

Meeting: Overview and Scrutiny Co-ordination and Finance Committee

Date: 11 September 2024

Title: Response to Council Motion: Financial sustainability and Oflog data

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Service: Resources

Wards affected: All

1. Purpose of the report

- 1.1 At its meeting on 18 July 2024, Council debated and agreed a motion about the financial sustainability of the Authority and a recent newspaper report covering financial information from the Office for Local Government (Oflog). The motion agreed that a summary report be brought to this meeting of the Committee for questions and discussion.
- 1.2 The news article that triggered the initial motion was published in The Times in April 2024. Whilst referring to information from Oflog, it is important to note that the league tables and rankings that it referred to were created by the journalist, not Oflog itself. Further, the Committee should be aware that the methodology used by the journalist has been criticised by a range of commentators from the

sector, including the Local Government Association. It is also important that Committee note that the reported rankings are not an official Oflog or Government view/conclusion.

1.3 This report sets out a range of information in response to the motion. In summary, it confirms that there have been significant financial challenges faced by the sector and the Authority arising from both nominal and real term (ie in cash terms and when adjusted for inflation) funding cuts in the period from 2010.

1.4 Despite these funding challenges, the report also confirms that overall financial governance and sustainability remains strong. This is confirmed from the existing range of financial checks and balances that have been in place for many years, from the initial budget setting process, through monitoring processes and year-end reporting, plus scrutiny that takes place from Elected Members, Internal Audit and External Audit.

2. Recommendation

2.1 Committee is recommended to note the contents of this report.

3. Background

3.1 The motion agreed by Council is set out below for ease of reference.

This Council notes the recent low ranking in the financial section of the Office for Local Government (Oflog) report, which placed North Tyneside at 302nd out of 317 councils in finance and 235th overall as reported in The Times on 30 April 2024. As representatives of our community, it is imperative that we ensure transparency and financial robustness to maintain the trust and confidence of our residents.

Council notes the conservative leader of Northumberland County council has recently said the OFLOG league table was fundamentally flawed, and every political Group at the Local Government

Association recently criticised the methodology and the indicators used in the rankings.

Council notes the biggest factor in the financial sustainability of the council is the £470m we have had removed from our budget since 2013 from the previous Conservative Government.

Council notes the Mayor and Labour group have never hidden away from taking the difficult decisions to ensure the financial sustainability of the council, meanwhile the Conservative opposition have either not bothered to present a budget, presented budgets that would in the professional opinion of the then section 151 have brought the financial sustainability of the council into question.

Therefore, this Council resolves to request a report from the S.151 Officer addressing the following points:

- An analysis of the reasons behind North Tyneside's low financial ranking in the recent Oflog report, including a comparison with similarly sized councils and identification of specific areas where our financial performance falls short.*
- An outline of the current measures in place to ensure the financial stability and sustainability of North Tyneside Council, as well as the steps being taken to improve financial management and efficiency within the council's operations.*
- An assessment of potential financial risks and how they are being mitigated, alongside long-term financial strategies and plans.*
- Information on any external support or audits the council is receiving or planning to ensure financial best practices, along with outcomes of recent audits and steps taken in response to audit recommendations, should be included.*

The requested report should be presented at the next Overview and Scrutiny meeting for questions and discussion.

By approving this motion, North Tyneside Council demonstrates its commitment to transparency, financial responsibility, and the wellbeing of its residents. We must work collectively to address the

challenges and reassure our community of our financial health and stability.

3.2 Oflog was created in 2023 and is part of the Ministry of Housing, Communities and Local Government (MHCLG). Its stated aim, as set out on Gov.uk, is:

“The Office for Local Government (Oflog) will help make local government even better. We will increase understanding about the performance of local authorities, warn when authorities are at risk of serious failure, and support local government to improve itself.”

3.3 A key approach to delivering this role is to collate a range of performance information relating to the sector, which is presented in a “Data Explorer” (if Members wish to access this, it can be found at [Home - Local Authority Data Explorer - GOV.UK](#)).

3.4 The Data Explorer currently includes data relating to five areas, being

- Waste Management;
- Corporate and Finance;
- Adult Social Care;
- Planning; and
- Roads.

3.5 This data largely relates to information that is already in the public domain, largely coming from RO and RA forms that each local authority has to submit annually setting out budget and outturn information. There are some important factors for the Committee to note about this data. Firstly, it often relates to previous financial periods (currently the latest financial data relates to 2021/22) and, secondly, there is a degree of subjectivity involved in the production of data. By way of an example, the treatment of corporate overhead allocations can differ between authorities, which can impact on the relative unit costs of some services. However, it does provide an initial useful source of information to allow authorities to benchmark themselves against peers and identify areas for further review.

