

# North Tyneside Council

## Report to Cabinet

Date: 26 June 2023

Title: 2022/23 Finance Outturn Report

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| Portfolios: Elected Mayor<br><br>Finance and Resources | Cabinet Member: Dame Norma Redfearn DBE<br><br>Councillor<br>Anthony McMullen |
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Report from Service

Area: Finance

Responsible Officer: Jon Ritchie, Director of Resources Tel: 643 5701

Wards affected: All

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### PART 1

#### 1.1 Executive Summary

- 1.1.1 This report summarises the financial outturn position for the Authority for the financial year ending 31 March 2023. It also deals with a number of procedural matters as the Authority moves into the new financial year.
- 1.1.2 The Authority's draft Statement of Accounts (the Accounts) for 2022/23 was due to be presented to the Audit Committee for approval on 31 May 2023. However, as reported to the Audit Committee, there have been a number of national accounting matters that have delayed the audit of the 2021/22 Statement of Accounts and consequently the production of the 2022/23 Statement of Accounts. Therefore, the outturn figures contained in this report are provisional until the completion of the Accounts over the summer.
- 1.1.3 The Accounts are a statutory document which set out the Authority's financial position and performance for the year in a series of formal

statements prepared according to a specific statutory and regulatory framework, which makes it a very technical document. As in previous years, this report sets out the Authority's financial performance in an outturn report which reflects the Authority's structure and the reports presented to Cabinet throughout the year.

- 1.1.4 The Authority continues to see areas of pressure across Adult and Children's Social Care, but there are also significant impacts on income particularly across Sport and Leisure Services, Home to School Transport and Catering Services.
- 1.1.5 In addition to pressures seen in previous financial years, a number of global issues emerged during the financial year, which added significant financial strain to the Authority's budgets.
- 1.1.6 In recognition of these pressures, the Authority planned to apply contingencies and central funding to support the position. These balances have now been applied to the Service outturn positions.
- 1.1.7 In January, the Authority reported the gross pressure faced as £22.872m, mitigated to £8.086m with the application of contingencies and central support funding. The provisional outturn position for 2022/23 is an overspend of £6.081m, an improvement from January of £2.005m.
- 1.1.8 As communicated in previous reports to Cabinet and full Council, it is proposed to deal with the £6.081m overspend via a drawdown from the Strategic Reserve. After the final transfers, the General Fund Revenue Account shows spend on Budget for 2022/23, with a reduced closing balance on the Strategic Reserve of £6.345m and unchanged General Fund balances of £7.000m.
- 1.1.9 The 2023-2027 Medium Term Financial Plan and the 2023/24 Budget included a higher than usual level of contingency budgets due to the timing of the Local Government Finance Settlement. The report sets out the proposed allocation of these contingencies, which supports areas of the budget that face significant financial pressure, such as Adult and Children's social care. The Authority are now in receipt of the Social Care grant conditions and have applied the funding in line with the national guidance that has been received. Further details of the planned allocation can be found in section 6 of the Annex to this report.
- 1.1.10 School balances have decreased from a surplus of £3.398m at the start of the financial year to a deficit of £0.382m as at 31 March 2023. Within

this, 16 schools were in a deficit position. Whilst most of these are marginal deficits, four schools had a deficit totalling £12.459m. This continues to be monitored closely and the majority of schools in a deficit position during the year had additional support by way of peer-to-peer advice through the Department for Education's School Resource Management Advisers (SRMA). Further details are contained in Section 2 of the Annex.

1.1.11 The Housing Revenue Account (HRA) has year-end balances of £3.315m. The HRA shows an underspend of £0.185m against the in-year 2022/23 Budget, together with a £0.061m improvement in the budgeted brought forward balances, which cumulatively brings the HRA to £0.246m better than the budgeted position for 2022/23. Further details are given in Section 3 of the Annex.

1.1.12 The initial approved Investment Plan for 2022/23 was £64.431m. Net variations and reprogramming of £22.885m were approved by Cabinet during 2022/23 to give a revised Investment Plan of £87.316m. Capital expenditure for the year was £77.442m (88.69% of the revised plan). This outturn includes further reprogramming of £9.781m and variations relating to gateway approvals and grant determinations of £1.698m for the 2022-2027 investment plan as shown in Section 4.

