

Overview, Scrutiny & Policy Development Committee

16 January 2023

Budget Sub-group report

Author: Budget Sub-group

Wards: All

Purpose of Report

To inform Overview, Scrutiny & Policy Development Committee of the work undertaken by the Budget Sub-group in scrutinising the 2023/27 Financial Planning and Budget Process: Cabinet's Initial Budget proposals.

Recommendations

1. The Overview, Scrutiny & Policy Development Committee is recommended to refer the report of the Budget Sub-group, as set out in the report to Cabinet for consideration as part of the 2023/27 budget setting process.
2. That the Budget Sub-group be delegated to make any further recommendations and/or views on behalf of the Overview, Scrutiny & Policy Development Committee to Cabinet at its meetings on the 30 January 2023 & 6 February 2023.

Background

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

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

The following Members served on the group:

Councillor Linda Arkley
Councillor Liam Bones
Councillor Janet Hunter
Councillor Louise Marshall

Councillor Rebecca O'Keefe
Councillor John O'Shea
Councillor Bruce Pickard
Councillor Willie Samuel

The group met on the 1 December where Senior Officers presented 2023/27 Cabinet's Initial Budget proposals.

At its meeting on the 1 December 2022, further information on a number of areas of the budget was requested, including the updated position of the Government 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 2023/27 at a meeting on Tuesday 31 January 2023.

Refreshed Our North Tyneside Plan & Budget Engagement

The Our North Tyneside Plan 2021 – 2025 (the Council Plan) sets the vision and policy context that the Financial Plan and Budget proposals will operate.

The plan features five themes that reflect priorities aimed at creating a North Tyneside that is thriving, family-friendly, caring, secure and green. All five themes have a clear set of associated policy priorities.

In line with engagement in previous years the Budget Engagement strategy 2023/24 included a combination of activity, that involved publishing the proposals online via the Council's website and at front line locations including in the four Customer First Centres. Feedback was able to be provided by residents and others via a questionnaire either on-line or at these front-line locations. This was supported by communications activity via posters in key Council facilities, the media and social media to ensure that people knew how they could get involved.

The aim of the budget engagement strategy was to reach different sectors of the population through an approach that included engagement with residents as a whole and customers/users of services as well as particular groups of people, including those with protected characteristics. The approach ensured it reached particular interest groups such as carers, older people, children and young people and council housing tenants.

Opportunities for face-to-face engagement with lead officers during November/December 2022 took place which included an in-depth session with the Residents Panel (which any resident can join).

The engagement approach also involved targeted activity with specific external stakeholder groups that included North Tyneside Strategic Partnership, Businesses, Schools, Voluntary and Community Sector (including faith groups), the Black and Minority Ethnic community.

There was also internal engagement with key interest groups including the Diversity Ethnic Community Network and Carers/Young People.

The sub-group raised that view that there might be different ways to engage with 18-30 year olds and suggested that further endeavor be made to find ways to engagement with this group including via a wider range of social media platforms that were used by young people. It was 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 Authority uses to engage. As the authority reviews its overall approach to engagement in 2023, these options will be further explored.

2023/24 Budget & 2023/27 Medium-Term Financial Plan

The MTFP for 2023/24 to 2025/26 set at the Council meeting in February 2022 set out a gap of £21.534m over the 4-year period, with a gap of £10.655m for 2023/24. The gap reduced to £7.471m following the agreed increase in Council tax and adult social care precept.

It was noted that the robust approach to financial planning in North Tyneside served its intended purpose and had no new pressures had occurred, a review of changes to Government funding assumptions and reductions to growth pressures from management action, would have reduced the residual MTFP gap for 2023/24 from £7.471m to £1.059m.

However, the group was informed that a number of significant risks emerged that had impacted the 2022/23 budget outturn position, as well as increasing the £7.471m gap identified for 2023/24. The additional risks were in relation to Social Care fees, Employee Pay Award, Energy inflation and Contractual inflation which were anticipated to increase the gap by £15.635m. Therefore, the revised gap for 2023/24 was £23.106m.