- 3.6 The Times article focused on information relating to finance, planning and roads, but applied its own methodology to come up with the rankings. Oflog had previously confirmed it did not expect to produce league tables, so it was a surprise for the sector when The Times article was published as it purported to allow readers to compare authorities' performance in a very linear way, without taking in account the local context.
- 3.7 As such, there was widespread criticism of the approach adopted, which the motion itself references. Indeed, the Chair of the LGA (a bodies that represents the whole sector) stated in a letter to the then Secretary of State, Michael Gove; "While I appreciate that the league table was compiled by a media organisation, we are very concerned that neither Oflog, nor DLUHC, stepped in swiftly to correct inaccuracies and misleading content –The method used to compile these indicators into a league table is fundamentally flawed."
- 3.8 Looking specifically at The Times report, the Authority does not recognise that it ranks 302nd out of 317 councils for financial measures nor 235th overall. This is largely on the basis that no Oflog ranking exists, but also that the financial data on the Data Explorer does not suggest that North Tyneside Council is an outlier.
- 3.9 This report will cover each part of the motion in turn and provide Committee with further information to allow an informed debate to take place on the information, including some local and national context.
- 3.10 It is important that the Committee considers this report in the context of the changing funding landscape for the sector from 2010 onwards. However, in doing so, it must be recognised that there was a change in the way local authorities were funded from 2013/14, which makes it difficult to make direct comparisons over the period in terms of direct Government funding.

- 3.11 From 2013/14, authorities started to receive a share of locally generated business rates (generally at 50% of the actual collected) rather than the full collection going to central Government and then a grant being received. At the same time, authorities started to receive the funding to support local council tax support (previously paid through council tax benefit), but it should be recognised that the allocation assumed a level of efficiency would be made, with funding only provided at 90% of previous levels of payment.
- 3.12 Later in this report, Core Spending Power (CSP) is used for comparison over the period, as this is the Government's measure of the resources available to local authorities. However, it is important to note that this takes into account a Government estimate of the local council tax collected, assuming the maximum increases are applied each year.
- 3.13 In terms of the change in central Government grant, to give an indication of the change in funding, a comparison has been made of the period from 2013 to current levels. In 2013, the Authority had a revenue budget of £177m, compared to £196m in 2024. However, in 2024 prices, the 2013 budget would have been over £240m, representing a reduction of £44m in the current financial year alone.
- 3.14 The main source of funding from central Government is Revenue Support Grant (RSG), which has reduced from £63m in 2013 to £14m in 2024, a reduction of £49m or 78%. Had the 2013 levels of RSG been maintained at the same level in cash terms, the Authority would have received an additional £470m of central Government funding over the period since 2013.
- 3.15 Committee members will also be aware that the funding levels cannot be considered solely in terms of relative funding levels, either in cash or inflation-adjusted terms. The changing level of demand on the sector, including increased numbers and complexity of social care cases, additional responsibilities for matters such as unaccompanied asylum-seeking children and the need to respond

to national Government policy changes, mean direct comparisons need to consider the wider changing financial landscape.

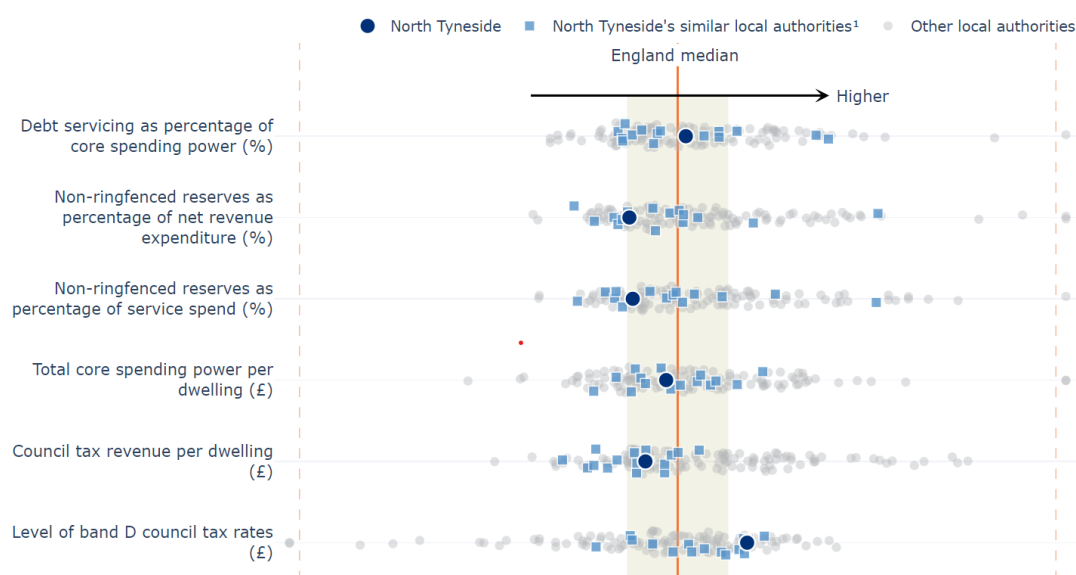
3.16 Finally, it is important to note that the proportion of funding that now comes from locally collected council tax has increased, with increases in real terms of circa 20% since 2010, effectively offsetting roughly half of the reduction in funding from central Government. In cash terms, the council-element of a Band D council tax bill has risen, in line with Government assumptions, from £1,328 to £1,943 in 2024/25, an increase of 46%.

