the informational requests of the Schools Forum and improved budgetary awareness across all schools	**0.030**	**0.030**
Collective contribution to ongoing pension costs incurred when allowing teachers to leave schools prematurely	**0.625**	**0.525**
Schools admission service	**0.141**	**0.141**
Former Education Services Grant (Retained)	**0.244**	**0.244**
National Copyright Licences	**0.157**	**0.174**
Total CSSB Funding	**1.724**	**1.621**

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

5.6 <u>Timetable for Agreeing 2023/24 Distributions</u>

5.6.1 The key dates which must be met in setting 2023/24 school budgets are shown in Table 9 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 9: Remaining Key dates for 2022/23 School Budget-setting

Date	**Activity**
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 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 proposed Capital Investment Strategy is attached as Appendix D (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 £10.492m has been identified as part of the process and this spend is now included in the proposed 2023-28 Investment Plan.

There are significant pressures facing the Investment Plan, due to inflation and supply chain issues as a result of the COVID-19 pandemic and ongoing conflict in Ukraine. These pressures are being managed on a scheme by scheme basis, through the re-profiling of planned works and the use of contingency where cost increases are unavoidable in order to deliver the required outputs.

The following significant adjustments are included in the draft plan:

- A new year 5 (2027/28) has been added to reflect rolling programme projects including planned investment in additional Highways Maintenance to address priorities outlined within the Highways Asset Management Plan, Asset Planned Maintenance, vehicle replacement and in ICT infrastructure;
- In view of the outcome of a number of building condition surveys, the re-profiling of investment to increase the investment beyond the planned £2m to £2.8m in 2023/24 and £3.1m in 2024/25 to address a number of high priority schemes and help to reduce the pressure on the repairs budget. Future year allocations have been reduced to accommodate this additional investment and will continue to be reviewed as building condition information is updated;
- The inclusion of a proposed £12.5m long-term loan facility to North Tyneside Trading Company (Development) to enable the Company to acquire up to 100 additional homes, increasing the provision of affordable homes within the Borough;
- The inclusion of a £4.1m scheme to develop a sports hub at St Peter's, working closely with the Football Association, Northumberland Football Association and

Football Foundation to develop a multi-use regional sports facility and community development hub. This scheme will utilise external funding and Section 106 contributions.

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 10 below shows a summary of the proposed 2023-2028 Capital Investment Plan which seeks to invest over £312m within the Borough.

Table 10: Summary of the proposed 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	61.784	28.805	19.093	20.414	17.914	148.010
Housing	33.953	30.059	30.962	33.361	35.970	164.305
Total	**95.737**	**58.864**	**50.055**	**53.775**	**53.884**	**312.315**

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

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

Table 11: 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	11.773	16.626	8.529	9.950	8.450	55.328
Capital Receipts	0	0	0	0	0	0
Revenue contribution	0.500	0	0	0	0	0.500
Grants & Contributions	46.503	12.179	10.564	10.464	9.464	89.174
Total General Fund Resources	**61.784**	**28.805**	**19.093**	**20.414**	**17.914**	**148.010**
Housing – HRA						
Capital Receipts	3.280	2.170	2.153	1.060	1.202	9.865
Revenue Contribution	11.589	13.592	14.137	16.259	16.557	72.134
Major Repairs Reserve	18.219	14.167	14.592	14.112	17.411	78.501
Other contributions	0.415	0.130	0.080	0.130	0.200	0.955
Grants	0.450	0	0	0	0	0.450
Vehicle Replacement Reserve	0	0	0	1.800	0.600	2.400
Total Housing HRA Resources	**33.953**	**30.059**	**30.962**	**33.361**	**35.970**	**164.305**
TOTAL RESOURCES	**95.737**	**58.864**	**50.055**	**53.775**	**53.884**	**312.315**

6.1.3 The proposed 2023-2028 Investment Plan for the General Fund includes expenditure of £61.784m in 2023/24. Of this expenditure, £49.511m (80%) is funded through grants and other external contributions.

