ANNEX 1

2020-2024 Financial Planning and Budget Process:

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

North Tyneside Council

INDEX

Section		Page
1.	Introduction	3
2.	Engagement Approach	4 - 6
3.	Strategic Plans	7 - 10
4.	General Fund	11 - 19
5.	Housing Revenue Account	20 – 32
6.	Dedicated Schools Grant	33 – 37
7.	2020-2025 Capital Investment Plan	38 – 41
8.	2020/21 Treasury Management Strategy and Annual Investment Strategy	42 - 52
9.	Provisional Strategy to Council by the Chief Finance Officer	53 - 56
10.	Overall Financial Risk Assessment	57 - 59

1. Introduction

1.1.1. This Annex sets out North Tyneside Council's initial Budget proposals for the General Fund and Housing Revenue Account (HRA) Budget for the financial year 2020/21, together with indicative plans for the following three years 2021/22-2023/24. The Annex also sets out the approach which will be taken to engage on these proposals.

1.1.2. 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. Section 2 summarises the key strategic plans which must be considered when setting the Budget and must form part of the development of Cabinet's Medium-Term Financial Strategy. Medium-term financial planning is fundamental in order to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term.

1.1.3. Sections 4 to 7 describe in detail the Budget proposals for the General Fund, Housing Revenue Account, Dedicated Schools Grant and 2020-2025 Capital Investment Plan.

1.1.4. Section 8 outlines the proposed 2020/21 Treasury Management Strategy and Annual Investment Strategy which needs to be considered and approved by Cabinet.

1.1.5. The Council is legally required to set a balanced Budget for the General Fund for 2020/21 to meet statutory duties and provide services such as social care and environmental services. For the HRA, the Council Tax payer 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.

1.1.6. Sections 10 and 11 outline the duties and responsibilities imposed on local authorities through the Local Government Act 2003, 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.

1.1.7. On 29 October 2019 Parliament voted in support of a General Election to be held on 12 December 2019. This decision has meant that both the Government's Budget Statement, due to be announced on 6 November 2019, and the Provisional Local Government Finance Settlement, due to be announced on 5 December 2019 have been delayed. This creates significant uncertainty for the Authority when considering its Budget proposals for 2020/21 and further uncertainty when planning for the medium term.

2. Engagement Approach

2.1.1 North Tyneside Council is committed to being an organisation that works better for residents and to ensure that it listens and cares. This commitment includes giving residents and other key stakeholders an opportunity to be involved in the Financial Planning and Budget process.

The Authority's overall approach to engagement ensures that the public have opportunities to have their say throughout the year, through a series of different methods, including engaging with the Elected Mayor, Cabinet and ward members through activities such as the Mayor Listens Events and Community Conversation activities. We also offer a broad range of both on-line and face to face engagement or consultation exercises on different key issues as well as our annual Residents Survey.

2.1.2 In all its engagement activity, the Authority is committed to ensuring that residents with protected characteristics, as set out in the 2010 Equality Act, can participate. In line with this an Equality Impact Assessment has been undertaken on the 2020/21 Budget Engagement Strategy and this is available on request. The engagement approach is set out below.

<u>Target Audiences</u>

2.1.3 The aim of the budget engagement strategy is to reach different sectors of the population through an approach that encompasses engagement with residents and customers/users of services as well as particular groups of people, including those with protected characteristics. The approach also ensures reach with particular interest groups such as carers, older people, children and young people, council housing tenants.

The engagement strategy also ensures targeted activity with the following specific external and internal stakeholder groups:

External stakeholder groups

- Voluntary and community sector (including faith groups)
- Schools and education sector
- North Tyneside Strategic Partnership
- Businesses

Internal stakeholder groups:

- Elected Members
- Staff
- Strategic Partners (Engie and Capita)
- Trade Unions

Approach

2.1.4 Our approach aims for maximum reach by offering a range of different opportunities for people to have their say. In line with the Authority's corporate engagement strategy the approach will be consistent with the following principles:

- Inclusive - making sure that everyone can engage in the process;
- Clear - being clear on the aims of the engagement activity at the outset and the extent to which residents and others can be involved;
- Integrated - ensuring that engagement activities are joined up with the relevant decision-making processes;
- Tailored - aiming to better understand our audience and using different methods appropriately to enable and encourage people to be involved;
- Feedback - giving feedback through agreed channels when engagement activity is completed; and
- Timely - aiming to give enough notice to make opportunities available to all and taking into account those times when it is more appropriate to engage depending on the target audience.

Budget engagement activity for the 2020/21 Budget will comprise:

- providing clear information about the Financial Planning and Budget process in the Autumn edition of the Our North Tyneside magazine. This will include information about this engagement strategy and how people can have their say throughout the process including how to join the Residents Panel to do so;
- in November 2019, publishing information about Cabinet's initial budget proposals. This will be published online via the Council's website and at front line locations including the Community Conversation corners in the four Customer First centres. Feedback will be able to be provided by residents and others via a questionnaire either on-line or at these front-line locations. This will be supported by communications activity via the media and social media to ensure that people know they can get involved in this way;
- there will also be opportunities for face to face engagement with lead officers during November/December 2019. These will also be publicised via communications activity in the media and social media and at all key front-line outlets including: libraries; Customer First Centres; community centres and leisure centres. These face to face sessions will comprise;
- four drop-in events (one at each of the Customer First Centres);
- three in-depth sessions with the Residents Panel (which any resident can join). These sessions will provide people with the opportunity to gain an understanding of the Council's budget and to be able to appraise in detail the initial budget proposals and then provide feedback; and
- engagement sessions for the following internal and external stakeholder groups:
    - older people
    - carers
    - children and young people
    - community and voluntary sector

- groups representing people with protected characteristics under the Equality Act 2010.
- staff
- businesses
- schools
- Trade Unions
- North Tyneside Strategic Partnership.

3. Strategic Plans

3.1 Strategic Plan Considerations

3.1.1 This section provides an overview of the strategic planning / policy documents that Cabinet must consider and be mindful of when making decisions relating to the allocation of resources. The alignment of resources to the strategic priorities of the Elected Mayor and Cabinet is a fundamental part of the Budget-setting process.

3.1.2 The Medium-Term Financial Strategy (MTFS) is developed in the context of the strategic priorities and policy decisions made by Cabinet. This ensures that the Council's strategic plans can be delivered within the financial resources available. In addition, the MTFS ensures that the Authority has a clear financial vision and direction for the medium term and that Cabinet understands the financial implications of decisions that are taken.

3.2 Our North Tyneside Plan

3.2.1 The proposed refresh of the Our North Tyneside Plan 2020 - 2024 (the Council Plan) will set out the overall vision and policy context within which the Financial Plan and Budget proposals will operate. Since 2015 North Tyneside has worked to a clear set of priorities through the Our North Tyneside Plan. These priorities have been regularly reviewed and updated to ensure that they continue to reflect the needs and ambitions of the Borough.

3.2.2 The vision and policy context continue to reflect the priorities of the Elected Mayor and Cabinet. The Plan has been updated to reflect two key policy developments; the Council's declaration of a climate emergency and the creation of the North of Tyne Combined Authority.

The Plan continues to be structured in three key themes – Our People, Our Places and Our Economy.

Our People will:

- Be listened to so that their experience helps the Council work better for residents;
- Be ready for school – giving our children and their families the best start in life;
- Be ready for work and life – with the right skills and abilities to achieve their full potential, economic independence and meet business needs;
- Be healthy and well – with the information, skills and opportunities to maintain and improve their health, well-being and independence, especially if they are carers;
- Be cared for, protected and supported if they become vulnerable including if they become homeless; and
- Be encouraged and enabled to, whenever possible, be more independent, to volunteer and to do more for themselves and their local communities.

Our Places will:

- Be great places to live by focusing on what is important to local people, such as by tackling the derelict properties that are blighting some of our neighbourhoods;
- Offer a good choice of quality housing appropriate to need, including affordable homes that will be available to buy or rent;
- Benefit from the council's housing stock being decent and well managed, as well as maximising the potential use of housing such as through extra care schemes;
- Recognise the climate emergency by further reducing the Borough's overall carbon footprint. This will include reducing the council's carbon footprint, along with encouraging and enabling everyone to reduce their carbon footprint;
- Provide a clean, green, healthy, attractive and safe environment;
- Have an effective transport and physical infrastructure - including our roads, pavements, street lighting, drainage and public transport;
- Continue to be regenerated as part of our 15 year 'Ambition for North Tyneside' plan. This will include the continued development of Killingworth Lake, creation of a Master Plan for North Shields, the delivery of plans for Segedunum and the Swans site in Wallsend, as well as further work to build on the success of the regeneration at the coast; and
- Be a thriving place of choice for visitors through the promotion of our award-winning parks, beaches, festivals and seasonal activities.

Our Economy will:

- Benefit from the delivery of our ambitious vision, which we created with partners in the North of Tyne Combined Authority. We will have a dynamic and more inclusive economy, which will ensure that all residents have a stake in our region's future;
- Grow by supporting new businesses and building on our strengths, including our existing world class companies, and small and growing enterprises;
- Be business friendly, ensuring the right skills and conditions are in place to support investment, and create and sustain new high-quality jobs and apprenticeships for working age people; and
- Continue to support investment in our business parks, units and Town Centres.

3.3 Our North Tyneside Plan Performance

3.3.1 The Our North Tyneside Plan sets out a range of objectives across the three priority areas. Current performance shows that:

Our People:

- 85% of pupils attend a school that is rated 'Good' or 'Outstanding'. In addition, 92% of primary and 84% of secondary pupils were offered a place at their first-choice school, which is better than the national average;

- Performance at GCSE has been maintained since last year: 64% achieved 4-9 (A*-C) in English and Maths; and
- The number of children in care increased in the last year, from 282 in March 2018 to 307 in March 2019. However, this is still the lowest level in the region. There has also been in an increase in reported safeguarding concerns for adults in the Borough.

Our Places:

- The North Tyneside Living programme has delivered 26 schemes. Of those 924 new homes; 99% are occupied;
- North Tyneside has seen a relative reduction in deprivation since 2015
- Carbon emissions have reduced by 42.5% per head of the population since 2005, which is top-quartile performance nationally; and
- The Silverlink Roundabout Improvement scheme has been completed, resulting in major improvements for cyclists and motorists.

Our Economy:

- There are 86,000 people employed in North Tyneside, which is an increase of 4,000 people in the past twelve months;
- The number of businesses operating in the Borough has continued to increase and now stands at 5,765;
- 93.9% of new North Tyneside businesses are operating after twelve months, which is better than the regional and national averages; and
- Reflecting the employment opportunities, the unemployment rate is 4.9% which is now lower than before the global financial crisis in 2008.