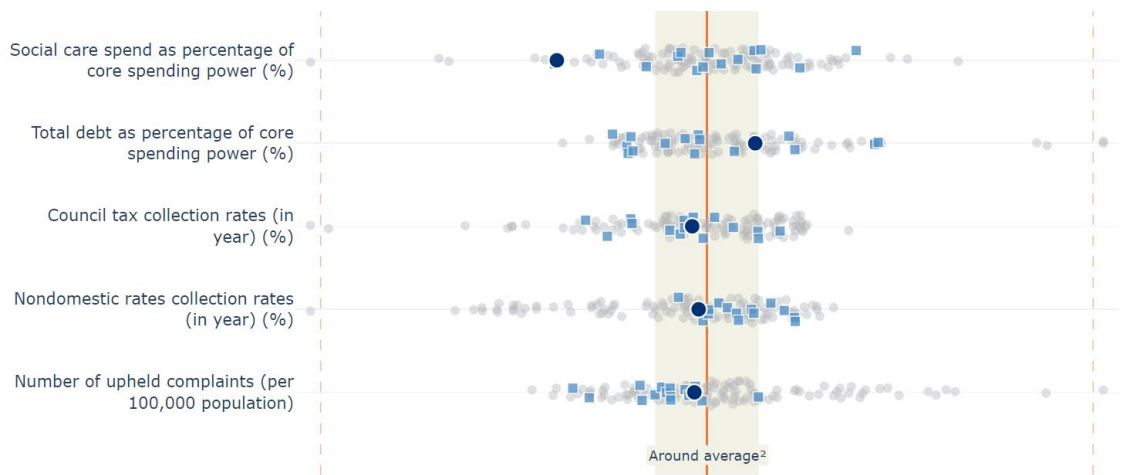
4 Response to the motion's detailed requests

Analysis of the North Tyneside Council position

4.1 The latest data in the Financial Section relates to 2021/22 and is summarised in the graphic below – Members can access this information from the Data Explorer via the link provided earlier, then selecting North Tyneside Council.

Data for North Tyneside, 2021-22





4.2 The Authority is represented by the blue dot, with our statistical neighbours being the light blue squares. The remainder of all councils are shown as grey dots. The pale yellow shading is where Oflog consider councils to be “around average”, a measure that they define as identifying where “a metric scores that fall outside the rectangle are considered to be different from the England average”.

4.3 As can be seen from the data, the Authority is largely within the average range all councils for the majority of the indicators and is comparable with its statistical neighbours. It is therefore not clear how the journalist reached the conclusion on the ranking for finances and the low ranking does not accord with the internal assessment we have of our finances, nor the views expressed in recent years from the External Auditors, notably through their Value for Money Assessments which have all been unqualified.