## 1.2 Recommendations:

It is recommended that Cabinet:

- a) Notes the provisional 2022/23 outturn for the General Fund, Schools Finance and Housing Revenue Account (Annex 1, Sections 1, 2 and 3) together with a financial overview of the year;
- b) Notes the decisions made under the Reserves and Balances Policy (Paragraph 1.5.8, and Appendix A);
- c) Notes the Authority's Investment Plan spend during 2022/23, and the associated capital financing (Annex 1, Section 4);
- d) Approves the permanent allocation of centrally held contingencies (Annex 1, Section 6);
- e) Approves the receipt of £0.649m new revenue grants;
- f) Approves reprogramming of £9.781m within the 2022/23 Investment Plan (Annex 1, Section 4, Paragraph 4.22 and Appendix C);

- g) Approves variations of £1.698m to the Investment Plan (Annex 1, Section 4, Paragraph 4.22);
- h) Notes the Authority's Treasury Management performance (Annex 1, Section 5); and,
- i) Notes the Authority's performance against the Capital and Treasury prudential indicators (Annex 1, Section 5 and Appendix D).

### **1.3 Forward Plan**

Twenty-eight days' notice of this report has been given and it first appeared on the Forward Plan that was published on 12 May 2023.

### **1.4 Council plan and policy framework.**

The budget is part of the Authority's Budget and Policy Framework.

### **1.5 Strategic Management of the Authority's Budget**

1.5.1 Whilst statutorily the Authority's Budget and Statement of Accounts must be prepared annually, the pressures and opportunities that the Authority faces often extend across several accounting years. Decisions taken in one year may be felt in subsequent periods. One of the benefits of the Authority's regular Budget monitoring process is that issues can be identified early in the year and action taken to address them. The outcomes of these actions can then inform both Budget-setting and preparation of the Financial Statements. Budget-setting, Budget management and the Financial Statements can therefore be seen as related parts of a continuous process of financial management by the Authority. This part of the report sets out some of the key strategic issues managed by the Authority during 2022/23.

#### **1.5.2 General Fund**

1.5.2.1 The Budget for 2022/23 was approved by full Council at its meeting of 17 February 2022. The net General Fund Budget was set at £163.512m including efficiency savings of £7.257m to be achieved in year.

1.5.2.2 The Budget Monitoring report up to 31 January 2023, considered by Cabinet on 27 March 2023, projected a pressure of £8.086m. Following further work by Cabinet Members and officers, the final outturn position is an overspend of £6.081m, an improvement of £2.005m.

1.5.2.3 Table 1 below shows the budget monitoring variances by Directorate.

- 1.5.2.4 As set out in the 2023/24 Budget report to Council in February 2023, it is proposed to fund the 2022/23 overspend from the Strategic Reserve, with plans included over the 4-year period of the MTFP to replenish these reserves. When this final transfer is included, the General Fund will breakeven for 2022/23.
- 1.5.2.5 As part of the statutory reporting regulations there is a requirement to ensure that there is a clear audit trail between the figures reported to Cabinet and those published in the Statement of Accounts. The outturn therefore includes a series of year-end accounting adjustments which, whilst having no impact on the final overall position against the Budget, provide a link from the outturn reported to Cabinet to the published accounts. These adjustments include:
- Adjusting both budget and actual positions for support services. This has no impact on variances;
  - Adjusting the service positions for actual (rather than budgeted) capital expenditure items; and,
  - Adjusting the service positions for the impact of Private Finance Initiatives (PFI) which has reduced the reported costs of the services by £7.032m and has had the opposite impact on the corporate budget lines.

As in previous years, these accounting adjustments were not included in the previously reported forecasts presented to Cabinet.

- 1.5.2.6 Table 1 below shows the variance between the outturn to be published in the Statement of Accounts and the Budget and shows the adjustments required to allow comparison of the provisional outturn for Cabinet to the last reported position:

1.5.2.7 Table: 1 2022/23 General Fund Revenue Forecast Outturn as at 31 March 2023

| Services                              | Budget         | Actual Outturn | Variance     | Accounting Adjustments | Adjusted Variance | Jan Variance | Variance Change since Jan |
|---------------------------------------|----------------|----------------|--------------|------------------------|-------------------|--------------|---------------------------|
|                                       | £m             | £m             | £m           | £m                     | £m                | £m           | £m                        |
| Adult Social Care                     | 56.809         | 57.939         | 1.130        | 0.000                  | 1.130             | 3.792        | (2.662)                   |
| Children, Young People & Learning     | 25.753         | 35.072         | 9.319        | (0.453)                | 8.866             | 14.635       | (5.769)                   |
| Public Health                         | 1.799          | 3.675          | 1.876        | (1.876)                | 0.000             | 0.000        | 0.000                     |
| Commissioning and Asset Management    | 8.255          | 21.708         | 13.453       | (8.504)                | 4.949             | 5.924        | (0.975)                   |
| Environment                           | 40.048         | 35.979         | (4.069)      | 3.871                  | (0.198)           | 1.498        | (1.696)                   |
| Regeneration and Economic Development | 11.053         | 11.719         | 0.665        | (0.416)                | 0.249             | 0.193        | 0.056                     |
| Corporate Strategy                    | 1.530          | 2.357          | 0.827        | (0.320)                | 0.507             | 0.524        | (0.017)                   |
| Chief Executive's Office              | (0.069)        | (0.158)        | (0.089)      | 0.000                  | (0.089)           | (0.074)      | (0.015)                   |
| Resources                             | 5.233          | 6.670          | 1.437        | 0.020                  | 1.457             | 1.656        | (0.199)                   |
| General Fund Housing                  | 2.144          | 2.661          | 0.517        | 0.000                  | 0.517             | 0.373        | 0.144                     |
| Central Items                         | (9.224)        | (28.210)       | (18.985)     | 7.678                  | (11.307)          | (13.407)     | 2.100                     |
| Support Services                      | 20.181         | 20.181         | 0.000        | 0.000                  | 0.000             | 0.000        | 0.000                     |
| Table 2 Offsets                       | 0.000          | 0.000          | 0.000        | 0.000                  | 0.000             | (7.028)      | 7.028                     |
| <b>Total Authority</b>                | <b>163.512</b> | <b>169.593</b> | <b>6.081</b> | <b>0.000</b>           | <b>6.081</b>      | <b>8.086</b> | <b>(2.005)</b>            |