3.4 Local Plan

3.4.1 The Local Plan is the second key strategic element that drives the direction of resources in the Borough and was adopted by the Authority on 20 July 2017. The Plan, the first spatial strategy for 15 years, sets a vision for the Borough for the next 15 years. It sets out in detail how the Borough can be a thriving, prosperous and attractive place to live and work. It details how the Borough will require around 9,800 homes (in addition to about 4,700 that already have planning permission) and employment land for at least 12,700 new jobs.

The latest population projections from the Office of National Statistics estimate an increase of 15,800 people between 2014 and 2032. The population of North Tyneside in 2032 is expected to be 218,500.

3.5 Ambition for North Tyneside

3.5.1 At its meeting on the 26 November 2018, Cabinet considered and agreed the Ambition for North Tyneside. The report, which articulates the Elected Mayor and Cabinet's ambition for North Tyneside, explains in more detail the Elected Mayor and Cabinet's future ambitions for each part of the Borough. The Ambition for North Tyneside plan aligns with the Local Plan and aims to match the ambition for the Borough with the plans set out for the Borough. An update on the delivery of these plans is included in the agenda for this Cabinet meeting.

3.6 Medium-Term Financial Strategy

3.6.1 A Medium-Term Financial Strategy (MTFS) is critical to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium-term. This MTFS needs to support delivery of the Our North Tyneside Plan 2020-2024 which, as set out above, is the key driver of the Authority's resource allocation. The Budget-setting process helps the Authority respond appropriately to responsibilities and duties placed upon local government through legislative requirements, increasing demand, complexity of need and cost for adults and children's services and the Government's drive to deliver savings.

Whilst decisions around Budget-setting are approved on an annual basis, the Authority must demonstrate medium-term financial and resource planning. Annual Budget decisions should be taken in the context of the overall Medium-Term Financial Strategy that considers all Authority services and the Government's local government finance agenda.

4. General Fund

4.1 Medium-Term General Fund Position

4.1.1 Political uncertainty remains high. Brexit has been delayed until 31 January 2020, following agreement by European Leaders to offer a further extension after Parliament failed to agree a Brexit deal. In addition, the recently announced General Election has caused delay for two major funding announcements.

Both the Government's Budget, due on 6 November 2019, and the Provisional Local Government Finance Settlement, due in early December 2019, have now been delayed until after the General Election. In addition to this, as announced in the Spending Round 2019, the Fair Funding and Business Rates Retention (BRR) schemes, scheduled for implementation in April 2020 will now not go ahead until April 2021. Significant risks remain to the Authority's funding around the principles yet to be agreed for fair funding distribution and how the move to 75% BRR is to be implemented.

Whilst waiting for further details and confirmation of funding arrangements, the Authority must continue to prepare financial plans for 2020/21 and the medium term. However, this is done with caution and pragmatism. Therefore, these initial Budget proposals have been prepared based on assumptions included in the Spending Round 2019, announced in September.

4.1.2 It has already been highlighted that, at a local level, there are changes in North Tyneside's demography due to an increasing population and a growing number of our most vulnerable residents requiring complex health and social care support. The Authority, wherever possible, aims to manage demand as effectively as possible, targeting services at those residents with greatest need. This can only contain, or at best slightly reduce, the overall size of the population in receipt of these services. However, the average cost of these services has risen due to the increased average complexity of the needs of those clients.

4.1.3 Whilst the Borough has seen some economic growth, the Business Rates Retention scheme is such that significant appeals have led to a reduction in overall rateable values when compared to the scheme that was introduced in 2013/14.

4.1.4 Cabinet has worked to consider options to meet the financial challenges and has considered proposals that would begin to meet an estimated funding gap, in the region of £41.822m, over the next four financial years. Sustained cuts in Government funding and unfunded new burdens mean that since 2011/12 the Authority, along with other local authorities, has already had to make £126.951m in efficiency savings. These sustained cuts came at a time when demand for some of the Authority's most costly services, such as support to vulnerable adults and children's social care, was increasing.

4.2 Funding Social Care Pressures

4.2.1 Since the 2016 Spending Review an Improved Better Care Fund (IBCF) offer has been included to begin to address the pressures being felt in adult social care. The Authority received an IBCF allocation of £1.493m in 2019/20 as announced in the Spring 18 Budget. An assumption has been made that this level of funding will continue within the Authority to enable delivery of services associated with the Better Care fund beyond 2020/21. However, currently there is no assumption made to include any additional IBCF allocations beyond 2020/21.

Prior to the 2018 Autumn Budget Statement, a new Adult Social Care (ASC) Grant of £240m was announced for 2018/19 which is intended to help local authorities reduce pressures within the NHS over the winter period. The conditions of the grant require close working with our NHS partners. North Tyneside received an allocation of £1.031m in 2019/20 and, the Spending Round 2019 proposes that this funding will continue in 2020/21 and the remainder of the medium-term financial planning period. A further £410m grant was announced for adults and children's services. North Tyneside received £1.761m of the this in 2019/20. It is also assumed that this grant will continue in 2020/21 and therefore this has been included in the draft Budget proposals' funding assumptions.

The Spending Round proposed funding also included an additional £1bn of social care grant funding 2019 for 2020/21. Initial indications are that the Authority will receive additional social care funding of £4.300m in 2020/21. In addition, the Council Tax referendum limit has been reduced to 2% for 2020/21, a reduction of 1% from previous years. Also included in the SR19 was an announcement that local authorities could once again levy an Adult Social Care Precept of 2% for 2020/21.

4.2.2 The additional funding and resources go some way to addressing the pressure being felt in the delivery of social care services across the Authority. However, like many other authorities, the Authority continues to see pressures in respect of children social care. In terms of a sustained level of children and young people requiring appropriate support, the costly nature of this work and the scarcity of children's social workers is creating workforce retention issues across the region.

4.3 <u>Council Tax Support</u>

4.3.1 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.

Pensioners are not subject to the cap referred to above and may still be awarded reductions of up to 100% of their Council Tax liability.

Council Tax Support under our current scheme 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. Cabinet is not proposing any changes to Council Tax Support in 2020/21.

4.4 Business Rates

4.4.1 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, for the financial years 2013/14 through to 2018/19 the Authority has retained 49% of the business rates it collects and paid 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.

For the financial year 2019/20 the Authority, together with Newcastle City Council and Northumberland County Council, submitted a joint bid to the Ministry of Housing, Communities and Local Government and were successful in being granted pilot status for a 75% Business Rate Retention scheme. The reason for submitting a bid is to benefit from the retention of a higher level of Business Rate income over and above the baseline level set by Government. It was agreed that any gains achieved by the 75% pilot scheme would be allocated by the North of Tyne Combined Authority in line with its vision and investment priorities.

As announced in the SR19, all the 2019/20 Business Rate Retention Pilots will cease in 2020/21. Therefore the Authority will revert back to 49% Business Rates Retention in 2020/21.

4.4.2 The Authority, like all other authorities, remains exposed to the risk of Business Rate appeals, which are determined by the Valuation Office Agency. Government introduced a new check, "challenge and appeal process" in April 2017 which appears to have improved the efficiency of the appeals process, as challenges against rateable values have significantly reduced in both 2017/18 and 2018/19.

4.4.3 The Government's Budget in October 2018 announced a number of changes to offer additional support to businesses in reducing their business rate liability. These include:

- Providing upfront support to the Business Rates system through reducing bills by one-third for retail properties with a rateable value below £51,000, for two years from April 2019, subject to state aid limits;
- The introduction of 100% Business Rate relief for all public lavatories with the aim of helping keep these amenities open; and
- Continuing with the £1,500 Business Rates discount for office space occupied by local newspapers in 2019/20.

Current analysis shows that 374 businesses in North Tyneside are benefitting from the reduction in business rates by one-third, with an overall cash value of £895,540 as at 31 October 2019. This money is fully reimbursed to Local Government through a Section 31 grant.

4.5 Devolution

4.5.1 The strength of the economic climate can impact locally in terms of impact on our residents and local businesses and can have a wider impact of growth and strength of the region as a whole. The three North of the Tyne Authorities - North Tyneside, Northumberland and Newcastle - agreed to move to a devolution deal, and the North of Tyne Combined Authority (NTCA) came into existence on 2 November 2018.

The inaugural meeting of the NTCA took place on 8 November 2018 when Cabinet agreed the Authority's vision – Home of Ambition. At that meeting, Cabinet also agreed the governance arrangements for the Authority, including the allocation of six Cabinet portfolios, and the appointment of the Chair and Statutory Officer. The portfolio areas are:

1. Economic Growth – Councillor Bruce Pickard (portfolio lead)
2. Business Competitiveness – Councillor Nick Forbes (portfolio lead)
3. Employability and Inclusion – Councillor Joyce McCarty (portfolio lead)
4. Housing and Land – Elected Mayor Norma Redfearn (portfolio lead)
5. Education Improvement – Councillor Wayne Daley (portfolio lead)
6. Place and Productivity – Councillor Peter Jackson (portfolio lead)

The 2019/20 Budget was agreed by Cabinet on 12th March 2019 and on 2nd May 2019, following Mayoral elections, Jamie Driscoll (Labour) was elected as Mayor of the North of Tyne Combined Authority.

4.6 Brexit

4.6.1 Brexit has been delayed until 31 January 2020, following agreement by European Leaders to offer a further extension, after Parliament failed to agree a Brexit deal.

The implications of leaving the European Union (EU) are not fully known but there could be a potential impact for the borough due to reductions in EU funding, a change in interest rates, and an increase in the cost of basic goods which could all impact on residents. There could be positive outcomes resulting from different trade opportunities. As there is still a degree of doubt the risk associated with leaving the EU is not measurable. The impact will be closely monitored and any adverse effects considered and reported through the appropriate channels within the Authority's governance structure.

4.7 General Fund Financial Plan

4.7.1 Cabinet's approach to developing the 2020/21 Budget has been to take, as far as possible, a balanced approach to developing the Budget in order to maintain those services most residents wish to access as well as investing in those services for our more vulnerable residents.

Due to the General Election, the programmed Government's Budget announcement and the Provisional Local Government Finance Settlement have been delayed. Therefore, these initial Budget proposals have been prepared based on assumptions included in the Spending Round 2019, which was announced in September. As part of the 2019 Spending Round the Government included annual increases in Council Tax in their assumptions. At this stage no decisions have been made regarding Council Tax increases.

