

# North Tyneside Council

## Report to Cabinet

### Date: 3 February 2020

#### Title: 2020-2024 Financial Planning and Budget Process: Cabinet's Draft Budget and Council Tax Requirement Proposals and Final Budget proposals for the Housing Revenue Account (HRA) Business Plan and Budget

<b>Portfolio(s):</b> Elected Mayor	<b>Cabinet Member(s):</b> Mrs Norma Redfearn
Finance and Resources	Councillor Ray Glindon
Housing	Councillor Steve Cox

**Report from Service Area:** Senior Leadership Team

**Responsible Officer:** Janice Gillespie, Head of Resources (Chief Finance Officer) **Tel: 643 5701**

**Wards affected:** All

#### **PART 1**

##### **1.1 Executive Summary:**

- 1.1.1 The Government published the Provisional Local Government Finance Settlement for 2020/21 on 20 December 2019 via a written statement. The content of the Provisional Settlement was largely known in advance as it is based on a technical consultation paper published in October 2019 that set out in more detail the Government's plans for allocating the resources announced in the Spending Round 2019.
- 1.1.2 In the Spending Round 2019 (SR19), the Chancellor announced proposals for a £2.9 billion cash increase in local government's 'core spending power', to come from an extra £1.2 billion in social care grant funding for local authorities. The other £1.7 billion is expected to come from an increase in Council Tax (1.99% general Council Tax increase and a 2% precept for social care) and an increase in business rates baseline funding in line with inflation. These proposals remain unchanged and form the basis of the Provisional Settlement.

- 1.1.3 The Elected Mayor and Cabinet's draft Budget proposals therefore include for consideration a 1.99% general Council Tax increase and a 2% Adult Social Care Precept. The Medium-Term Financial Plan (MTFP) includes the cumulative impact of these increases for the subsequent financial years 2021/22 to 2023/24.
- 1.1.4 The draft Budget proposals for the General Fund set out in this report have been developed in the context of a refreshed Our North Tyneside Plan 2020-2024, as set out in Appendix A of this report. The Plan has been updated to reflect two key policy developments; the Council's declaration of a climate emergency and the context in which the Authority now operates as part of the North of Tyne Combined Authority.
- 1.1.5 At its meeting on 9 September 2019, Cabinet approved the process and timetable to be adopted for the preparation of the draft Medium-Term Financial Plan, 2020/21 revenue Budgets in respect of the General Fund, Dedicated Schools Grant (DSG) and Housing Revenue Account (HRA), the 2020-2025 Investment Plan and the 2020/21 Treasury Management Statement and Annual Investment Strategy, as part of the overall Financial Planning and Budget process for 2020-2024. Cabinet also approved the Budget Engagement Strategy as part of that report.
- 1.1.6 This report presents, for consideration, Cabinet's draft Budget proposals, in accordance with the timescales set out in the Authority's Constitution (Budget & Policy Framework Procedure Rules). This report presents proposals to cover a four-year planning period from 2020-2024 for the revenue Budget and a five-year planning horizon for the Investment Plan.
- 1.1.7 There is significant uncertainty in relation to the level of funding beyond 2021, due to the one-year settlement for 2020/21 and the anticipated 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 are unknown at this stage. These increase 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 is estimated to be £39.574m over the period 2020-2024, before any proposals around Council Tax increases or the Adult Social Care Precept are considered.
- 1.1.8 There are a number of assumptions and judgements (paragraph 1.5.9) built into the figures presented that lie mainly outside the control of the Authority and need to be finalised. The estimates of amounts will therefore need to be subject to further review before they can be confirmed.
- 1.1.9 Cabinet, in its report of 25 November 2019, set out the estimates for all aspects of the Elected Mayor and Cabinet's proposed spending and resource plans for the Housing Revenue Account (HRA) Budget for 2020-2024 and associated Investment Plan 2020-2025 (within Annex 1). In addition, the report outlined the proposed changes to housing rent, garage rent and service charges for 2020/21.
- 1.1.10 Cabinet is now formally asked to approve the proposed spending and resource plans for the HRA Revenue Budget for 2020/21 in accordance with the responsibilities of Cabinet pursuant to the Local Government Act 2000. In

addition, Cabinet is also asked to approve the housing element of the 2020-2025 Investment Plan, the proposed 2.7% rent increase from April 2020 (in line with Government policy), and the proposals in relation to housing service charges and garage rents for 2020/21. The proposed spending plans have been updated to reflect the 2019/20 in year monitoring position for the HRA as reported to Cabinet on 20 January 2020 and the updated balances position now anticipated for the beginning of the 2020/2021 financial year.