## Main Movements from Previous Reported Forecast Variance (January Report)

1.5.2.8 Comparing the adjusted outturn variance to the previously reported January forecast outturn shows an overall improvement of £2.005m, with two key elements within this movement. Firstly, the previously reported figure of additional central support of £7.028m has been distributed over the various services as shown in Table 2 below. Secondly, there have been operational movements between January and March and explanations for these movements are itemised in Table 2 with additional narrative provided below for the material changes. More detailed explanations of the outturns are contained in Section 1 of the annex to this report.

1.5.2.9 **Table: 2 Summary of movements between January position and March outturn as at 31 March 2023**

| Services                              | Central Funding | Operational Movement | Total Movement |
|---------------------------------------|-----------------|----------------------|----------------|
|                                       | £m              | £m                   | £m             |
| Adult Social Care                     | 0.000           | (2.662)              | (2.662)        |
| Children, Young People & Learning     | (5.235)         | (0.534)              | (5.769)        |
| Public Health                         | 0.000           | 0.000                | 0.000          |
| Commissioning and Asset Management    | (1.000)         | 0.025                | (0.975)        |
| Environment                           | (1.553)         | (0.143)              | (1.696)        |
| Regeneration and Economic Development | (0.013)         | 0.069                | 0.056          |
| Corporate Strategy                    | 0.000           | (0.017)              | (0.017)        |
| Chief Executive's Office              | 0.000           | (0.015)              | (0.015)        |
| Resources                             | 0.000           | (0.199)              | (0.199)        |
| General Fund Housing                  | 0.000           | 0.144                | 0.144          |
| Central Items                         | 0.773           | 1.327                | 2.100          |
| Table 2 Offsets                       | 7.028           | 0.000                | 7.028          |
| <b>Total</b>                          | <b>0.000</b>    | <b>(2.005)</b>       | <b>(2.005)</b> |

### Adult Social Care (ASC)

1.5.2.10 The provisional outturn position for ASC has seen an improvement of £2.662m. The improvement is primarily a result of additional income being received, namely:

- £0.650m additional Integrated Care Board (ICB) income for mental health resettlement, agreed in March 2023;
- £0.400m due to increased focus on the recovery of unspent Direct Payments and Individual Service Funds;
- £0.365m income adjustment for Deferred Payment accounts; and
- £1.120m increased client contributions due to increased focus on income collection, full year effect of minimum funding guarantee changes and the gradual return to business as usual for charging clients following the end of Covid funding.

### Children, Young People and Learning (CYPL)

1.5.2.11 The provisional outturn for CYPL is an improvement of £5.769m since the January report, however £0.534m relates to operational movements. The service continued to see increased pressure in supported accommodation, but this was mitigated with underspends in other areas, namely;

- £0.175m reduction in spend on short break care and associated activities due to lack of suitable provision;
- £0.133m reduction in spend on School Improvement due to reduced staffing and energy forecasts;
- £0.286m reduction in spend on staffing within Early Help & Vulnerable Families team due to the level of vacancies and additional staff leaving the service.

### Environment

1.5.2.12 The provisional outturn position for Environment improved by £1.696m of which £0.143m relates to operational movements from the January. The main changes being an improvement in reduced charges from the Recycling Disposal Contract offsetting some higher than forecast pressures in Fleet and Sport & Leisure.



### Regeneration & Economic Development (R&ED)

- 1.5.2.13 The provisional outturn position for R&ED is a worsening of £0.056m, with an adverse operational movement of £0.069m relating primarily to income pressures to Swans Centre for Innovation (CFI).

### Resources

- 1.5.2.14 The provisional outturn for Resources improved by £0.199m from January as a result of the allocation of the 2022/23 Pension Cap & Collar payment relating to the Equans Partnership partially offset by increased coroners' costs and increased expenditure on locums in Legal Services.