Pension Valuation

4.7.2 Members will be aware that the Authority has historically had a significant Pension Fund deficit that has resulted in an annual payment to the Tyne and Wear Pension Fund to cover the this.

The 2019 Actuarial Valuation reflects a significant improvement in the asset values of the Pension Fund, such that there is no longer a deficit on the Fund. The financial implications of this is that a net General Fund budget of £6.826m is available for realignment.

The Chief Finance Officer is recommending to Cabinet that the volatile nature of the Pension Fund valuation is such that the material use of this resource should be for one-off transactions only. With regard to this, it is proposed that the residual Budget is realigned as follows:

Table 1: Chief Officer Recommendation

	Chief Finance Officer Recommendation £m
Pension Deficit Budget	6.826
One off debt reduction / MRP Saving	(3.000)
Pay Policies	(0.250)
Budget Gap	(2.230)
Contingency	(1.346)

General Fund Resources

Table 2 below sets out the assumed level of resources available to fund the General Fund net Budget, developed using the following assumptions:

- Revenue Support Grant, Business Rate Retention and Business Rate Top Up grant are in line with the proposed Spending Round 2019 and the move back to 49% Business Rates Retention for 2020/21;
- Inflation increase in Business Rates of CPI of 2%;
- Council Tax Base growth has been considered as at the end of October 2019 with assumptions for further growth based on indications from the Local Plan, with prudent consideration taken of the timing of expected delivery and potential risks of economic impacts on a slowdown of housing growth; and
- An estimated 2019/20 Council Tax surplus of £0.774m based on the year-end forecast position of the Collection fund at 30 September 2019.

These assumptions take the overall position on resources from the current £155.730m in 2019/20 to a potential £157.523m by 2023/24 as detailed in Table 2 below.

Table 2: 2020-2024 General Fund Financial Plan Resources Assumptions, prior to Council Tax increases

	2019/20 £m		2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Council Tax	94.364		96.851	96.993	97.385	97.777
Estimated Council Tax Surplus	1.365		0.774	0.000	0.000	0.000
Revenue Support Grant	0.000		11.421	11.421	11.421	11.421
Business Rates	42.582		28.508	26.508	25.508	24.508
Business Rates top up	17.419		20.587	20.587	20.587	20.587
Total Resources Available	**155.730**		**158.141**	**155.509**	**154.901**	**154.293**

Table 3 below sets out the impact on available resources should an increase in Council Tax and an Adult Social Care Precept (ASCP) be proposed in 2020/21. The Spending Round 2019 assumes a Council Tax increase of up to 1.99% and an Adult Social Care Precept of 2% (ASCP) which would generate a further estimated £3.854m of resources in 2020/21., the impact of which is set out below.

Table 3: 2020-2024 General Fund Financial Plan Resources with potential Council Tax increase and Adult Social Care Precept included

	2019/20 £m		2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Council Tax	94.364		100.705	100.863	101.271	101.678
Estimated Council Tax Surplus	1.365		0.774	0.000	0.000	0.000
Revenue Support Grant	0.000		11.421	11.421	11.421	11.421
Business Rates	42.582		28.508	26.508	25.508	24.508
Business Rates top up	17.419		20.587	20.587	20.587	20.587
Total Resources Available	**155.730**		**161.995**	**159.379**	**158.787**	**158.194**

4.8 Cost pressures

4.8.1 The need to find savings in 2020/21 and future years is driven by significant unfunded cost pressures arising from several sources, as well as the stagnation in resources from the Government. The Authority is experiencing the same service pressures as many other Metropolitan authorities. These cost pressures arise for a number of reasons, including:

- Legislative / regulatory changes;
- Pay and price inflationary increases: increases in pay based on an assumed 2% pay increase;

- Increasing demand for services: increased demand for social care services coupled with the complexity of individuals' needs (for example increased numbers of adults with complex learning disabilities);
- The impact of the Improved Better Care Fund (IBCF) grant announced after the 2019/20 Budget had been agreed including the additional impact for 2020/21; and
- Corporate pressures increase support to apprenticeships, changes to utilities and ICT pressures, changes to Schools and an increase in contingency provision.

Further details of the cost pressures are included in Appendix B.

4.8.2 In the context of setting the Budget for 2020/21, it is also important to consider the in-year budget monitoring position. The first report to Cabinet which detailed the forecast outturn as at May 2019 identified an in-year pressure of £5.263m. At the mid-year point this position has improved and the forecast outturn pressure is now estimated to be £4.809m (as at 30 September 2019).

A number of sessions have already been held with Cabinet Members and senior management to give consideration as to the actions required to manage the financial risk identified for 2020/21, including what additional actions can be taken in line with the Authority's Efficiency Programme. Service areas have continued to develop plans to mitigate identified financial pressures. It is anticipated that the forecast outturn will continue to improve over the course of the remaining financial year as planned remedial actions impact on both expenditure and income. Therefore, there is no anticipated use of reserves required to balance the 2019/20 General Fund outturn position.

Taking the available baseline resources into account and the growth pressures identified, the gap/efficiency requirement for 2020/21 is currently estimated at £5.433m with a projected total of £41.822m to the end of 2023/24 as set out in Table 4 below:

Table 4: 2020-2024 General Fund Financial Plan cumulative funding gap

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Estimated General Fund Base Budget	154.726	155.730	157.367	155.509	154.901
Estimated Growth / Pressures	11.557	12.816	10.364	10.674	10.221
Estimated Resources / Carry Forward General Fund Base Budget	(155.730)	(157.367)	(155.509)	(154.901)	(154.293)
Funding Gap / Efficiencies	**10.553**	**11.179**	**12.222**	**11.282**	**10.829**
2019/20 Full year effect of business cases in future years		(1.346)	(1.262)	(0.982)	(0.000)
Revised Resources Gap		**9.833**	**10.960**	**10.300**	**10.829**
Adult Social Care Grant		(4.300)	4.300	0.000	0.000
IBCF – 2% CPI		(0.100)	0.000	0.000	0.000
Gap before Council Tax options and efficiencies		**5.433**	**15.260**	**10.300**	**10.829**
Cumulative funding gap before Council Tax and efficiencies	**10.533**	**5.433**	**20.693**	**30.993**	**41.822**

The indicative cumulative funding gap over the period of the Financial Plan is £22.542m as detailed in Table 5 below. This is after taking into consideration the potential options for Council Tax at 1.99% for 2020/21, Adult Social Care Precept at 2% and the current savings proposals which are being considered by Cabinet as part of the Budget-setting process.

Table 5: 2020-2024 General Fund Financial Plan cumulative funding gap before Council Tax options and 2020/21 Budget Proposals

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Gap before Council Tax & ASCP options and 2020/21 Budget Proposals	5.433	15.260	10.300	10.829
Council Tax Increase at 1.99% 2020/21 only	(1.922)	(1.930)	(1.938)	(1.946)
Council Tax Estimated Surplus	(0.774)	0.000	0.000	0.000
Adult Social Care Precept at 2% 2020/21 only	(1.932)	(1.940)	(1.948)	(1.955)
2020/21 Savings Proposals	(0.805)	(0.530)	(0.625)	(1.035)
Annual Funding Gap	**0.000**	**10.860**	**5.789**	**5.893**
Cumulative Funding Gap	**0.000**	**10.860**	**16.649**	**22.542**

4.9 Efficiency Savings

4.9.1 The Authority's approach for 2020-2024 is to achieve savings early where possible to mitigate against future financial risks whilst working in a very different way. In 2020/21, the Authority will see the benefit of actions and proposals implemented during the three financial years to 2019/20 and this work will continue over the medium term.

4.9.2 Expensive services will continue to be more effectively targeted only at the people who need them, ensuring that our most vulnerable residents have a successful, healthy and safe future no matter where they live in the Borough. Cabinet has protected, wherever possible, those universal services accessed by all, such as libraries, customer service centres and sport and leisure facilities.

4.9.3 Work continues to improve understanding and management of demand, concentrating wherever possible on enabling people to help themselves. Intelligence is being used to target scarce resources to best effect, income is maximised and long-term costs reduced. Work continues in partnership to improve outcomes with an innovative use of technology.

4.9.4 The Customer Service programme is expected to undertake a series of service reviews that will focus on ensuring the Authority delivers efficient and effective services. It is also anticipated that the reviews will highlight any opportunities for further service efficiencies to be delivered.

Appendix C sets out in more detail the efficiency savings for 2020-2024, which are summarised in Table 6 below:

Table 6: Efficiency Savings 2020-2024

Efficiency Programme	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Contractual Changes	(0.360)	(0.430)	(0.525)	(0.935)
Expenditure Reduction	(0.028)	0.000	0.000	0.000
Income growth	(0.100)	(0.100)	(0.100)	(0.100)
Service Provision – Commissioning	(0.067)	0.000	0.000	0.000
Corporate	(0.250)	0.000	0.000	0.000
Total 2020/21 Proposals	**(0.805)**	**(0.530)**	**(0.625)**	**(1.035)**

5. Housing Revenue Account

5.1 Introduction

5.1.1 This meeting of Cabinet is being asked to approve the initial Budget proposals for the Housing Revenue Account (HRA) Business Plan and Budget for the financial year 2020/21, including the housing rent, garage rent and service charge changes, and the HRA elements of the Capital Investment Plan. In addition, Cabinet have developed indicative plans for the next four years in line with the planning process for the General Fund, as well as a 30-year balanced HRA Business Plan in line with the requirements of self-financing.

5.2 Background and Government Policy Context

5.2.1 North Tyneside Council is responsible for the management of just under 14,700 council houses. Council Housing Rents and Service Charges form most of the income to the HRA and this income 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 Council's overall vision and Council Plan, and these documents very much set the context within which the HRA financial plan and Budget proposals are set.

5.3 Housing Green Paper

5.3.1 The Government published the Green Paper "A New Deal for Social Housing" in August 2018, which arose from a desire to consult on change post-Grenfell. The paper seeks to redress the balance between residents and landlords, tackle the stigma attached to social housing and to ensure that social housing can provide a stable base to both support people when they need it but also enable social mobility. Consultation on this paper closed on 6 November 2018, and the Authority are at this point waiting for the Government to publish its proposals to implement changes arising from the Green Paper and consultation.