The sub-group was informed and discussed that at the time of presentation there were a number of unspecified risk/burdens that could affect the budget which included;

- Further energy inflation
- Further contractual inflation
- Children's services
- Adult Social Care and Cost of Social Care Reform
- High Needs Block
- General Inflation
- Council Tax Base
- Population changes and potential impact on the transport levy calculation
- One off reserves used in 2022/23

Work had been undertaken to review the assumptions included in the MTFP, including revising assumptions around the level of Government funding that would be provided.

These included

- Pensions deficit – the MTFP included an estimated figure of £2.747m that would be required in the base budget to address the forecast deficit on the pension fund. Following receipt of the updated position of the Tyne and Wear Pension Fund it had been confirmed the fund was in surplus so this amount will not be required.
- New Homes Bonus (NHB) – the schedule of NHB payments was expected to reduce from next financial year due to the winding down of the scheme. However, it is expected that there could be an extension of the scheme. A one-year extension, without any residual/legacy payments, would see an additional £0.500m next financial year.
- Fall out of services grant – an additional £1.665m would be available for the 2023/24.

- Inflationary uplifts – inflation in the Revenue Support Grant, business rates and Improved Better Care Fund, these assumptions had been uplifted from 2% to 6.5%, although confirmation was still required from Government in the Provisional Settlement
- Reversal of national insurance contribution increases – the full year effect of this was estimated £1.250m.

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

No proposal about Council Tax and/or Adult Social Care levies had been made, however, assumed increases in Council Tax, based on current tax base estimates, would raise approximately £3.294m of additional funding (made up of £2.192m general Council Tax (1.99%) and £1.102m from the Adult Social Care Precept (1%)).

Strategic Reserve – Given the current financial position, it was proposed to defer the 2023/24 contribution.

Minimum Revenue Provision (MRP) – it was estimated that this would lead to an underspend on the debt charges budget in 2023/24 in the region of £4.000m.

Following these assumed items, the MTFP gap would be reduced from £23.106m to £5.996m.

Review of General Fund Reserves

The Authority continued to maintain a level of reserves to plan for and manage financial risk.

It noted that at the end of 2022/23, grants relating to COVID would be fully used or repaid in line with the grant conditions.

Reserves balances were forecast to fall to £54.369m by the end of the financial year 2026/27, with the assumption that no utilisation of the strategic reserves to underwrite revenue budget pressures over the MTFP. It was noted that should the Authority utilise the strategic reserve to underwrite the revenue budget pressures, without replenishment in future years, this could lead to the Authority being in breach of the internal requirement to maintain a level of strategic reserves no less than £10m as per the Reserves and Balances Policy.

Some members of the sub-group considered the maintaining of reserves was paramount to provide the Authority a degree of financial resilience and flexibility for the Borough.

Autumn Statement

At the time of writing the Cabinet report, the Government's assumption was that local authorities in England would have the additional flexibility to set council tax by increasing the referendum limit to 3 per cent per year from April 2023.

In the Autumn Statement, this was revised so that councils could increase Council Tax and the social care precept by 4.99% (higher than their original assumption). Whilst the Cabinet report did not include this, given the timing of the Autumn Statement, if this was built into the budget proposals (with the condition that continued support for those on the lowest incomes) the funding gap for 2023/24 would reduce to £3.8 million. This additional

information was included in the public consultation so that views could be expressed about a 4.99% option.

Other key messages in the Autumn Statement included:

- The Government has given assurance that local authorities will be fully compensated for the business rates measures that will include the funding of new burdens for any administrative expenses or software changes.
- The Government will provide extra funding for adult social care and funding allocated towards reforms to be made available to address inflationary pressures, with flexibility for councils to use the funding across adults and children's services according to local needs.
- The Government committed to providing additional targeted cost of living payments for households that are in receipt of a means-tested benefit, over state-pension age, or claiming a disability benefit.
- There was additional certainty on the Energy Price Guarantee where £1 billion would be provided to enable the extension of the Household Support Fund in England over 2023/24.
- The increase in the National Living Wage (NLW). It is clear that local authorities need to be sufficiently funded in order to meet the additional costs without cutting jobs or services.

At the time of the Sub-group meeting, it was not possible to confirm the level of financial support in relation to the above points. This information was not made available until the announcement of the Provisional Local Government Finance Settlement ("the Settlement") on 19 December 2022, with further detail following later that week.