At this stage no General Fund receipts have been assumed as part of financing the Investment Plan. This will be reviewed as capital receipts are received, which can either reduce the borrowing requirement or help to fund the introduction of additional priority schemes. Housing capital receipts of £9.865m have been assumed in the financing of housing projects within the draft Plan.

Across the life of the draft Plan, unsupported borrowing totals £55.328m. This includes £12.5m relating to a proposed long-term loan which would require the revenue implications of borrowing to be funded by a third party. A total of £11.773m of unsupported borrowing is planned for 2023/24. The cost of borrowing is included within the General Fund Revenue Budget.

There are currently a number of projects progressing through the investment gateway process where bids have been made for external funding such as Levelling Up 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 Government Capital Allocations

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). Where figures have not yet been announced, indicative figures, based on previous allocations, have been included in the draft Plan to assist with longer-term planning. When the 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.

No further Voluntary Revenue Provision is proposed for 2023/24 to reduce the overall Capital Financing Requirement.

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 2023-2027 have been prepared using the current (2021) Code and are attached as Appendix D (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 E (i). The details in this report update the current Treasury position in the light of the updated economic position and budgetary changes already approved.

7.1.4 Since 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 D (iii).

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

- **A Mid-Year Treasury Management Report**
  This 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 31 December 2022 is set out in Table 12 below:

Table 12: Current Treasury Portfolio Position as at 31 December 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***	16.500	1.57
Other Local Authorities	15.000	2.14
Bank Deposits	10.053	2.46
Total Investments	**41.553**	
Net Position	**360.890**	

* 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 13 below sets out Link Asset Services' professional view of interest rates:

Table 13: Link Asset Services' forecast interest rates – 19 December 2022

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

7.5 Economic Update (Provided by Link)

7.5.1 The latest forecast on 19 December 2022 reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023 Both long- and short-term rates show elevation until June 23, before slowly decreasing into second half of 2023.

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 14 October 2022, replaced by Jeremy Hunt as new Chancellor. This was followed by the Prime Minster, Liz Truss resigning on the 25 October 2022. Liz Truss was replaced by Rishi Sunak on the 25 October 2022. Markets appeared to have stabilised somewhat.

7.5.2 The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (as at December 2022 10.5%). Despite the cost-of-living squeeze that is still taking shape, the Bank of England will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. In the coming months it is anticipated that the Bank of England will be looking to loosen the monetary policy when the worst of the inflationary pressures are behind us. The timing of that will be one of very fine judgement as cut too soon, inflation pressures may build up even further, however cut too late, we could see a recession lasting much longer.

7.5.3 Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a cautious message over the course of the last year, only for the Bank of England to have to play catch-up as the inflationary data has proven stronger than expected. Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

7.5.4 With further increases to the gas and electricity price caps forecast for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023. 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 UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually contracted by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine.

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 December 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 £9.581m, 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:

  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). It is proposed to award a long-term loan of £12.5m to the Trading Company to increase the provision of affordable housing within the Borough, the release of which would be subject to due diligence and would consider all associated risks prior to entering into a loan agreement. 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 is estimated to be £0.370m for 2022/23 and approximately £1.200m over the period of the Financial Plan (2023-2028).

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

8.1 Summary

8.1.1 This section of the Annex considers the response required by Cabinet to any recommendations made by the Overview, Scrutiny and Policy Development Committee following its scrutiny and challenge of the 2023-2027 Financial Planning and Budget process.

8.1.2 The Budget sub-group of Overview, Scrutiny and Policy Development Committee met on 1 December where Senior Officers presented 2023-2027 Cabinet's Initial Budget proposals.

At its meeting on 1 December, further information on a number of areas of the Budget was requested, including the updated position of the Provisional Local Government Finance Settlement (the Settlement). It should be noted that upon receipt this information the report maybe amended before submission to Cabinet for consideration.