5.4 Right to Buy Consultation

5.4.1 Alongside the Green Paper the Government also issued a consultation paper regarding the process that allows local authorities to use Right to Buy (RTB) receipts to deliver new homes. This includes considering the potential for local authorities to hold on to the additional receipts for longer than the current 3-year agreement, and to allow a higher proportion of RTB receipts to be used to fund new build, albeit these concessions would only be available in areas of high affordability pressure and the retention of receipts would only be a one-off. The consultation closed on 9 October 2018, and as North Tyneside is not deemed to be an area of high affordability pressure these concessions will not impact on North Tyneside at this time.

5.5 Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016

5.5.1 The Authority continues work on the implications of the significant challenges in housing terms from the Welfare Reform and Work Act 2016, in particular the roll out of Universal Credit, and the Housing and Planning Act 2016. The big change for 2020/21 is that this marks the end of the Government policy to reduce rent by 1% for 4 years as enacted in the Welfare Reform and Work Act 2016 for all housing stock. From April 2020 Government has announced that social rents will return to the previous policy of being based on Consumer Prices Index (CPI) plus 1% for at least 5 years to give some greater surety to allow longer-term business planning.

5.5.2 Most of the changes recommended by the Housing and Planning Act 2016 have not, as yet, become legislation, this removes any immediate impact from policy proposals such as Pay to Stay, Sale of High Value Assets and short-term tenancies. However, the current Government remains committed to the principle of councils using their assets effectively including consideration of the sale of higher value homes but have decided that this will be a local decision to avoid the creation of any barrier to building new homes.

5.6 Removal of the HRA Borrowing Cap

5.6.1 In the October 2018 Spending Review, the Government removed the HRA borrowing cap. Cabinet will remember the North Tyneside Settlement was above the borrowing cap. In future it will be for the Authority to determine the level of unsupported borrowing it wishes to undertake to fund new build, in line with the Prudential Code, which means applying the key tests to ensure that any debt taken on is “Prudent, Affordable and Sustainable”. This assessment has to be made based on the levels of rental income that can be raised to support such borrowing and against a background of no guaranteed grants to support that build along with the Government’s continued desire to encourage people to own their own home.

5.6.2 Since the Budget report to Cabinet work has been underway to review the approach to debt management in the HRA and at this stage it is not being proposed for the Authority’s approach to be changed at this stage. It is a policy priority of the Mayor to deliver more affordable homes. Further work will be undertaken over the next 12 months to identify potential available sites as part of the Authority’s affordable homes delivery.

5.7 Housing Property and Construction Service created as part of the cessation of the Kier Joint Venture

5.7.1 Cabinet are aware that on 1 April 2019 the Housing Property and Construction service within Environment, Housing and Leisure was established. As part of the project to return this service to the Authority a Benefits Realisation plan identifying and capturing the key benefits and savings arising was set up. The intention was and continues to be that benefits are reflected in the HRA Business Plan as they are crystallised. Savings create opportunities to either accelerate planned investment in the existing stock, or to invest in new stock as appropriate. At this point last year, a prudent approach was taken, and no savings were built into the

HRA Business Plan resulting from service returning to the authority, as it was known that the first year of operation would be one of significant challenge managing a transfer of nearly 400 staff back into the Authority. However, as the new service has bedded in, benefits will be realised and as such, these budget proposals contain the first set of benefits that will be accrued to the HRA. These are built into the projections for 2020-2024 and are aligned to Mayoral and Cabinet policy priorities.

5.7.3 The first set of benefits see an additional £1.500m per annum in revenue savings realised and built into the HRA Business Plan. It is now forecast that £1.400m of further savings will be achieved in Investment Plan spend and this has now been reported to Investment Programme Board. Alongside these positive additions to the plan, a full review of the Authority's Housing Asset Management Plan has been undertaken and further work is also being undertaken to establish the potential for further longer-term benefits and savings. The ultimate aim is to create a service that best meets the on-going needs of our tenants and residents whilst delivering greater efficiency and value for money.

5.8 <u>Summary</u>

5.8.1 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 2020/21 are indicative at this stage. A five-year timeframe is being proposed for the Housing Capital Investment Plan in line with the 2020-2025 General Fund Investment Plan.

5.8.2 Housing Revenue Account tenants will be consulted on these initial proposals, and the final HRA budget will be presented to Cabinet in January 2020. At that meeting in January Cabinet will be asked to approve the HRA Business Plan and Budget for 2020/21, including the housing rent, garage rent and service charge changes and the Housing Investment Plan.

5.9 <u>Key Objectives and headline assumptions for the Housing Service</u>

5.9.1 The over-riding objectives for the housing service are in line with Cabinet's agreed Housing Strategy and as far as possible within financial constraints, to:

1. Ensure the application of the principles of economy, efficiency and effectiveness;
2. Continue to invest in the existing stock to maintain the Decent Homes Standard;
3. Maintain and develop effective engagement with tenants;
4. Continually monitor the impact of changes such as Universal Credit and other welfare reform on our 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 Council homes where practicable; and
9. Create sustainable tenancies and maximise rental income collection.

5.9.2 The key headlines for the HRA budget for 2019/20 are as follows:

1. 2020 marks the end of the implementation of the Government policy to reduce rent by 1% for 4 years as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI sheltered accommodation homes. From April 2020 for at least the next 5 years rent increases will return to the Consumer Prices Index (CPI) plus 1%. The baseline for the 2020/21 is the CPI rate as at September 2019 which was 1.7%. Hence, the rent increase recommended for 2020/21 in line with Government policy will be 2.7%;
2. It is proposed to increase service charges for 2020/21 in line with CPI except where reviews of services have taken place to reflect changes in actual costs. Therefore, for the majority of service charges for 2020/21 the increase will be 1.7%;
3. 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. Therefore, for 2020/21 it is recommended that garage rents will have no indexation applied whilst the new charging structure in effect catches up, and that from 2021/22 the rent increase will return to being based on the long-term target for CPI which is 2%;
4. Benefits identified from the Housing Property and Construction service operation relating to HRA delivery will be built into the HRA Business Plan base budget, which will be £1.500m per annum initially from revenue savings;
5. The Capital Investment Plan has been refreshed based on the revised Asset Management Plan, along with revised sums identified to fund new build proposals;
6. There are several options available to Cabinet as to how to allocate the additional resources identified, increasing the fund to deliver more affordable homes in line with the Mayoral priority is of upmost importance. However, there has been a significant amount of work undertaken to look at other tenant priorities, and there is the opportunity to look at initiatives to meet some of those priorities. These include:
   - Improved Empty Homes Standard;
   - Free pest control service for our tenants;
   - Property MOTs i.e. scheduled maintenance visits as opposed to reactive ones to properties identified as high maintenance;
   - Reinstatement of a shorter painting frequency; and,
   - Continuation of the fencing programme beyond existing timescales
   - Improving support to tenants affected by welfare reform and Universal Credit;

   Therefore, we propose a Cabinet Tenant Priority budget of £0.500m per annum to invest in these areas;
7. It has been assumed that the balance of the initial £1.500m savings per annum would increase the funding available for the new build programme; and

8. Sustain unallocated working HRA balances at a minimum of £2.500m at this stage.

5.10 HRA Capital Investment Plan – assumptions

1. 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, but building in the additional savings from the creation of the Housing Property and Construction service, sees core spend of £108.564m over the next 5 years 2020-25 plus new build spend of £24.917m based on continuing the existing approach;
2. Spend for 2020/21 of £26.262m including £5.043m for the continuation of a new build / conversion / acquisition council house programme (including re-programming of £2.400m from 2019/20);

5.11 Medium-Term HRA Position

5.11.1 There are a number of key drivers which underpin the HRA Business Planning Process, which are:

- Government Rent policy;
- Future funding for Supported and Sheltered Housing;
- The Asset Management Strategy and New Build projects as part of Cabinet's Affordable Housing ambitions;
- Right to Buy Sales;
- Treasury Management Strategy and the removal of the HRA borrowing cap;
- Self-Financing and Depreciation;
- North Tyneside Living; and
- Establishment of the Housing, Property and Construction service within Environment, Housing and Leisure from April 2019.

5.12 Rent

5.12.1 2019/20 was the final year of Central Government's 4-year 1% per annum rent reduction policy, introduced by the Welfare Reform and Work Act 2016. The rent policy will return to Consumer Prices Index (CPI) + 1% for at least five years starting April 2020. Cabinet should also note the following assumptions reflected in the HRA Budget and Financial Plan:

1. The Authority will continue to move to target rent when properties become empty;

2. An initial review of service charges attached to North Tyneside Living schemes has been undertaken, and service charges attached to those schemes will be increased in line with CPI i.e. 1.7%. As schemes become established and fully operational, we are gathering more trend data and will ensure service charges reflect actual costs as closely as possible;

3. Cabinet agreed to exempt service charges from the 1% annual reduction and to freeze them until 2019/20 based on an assumption of low CPI rates. It is

recommended that policy is amended in line with the base for rent i.e. increases in line with CPI in future, excluding the additional 1%. Therefore that would mean a 1.7% increase for 2020/21 as explained above.

4. Charges for furniture packs were revised in 2017/18 to reflect the newly procured service and these service charges are continually reviewed to ensure that the income collected adequately covers costs.

5. The Authority also continues to monitor the impact of welfare reform changes. Members will be kept informed of any further announcements that clarify the position as soon as possible. Service charges on affordable rent properties are not exempt as the 80% of market rent calculation includes any service charges;

6. Garage rents are linked purely to an assessment of demand for the asset with no link to rent policy; the plan proposes to continue the long-term Government CPI target of 2% increases per annum as being reasonable. However, the lettings policy and charges were reviewed, and a revised charging policy was implemented which covers the two years up to March 2021, with the aim of harmonising charges across all garages. It is, therefore, recommended that there is no indexation applied for 2020/21, to enable the new charging regime to harmonise fully, with a return to the CPI based increases the following year;

7. It is assumed that the policy agreed by Cabinet to protect existing North Tyneside Living tenants from rent increases will continue. All new tenancies commence at the newly calculated rents. It is estimated that this protection equates to £0.060m in 2020/21 and will continue to steadily reduce from this point; and

8. From April 2018 Cabinet agreed that the Authority would move from a 50 to a 52-week rent year to enable better synchronisation with welfare reform changes and the introduction of Universal Credit. The impact of this change saw tenants' weekly rent spread over 52 weeks, although for those residents that wish to continue paying over 50 weeks this option was made available. This policy will continue.