Measures currently in place

4.4 Financial governance is strong in North Tyneside and the current arrangements that exist have been in place for several years. These include:

- The Budget setting process, which came to Council in February. This sets the financial parameters for the coming year, plus gives a 4-year view via the medium term financial plan (MTFP);
- The preparation of the budget goes through Cabinet, Overview and Scrutiny Co-ordination and Finance Committee and the

Budget Study Group. This spans a 4-month period (November to February) in the public domain, with preparatory work starting in the spring with Cabinet Members working with senior officers to develop proposals;

- The performance and finance reports that go to Cabinet and OSC&FC every two months, setting out in a transparent manner the financial pressures that are being experienced so that corrective action can be taken where required;
- The strategic risk register goes to Cabinet and Audit Committee every 6 months, which includes financial and service specific risks (several of which have financial implications). Audit Committee, which also includes 2 independent, co-opted members, also receive period updates from Directors who go into more detail on the risks that they are responsible for managing; and
- External and internal audit reports go to every Audit Committee, so any financial governance concerns are discussed in a transparent way. Members of that Committee, supplemented by the recent All Member Briefing, are briefed on progress with the production and audit of the statutory Statement of Accounts. Those updates have included open discussions about the current external audit delays. Whilst the Authority has not yet received the audit report and opinion for the 2022/23 Statement of Accounts, the external auditors have confirmed that this is due to national issues and do not reflect any financial governance concerns.

4.5 However, the current financial position is challenging. The in-year position was last reported to Cabinet on 29 July, which is on the agenda for this Committee to scrutinise, with the next Cabinet meeting on 16 September receiving the next Performance and Finance Report, which will come to the October OSC&FC meeting.

4.6 The July Cabinet report transparently reports the pressures in-year, with work underway by Cabinet and senior officers to work to

address the pressures. If the pressure cannot be fully addressed with in-year mitigations, which is increasingly likely, the Authority will need to utilise its reserves, initially focused on the Strategic Reserve.

- 4.7 This is exactly why that reserve is held, but any use will need to be addressed via the MTFP to ensure it can be replenished as soon as practicable.

Potential financial risks and mitigations

- 4.8 The current MTFP has a funding gap for the period to 31 March 2028 of £32.7m. Work is currently underway as Cabinet develop its proposals, which will be initially presented at its meeting on 25 November. These proposals will take account of the existing financial risks identified during the year, building on those already identified and being monitored.
- 4.9 The current financial risks were included in the budget papers approved by Council on 15 February 2024 – these are included in Appendix 1 of this report for reference.
- 4.10 In addition to those risks, and the work that is underway to mitigate pressures through internal actions, the Authority continues to lobby Government individually, regionally and nationally to consider the impact of sector funding and potential solutions.
- 4.11 A recent example of this is a letter that was sent to the new Deputy Prime Minister by the 12 Elected Mayors and Leaders from the Association of North East Councils (ANEC), highlighting the local challenges from the funding levels received by the region. Some key examples of the comments made and requests include:
- The average increase in CSP – being the Government’s measure of funding levels to councils – from 2010/11 to the current year is 10.5%;

- Over the same period, demand has increased significantly and inflation (measured by the Consumer Price Index (CPI)) increased by 48.5%;
 - North Tyneside's increase over the period was at the higher end of the range received by ANEC authorities, but at 8.5% was below the England average. Some authorities have seen increases in CSP of over 35% (Surrey 35.8%, Wokingham 45.5% and Isles of Scilly 46.9%);
 - If CSP had increased by the national average, our CSP would be £2.2m higher than its current level;
- Business Rates Retention – when this scheme was introduced in 2013/14 it was expected that it would be “reset” every 5 years. This has been repeatedly delayed, so the growth in business rates that is retained by authorities is still calculated based on the position from a decade ago. Whilst the impact of the reset is broadly neutral for North Tyneside, as a region it is calculated that ANEC area overall would benefit by £54m per annum;
- Given the social care pressures facing the full sector, an ask for additional specific grant funding was requested. A £500m national fund would generate about £2.2m for North Tyneside;
- Temporary accommodation costs are an increasing risk for all authorities, with the current budget monitoring for the Authority predicting a pressure that is approaching £1m, arising from the cost of provision and a limitation on the benefit that can be reclaimed. The letter asks that all of the cost of temporary accommodation be funded;
- There are a range of specific grants, including the New Homes Bonus, which have different allocation methods. Mainstreaming these grants would lead to an estimated increase in funding for the Authority of £2.1m; and
- The letter also includes by setting out further improvements that could be made to the funding landscape, including multi-year settlements, moving away from councils having to bid for external funding, a reform of the children's residential care market, full funding of new initiatives such as weekly food

collection and a fundamental review of the way the sector is funding (previously referred to as the Fair Funding Review).

