

Overview, Scrutiny & Policy Development Committee

13 January 2020

Budget Sub - group report

Author: Budget Sub-group

Tel: 0191 643 5318

Wards: All

1 Purpose of Report

To inform Overview, Scrutiny & Policy Development Committee of the work undertaken by the Budget Sub-group in scrutinising the 2020/24 Financial Planning and Budget Process: Cabinets Initial Budget proposals.

2 Recommendations

1. The Overview, Scrutiny & Policy Development Committee is recommended to refer the report with its recommendations and views of the Budget Sub-group, as set out in the report to Cabinet for consideration as part of the 2020/24 budget setting process.
2. That the Budget Sub-group be delegated to make any further recommendations and/or views on behalf of the Overview, Scrutiny & Policy Development Committee to Cabinet at its meeting on the 10 February 2020.

3 Background

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

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

The following Members served on the group:

Councillor Sandra Graham
Councillor Jim Allan
Councillor Ken Barrie
Councillor Debbie Cox
Councillor Janice Mole

Councillor John O'Shea
Councillor Paul Richardson
Councillor Willie Samuel
Councillor John Stirling
Councillor Judith Wallace

The group met on the 16 December where Senior Officers presented 2020/24 Cabinets Initial Budget proposals and associated Business Cases under the following headings:

- Effective Treasury Management/Corporate Resources
- Provision of School Development Services
- Commissioning and Asset Management – Application of Fees and Charges Policy
- Commissioning and Asset Management – How we are Organised
- HIF Project Management
- Materials Recycling Contract: Recycling Costs
- Trading Companies

The following Cabinet Members were in also in attendance to provide further insight if/when required.

Councillor B Pickard
Councillor Ray Glindon

A further meeting has been arranged for the Budget Sub-group to reconvene and consider Cabinet Final Budget Proposals for 2020/24 that will take place on Tuesday 4 February 2020.

4 Council Plan

The Our North Tyneside Plan 2020 – 2024 provides the policy framework or context for the Budget proposals.

The Plan continues to be structured in three key themes – Our People, Our Places and Our Economy, however, the refreshed Plan now includes two key policy developments as agreed previously by full Council. These are in relation to the declaration of a climate emergency and the role of the North of Tyne Combined Authority.

Our Places will - 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.

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.

5 Budget Proposals

The Government's Budget Statement was due to be announced on 6 November 2019, and the Provisional Local Government Finance Settlement were due to be announced on 5 December 2019, however, because of the calling of a General Election the Budget Statement had been delayed.

The delay created significant uncertainty for the Authority when considering its Budget proposals for 2020/21 and further uncertainty when planning for the medium term.

Therefore, the approach taken when planning for 2020/21, was to use the Spending Round announcement delivered to Parliament on 4 September 2019 as recommended by the Ministry of Housing Communities and Local Government in a letter on 5 November 2019.

The initial Budget proposals for the General Fund had been developed in the context of a refreshed Our North Tyneside Plan 2020-2024, in where the Council Plan had been updated to reflect two key policy developments; the Council's declaration of a climate emergency and the context in which the Council now operates as part of the North of Tyne Combined Authority.

The budget proposals covered a four-year planning period from 2020-2024 for the revenue Budget and a five-year planning horizon for the Investment Plan.

Due to the significant uncertainty in relation to the level of funding beyond 2021 due to the changes in the local government finance system. The impact of the move to 75% Business Rates Retention, alongside the Fair Funding Review and Business Rates Reset were still unknown to the Authority at the time of the scrutiny meeting.

This increases the level of risk to financial planning, requiring current Budget forecasts to be closely monitored, and potentially refreshed more frequently than usual, as consequences become clear. The current savings requirement was estimated to be £41.822m over the period 2020-2024, before any proposals around Council Tax increases or the Adult Social Care Precept could be considered.

It was emphasised that the proposals had been developed following several years of cumulative effort to respond to reducing resources and rising costs and cover greater cumulative risk and required close attention to ensure delivery.

In the Spending Round 2019, the Chancellor announced proposals for a £2.9 billion cash increase in local government 'core spending power'. This would come from an extra £1.2 billion in social care grant funding for local authorities. The other £1.8 billion was expected to come from increases in Council Tax (1.99% general Council Tax increase, and a 2% precept for social care) and increases in business rates baseline funding in line with inflation.