5.12.2 The implications of any changes arising from benefit changes including Universal Credit (UC) continue to be monitored. UC started to be rolled out for all new claimants in North Tyneside from February 2018 for both single claimants and families. It is important to ensure that tenants continue to be kept fully informed of the requirements of the new scheme and to maintain the two-way communication process to ensure they are supported in managing the change and to avoid people falling into arrears, which has been a significant factor in most of the pilot schemes to-date. In North Tyneside early Universal Credit figures show at the end of July 2019 that in excess of 2,600 tenants were on Universal Credit, with 2,024 of those being in arrears totalling just under £1.592m. We have already invested additional resources temporarily to support those tenants affected by the changes, and this budget proposes more permanent investment in the resources required in this area. Additional resources of £0.340m have been included in the HRA budget proposals to support tenants in the transition to Universal Credit.

It is not anticipated that the UC scheme will be fully rolled-out across all areas of the country until at least 2023. Members will continue to be updated of any significant further changes as they become clear.

5.13 Future Funding for Supported and Sheltered Housing

5.13.1 Government have announced that in the short-term funding for existing supported housing will remain within the housing benefit system. This helps ensure at least in the short-term that sheltered accommodation remains an affordable and viable alternative for our ageing population. The position is not as clear in relation to longer-term funding for new supported housing schemes, and we will need to monitor any future announcements or proposals from future Government before assessing future viability for newly arising need.

5.14 Asset Management Strategy (AMS) and New Build Project Funding

5.14.1 The AMS is regularly updated and refreshed to make the stock data current, to fully identify the maintenance needs of the stock over the lives of the assets and to build these into the HRA Investment Plan. Because all the Authority's stock is now at or above Decent Homes Standard, this year's plan will initially be a refresh of key elements around stock numbers to roll the Plan forward. However, in addition the Plan has built in savings identified from the Housing Property and Construction service delivery of the Housing Investment Plan. The Plan identifies £108.564m of works to maintain Decent Homes over the next 5 years (£21.219m for 2020/21), with an estimated £24.917m available for New Build over the same period (£5.043m for 2020/21 including re-programming of £2.400m from 2019/20). These figures are based on continuing Cabinet's existing approach to debt management and self-financing.

5.15 Right to Buy (RTB) Sales

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

Table 7: 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 to date September	59

5.15.2 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 as long as they are used to fund new build homes at a 30% contribution rate within 3 years. This has seen an additional £5.563m of

Capital Receipts retained to the end of 2018/19, which has helped deliver £16.996m of new build schemes.

The trend in RTB sales is reflected in the 2020/21 Business Plan profile for stock numbers with circa 120 RTB sales and other disposals assumed.

5.16 Treasury Management Strategy (TMS) and the HRA Borrowing “Cap” removal

5.16.1 The HRA is an integral part of the Authority’s TMS, and key decisions were taken at the point of the introduction of Self Financing in 2012 as to the approach to be taken to HRA debt. When self-financing was introduced all stock retaining authorities were either given an additional allocation of debt, or had some of their debt paid off, depending on an assessment of the value of their 30-year Business Plans and the amount of debt they could be expected to manage. For North Tyneside this meant raising £128m of additional loans through borrowing via the Public Works Loan Board to pay our allocated share of debt to the Treasury. Each Authority at that point was allocated a “cap” which represented the maximum amount of debt that could be held attributable to the HRA. This Authority at that time was one of only a handful nationally where the debt held was above the “cap”. Our debt was £290.825m against a calculated cap of £270.585m but the Government “flexed” our cap to match our actual debt position to enable self-financing to happen.

5.16.2 At that point every one of the 160 stock-retaining authorities was at a different point relative to their cap. Most were under, but a significant proportion of those were very close to or at their cap, which meant any unsupported borrowing strategy was restricted. Each authority had to decide what debt and risk approach they wanted to take to fund both investment in existing stock and potentially any new build opportunities. Cabinet agreed to repay a proportion of the debt each year, to bring the overall debt holdings down below the cap. It was not the intention at that time to repay all debt held over the initial 30 years. This debt repayment approach has created some revenue surpluses which have been utilised to fund a programme of HRA new build spend totalling £22.674m to the end of 2018/19. In addition, by the end of March 2019 the Authority’s actual HRA debt stood at £254.818m compared to the £290.825m “cap”, and by the end of March 2020 it is anticipated that the debt will drop further to £250.216m. Therefore, the Authority has already created some capacity through the prudent approach aligned to its Treasury Management strategy.

5.16.3 The starting point for the 2020/21 Budget-setting is to base the HRA budget on Cabinet’s agreed policy approach, acknowledging that the figures beyond 2020/21 are indicative at this stage and are likely to change as a result of a number of factors, namely the Housing Investment Plan, which has been refreshed for 2020/21 and the continued implications of the creation of the Housing Property and Construction service, which via its Benefits Realisation Plan is now starting to bear fruit with the commencement of the new services.

5.17 Self-Financing and Depreciation

5.17.1 From 2017/18 the Government has required that all Local Authorities calculate a true depreciation charge as a true bottom line cost to the HRA. The approach developed by the Authority calculates a simple depreciation charge based on splitting investment works across a number of component elements of a building and linking that to the way the Authority's properties are valued using a number of "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.

5.18 Construction Project 2019

5.18.1 The resources necessary to fund the costs of the successful transformation project up to completion and sign-off in October 2019 will drop out of the business plan from 2020/21, both within the Housing Revenue Account and Capital Investment Plans.

5.19 Summary Plans

5.19.1 The option modelled for the HRA Business Plan of continuing the current policy for 2020/21 has the following set of basic assumptions:

- Additional rental income of CPI plus 1%, with a proposed rent increase for 2020/21 of 2.7%, with a longer-term assumption based on CPI target that equates to 3% per annum;
- Garage rent and service charges will settle with some minor delay for garages at increases of CPI per annum;
- Revenue savings from Housing Property and Construction (HPC) service of £1.500m have been assumed and built into the plan;
- A potential budget for additional Cabinet and Tenant priorities of up to £0.500m per annum would be created, with a list of costed options to be presented to Cabinet as appropriate;
- The base Capital Investment Plan has been refreshed based on an update of the Asset Management Plan, and includes savings anticipated from the HPC service;

The updated HRA Business Plan for 2020-2024 builds in HPC savings to enhance the new build programme in the next few years and continues to repay some debt. Table 8 below shows the reduction in HRA debt included in the current plan;

Table 8: Impact on HRA Debt 2020-2050 of Revised Business Plan

Description	Option 1 – Base Case
	£m
Opening Self-Financing Debt	290.825
Opening HRA Debt	250.216
Closing HRA Debt after 30 Years	128.224
Debt Repaid over 30 years	121.992
Debt Repaid from start of Self-Financing	162.601

The revised Business Plan as it stands provides for an increase in the level of funding for new build to maintain the focus on increasing the number of Affordable Homes in the borough. There is uncertainty around the impact Brexit might have on our debt position and if interest rates went up considerably contradictory to external Treasury Management advice and borrowing rates shifted significantly. It is prudent that Cabinet does not look to change its borrowing policy at this stage, until more surety can be gained over future economic trends.

Table 9 below shows the revised four-year HRA Business Plan 2020-2024, and then Table 10 splits those changes between Pressures and Growth, Efficiencies and Reserves and Contingencies.

The five-year Housing Investment Plan 2020-2025 is included within Appendix D (ii).

5.19.2 A further breakdown of the movement on Reserves and Contingencies is shown in Table 11 below; this includes a contribution from reserves of £2.589 for 2020/21. It is proposed to create additional contingency budgets of £0.596m to recognise issues including any inflationary increases and a pay award.

ANNEX 1

Table 9: Housing Revenue Account (HRA) 2020-2024

	2019/20 Forecast Outturn	2020/21 Draft Budget	2021/22 Draft Budget	2022/23 Draft Budget	2023/24 Draft Budget
	£m	£m	£m	£m	£m
Rent, Garages and Service Charge Income	(59.193)	(60.024)	(61.470)	(63.009)	(64.609)
PFI Credits - North Tyneside Living	(7.693)	(7.693)	(7.693)	(7.693)	(7.693)
Rent from Shops, Offices etc.	(0.275)	(0.275)	(0.281)	(0.281)	(0.281)
Interest on Balances	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)
Contribution from Balances	0.000	(2.589)	(1.427)	(1.044)	0.000
Total Income	**(67.211)**	**(70.631)**	**(70.921)**	**(72.077)**	**(72.633)**
Capital Financing Charges	12.110	13.831	13.493	13.339	13.182
Management Costs	10.326	10.227	10.420	10.620	10.835
Repair and Maintenance	11.325	12.247	12.424	12.619	12.824
PFI Contract Costs – North Tyneside Living	9.641	9.690	9.736	9.786	9.836
Revenue Support to Strategic Investment	9.053	10.470	10.092	10.403	9.093
Depreciation / Major Repairs Account (MRA)	12.392	12.826	13.276	13.740	14.220
Bad Debt Provision	1.008	0.980	1.080	1.180	1.215
Transitional Protection	0.070	0.060	0.050	0.040	0.030
Management Contingency	0.150	0.300	0.350	0.350	0.350
Pension Fund Deficit Funding	0.855	0.000	0.000	0.000	0.855
Contribution to Balances	0.281	0.000	0.000	0.000	0.193
Total Expenditure	**67.211**	**70.631**	**70.921**	**72.077**	**72.633**

	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
HRA Balances	**£m**	**£m**	**£m**	**£m**	**£m**
Estimated HRA Balances B/Fwd	**(7.303)**	**(7.584)**	**(4.995)**	**(3.568)**	**(2.524)**
Contribution to/from HRA	**(0.281)**	**2.589**	**1.427**	**1.044**	**(0.193)**
Estimated HRA Balances C/Fwd	**(7.584)**	**(4.995)**	**(3.568)**	**(2.524)**	**(2.717)**