### General Fund Housing

- 1.5.2.15 The provisional outturn position for General Fund Housing worsened by £0.144m from January due to additional expenditure linked to public building repairs, which has seen an overall overspend against budget of £0.597m. This has been offset by a one-off £0.150m contribution from Reserves as agreed during the 2022/23 Budget-setting process.

### Central Items

- 1.5.2.16 The provisional outturn position for Central Items has worsened by £2.100m with £1.327m being attributable to operational movements. The main movements are a £2.269m worsening in contingent rents linked to the Authority's Private Finance Initiative (PFI) schemes offset by £0.942m of improvements from additional new burdens funding, savings from the salary sacrifice schemes and improvements to the bad debt provision.
- 1.5.2.17 Contingent rent is an annual accounting adjustment as required by the CIPFA Code of Practice which allocates a proportion of any inflationary increases to the elements of the Unitary Charge linked to capital financing. It is calculated at year-end as part of the Unitary Charge reconciliation and transfers costs incurred and budgeted for by the relevant service to the Authority's central budget for capital financing expenditure. The level of contingent rent in 2022/23 is driven by the high inflationary environment and increases to the contractual RPI (Retail Price Index) adjustment which is present in each of the Authority's PFI contracts.

### 1.5.3 Delivery of Budget Savings Proposals

- 1.5.3.1 New savings of £4.720m were agreed as part of the Budget approved by full Council in February 2022 taking the total savings the Authority has had to find in the eleven years following the 2010 Comprehensive Spending Review (CSR) to £134.268m.
- 1.5.3.2 The governance structure of the Efficiency Savings Programme included a monthly review of progress by the Senior Leadership Team (SLT). In addition, in-year budget and performance progress meetings were held between officers and Cabinet Members to consider progress and actions being taken to deliver savings. The variations in relation to the savings are outlined in the paragraphs below and more detail was included in regular reports on this topic to Overview Scrutiny and Policy Development Committee.
- 1.5.3.3 The new savings of £4.720m are combined with £2.537m of brought forward targets that still required a permanent solution from previous years, meaning the overall target to achieve in 2022/23 was £7.257m. These savings are factored into Table 1 above but are shown separately in this section for transparency.

#### 1.5.3.4 Table 3 – Efficiency Savings Programme 2022/23

| Service      | B/F Balances<br>£m | 2022/23 Business Cases<br>£m | 2022/23 Target<br>£m | Projected Delivery<br>£m | In Year Actions<br>£m | Yet to be achieved<br>£m |
|--------------|--------------------|------------------------------|----------------------|--------------------------|-----------------------|--------------------------|
| Adults       | 0.000              | 0.950                        | 0.950                | 0.950                    | 0.000                 | 0.000                    |
| Children's   | 2.373              | 0.850                        | 3.223                | 0.471                    | 0.393                 | 2.359                    |
| Environment  | 0.000              | 0.520                        | 0.520                | 0.520                    | 0.000                 | 0.000                    |
| C&AM         | 0.164              | 0.582                        | 0.746                | 0.232                    | 0.218                 | 0.296                    |
| Resources    | 0.000              | 1.563                        | 1.563                | 1.563                    | 0.000                 | 0.000                    |
| Central      | 0.000              | 0.255                        | 0.255                | 0.255                    | 0.000                 | 0.000                    |
| <b>TOTAL</b> | <b>2.537</b>       | <b>4.720</b>                 | <b>7.257</b>         | <b>3.991</b>             | <b>0.611</b>          | <b>2.655</b>             |

- 1.5.3.5 Adult Services achieved the full £0.950m target. Within the Children, Young People and Learning (CYPL) pressure of £8.866m reported earlier, £2.359m relates to the non-achievement of savings targets. In the previous financial year these savings have been significantly impacted by Covid-19 and as such, achievement has been supported by Central Government Covid-19 grants. With these grants no longer available in

2022/23 and on-going demand-led pressures already impacting the service, these CYPL savings remained unachieved in 2022/23.

- 1.5.3.6 Within Commissioning & Asset Management, £0.400m of cross-cutting 2022/23 savings are held, of which £0.100m relating to Energy Management and £0.032m relating to Supply Chain have not been achieved in-year. A further £0.168m of savings related to school catering has also not been achieved in-year. The unachieved savings are included in the forecast pressure in Table 1.
- 1.5.3.7 All savings in the other service areas are achieved.