The initial Budget proposals included the impact of the nationally recommended 1.99% general Council Tax increase and 2% Adult Social Care Precept, however, this would be finalised following the conclusion of the consultation process and confirmation on the Local Government Finance Settlement.

General Fund

Medium-Term General Fund Position

The 2019/20 financial year was the final year of the 2016 Spending Review, which had afforded local government some financial certainty with which to plan over the medium term. It was noted that the lack of a multi-year Spending Review presented a significant level of uncertainty when undertaking financial planning for the longer term.

This along with Brexit being delayed until 31 January 2020 and delays for major funding announcements due to the December 2019 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. Therefore, significant risks remain to the Authority's funding around the principles to be agreed for fair funding distribution and how the move to 75% BRR is implemented.

The Chancellor announced the proposed Spending Round 2019 (SR19) on 4 September 2019 and as anticipated SR19 was limited to a single year, which included headline numbers for Government spending for 2020/21 and indicative three-year allocations for schools.

In addition, SR19 confirmed the Government's proposal to 'roll forward' the 2019/20 Local Government Finance Settlement. The main headlines announced in SR19 included:

- Departmental spending to increase by 4.1% in real terms, whilst keeping within the Government's fiscal rules;
- Social care grants that local authorities received in 2019/20 will continue in 2020/21;
- The Improved Better Care Fund (IBCF) will be maintained at 2019/20 levels, as well as rolling the Winter Pressures Grant (£240m allocated in 2019/20) into the IBCF for 2020/21;
- An additional £1bn of grant funding will be distributed for social care in 2020/21, plus local authorities will be able to charge a further 2% Adult Social Care Precept (ASCP) (estimated at £500m);
- A real term increase in the Public Health and Revenue Support Grant; and
- Authorities will be able to increase Band D Council Tax up to 2% for the basic element in line with the referendum limit for 2020/21.

Consultation with Government was underway based on distribution of the additional social care grant. However, initial indications are that the Authority would receive additional social care funding of £4.300m in 2020/21.

The Authority is experiencing an incredibly difficult period and it is faced with relentless pressure on reduced budgets and the aim of the proposals presented were to protect essential services and make sure that the Authority operates as efficiently as possible to provide excellent value for money for local taxpayers.

The Sub-group acknowledged that it was a difficult activity to draft a budget based on many assumptions due to elements outside the Authority's control. However, it was encouraged during the detailed explanation of all the assumptions in presentation that the outcome of the proposed 2020/21 Budget was predicted to be a balanced Budget.

Housing Revenue Account

Through the information presented the sub-group was reminded that the Housing Revenue Account (HRA) was a ring-fenced account and that all the rent and charges collected must be spent on managing and maintaining the housing stock.

As of 1 April 2019, there were 14,637 Council homes, 800 leasehold properties and circa 1,600 garages.

The sub-group was informed that following the changes in 2012 when Central Government transferred HRA debt to Local Government, North Tyneside debt levels rose from £162m to £290m. At this time this was £20m over the debt cap and the Authority was granted special provision to exceed the debt cap. It was noted that the Cabinet had agreed to repay a proportion of the debt to bring the overall debt below the level of the cap which was anticipated to be £250.216m at the end of March 2020.

The Government removed the HRA borrowing cap, in its October 2018 Spending review, that allows Authority to determine the level of unsupported borrowing it wishes to undertake to fund new build, in line with the Prudential Code. It was noted that work had been underway to review the approach to debt management in the HRA and at this stage it was not proposed for the Authority's approach to be changed at this stage.

The Authority continues work on the implications of the significant challenges in housing terms from the Welfare Reform and Work Act 2016, particularly Universal Credit. The big change for 2020/21 is to the Government policy to reduce rent by 1% for 4 years will end for all housing stock and from April 2020 social rents will return to the previous policy of being based on Consumer Prices Index (CPI) plus 1% for at least 5 years.

On 1 April 2019 the Housing Property and Construction Service within Environment, Housing and Leisure was established and as part of the project to return the service to the Authority a Benefits Realisation plan identifying and capturing the key benefits and savings arising was set up.