On agreement of the Overview, Scrutiny & Policy Development Committee the Budget Sub-group is scheduled to reconvene and consider Cabinet's Final Budget Proposals for 2023-2027 that will take place on Tuesday 31 January 2023. This is in line with the statutory and constitutional requirements for preparing the annual Budget.

8.1.3 Cabinet must formally respond to any recommendations made by the Overview, Scrutiny and Policy Development Committee in considering its final Budget proposals. It is therefore proposed that Cabinet considers any recommendations in relation to the General Fund Budget, the 2023-2028 Investment Plan and the 2023/24 Treasury Management Statement and Annual Investment Strategy at its meeting on 6 February 2023.

8.2 Budget Sub-Group Considerations

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

8.2.3 The sub-group considered the Budget Engagement Strategy and asked Cabinet to consider the following:-

- There are gaps in engaging with 18–30-year-olds and suggested that further ways are explored to find ways to engage with this group. The sub-group suggested that a wider range of social media platforms that were used by young people could be used and stated that Twitter and Facebook were not used by teenagers/young people as much as other platforms. It was suggested that consideration be made to assess the possibility to extend the platforms that the Authority uses to engage.

8.2.4 In considering the 2023/24 Budget and the 2023-2027 Medium-Term Financial plan the sub-group made the following observations and comments:-

- The sub-group recognise the uncertain nature local government funding and the need for the Authority to maintain financial resilience. The sub-group asked Cabinet to consider maintaining the level of reserves as far as possible as this is paramount to provide the financial resilience necessary for the duration of the Medium-Term Financial Plan;
- The sub-group commented that whilst they understood that the Authority would be fully compensated for freezing the business rates multiplier this also removes buoyancy from the business rates system and without alternative means of funding the Authority's income would be reduced.
- Understanding that the Authority is also experiencing significant pressure in relation to rising energy costs the sub-group noted that the only way to reduce energy costs in the longer terms is to reduce the demand in energy through increased investment in energy efficiency.
- The sub-group understood that the low pay commission forecasts indicate that there could be an increase of 8.93% in the National Living Wage which will put significant pressure on the Authority's budget and noted that this should be reflected by the Government as part of the Settlement.
- In relation to Treasury Management the sub-group suggested that when opportunities arise that consideration be taken to ensure the principles of the investment/borrowing body are aligned to that of the Authority and it's green agenda.

8.3 In conclusion, the risk and uncertainty to have Budget proposals due to the delay in the Settlement only increases the difficulty for local authorities to plan effectively over the longer term. The sub-group acknowledged that it was a difficult activity to draft a Budget based on so many assumptions that are outside of the Authority's control. However, it was encouraged during the detailed explanation of all of the assumptions presented that the outcome of the proposed 2023/24 Budget would be balanced in line with the agreed Our North Tyneside Plan. The sub-group also acknowledged that the Budget Engagement Strategy should change each year in line with how the Authority's differing communities can and wish to engage.

8.4 Whilst there were no formal recommendations made in relation to Cabinet's engagement approach or the initial Budget proposals for the General Fund, HRA, the 2023-2028 Investment Plan and the 2023/24 Treasury Management Statement and Annual Investment Strategy, a number of considerations have been raised for Cabinet to consider which have been outlined above.

8.5 A further meeting has been arranged for the Budget sub-group to reconvene and consider Cabinet's draft Budget proposals for 2023-2027 that will take place on Tuesday 31 January 2023, where implications of this report will be considered. Any recommendations made at that meeting that may have an impact on the final Budget proposals will be considered by Cabinet on 6 February 2023.

9. Provisional Statement to Council by the Chief Finance Officer

9.1 Background

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

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

In making the statement, the Chief Finance Officer necessarily places reliance on information provided to 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.

9.1.2 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.