#### **1.5.4 Schools Finance**

- 1.5.4.1 Schools have concluded their 2022/23 accounts closure in line with the Local Scheme for Financing Schools and the Authority's revised year-end timetable. Collective school balances in North Tyneside maintained schools decreased from a surplus of £3.398m at the start of the year to a closing deficit of £0.382m. This position is significantly better, by £5.151m, than the forecast at the start of the year when the outturn was expected to be an overall deficit of £5.533m. The most recent monitoring performed with schools during the year and completed in Spring 2023 showed an overall forecast deficit balance of £4.419m.
- 1.5.4.2 Cabinet will be aware that under legislation, schools retain a high degree of autonomy when setting budgets unless they are in a deficit position. Therefore, whilst the Authority can advise schools on the adequacy of balances, it cannot intervene. Schools have been reminded of the need to forecast as accurately as possible so that decisions are taken in the light of accurate budget projections.
- 1.5.4.3 Cabinet will recall from the previous finance updates that some individual schools expected to face significant financial challenges. During the year, the Authority and Schools Forum paid particular attention to those schools with approved deficits. For 2022/23 and in a change to the usual deficit challenge process the Education and Skills Funding Agency (ESFA) offered support to schools in the form of School Resource Management Advisors (SRMAs). For the four schools new to deficit, along with Beacon Hill and Monkseaton High School, the SRMAs worked through the schools' finances and management structures and provided feedback sessions to those schools with an overall report for both the Authority and each individual school.

1.5.4.4 Maintained schools are expected to submit their 2023/24 3 year budget plans to the Authority no later than 31 May. Building on the work that has been undertaken in 2022/23 with the SRMAs the Authority will continue to work with those schools facing financial difficulty to ensure that they have robust recover plans in place for improvement. This will continue to be monitored closely and regular updates will be given to both Cabinet and Schools Forum during 2023/24.

## **1.5.5 Housing Revenue Account**

1.5.5.1 The provisional Outturn position for the HRA is materially unchanged from that reported to Cabinet in January 2023, with an in-year betterment against budget of £0.185m, down from £0.187m. When added to the brought forward balances improvement of £0.061m, results in an overall underspend against budget of £0.246m compared to £0.248m in January 2023. The overall position masks some significant additional pressures relating to repairs costs, pay awards and utility costs across Sheltered schemes, which were compensated for in-year by improvements in rent and service charge income, reduced call on Bad Debt Provision and savings in vacancies and pension strain on the fund costs.

## **1.5.6 Investment Plan**

1.5.6.1 During 2022/23 the Authority has invested £77.442m in improving assets within the Borough as part of the continued delivery of the approved Investment Plan.

1.5.6.2 The Outturn has resulted in proposed re-profiling to future years of £9.781m, reflecting the latest delivery programmes on a number of committed schemes, along with variations of a further £1.698m, primarily through the anticipated receipt of additional external resources.

1.5.6.3 Financing the 2022/23 Investment Plan has required Authority borrowing of £10.793m (14% of the overall capital investment) which will result in charges to the revenue budget in future years relating to making Minimum Revenue Provision and external interest payments.

## **1.5.7 Treasury Management**

1.5.7.1 There has been an increase in the level of actual external borrowing (excluding PFI) from £397.443m at 31 March 2022 to £427,443 at 31 March 2023. The level of internal funding remains high at £68.532m at 31 March 2023 (£102.013m at 31 March 2022), in line with the Authority's Treasury

Management Strategy as this subsequently avoids external interest charges wherever possible.

- 1.5.7.2 As at 31 March 2023 the Authority had Treasury investments of £39.531m. During 2022/23, £0.891m was generated through interest earned on investments, of which £0.286m relates to income earned on HRA balances. The Authority invests in line with Chartered Institute of Public Finance Accountancy (CIPFA) guidance, maintaining a low-risk approach to investments.

## **1.5.8 Reserves and Outlook**

- 1.5.8.1 It has been highlighted previously by the Chief Finance Officer that, whilst the Authority has a sustainable financial outlook, it has a relatively low level of reserves. The level of uncertainty for funding Local Government Finance beyond 2022/23 alongside the uncertain short-term implications of national and global issues is of concern when considering the financial sustainability of the Authority, particularly when taken in the context of funding reductions the Authority has managed since 2007/08.
- 1.5.8.2 Another area of significant risk is around inflation and the impact that will have on key expenditure around utilities and waste disposal, as well as the impact it will have on the supply chain and costs of materials for Capital projects, HRA projects and general goods and services within revenue. The Consumer Price Index (CPI) rate in April 2022 was 9%, by March 2023 this had risen to 10.1%. Whilst CPI has fallen back to 8.7% (for the 12 months to April 2023), current forecasts are for high inflation rates to continue into at least the early periods of 2023/24.
- 1.5.8.3 The ringfenced Dedicated Schools Grant (DSG) is received from the Government and administered by the Authority and is the main source of income for the schools budget. The DSG first fell into deficit during 2017/18 and it is an important element of the financial management of the Authority that the DSG is not in a deficit position. As a result, there has been action to address the deficit working collaboratively with Schools Forum, especially to address the increasing numbers of children with special needs entering the education system.
- 1.5.8.4 As previously reported to Cabinet, these deficits have come under increasing scrutiny from the Department for Education (DfE) and in July 2022, the Authority was invited to take part in the Safety Valve Intervention Programme.