Savings from the return of the service would provide opportunities to either accelerate planned investment in the existing stock, or to invest in new stock as appropriate.

The budget proposals contained the first set of benefits to be accrued to the HRA, with the first set of benefits seeing an additional £1.500m per annum in revenue savings realised and built into the HRA Business Plan.

It is also forecast that £1.400m of further savings would be achieved in Investment Plan spend.

A full review of the Authority's Housing Asset Management Plan had been undertaken and further work was also being undertaken to establish the potential for further longer-term benefits and savings.

It was noted that there is uncertainty around what the impact Brexit might have on the debt position especially if interest rates went up considerably contradictory to external Treasury Management advice and borrowing rates shifted significantly.

The sub-group agreed that it was prudent that Cabinet monitors the economic trend and give consideration to change its borrowing policy if sensible to do so.

Efficiency Savings

The sub-group received business cases that detailed the efficiency saving proposals for 2020/21:

Business Case	Value £000's	FTE Impact 20/21
Contractual Changes	-360	0
Reduced recycling costs and avoidance of operational costs	-100	0
Increase charges to the Trading Company	-5	0
Loan interest from Aurora Properties (Sales) Ltd	-230	0
Income arising from the project management of HIF projects	-25	0
Expenditure Reduction	-28	0
Cease the use of School Development Partners	-28	0
Income growth	-100	0
Increase the charge of SLA to schools	-100	0
Service Provision – Commissioning	-67	-1.6
Changes to service provision within Commissioning Service & Strategic Property	-67	-1.6
Corporate	-250	0
Reduction of interest costs through effective Treasury Management	-250	0
Grand Total	-805	-1.6

6 Business Cases

The sub-group considered the Business Cases in detail, that were proposed would deliver the required efficiencies.

6.1 Effective Treasury Management/Corporate Resources (saving £250k)

This proposal would generate savings by continued review of the maturity structure of Authority debt

By ensuring the Authority's Treasury functions are effective new debt and taking the most advantageous new debt would be taken for a term that would deliver most saving over various terms ranging from 1 and 50 years.

6.2 Provision of School Development Services (£28k)

This proposal involved ending the contracting of external School Development Partners to carry out specific school development projects.

Projects would be delivered by a skilled team of staff from within the Authority with differing backgrounds and who will offer a range of effective interventions and would provide a universal offer for schools and a more bespoke offer to individual schools depending on their needs.

6.3 Commissioning and Asset Management – Application of Fees and Charges Policy (£100k)

This proposal was to increase the Service Level Agreement charges in line with the Fees and Charges Policy by £100k for Catering and Cleaning Services.

The increase was in line with staff and food cost increases and the service would aim to secure additional new business in both catering and cleaning services inside and outside of the Authority to support the target saving.

6.4 Commissioning and Asset Management – How we are Organised (£67k)

This proposal was a direct saving as a change in service a resource reduction as a result of the organisation restructures. The savings would be realised through the voluntary reduction of 1 FTE post on Strategic Property and 0.6 FTE on the Commissioning Service.

6.5 HIF Project Management (£25k)

This proposal would realise income arising from project management of HIF (Housing Infrastructure Fund) projects at the Killingworth Moor and Murton Gap.

6.6 Materials Recycling Contract: Recycling Costs (£100k)

As part of the responsibility of providing householder refuse kerbside collection in the Borough. This proposal outlined new contract arrangements that would realise savings in the separation of recycling materials and finding markets to secure value for it.

The Authority would work with the new contractor to extend the types of material that can be recycled to minimise waste. There would be no impact for customers.

6.7 Trading Companies (£235k)

This proposal saw the intention to increase charges made by the authority to the Trading Companies in respect to Technical and Project Management Services by 2.5% above annual inflation.

It would also see Interest income from loans made by the Authority to Aurora Properties (Sales) Ltd to enable the construction of properties and outright market sale.

6.8 Budget Engagement

North Tyneside Council had made the commitment to include residents and other key stakeholders an opportunity to be involved in helping to shape decision making in relation to the Financial Planning and Budget process.

The overall approach gave the public the 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 the Mayor's Listening Events and Community Conversations as well as a broad range of both on-line and face to face engagement or consultation exercises on different key issues such as the Resident's Survey.