Given the timing of the Settlement and time required by officers to process this over the Christmas holiday, the latest information is still not in the public domain. This will be included in Cabinet's proposed budget, to be discussed on 30 January 2023. As noted in the introduction, the Sub-group will reconvene the following day to consider the latest information available.

Key Themes

The sub-group heard that the key themes for the delivery of more efficient services in the Authority were consistent with the previous year, which are summarised below:

Digital, Data & Customer

Using technology and data to identify and deliver opportunities to improve customer service and efficiency to maximise innovation opportunities.

Workforce Planning & OD

Organisation wide proposals, which underpin many of the other 3 priorities, to make the best use of the Authority's greatest asset, the staff team.

Commissioning, Procurement & Commercial

How the Authority purchases and engages with its supply chain, delivering against a transparent procurement plan to secure financial benefits. Transparency of demand will assist with commercial leverage.

Asset Management

Having a full and clear understanding of the costs of the Authority's asset base, both in terms of our operational and non-operational assets, and moving towards a comprehensive Asset Management Plan.

The sub-group was informed of how changes to service delivery could benefit both cost savings and increased customer outcomes/satisfaction.

The sub-group was informed of the newly formed Customer First Office and how technology would provide increased benefits. The planned development of a new Customer relationship management (CRM) was a core capability for the authority.

The CRM was a high-quality system that would transform customer interaction to be digital first in many instances, improving customer service and efficiency. The system would provide a platform for customer facing teams to innovate new way of working.

Housing Revenue Account

Members were reminded that the Financial Planning for the Housing Revenue Account (HRA) would set a Budget and updated four-year MTFP, supported by the updated 30-year Business Plan.

The Authority follows the Government's social housing rent policy, which for the last two years has seen rent increases based on the Consumer Prices Index (CPI) rate, as of September, plus 1%. The CPI rate for September 2021 was 3.1% which led to a rent increase for 2022/23 of 4.1%.

The sub-group was informed that due to the cost-of-living crisis and the current high rates of inflation being experienced, this approach would lead to significant rent increases for tenants in 2023/24. The September 2022 rate of CPI was 10.1% and applying the existing policy would see a rent increase of 11.1% for 2023/24. In response, the Government undertook a consultation over the autumn to consider capping these increases at 3%, 5% or 7%. The draft budget was set at a 5% increase, which was the Government's assumption at the time of writing the report. The Autumn Statement subsequently confirmed that the rent cap would be set at 7%.

The sub-group noted that continuing range of pressures the Authority was facing including post-pandemic legacy costs, war in Ukraine, rates of inflation, and general economic uncertainty, also impacts the HRA which must contend with key issues, namely:

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

The above issues had been factored into refreshing the HRA Business Plan, along with the current proposed rent increase with the aim of ensuring that the 30-year HRA Business Plan is balanced. These included maintaining existing stock, meeting increased Affordable Homes ambitions and taking steps to respond to the Authority's Climate Change Emergency, by funding increased sustainability measures and starting to address the decarbonisation agenda as part of the Authority's Carbon Net-Zero 2030 Action Plan.

2023-2028 Investment Plan Considerations

The 2023-2028 Investment Plan considerations presented were in relation to:

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

Treasury Management

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

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

Some members of the sub-group suggested that, when opportunities arise, consideration be taken to ensure the principles of the investment/borrowing body are aligned to that of the Authority and its green agenda.

Conclusion

It was acknowledged that the current levels of risk and uncertainty, due to the delay in the Settlement increases the difficulty for Local Government to plan effectively.

It was also acknowledged that it was a difficult activity to draft a budget based on assumptions that were outside the Authority's control. However, it was encouraged from the detailed explanation of all the assumptions presented that the outcome of the proposed 2023/24 Budget would be balanced and in line with the agreed Our North Tyneside Plan.

It acknowledges that the Budget Engagement Strategy should change each year in line with how the Authority's differing communities can and wish to engage.

Presenting Officers

The following officers presented to the sub-group:

Jon Ritchie – Director Head of Resources
Jacqueline Laughton – Assistant Chief Executive
Peter Mennell – Director of Housing
Darrell Campbell - Principal Accountant
Haley Hudson - Customer and Digital Strategy Manager

Daniel Simms - Chief Information Officer.

Background Information

The following documents have been used in the compilation of this report and may be inspected at the offices of the author:

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