External audits and reviews

- 4.12 As referred to above, the external auditors, despite the delay in the 2022/23 Statement of Accounts, have confirmed that there are no financial governance concerns. Similarly, the annual opinion from the Chief Internal Auditor confirmed no concerns, allowing a positive Annual Governance Statement to be prepared and approved by Audit Committee in May.
- 4.13 However, financial pressures do exist as confirmed in the bi-monthly budget monitoring reports. Various reviews are underway as both the in-year position and the MTFP is reviewed, which naturally focus on the areas of significant pressure and/or large areas of spend. Members will be aware of the new MTFP approach that was adopted when the 2024/25 was set, but examples of additional work include:
- A LGA Peer Review on children's finance – undertaken in July (report being drafted by the LGA representatives);
 - An adult social care pre-inspection peer review – undertaken in the spring, confirming areas of strength and development ahead of the new CQC inspection regime;
 - Capita contract review – agreement to end the Capita contract early and bring back core highways, property and planning activities later this year; and
 - Regular benchmarking at a LA7 and ANEC area, with comparisons of the financial assumptions used in our financial planning to ensure they are reasonable and robust.

5 Conclusion

- 5.1 The financial position of the local government sector is challenging. As noted earlier, changes to the way that the sector was funded in 2013/14 make it difficult to give direct comparisons, but the reduction

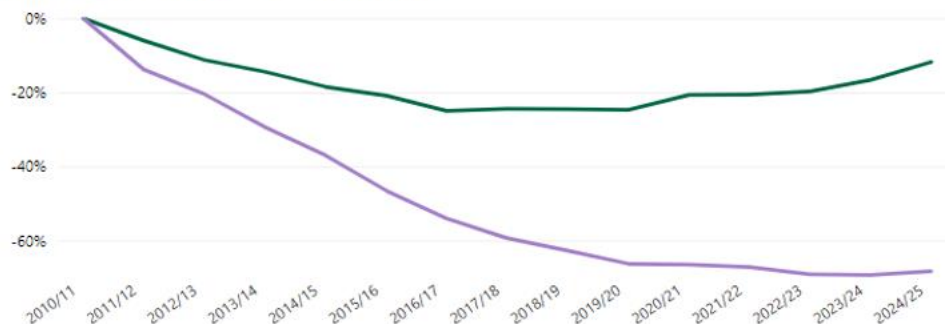
in CSP in real terms has been stark, as demonstrated by the following chart:

Long-term changes in spending power and settlement funding

Core spending power in North Tyneside decreased by an estimated -11.8% between 2010/11 and 2024/25, adjusted for inflation. Settlement funding decreased by an estimated -68.3%.

Estimated % change since 2010/11, adjusted for inflation

Measure ● Core spending power ● Settlement funding



- 5.2 The chart shows the reduction in CSP (the green line) through the first half of the period, before the start of a recovery. However, despite the recovery, the impact is estimated to be a reduction of circa 12% in real terms. Committee will also note that the demand for council services across the country has increased over that period, due to factors such as the aging population, increasing complexity of social care cases and the general cost of living position.
- 5.3 The chart also shows the reduction in settlement funding (in summary the central Government funding), which has decreased by over 68% in real terms. This difference between the CSP and settlement funding reductions is largely the impact of increasing council tax levels over that period, with the Authority having a policy in recent years of increasing council tax (including the Adult Social Care precept) in line with Government assumptions.
- 5.4 The impact of the reduced funding and increased demand on services has led to the current financial position. As noted earlier, the agenda for this Committee meeting also includes the Performance and Financial Monitoring report from the July Cabinet, which

highlights an in-year pressure. Should the overspend materialise at its current level (£13.7m), this would require use of reserves.

- 5.5 Cabinet Members and senior officers are working to mitigate the in-year pressure, but the Committee will note that the current level of the Strategic Reserve (£8.5m) and the General Fund Balance (£7m) exceed this level. Usage would clearly have an impact on the on-going financial resilience of the organisation, but Committee Members should note that in the immediate term, financial resources would be available.

6. Appendices

Appendix A: Extract of Financial Risk Summary from the MTFP Annex approved by Council on 15 February 2024

Appendix 1: Extract of Financial Risk Summary from the MTFP Annex approved by Council on 15 February 2024

13. Overall Financial Risk Assessment

13.1 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.