Budget engagement activity for the 2020/21 Budget undertaken provided clear information about the Financial Planning and Budget process in Autumn edition of the Our North Tyneside magazine.

Information about Cabinet's initial budget proposals in November 2019 was published online via the Council's website and at front line locations including the Community Conversation corners in the four Customer First centres. This was accompanied by a questionnaire to provide opportunities for people to give their feedback either via the website, e-mail or through social media.

Face to face engagement sessions with lead officers during November/December 2019, with four drop-in events (one at each of the Customer First Centres) and Members of the Residents Panel were invited to attend 3 sessions throughout December 2019 which provided a number of them with further context to the budget setting process, enable them to listen to the proposals and to provide feedback.

Targeted events were held for key stakeholder groups including: Staff Panel, businesses, schools, young people, community and voluntary sector, Trade Unions, North Tyneside Strategic Partnership, older people and carers.

6.9 Investment Plan

The initial draft 2020/25 Investment Plan for the General Fund included expenditure of £30.180m in 2020/21, of which £11.527m (38%) was to be funded through grants and other external funding contributions.

There were several projects that were going through the investment gateway process and where bids had been made for external funding. These included Murton Gap infrastructure, Highway Maintenance Challenge Fund and Transforming Cities. The projects would be added to the plan once external funding was secured.

7 Conclusions

The risk and uncertainty to have final budget proposals due to delay in the spending review, financial settlement, Brexit and General Election only increases difficulty for Local Government to plan effectively.

The Sub-group acknowledged that it was a difficult activity to draft a budget based on many assumptions due to elements outside the Authority's control. However, it was encouraged during the detailed explanation of all the assumptions in presentation from officers that the outcome of the proposed 2020/21 Budget was a balanced Budget.

The Sub-group was reassured that there were no compulsory job losses associated to the 2020/21 budget proposals.

The Sub-group was encouraged that the benefits from decision to insource the Housing Property and Construction Service would realise an additional £18.4m to invest in the service over the next 4 years (revenue) and 5 years (capital).

In relation to the refreshed Our North Tyneside Plan the sub-group noted the inclusion of the two key policy developments in relation to the declaration of a climate emergency and the role of the North of Tyne Combined Authority. It also was encouraged that as part of the 15-year Ambition for North Tyneside” Plan saw the continuation of regeneration across the Borough such as the creation of the Master Plan for North Shields.

Again, in relation to the priority to provide a clean, green, healthy and safe environment the sub-group was reassured that the Council was being proactive by responding to the Government Consultation on Future Homes Standard by making suggestions to make changes to building regulations to ensure greater home insulation and the requirement to install electric charging points in new homes.

As the developer in building new Council homes it hoped that the Authority would lead the way and become an exemplar provider by including a range of energy efficient technologies that would support the reduction of carbon footprint of the Authority.

The sub-group were also informed that the Cabinet Member responsible for Environment and Transport was with officers developing of the plan to deal with the climate emergency and recommends that scrutiny offers its help in the development of the plan.

Members of the sub-group also raised that it hoped that consideration would be made by Cabinet on further ways to generate income and savings for residents and businesses through e-advertising and methods to generate off grid electricity production.

The sub-group was encouraged that the Councils was utilising its community hubs by investing and refurbishing the hubs to bring the third sector and Police services into the Wallsend Community First Centre.

8 Presenting Officers

The following officers presented to the sub-group:

Claire Emmerson - Senior Manager Financial Planning and Strategy
Jacqueline Laughton - Head of Corporate Strategy and Customer Service
Mark Longstaff - Head of Commissioning and Asset Management
Philip Scott - Head of Environment, Housing & Leisure
David Griffiths - Interim Assistant Director for Education, Learning & Skills

9 Background Information

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

2020-2024 Financial Planning and Budget Process: Cabinet’s Initial Budget proposals

The group met on the 19 December where Senior Officers presented the 2020/24 Business Cases under the headings of:

1. Effective Treasury Management/Corporate Resources
2. Provision of School Development Services
3. Commissioning and Asset Management – Application of Fees and Charges Policy
4. Commissioning and Asset Management – How we are Organised
5. HIF Project Management
6. Materials Recycling Contract: Recycling Costs
7. Trading Companies

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