Table 10: 2020-2024 Housing Revenue Account Financial Plan

HRA Forecast Expenditure Plan	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Original Base Budget Add:	2.331	2.589	1.427	1.044
Pressures and Growth				
HRA Debt set aside – MRP equivalent	1.990	(0.292)	0.000	0.000
North Tyneside Living (NTL) – Unitary charge	0.104	0.106	0.109	0.111
NTL – Contributions to / from PFI Reserve & contract monitoring	(0.056)	(0.060)	(0.059)	(0.061)
Depreciation (formerly MRA)	0.434	0.449	0.465	0.481
Housing Investment Plan-revenue support	1.417	(0.378)	0.311	(1.310)
Pension Fund Deficit Funding	(0.855)	0.000	0.000	0.855
Neighbourhood and Income Management Proposed Restructure	0.310	0.000	0.000	0.000
Revenue Repairs – Inflation/Pay Award/Superannuation rate increase	0.305	0.228	0.231	0.235
General Management Pay Award & Superannuation rate increase	0.303	0.196	0.198	0.214
Repairs – Tenants Priorities Budget	0.500	0.000	0.000	0.000
Bad Debt Provision	0.200	0.100	0.100	0.035
Total - Pressures and Growth	**4.652**	**0.349**	**1.355**	**0.560**
Efficiency Savings				
Council Dwellings – Rent Increases	(1.272)	(1.372)	(1.464)	(1.523)
Rental Income – Temporary and Dispersed Accommodation	(0.006)	(0.006)	(0.006)	(0.007)
Garage & Other Rents	0.000	(0.015)	(0.009)	(0.009)
NTL – Transitional Rent Protection	(0.010)	(0.010)	(0.010)	(0.010)
Service Charges – Furniture Packs	(0.019)	(0.023)	(0.024)	(0.024)
Service Charges – Sheltered and Communal Areas	(0.030)	(0.036)	(0.036)	(0.037)
HPC – Repairs Budget Savings	(0.500)	0.000	0.000	0.000
HPC – Management Cost Savings	(1.000)	0.000	0.000	0.000
Repairs – removal of Construction Project Budget	(1.300)	0.000	0.000	0.000
Treasury Management – Existing Debt & DME	(0.214)	(0.024)	(0.104)	(0.149)
Treasury Management – New and Temporary Debt	(0.054)	(0.023)	(0.049)	(0.008)
Council Tax Empty Home Payments	(0.100)	0.000	0.000	0.000
Repairs Budget–impact of stock reductions	(0.054)	(0.068)	(0.052)	(0.047)
Total – Efficiency Savings	**(4.559)**	**(1.577)**	**(1.754)**	**(1.814)**
Reserves & Contingencies				
General Management Contingency	0.150	0.050	0.000	0.000
Price Increases	0.015	0.016	0.016	0.017
Total – Reserves & Contingencies	**0.165**	**0.066**	**0.016**	**0.017**
Revised Base Budget	**2.589**	**1.427**	**1.044**	**(0.193)**

Table 11: 2020-2024 Housing Revenue Account Reserves and Contingencies

HRA Revenue Balances	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Increase in Contingencies	0.165	0.066	0.016	0.017
Contribution to/(from) Balances	(0.258)	1.162	0.383	1.237
TOTAL	**(0.093)**	**1.228**	**0.399**	**1.254**

6. Dedicated Schools Grant (DSG)

6.1 Background

6.1.1 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.

6.1.2 In September 2017, the Department for Education (DfE) published the response to the stage 2 National Funding Formula (NFF) consultation and confirmed the details of the NFF for the Schools block. In 2020/21 the DSG will continue to be comprised of four blocks covering: Schools, High Needs, Early Years and the Central School Services. Each of the four blocks has their own funding formula.

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 July 2018, as a result of the significant movement witnessed towards the NFF, the Government confirmed that these transitional arrangements would continue into at least 2020/21. In 2019, the DfE confirmed that the transitional arrangements will continue into 2020/21 and probably 2021/22, with the expected move to “hard” NFF being likely in 2022/23.

6.1.3 In 2020/21, as in 2019/20, the Authority will receive its DSG funding based on the DfE National Funding Formula. In October 2019, the DfE published indicative allocations under the NFF at school level using October 2018 census data. This shows the funding level for each mainstream school based on the NFF using the 2020/21 Primary Unit of Funding (PUF) and Secondary Unit of Funding (SUF) with October 2018 pupil numbers.

This information is for planning purposes only as local formulae used by each local authority can still vary from the NFF within the guidance issued by the DfE. The initial DSG allocation to the Authority for 2020/21 will be published in December 2019 using the October 2019 census results.

6.1.4 The Schools NFF for 2020/21 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 2020/21 are:

- The minimum per pupil funding levels will be set at Primary £3,750, Key Stage 3 £4,800 and Key Stage 4 £5,300. The following year, in 2021/22, the primary minimum level will rise to £4,000;
- The funding floor will be set at 1.84% per pupil, in line with forecast inflation to protect per pupil allocations for all schools in real terms. This minimum increase in 2020/21 allocations will be based on the individual school’s NFF allocation in 2019/20;
- Schools that are attracting their core NFF allocations will benefit from an increase of 4% to the formula’s core factors;
- There will be no gains cap in the NFF, unlike the previous two years, so that all schools attract their full core allocations under the formula;

- A technical change will be made to the mobility factor so that it allocates this funding using a formulaic approach, rather than on the basis of historic spend; and
- Growth funding will be based on the same methodology as in 2019/20, with the same transitional protection ensuring that no authority whose growth funding is unwinding will lose more than 0.5% of its 2019/20 schools block allocation.

In addition, two important restrictions will continue:

- Local authorities will continue to set a Minimum Funding Guarantee in local formulae, which in 2020/21 must be between +0.5% and +1.84%. 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.

6.1.5 The North Tyneside illustrative allocation for the Schools block, Central Schools Services block and High Needs block in 2020/21 (using census 2018 i.e. static pupil numbers) is shown below:

Table 12: Indicative Dedicated Schools Grant funding allocation 2020/21

	2020/21 Schools block units of funding (£'s)	Schools Block	CSS Block	Early Years Block	High Needs Block	Total Indicative DSG 2020/21
		£m	£m	£m	£m	£m
Primary per pupil rate (£)	4,084					
Secondary per pupil rate (£)	5,427					
Indicative DSG Settlement		**125.221**	**2.047**	**13.734**	**23.067**	**164.069**

6.2 Schools Block

6.2.1 Officers from the Authority have been working with the Schools Finance Sub Group for several months to review the Authority's Local Funding Formula (LFF) for schools and what the potential impact would be if the LFF was moved towards the National Funding Formula (NFF). The outcome of that work was presented to Schools Forum on 12 September 2019 and two funding models were proposed. These were: -

- Model 1 – 50% movement towards the NFF
- Model 2 – 75% movement towards the NFF

Each of the models put forward were presented with three scenarios which considered different levels of Minimum Funding Guarantee (MFG) which limits the impact of changes on individual schools' funding. At its meeting on 12 September, Schools Forum agreed to consult with all schools on the option of moving factor rates 50% towards the NFF. A consultation exercise was carried out with all schools during September and October 2019.

6.2.2 During the consultation, several engagement events were held to provide additional information on the modelling work performed and to support schools to give an informed response. The response rate increased from 38% in 2018 to 68% in 2019 with responses received from 48 schools and 3 governing bodies. The responses were split by phase as follows:

Table 13: Response Rates to the Consultation by Phase

Phase	Number Responded	Response Rate
Primary	29	62%
First	6	80%
Secondary Middle	4	100%
Secondary High	9	82%
Total	**48**	**68%**

Responses to the consultation questions from the 48 schools and 3 governing bodies are summarised below:

Table 14: Responses to the Consultation Questions 1 and 2

Question	Yes	No
1 Do you support in principle a change to the LFF, moving 50% towards the NFF factors which will impact the ratio of funding between secondary and primary schools?	50	1
2a Do you support in principle to the use of the Minimum Funding Guarantee to reduce the level of losses, subject to affordability, for individual schools?	47	4
2b and do you agree to allow the Authority to set the level of MFG subject to affordability?	44	4

6.2.3 In conclusion, the majority view from the consultation responses received was to support a move from the current LFF, to a LFF which moves the current funding factors 50% towards the NFF factors. In addition, most respondents supported both the use of the MFG to minimise the losses some schools would be exposed to following the change and to let the Authority set the level of MFG, subject to affordability.

6.3 <u>High Needs Block</u>

6.3.1 In common with most authorities, North Tyneside is continuing to see rising pressures within provision for children with special educational needs. This is due to the increasing complexity of the needs of children and young people in addition to general rising cost levels mainly as a result of pay inflation.

The number of children with an Education Health and Care Plan (EHCP) continues to increase and there are a rising number of pupils with Autism Spectrum Disorder (ASD) as their primary need. The forecast outturn for high needs as at September

2019 is estimated at £3.536m. This pressure is currently retained within the DSG but after 2020/21 this may reside within the General Fund.

A High Needs Strategic Plan was agreed by Schools Forum in May 2018 and this outlined a work plan to review the Authority's current special educational needs offer to ensure it meets needs appropriately at a sustainable cost.

6.4 Early Years Block

6.4.1 On the 31 October 2019, the DfE confirmed the Early Years Funding Formula for 2020/21. The Early Years National Funding Formula sets out the funding rates that local authorities receive for the universal and extended entitlements for 3 and 4-year-olds. The funding rate received by North Tyneside for 3 and 4-year-olds has increased from £4.56 to £4.64 per hour. It was also confirmed that the 2-year-old funding rate will increase from £5.20 to £5.28.

The DfE have not yet published the expected value of the Early Years block funding. To provide illustrative values, the newly published rates have been applied to the DfE early years factors presented in 2018, giving a potential funding amount of £13.734m in 2020/21.

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

6.5 Central Schools Services Block

6.5.1 The Central Schools Services block (CSSB) provides funding for local authorities to carry out the statutory duties they hold for both maintained schools and academies in England. Schools Forum is required to approve the proposals for expenditure from the CSSB.

Schools Forum will consider certain elements of funding that are held centrally within the funding allocations (known as centrally retained and de-delegated items) which are applied to benefit pupils across the Borough.

6.6 Timetable for Agreeing 2020/21 Distributions

6.6.1 The key dates which must be met in setting 2020/21 school budgets are shown in Table 15 below. This report is requesting authorisation for the Head of Resources, in consultation with the Head 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 15: Key dates for 2020/21 School Budget-setting

Date	Activity
July 2019	Department for Education (DfE) guidance issued for 2020/21
October 2019	Local consultation documents issued to stakeholders
October 2019	Consultation returns received and reviewed
13 November 2019	Schools Forum considers consultation response and agrees proposals for local funding allocation formula to individual schools, de-delegated and centrally retained budgets and any transfers between funding blocks
December 2019 / January 2020	Local Government Finance Settlement announced including school funding amounts
January 2020	Additional Schools Forum meeting (if required)
21 January 2020	Deadline for submission of final local School Allocations to DfE (the Authority Proforma Tool)
29 February 2020	Deadline for confirmation of schools budget shares to maintained schools (in North Tyneside the intention is to issue in advance of this deadline)

7. Cabinet's initial Budget proposals for the 2020-2025 Capital Investment Plan

7.1.1 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.

7.1.2 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 strategy reports to 26 November 2018 Cabinet and to this Cabinet. 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 Capital Investment Strategy is attached as Appendix D(iv).