13.2 Key Financial Risks

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

Table 18: Key Financial Risks and mitigating actions

Potential Risk	Initial Response
Long Term Financial Impact of COVID and the cost-of-living crisis: There is a risk that there may be long term impact on the ongoing income from Council Tax and business rates	Revenue monitoring to understand affected services and areas; Close monitoring of income levels compared to budget and regional/national comparators.
There is a risk of being unable to set a balanced budget for 2024/25 and over the period of the MTFP.	Managed during the budget setting for 2024/25 and robust budget challenge.
The significant impacts of the “cost of living” crisis, exceptional inflationary pressures and the wider impact of the global economy have the potential to	Close monitoring of this position during 2023/24 and future years will be required to ensure the MTFP reflects any ongoing pressure and the

<p>drive additional budget pressures beyond those assumed in the MTFP.</p>	<p>impact assessment of the current economic situation.</p>
<p>Ongoing uncertainty around local government and wider public sector finances</p>	<p>The Authority will continue to take part in consultations on any funding reforms and will continue to lobby the Government for additional funding where necessary.</p>
<p>There is a risk that the levels of savings and income the Authority has included in the Budget proposals are not fully deliverable.</p>	<p>A robust challenge process will take place to ensure proposals can be delivered. All savings and income will be monitored throughout the year to identify any areas which are not delivering savings as planned so corrective action can be taken.</p>
<p>There is a risk that if the planned activity to manage the MTFP is not successfully implemented the Authority may be unable to deliver improved services and meet the increased demand for services within reducing resources.</p>	<p>Monthly Updates to the Senior Leadership Team are provided as part of the in-year performance and financial management process, which feed into bi-monthly Cabinet and OSC&FC reports.</p>
<p>There is a risk that the assumptions that have been made based on the provisional settlement up to and including 2027/28 may be wrong, resulting in changes to the current targeted savings for the General fund and for the HRA, which will be considered by Cabinet in January 2024.</p>	<p>Through a robust approach to financial management the Authority is in a position to respond to determine actions necessary if the assumptions that have been made prove to be incorrect. The Authority works 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</p>

	be highlighted before final decisions are made.
There is a risk that not all growth pressures have been identified in the 2024/25 proposed Budget.	Detailed proposals have been put forward by each Director of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand - led pressures exceed Budget provision.	Demand-led pressures continue in areas such as adults' and children's social care and the impact of the Living Wage on our care providers (and the price for services the Authority then has to pay) have been taken into consideration as part of these initial Budget proposals.
There is a risk that the in-year pressures being reported through the 2023/24 performance and finance monitoring impact on the deliverability of the 2024/25 budget.	As at 30 November 2023, a pressure of £8.622m was reported against the 2023/24 Budget. The 2024/25 proposals take into account known pressures and unachieved savings identified in the 2023/24 monitoring.
There is a risk that there are insufficient levels of reserves and balances.	A full review of reserves and balances is undertaken on a regular basis as part of both the in-year monitoring and planning processes.
There is a risk that the Authority will be unable to protect its housing assets and services to tenants as a consequence of reduced income to the HRA.	The budget-setting process incorporates a review of the HRA Business Plan to reflect known changes. The cost and quantity of work within the 30-year Investment Plan is revised annually to help mitigate the impact of changes. In addition, the Financial Inclusion

	<p>Strategy sets out how the Authority and its partners will support its residents to better manage their finances and maximise their income. The HRA budget includes proposal to increase support to tenants in managing their ability to sustain their tenancies.</p> <p>The Authority has representation on the DLUHC and CIPFA HRA working groups. This enables specific issues to be raised and allows the Authority to comment and influence change on HRA regulation</p>
<p>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.</p> <p>This risk is currently driven in part by the number of surplus places at secondary schools.</p>	<p>The school deficit has been identified as a priority for the Authority, headteachers and governing bodies. A programme of work has been identified, working with schools to improve the schools deficit position, as set to Cabinet in September 2023 in the Ambition for Education report.</p>
<p>There is a risk that the Authority may be unsuccessful in securing additional support from the ESFA to mitigate the pressures and current deficit position within the DSG</p>	<p>Internal Governance processes are in place to ensure close monitoring of the agreed Safety Valve/DSG Management Plan. Schools Forum is kept up to date with all plans that are included within the DSG Management Plan.</p>
<p>There is a risk that the DSG Deficit Statutory override will come to an end in 2025/26 leaving the Authority with a significant risk to its reserves if the</p>	<p>The Authority will continue to submit responses to consultations with the DfE and CIPFA highlight the significant</p>

<p>level of deficit needs to be covered by General Fund Reserves</p>	<p>risk this would be to financial sustainability for the sector.</p>
<p>There are an increasing number of councils facing equal pay claims, which could increase the likelihood of similar approaches to the Authority.</p>	<p>The national picture is being monitored closely and the Authority will continue to work with Trades Union colleagues to ensure that all parties understand the latest position and the potential impact in North Tyneside.</p>