- 1.5.8.5 The Authority's DSG Management Plan, agreed in advance with parents and carers, children and young people, and partners from across education, health, and care, was submitted in February 2023. Without further action, the High Needs block cumulative deficit was forecast to be in the region of £19.500m by 2027/28. The Authority's submission was successful, the DfE agreed financial support to the Authority of £19.500m over a 5 year period, with the first payment of £7.800m paid at the end of the financial year 2022/23. In subsequent financial years, subject to compliance with the conditions set in the agreement, the DfE will release the remainder of the £19.500m.
- 1.5.8.6 To support the implementation of the DSG Management Plan, the Authority also submitted a capital build proposal. The Authority has been notified that it will receive £4.600m in June 2023, to support its capital investment programme. The Authority is required to submit a report three times per year, describing the progress that the Authority has made on delivery of the DGS Management Plan
- 1.5.8.7 Many of the current key risks that will impact on future HRA Business Planning, are unchanged from last year, most of which are linked to the current economic climate and high rates of inflation. At the year end, inflation continued to trend around 10%, although indications are that it may start to fall through the year. The rate by which inflation reduces by September will influence next year's rent increase, as they will be based on the September 2023 CPI rate of inflation. This may again lead to Government intervention to cap the size of the rent increase, which Cabinet will recall was capped at 7% for this year.
- 1.5.8.8 The HRA also faces inflationary pressures on the cost of the goods and materials needed to maintain the housing stock, and to meet Cabinet's aspirations to build new homes. HRA planning will consider the affordability of budgets in light of these inflationary pressures and expected rental income.
- 1.5.8.9 The potential impact of the 'cost of living' crisis on our most vulnerable tenants continues to be monitored closely to assess what the full impact of this will be on the rate of increase in the levels of arrears, which have doubled since 2015.
- 1.5.8.10 One other key factor in terms of HRA Business Planning is the number of homes that are managed and the impact of Right to Buy (RTB). Cabinet will know that Government significantly increased the discount rates

attached to RTB back in 2012 to incentivise more sales, but this appeared to have steadied at between 100–120 sales per annum over the last three years. 2021/22 saw the largest number of sales since the changes were introduced at 167, however, 2022/23 saw a return to the previous trend albeit at the upper end at 120 sales. These trends continue to be monitored to assess the potential impact on the resource base and further pressure on our ability to tackle tenant waiting lists. This makes it more important to add to the stock, but as set out above in a much more difficult cost environment.

1.5.8.11 When self-financing was introduced in 2012 the Government effectively fixed the amount of capital receipts that had to be handed over, based on the previous pooling arrangements (75:25 or £1.873m to Government per annum). Around the same time the Government changed the rules on RTB and significantly increased the maximum discounts that could be applied, which led to a surge in RTB sales. The authority signed an agreement back in 2013 with Government that allowed it to keep any surplus receipts above the pooled assumptions, as long as these were used to fund new build within 3 years and funding no more than 30% of the build cost, these rules have subsequently been amended to 5 years and 40%. The Government has just announced that if the authority signs a revised agreement, then for 2022/23 and 2023/24 it can keep the "pooled" amount of £1.873m per annum, as long as we meet the same criteria as for existing "retained" receipts (use within 5 years at a 40% rate to fund new build). The Authority has expressed its intention to sign this agreement and ensure that the additional resources are utilised locally to support Cabinet's Affordable Homes ambitions.

1.5.8.12 Inflation and interest rate risk remain a key component of the capital investment plan and treasury management. The May 2023 Bank of England Monetary Policy Committee (MPC) report projection anticipate inflation has possibly peaked with the expectation of inflation likely to fall sharply from Q2 of 2023. The May MPC report forecasts Bank of England base rate to peak at 4.75% in Q4 of 2023, before falling to 3.5% by 2026. The high inflation and interest environment continues to impact on the capital investment plan from the perspective of increasing costs in goods supply and labour costs. As well as maintaining pressure on interest rates which have a bearing on the cost of borrowing for the Authority going forward.