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 revised 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 2019-2023).

Table 16 below shows a summary of the initial draft 2020-2025 Capital Investment Plan.

Table 16: Summary of Capital Investment Plan 2020-2025

Spend	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	Total £000's
General Fund	30,180	17,132	15,046	15,532	14,284	92,174
Housing	26,262	25,841	26,257	27,235	27,886	133,481
Total	**56,442**	**42,973**	**41,303**	**42,767**	**42,170**	**225,655**

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 17: Summary of Financing 2020-2025

Spend	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	Total £000's
General Fund **Council Contribution:**						
Unsupported Borrowing	16,974	7,448	6,862	7,848	7,100	46,232
Capital Receipts	423	423	254	0	0	1,100
Revenue contribution	577	577	746	500	0	2,400
Use of reserves	679	0	0	0	0	679
	18,653	8,448	7,862	8,348	7,100	50,411
Grants & Contributions	11,527	8,684	7,184	7,184	7,184	41,763
Total General Fund Resources	**30,180**	**17,132**	**15,046**	**15,532**	**14,284**	**92,174**
Housing – HRA						
Capital Receipts	3,821	3,329	2,970	3,922	3,068	17,110
Revenue Contribution	9,615	9,237	9,548	9,093	10,100	47,593
Major Repairs Reserve	12,826	13,275	13,739	14,220	14,718	68,778
Total Housing HRA Resources	**26,262**	**25,841**	**26,257**	**27,235**	**27,886**	**133,481**
TOTAL RESOURCES	**56,442**	**42,973**	**41,303**	**42,767**	**42,170**	**225,655**

7.1.3 The initial draft 2020-2025 Investment Plan for the General Fund includes expenditure of £30.180m in 2020/21. Of this expenditure £11.527m (38%) is funded through grants and other external funding contributions.

General Fund receipts (£1.100m), already received, and Housing capital receipts of £17.110m have been assumed in the financing of housing projects within the draft plan.

Across the life of the draft plan, unsupported borrowing totals £46.232m. The cost of borrowing is included within the General Fund Revenue budget and Financial Plan.

Work is ongoing to finalise these draft proposals. There are currently a number of projects progressing through the investment gateway process where bids have been made for external funding. These projects include Murton Gap infrastructure, Highway Maintenance Challenge Fund and Transforming Cities. It is planned that these projects will be added to the plan once funding is secured.

7.2 Flexible Use of Capital Receipts

7.2.1 Guidelines issued by the Secretary of State allow for the Flexible Use of Capital Receipts subject to certain criteria being met. These guidelines cover the period up to 31 March 2022. This flexibility allows Local Authorities to use capital receipts to fund revenue expenditure incurred to generate on-going savings. In order to use this flexibility Authorities are required to disclose those projects they intend to fund using capital receipts. This can be done as part of the Budget-setting process.

7.3 Capital Allocations 2020/21

7.3.1 A number of capital allocations (grants) are announced by Central Government as part of the Local Government Finance Settlement. These include Education Funding (Capital Maintenance and Devolved Formula Capital) (Department for Education), the Local Transport Plan (Department for the Environment) and Disabled Facilities Grants (through the Better Care Fund). Figures for 2020/21 have not yet been announced and therefore indicative figures, based on previous allocations, have been included in the draft plan. As soon as actual allocations are announced these figures will be updated and included in subsequent reports.

7.4 Annual Minimum Revenue Provision (MRP)

7.4.1 The Capital Finance Regulations require the full Council to agree an annual policy for the Minimum Revenue Provision (MRP).

The MRP is the amount that is set aside to provide for the prepayment of debt (principal repayment). The regulations require the Authority determines 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 either reasonably commensurate with that over which the capital expenditure provides benefits.

There are no changes proposed to the existing policy. The 2020/21 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. 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.

In addition to repayments made under the above policy it is proposed (see paragraph 4.7.2) that a further Voluntary Revenue Provision of £3.000m is made in 2020/21 to reduce the overall Capital Financing Requirement.

7.5 Prudential Indicators

7.5.1 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 2020-2025 have been prepared using this new guidance and are attached as Appendix D (iii).

8. 2020/21 Treasury Management Statement and Annual Investment Strategy

8.1 Background

8.1.1 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 this 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 liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Authority's (Investment) 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.

8.1.2 Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as:

"The management of the local authority's investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Capital Strategy which provides a longer-term focus to the capital plans is included as Appendix D (iv) to this report.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement. Non-Treasury Investments will also be reported separately through the Investment Strategy. 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.

8.2 Treasury Management Reporting

8.2.1 In line with best practice, the Treasury Strategy including an Investment Strategy is considered as part of the Budget-setting process.

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.

8.3 Treasury Management Strategy for 2020/21

8.3.1 The proposed Strategy for 2020/21 in respect of the following aspects of the treasury management function is based upon treasury management officers' view on interest rates, supplemented with market forecasts provided by the Authority's treasury advisor, Link Asset Services. This strategy covers:

- The current treasury portfolio position;
- Prospects for interest rates;
- Economic Outlook;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness; and
- Policy for the use of external service providers.

8.4 Training

8.4.1 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

8.5 Treasury management Consultants

8.5.1 The Authority uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

Whilst the Authority has external treasury management advisors it recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of its external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, its treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

8.6 Current Treasury Portfolio Position

8.6.1 The Authority's debt and investment position as at 30 September 2019 is set down in Table 18 below.

Table 18: Current Treasury Portfolio Position as at 30 September 2019

	Principal Outstanding	Average Rate
	£m	**%**
Fixed Rate Funding		
PWLB*	231.250	3.64
PWLB – (HRA Self Financing)	0.000	0
Market Loans	128.193	3.49
Temp Loans	20.000	4.35
	70.486	0.80
Total External Debt	**449.929**	
Less **Investments**		
(UK) DMO**	31.500	0.63
Total Investments	**31.500**	
Net Position	**418.429**	

*Public Works Loan Board
**Debt Management Office

8.7 Prospects for Interest Rates

8.7.1 The Authority has appointed Link Asset Services as its external treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 19 below sets out Link Asset Services professional view of interest rates.

Table 19: Link Asset Services forecast interest rates – (October 2019)

	Bank Rate %	5 year PWLB %	10 year PWLB %	25 year PWLB %	50 year PWLB %
Sep-19	0.75	2.20	2.50	3.10	3.00
Dec-19	0.75	2.30	2.60	3.30	3.20
Mar-20	0.75	2.50	2.80	3.40	3.30
Jun-20	0.75	2.30	2.90	3.50	3.40
Sep-20	0.75	2.40	3.00	3.60	3.50
Dec-20	1.00	2.40	3.00	3.70	3.60
Mar-21	1.00	2.80	3.10	3.70	3.60
Jun-21	1.00	2.90	3.20	3.80	3.70
Sep-21	1.00	3.00	3.30	3.90	3.80
Dec-21	1.00	3.00	3.30	4.00	3.90
Mar-22	1.25	3.10	3.40	4.00	3.90

8.7.2 Link Asset services currently forecast Bank of England base rate to remain unchanged until December 2020, in which the MPC may vote to increase rates to 1.00%, and another rate rise in March 2022.

The above forecast based largely upon a Brexit deal of some form negotiated with the EU. Given the current uncertainty, this is an assumption which may require material reassessment following further clarity.

8.7.3 From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crises, emerging market developments and sharp changes in investor sentiments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, and Money Policy Committee (MPC) decisions, will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geographical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be dependent on economic and political developments.

8.8 Investment and Borrowing Rates

- Investment returns are likely to remain low during 2020/21 but to be on a gently rising trend over the next few years;
- Borrowing interest rates have been volatile so far in 2019/20 with an overall downward trend leading to historic lows. This has resulted in long-term PWLB rates at an unprecedented and historic lows, however on 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 1.00% on top of the current margin of 0.80% for new borrowing from the PWLB. Therefore, total margin over gilt yields is 1.80%. There was no prior-warning that this would happen, and it now means that every local authority must reassess how to finance their external borrowing needs and the financial viability of future capital expenditure;

- The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and / or the refinancing of maturing debt; and
- There will remain a cost to carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

8.9 Borrowing Strategy

8.9.1 The Authority's capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns have remained low and counterparty risk is relatively high.

The Authority's borrowing strategy will give consideration to new loans in the following order of priority:

- The cheapest borrowing and lowest risk approach is internal borrowing. By continuing to maintain a relatively low level of cash balances the risk of investment is reduced. However, in view of the overall forecast for long-term borrowing rates to increase over the next few years, consideration will also be given to weighing the short-term advantage of internal borrowing against potential long-term costs if the opportunity is missed for taking loans at long-term rates which may be higher in future years;
- Temporary borrowing from money markets or other local authorities;
- Long-term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintain an appropriate balance between PWLB and market debt in the debt portfolio;
- PWLB borrowing for periods under ten years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt; and
- PWLB borrowing for periods of longer than ten years may be explored.

8.9.2 The principal risks that impact on the Strategy are the security of the Authority's investments and the potential for sharp changes to long and short-term interest rates. Officers, in conjunction with the Authority's treasury advisor, will continue to monitor the financial standing of banks and building societies, and the level of interest rates, both those prevailing and forecast.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Head of Resources will monitor the interest rates in financial markets and adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet or full Council, as appropriate, at the next available opportunity. Such circumstances include a situation where:

- If it were felt that there was a significant risk of a sharp fall in long and short-term interest rates, then long-term borrowings will be postponed, and potential rescheduling from fixed rate funding into short-term funding will be considered; or

- If it were felt there was a significant risk of a much sharper rise in long and short-term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

8.10 Policy on borrowing in advance of need

8.10.1 The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

8.11 Debt Rescheduling

8.11.1 As short-term borrowing rates will be considerably cheaper than longer-term interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). Any position taken via rescheduling will be in accordance with the strategy position outlined above.

In order to generate the most attractive debt rescheduling opportunities, it is proposed that the strategy for 2020/21 should remain flexible. The reason for any rescheduling to take place may include:

- the generation of cash savings and / or discounted cash flow savings at minimum risk;
- to help fulfil the strategy outlined above; and
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to Cabinet as part of the next financial management report at the meeting following its action.

8.12 Municipal Bonds Agency

8.12.1 It is possible that the Municipal Bonds Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Authority may make use of this new source of borrowing as and when appropriate.