9.2 Robustness of Estimates

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

- The general financial standing of the Authority;
- The underlying Budget assumptions from the Financial Strategy;
- 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 £18.314m as recognition of the risks associated with inflation and delivery of efficiencies. This will continue to be reviewed as these are draft Budget proposals which will be finalised by Cabinet once consultation is concluded and the final Local Government Finance Settlement is known.

9.2.2 The Cabinet is aware it must keep under review its Medium-Term Financial Strategy and four-year Financial Plan, in the context of the 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.

9.3 Capital Investment Strategy

9.3.1 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.

9.4 Adequacy of Financial Reserves

9.4.1 General Fund

9.4.2 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.

9.4.3 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. Since the Provisional Local Government Financial Settlement was announced on 19 December

2023 and further analysis of Core Spending Power has been undertaken the previous reported revised gap has now been resolved and the draft Budget proposals put forward by Cabinet at this meeting show a balanced Budget for 2023/24.

9.4.4 The Authority bought forward reserves and balances of £84.875m into 2022/23, before the impact of the negative reserve relating to the Dedicated Schools Grant (DSG) of £12.851m. As set out in previous budget monitoring reports, this is due to the pressures being experienced in the High Needs Block of the DSG. Taking that deficit balance into account would revise the brought forward balance to £72.024m.

9.4.5 Based on the latest forecast of planned usage, it is anticipated £30.672m will be drawn down in 2022/23 to support service delivery. This would result in a 2023/24 balance bought forward for general fund reserves and balances of £41.352m. The planned usage does not incorporate the likely usage of the strategic reserves to support the 2022/23 in-year pressures, as reported above. If £8.625m was required (based on the current budget monitoring forecast) this would further reduce general fund reserves and balances to £32.727m. Cabinet should also note that within this figure is the net Schools Balance held on behalf of maintained schools. Whilst this is forecast to be a positive net figure of £1.898m as at 31 March 2023, it includes a range of surplus and deficit balances for individual schools, some of which are material deficit balances. These could ultimately fall on General Fund balances if they cannot be resolved in conjunction with the individual schools so will be closely monitored moving forwards with Cabinet and Schools Forum.

9.4.6 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 draft budget proposals is corrective action to restore the Strategic Reserve to the agreed level.

9.4.7 Table 14 below shows the reserves as at the 31 March 2022 and the projected reserve levels over the period of the Financial Plan:

Table 14: Reserves and Balances as at 31 March 2022 and from 2022/23-2026/27

Reserves and balances	Closing Balance	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	35.545	28.193	23.733	22.284	20.901	19.125
General Fund unringfenced	20.448	7.523	6.765	10.152	12.076	14.076
General Fund grants	18.484	6.026	4.325	4.026	3.768	3.476
Dedicated Schools Grant	(12.851)	(17.913)	(20.223)	(20.920)	(21.066)	(20.672)
HRA	15.414	15.694	15.977	16.357	16.688	14.741
Reserves Sub Total	**77.040**	**39.523**	**30.577**	**31.899**	**32.367**	**30.747**
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	3.220	2.838	2.569	2.628	2.655
Balances Sub Total	**13.899**	**12.118**	**10.236**	**8.467**	**7.026**	**5.553**
Grand Total Reserves and Balances	**90.939**	**51.641**	**40.813**	**40.366**	**39.393**	**36.300**

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

9.5.1 Table 15 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 15: 2022–2026 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
Opening Reserve Balance	(3.501)	(3.220)	(2.838)	(2.569)	(2.628)
Contributions (to)/from balances	0.281	0.382	0.269	(0.059)	(0.027)
Predicted Reserve Balance Carried Forward	**(3.220)**	**(2.838)**	**(2.569)**	**(2.628)**	**(2.655)**

9.5.2 Guidance on local authority reserves and balances is given in CIPFA's Local Authority Accounting Panel (LAAP) Bulletin 99. This states that *"Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option",* and so the proposed 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.

10 Overall Financial Risk Assessment

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

10.2 Key Financial Risks

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

Table 16: 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 November 2022, a pressure of £15.753m (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.