- 1.5.8.13 Appendix A sets out in detail the movement on Reserves and Balances and despite some increases, the general level of Reserves available to support the Authority's Budget remains relatively low.
- 1.5.8.14 The Strategic Reserve (£6.345m) represents 1.73% of the General Fund 2022/23 gross Budget and 3.88% of the 2022/23 net Budget, with the General Fund balances (£7.000m) added, these represent 3.65% of the 2022/23 gross Budget and 8.16% of the 2022/23 net General Fund Budget. There is no prescribed level of reserves advice by finance bodies with the level being considered in light of risks the Authority faces not just in the current year but looking ahead.
- 1.5.8.15 In recognition of the required use of the Strategic Reserve to balance the 2022/23 financial year, the MTFP includes the planned replenishment of the Strategic Reserve by £9m over the next 4 years.
- 1.5.8.16 The other general fund earmarked reserves total £44.602m, which is a decrease of £15.449m from the 2020/23 position of £60.051m. Of this decrease £9.322m relates to Covid-19 grants where balances held have either been spent as planned or returned to Central Government in line with grant conditions.
- 1.5.8.17 The net movement in HRA reserves and balances is an increase of £2.845m. The HRA reserves have increased by £2.845m to £24.147m in 2022/23 and the HRA balances have remained at a total of £3.501m. Within the HRA reserve total, £21.661m relates to PFI reserves.
- 1.5.8.18 School Balances show a decrease of £3.780m, as set out in section 2 of the Annex to this report, to leave a closing deficit of £0.382m. As at 31 March 2023, the DSG account is showing a net deficit balance of £8.340m. This compares to a deficit balance of £12.851m in 2021/22. The Authority will address the deficit position via the DSG Management Plan as described in 1.5.8.3.
- 1.5.8.19 Cabinet will recall a report titled 'Strategic Partnership Update' was agreed on 23 January 2023. This report agreed to delegate authority to the Director of Resources in consultation with the Cabinet Member for Finance and Resources and the Director of Commissioning and Asset Management to finalise commercial arrangements for the remaining Equans employees within Finance, Human Resources and ICT to return to the control of the Authority. The services wholly return to the Authority on 1 May 2023. Part of the commercial arrangements related to a Termination Fee payable by the Authority. The fee was agreed to be



£3,559,677 and will be payable in 2023/24. This will be funded using part of the earmarked reserve that was created from the minimum revenue provision surplus at the end of 2021/22.

- 1.5.8.20 Continuing risks for 2023/24 include the impact of inflation across a number of areas of expenditure for the Authority. The 2023/24 pay award is expected to be higher than the average of 5.6% seen in 2022/23 and, despite being covered for 2023/24, only 2% per annum is set aside for future years.
- 1.5.8.21 For 2023/24, current projections are that around £3.8m will be needed from contingencies set aside in the 2023–2027 Medium Term Financial Plan (MTFP) for increases in energy costs for Electricity and Gas, what the future direction of travel for this element of expenditure will need to be closely monitored in 2023/24.
- 1.5.8.22 Services such as Catering will be impacted by increases in food prices and energy costs. Due to the increase in fuel costs, transport budgets will need to be closely monitored and home to school transport contracts will need to be negotiated. The cost of waste disposal is also set to increase and new government requirements in relation to food waste will also have to be planned for which has the potential to increase the current contract costs. These risks specifically referred to form part of seventeen workstreams that Finance will support the wider Authority in completing, to help resolve existing pressures, mitigate emerging pressures and identify opportunities for efficiencies. These workstreams will feed into the 2024–2028 MTFP.

**1.5.9 New Revenue Grants:** The following revenue grants have been received during February and March 2023:

| Service                              | Grant Provider                          | Grant   | Purpose   | 2022/23 value<br>£m |
|--------------------------------------|---|---|---|---------------------|
| Childrens, Young People and Learning | Northumbria Police & Crime Commissioner | Violence Reduction Unit Funded Interventions DIVERT | To deliver remote and socially distanced interventions to reduce the risk of vulnerability and violence in communities. | 0.020               |

| Service              | Grant Provider  | Grant  | Purpose  | 2022/23 value<br>£m |
|----------------------|---|--|--|---------------------|
| Environment          | BEIS – Heat Network Delivery Unit                       | Killingworth Heat Network Detailed Project Development Study | Funding for the Killingworth Heat Network Detailed Project Development Study   | 0.134               |
| Environment          | DEFRA   | Biodiversity Net Gain Grant                                  | To further support local planning authorities in their preparations for the introduction of mandatory BNG. Any further funding for this purpose, beyond this period, would be confirmed in due course. | 0.027               |
| Public Health        | Northumbria Police & Crime Commissioner                 | Seasonal Violence Funding                                    | To deliver interventions to reduce the risk of seasonal violence in communities.   | 0.020               |
| Public Health        | The Minister of State for the Department of Environment | Air Quality New Burdens Grant                                | To provide support to local authorities by contributing to reductions in air pollutant emissions and/or concentrations in areas throughout England.  | 0.012               |
| Public Health        | Geoplace  | Public Sector Geospatial Agreement (PSGA) payments 2022/23   | Funding to focus on a number of data improvement criteria put forward from PSGA users via the Geospatial Commission.   | 0.005               |
| General Fund Housing | Department for Levelling Up, Housing and Communities    | Homelessness LA/North Tyneside Council                       | Support to deliver services to prevent and tackle homelessness.  | 0.404               |