8.13 Annual Investment Strategy

8.13.1 Investment policy – management of risk

The Ministry for Housing Communities and Local Government (MHCLS) and Chartered Institute of Public Finance and Accountancy (CIPFA) have extended the meaning of 'investments' to include both financial and non-financial investments. This section of the report deals solely with financial investments. Non-financial investments, essentially the purchase of income yielding assets, are covered later in the report.

The Authority's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments;
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017;
- CIPFA Treasury Management Guidance Notes 2018.

The Authority's investment priorities are:

a) the security of capital;
b) the liquidity of its investments; and,
c) Yield (return).

8.13.2 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are their short-term and long-term ratings;

2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings;

3. Other information sources used will include the financial press, share prices and other such information pertaining to the banking sector in order to establish a robust scrutiny process on the suitability of potential investment counterparties;

4. This Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix E under the categories of 'specified' and 'non-specified' investments:

- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year; and
- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. The Authority has determined that it will limit the maximum total exposure to non-specified investments as being 25%;

6. Lending limits for each counterparty will be set through applying the matrix table in Appendix E;

7. Transaction limits are set for each type of investment in Appendix E;

8. This Authority will set a limit for its investments which are invested for longer than 365 days;

9. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating;

10. This Authority has engaged external consultants to provide advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year;

11. All investments will be denominated in sterling; and

12. Following the introduction of IFRS 9 as a result of the type of type of investments the Authority holds, there has been no material impact on the Authority's financial statements.

    The Authority will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

    There have been no changes in risk management policy from last year, and the above criteria are unchanged.

8.14 <u>Investment Strategy</u>

8.14.1 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. Greater returns are usually obtainable by investing for longer periods. While most cash flow balances are required in order to manage day to day cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed:

- If it is thought that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as short-term or variable; or

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectation

A prudent approach will be taken with all investments being made on a short-term basis; in the current economic climate. This will primarily be achieved through investing with selected banks and funds which meet the Authority's credit rating criteria, as set out in Appendix E.

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

8.15 Creditworthiness Policy

8.15.1 The Authority applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit default swaps (CDS) spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

The modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration of investments.

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system; it does not give undue preponderance to one agency's ratings.

The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service:

- If a downgrade results in the counterparty no longer meeting the Authority's minimum criteria, its further uses as a new investment will be withdrawn immediately; and
- In addition to the use of credit ratings the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list. Sole reliance will not be placed on the use of this external service. In addition, this Authority will also use market data and market information on any external support for banks to help support its decision-making process.

8.17 Non-Treasury Investments

8.17.1 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.

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.

At 31 March 2019 the Authority held the following investments on its balance sheet:

Equity
Newcastle Airport Holding Company Ltd £10.886m (£10.784m 31/3/18)
North Tyneside Trading Company £5.159m (£2.980m 31/3/18)
LIFT Co £0m (£11)

Loans
High Point View £2.650m (£1.873m 31/3/18)
Aurora Properties (Sale) Ltd £2.178m (£0.978m 31/3/18)
Sub ordinated debt – Dudley and Shiremoor JSC £0.160m ((£0.160m 31/3/18)
Sub ordinated debt – Whitley Bay JSC £0.110m ((£0.110m 31/3/18)

In terms of the equity investments:

- 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 £4.093m, relating to investment in affordable homes in line with the Cabinet's priorities using section 106 funding. The second, amounting to £1.066m, relating investment in Aurora Properties (Sale) Ltd for the provision of housing for sale on the open market.

In terms of the loans:

- High Point View –It is anticipated that this amount will be repaid over the next few months as the properties are sold; and
- Aurora Properties (Sale) Ltd the loans are expected to be repaid over the next 3 years upon completion of the property developments.

The current 2019/20 and proposed 2020-2025 Capital Investment Plan includes further planned investment in the Trading Company of £9.072m (which includes £1.623m section 106).

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. Over the period of the Financial Plan (2020-2024), income from these investments is expected to be over £2.000m from staff recharges, interest and dividends.

A training session will be provided by Link Asset Services to all members involved in the investment decision-making process.

9. Provisional Statement to Council by the Chief Finance Officer

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, 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 her by other officers of the Authority as part of the Financial Planning and Budget process. Due cognisance to CIPFA's guidance 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 20 February 2020, when all outstanding information should be available.

<u>Robustness of Estimates</u>

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 2020-2024 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 2018/19 Statement of Accounts, presented to Council on 25 July 2019;
- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority; and
- The outcome of the 2019 Local Government Finance Settlement and the Spending Round 2019, which was published on 4 September 2019, and the implications for North Tyneside Council.

The level of contingencies currently remains at £4.636m as these are initial Budget proposals which will be finalised by Cabinet once consultation is concluded and the final Settlement is known.

Reserves, whilst relatively low, are adequate for the risks the Authority faces and can support the Efficiency Plan that is being set out.

The Cabinet is aware it must keep under review its Medium-Term Financial Strategy and four-year Financial Plan, in the context of the proposed refresh of the 2020-2024 Our North Tyneside Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2020/21 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.

9.2.1 Capital Strategy

In line with the 2017 'Consultation on Proposed Changes to the Prudential Code's' new 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 2020-2025 Capital 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 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.

9.3.1 Adequacy of Financial Reserves

General Fund

The 2020-2024 Financial Plan currently assumes no use of reserves to support the Budget. My view is that the current Financial Plan, should aim to maintain the Strategic Reserve at a minimum planned level of £10.000m over the life of the Financial Plan. Any unplanned use of the Strategic Reserve over the 2020-2024 Financial Plan may take the level outside of this boundary and corrective action would be needed to demonstrate how the £10.000m agreed level would be restored. Table 20 below shows the reserves as at the 31 March 2019 and the projected reserve levels over the period of the Financial Plan:

Table 20: Reserves and Balances as at 31 March 2019 and from 2020/21-2023/24

Reserves & Balances	Projected Opening Balances				
	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
Reserves					
General Fund Ringfenced	25.318	23.466	22.729	22.528	21.977
General Fund Unringfenced	19.492	19.369	19.368	19.369	19.368
General Fund Grants	3.795	1.569	1.371	1.331	1.271
HRA	19.852	17.279	18.049	18.148	18.701
Reserves Sub Total	**68.457**	**61.683**	**61.517**	**61.376**	**61.317**
Balances					
General Fund	6.804	6.804	6.804	6.804	6.804
Schools	1.599	(0.201)	(2.201)	(4.201)	(6.201)
HRA	7.584	4.995	3.568	2.524	2.717
Balances Sub Total	**15.987**	**11.598**	**8.171**	**5.127**	**3.320**
Grand Total Reserves & Balances	**84.444**	**73.281**	**69.688**	**66.503**	**64.637**

<u>Housing Revenue Account</u>

Table 21 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 21: 2020–2024 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Opening Reserve Balance	(7.303)	(7.584)	(4.995)	(3.568)	(2.524)
Contributions (to)/from balances	(0.281)	2.589	1.427	1.044	(0.193)
Predicted Reserve Balance Carried Forward	**(7.584)**	**(4.995)**	**(3.568)**	**(2.524)**	**(2.717)**

Guidance on Local Authority Reserves and Balances is given in Accounting Bulletin LAAP (Local Authority Accounting Practice) 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 2020/21 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 2020-2024 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.

Key Financial Risks

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 22: Key Financial Risks and mitigating actions

Potential Risk	Initial Response
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 has taken place to align proposals to the Efficiency Statement and how this enables the Authority to deliver its Efficiency Programme. This programme will then 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 on Council 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 SLT 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 2020/21.
There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2023/24 may be wrong, resulting in changes to the current targeted savings by 2023/24, for the General fund and for the HRA, which will be considered by Cabinet in January 2020.	There is flexibility within the Efficiency Programme which will allow the Authority to reconfigure 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.

	The outcome of the National election may result in significant changes to the budget provision for 2020/21.
There is a risk that, because of financial pressures within the Clinical Commissioning Group (CCG), the Council does not receive a full transfer of funding from health to social care and the continuation of funding for existing services funded through the Better Care Fund (BCF) and s256 agreements. This would have a significant financial impact to the Council.	The Policy and Framework and Guidance for the BCF specifically requires that funding transferred for social care should, as a minimum, be at the equivalent level as that of 2016/17 plus inflation. Following escalation to a national panel, the BCF contribution from the CCG has been agreed and 2020/21 and a Section 75 legal agreement is being drawn up on this basis.
There is a risk that not all growth pressures have been identified in the 2020/21 proposed Budget.	Detailed proposals have been put forward by each Head 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 2019/20 have not been fully taken into account when preparing the 2020/21 Budget.	The 2019/20 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures factors arising during the year are highlighted.
There is a risk that the in-year pressures being reported through the 2019/20 financial management process impact on the deliverability of the 2020/21 budget.	As at 30 September 2019, a pressure of £4.809m was reported against the 2019/20 budget. All services continue to develop and deliver actions to mitigate these financial pressures and expect the out-turn forecast to improve through the year. In addition, non-essential spend continues to be minimised along with a detailed review of demand led projections in order to reduce the over-commitment. Progress will be monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team.
There is a risk that the contingency provision included in the Financial Plan for 2020/21 is insufficient.	The review of the base budget and the reflection of the 2019/20 pressures into 2020/21 have been considered and an

	increase in the contingency budget is proposed.
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 process and planning process.
There is a risk that the Council will be unable to protect its housing assets and services to tenants as a consequence of reduced income to the Housing Revenue Account. 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. Further Welfare Reform changes, including the implementation of Universal Credit and its revised payment period, and changes proposed in the new Welfare Reform and Work Act 2016.	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 Capital Investment Plan is revised annually to help mitigate the impact of changes. In addition, the Financial Inclusion Strategy sets out how the Council and its partners will support its residents to better manage their finances and maximise their income. North Tyneside Council has representation on the MHCLG and CIPFA HRA working groups. This enables specific NTC 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 and Head Teachers 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 North Tyneside may be placed at a disadvantage following the decision to leave the European Union in both financial and economic growth terms. The full extent of the impact will not be clear until the Authority know the precise trade terms which will apply once Britain formally leaves the EU. This has a potentially significant financial impact due to loss of revenue grant and a potential loss of opportunities, i.e. capital grant and other revenue sources.	The potential impact from leaving the EU has been included in the Council's Financial Strategy. This is helping to ensure that potential areas of impact following the EU exit are highlighted and included (where relevant) in budget planning. The Council is a member of various regional groups which will help it keep up to speed on progress and have the opportunity to exert any influence that the Council can. It is inevitable that there will be some impact from the decision to leave the EU, the challenge is to manage the impact where possible.