| Service                               | Grant Provider                                       | Grant  | Purpose  | 2022/23 value<br>£m |
|---------------------------------------|--|--|--|---------------------|
| General Fund Housing                  | Department for Levelling Up, Housing and Communities | Rough Sleeping LA Grant/North Tyneside Council | Funding to support those sleeping rough or at risk of rough sleeping.                          | 0.012               |
| Regeneration and Economic Development | North East Combined Authority                        | LEVI Capability Grant                          | Local Electric Vehicle Infrastructure funding to plan and deliver charge point infrastructure. | 0.015               |
| <b>Total</b>                          |  |  |  | <b>0.649</b>        |

## 1.6 Decision options:

### Option 1

Cabinet can agree the recommendations as set out in Section 1.2 of this report.

### Option 2

Cabinet can disagree with all or some of the individual recommendations set out in section 1.2 of the report.

Option 1 is the recommended option.

## 1.7 Reasons for recommended option:

It is recommended that Cabinet agree the proposals set out in section 1.2 of this report as it forms part of the 2022/23 Final Accounts process.

Reprogramming of the Investment Plan will ensure successful delivery of projects included within the Investment Plan.

## 1.8 Appendices:

|            |   |
|------------|---|
| Annex 1    | 2022/23 Provisional Finance Outturn Report              |
| Appendix A | Reserves & Balances                                     |
| Appendix B | Investment Plan Financing Summary                       |
| Appendix C | Investment Plan Summary of Variations                   |
| Appendix D | Prudential & Treasury Indicators                        |
| Appendix E | Investment Programme Board – End of year report 2022/23 |

## 1.9 Contact officers:

Jon Ritchie – Corporate Finance matters – Tel. (0191) 643 5701

Claire Emmerson – Corporate Finance and Schools matters – Tel. (0191) 643 8109

David Dunford – Corporate Finance and General Fund matters – Tel. (0191) 643 7027

Jane Cross – Corporate Finance and General Fund matters – (0191) 643 3166

David Mason – Investment Plan and Corporate Finance matters – Tel. (0191) 643 5747

Darrell Campbell – Housing Revenue Account matters – Tel. (0191) 643 7052

## **1.10 Background information:**

The following background papers and research reports have been used in the compilation of this report and are available at the offices of the author:

(a) Revenue Budget 2022/23 (P).

[https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/NTC%20Revenue%20Budget%202022\\_23.pdf](https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/NTC%20Revenue%20Budget%202022_23.pdf)

(b) Approved Investment Plan 2022-27 (P).

<https://democracy.northtyneside.gov.uk/documents/s7914/Appendix%20D%20iv%20-%202022-2027%20Capital%20Investment%20Strategy.pdf>

(c) Council Reserves and Balances Policy (P) – Appendix G

<https://democracy.northtyneside.gov.uk/documents/s7671/Appendix%20G%20-%202022-23%20Reserves%20and%20Balances%20Policy.pdf>

(d) Investment Programme Board – End of year report 2022/23 – Appendix E

## **PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING**

### **2.1 Finance and other resources**

As this is a financial report, implications are covered in the body of the report and Annex 1.

## **2.2 Legal**

The Authority has a duty to ensure it can deliver a balanced budget. The Local Government Act 2003 imposes a duty on an authority to monitor its budgets during the year and consider what action to take if a potential deterioration is identified.

## **2.3 Consultation/community engagement**

### **2.3.1 Internal consultation**

Internal consultation has taken place with the Cabinet Member for Finance and Resources, the Elected Mayor, the Senior Leadership Team and Senior Finance Officers. This report will also be presented to the Authority's Overview & Scrutiny Co-ordination & Finance Committee at its meeting on 17 July 2023.

### **2.3.2 Community engagement**

The 2022/23 budget was agreed after widespread consultation in line with the Authority's approved Budget Engagement Strategy. Appendix F of the 2022/23 Financial Planning and Budget Process report to full Council on 17 February 2022 provides details of the consultation.

## **2.4 Human rights**

The proposals within this report do not have direct implications in respect of the Human Rights Act 1998.

## **2.5 Equalities and diversity**

There are no direct equalities and diversity implications arising from this report.

## **2.6 Risk management**

Potential future financial pressures against the Authority are covered in this report and registered through the Authority's risk management process.

## **2.7 Crime and disorder**

There are no direct crime and disorder implications arising from this report.

## 2.8 Environment and sustainability

There are no direct environmental and sustainability implications arising from this report.

### PART 3 – SIGN OFF

- Chief Executive  X
- Director of Service  X
- Mayor/Cabinet Member(s)  X
- Chief Finance Officer  X
- Monitoring Officer  X
- Assistant Chief Executive  X