## **1.2 Recommendation(s):**

1.2.1 In relation to the Elected Mayor and Cabinet's proposals for the General Fund Revenue Budget, Dedicated Schools Grant, Investment Plan and Housing Revenue Account, Cabinet is recommended to:

### General Fund Revenue Budget, Dedicated Schools Grant and Investment Plan

- (a) Note the progress made in relation to this year's Financial Planning and Budget process;
- (b) Note that Cabinet's estimates of amounts in the setting of the Council Tax requirement will be submitted to full Council for its meeting on the 20 February 2020, in accordance with the Authority's Constitution and Budget and Policy Framework Procedure Rules;
- (c) Note that Cabinet's proposals for the 2020-2025 Investment Plan (Appendix D (i)), including the draft Capital Investment Strategy (Appendix D (iv)) and Prudential Indicators for 2020-2025 (Appendix D (iii)), in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Framework and the proposed Minimum Revenue Provision (MRP) Policy in line with capital finance regulations, will be submitted to full Council for its meeting on 20 February 2020;
- (d) Consider and agree the estimates of amounts in relation to the 2020-2025 Investment Plan, including prudential indicators for 2020-2025 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Framework and a proposed Minimum Revenue Provision (MRP) Policy in line with capital finance regulations (Appendices D (i) and D (iii));
- (e) Note that all approved schemes within the 2020-2025 Investment Plan will be kept under review by the Investment Programme Board;
- (f) Approve the Treasury Management Statement and Annual Investment Strategy for 2020/21 Appendix E;
- (g) Note that Cabinet's proposals for the Treasury Management Statement and Annual Investment Strategy for 2020/21 will be submitted to full Council for its meeting on 20 February 2020 (Appendix E);
- (h) Note that any implications that affect the information in this report arising from decisions of Cabinet on 3 and 10 February will be provided as a supplementary report to full Council on 20 February 2020;

- (i) Note the outcomes from the engagement process on both the Council Plan and Budget proposals (Appendix F);
- (j) Agree the formal Reserves and Balances Policy for the Authority, subject to review at least annually (Appendix G);
- (k) Note the key aspects of the 2020/21 Provisional Local Government Finance Settlement announced on 20 December 2019 and how this has been incorporated into the Medium-Term Financial Plan of the Authority. In addition, Cabinet should note the outstanding information required to allow the Elected Mayor and Cabinet to finalise the proposals;
- (l) Note the medium-term financial challenges and financial risks facing the Authority and agree to address these issues as part of the Efficiency Programme for the Authority, to deliver continued financial stability and prudent management of our financial resources;
- (m) Consider and agree the estimates of amounts for the 2020/21 setting of the Council Tax requirement including the General Fund Revenue Budget and Dedicated Schools Grant, thereby calculating the proposed level of Council Tax to be recommended to full Council for approval, including an assessment in relation to the current year's budget monitoring information (2019/20) and indications for the Financial Plan for 2020/21;
- (n) Request the Chief Finance Officer to prepare the appropriate Council Tax requirement and Budget Resolution document for full Council's consideration at its meeting on 20 February 2020;
- (o) Note the conclusions of the Overview, Scrutiny and Policy Development Committee's review of the 2020/21 initial Budget proposals (Appendix I) and note any impact the recommendations may have on the General Fund Budget proposals and note that any recommendations of the Overview, Scrutiny and Policy Development Committee in relation to Cabinet's final Budget proposals will be considered by Cabinet on 10 February 2020;
- (p) Note the Provisional Statement to Council by the Chief Finance Officer (Annex 1, Section 10);
- (q) Authorise the Elected Mayor to make any final amendments to Cabinet's proposals in relation to any outstanding information to enable due consideration to be given to the final level of Council Tax that Cabinet proposes to full Council for approval for 2020/21;
- (r) Authorise the Chief Executive, in consultation with the Elected Mayor, Deputy Mayor, Cabinet Member for Finance and Resources and the Senior Leadership Team, to manage the overall Efficiency Programme and note that decisions made under this delegated authority will be reported to Cabinet as part of the regular budget monitoring information provided; and
- (s) Grant delegated Authority to the Chief Executive, in consultation with the Elected Mayor and Head of Resources, to authorise the purchase of homes, on the open market, providing value for money is demonstrated and the cost

can be contained within existing financial resources of the Authority. This is to ensure the programme of delivery of affordable homes and homes at market rent is progressed in line with Cabinet's priorities.

### Housing Revenue Account

- (a) Consider any recommendations arising from the Overview, Scrutiny and Policy Development Committee's consideration of Cabinet's initial Budget proposals for the 2020/21 Housing Revenue Account (HRA) Business Plan and Budget proposed by Cabinet on 25 November 2019 and note any impacts that the recommendations may have on these proposals and note that any recommendations of the Overview, Scrutiny and Policy Development Committee in relation to Cabinet's final Budget proposals will be considered by Cabinet on 3 February 2020;
- (b) Consider and agree the final proposals in relation to the 2020/21 Housing Revenue Account Budget and associated Business Plan;
- (c) Increase individual housing rents by 2.7% as outlined in section 5 of Annex 1 to this report and in the HRA section of 25 November 2019 Cabinet report in line with the Government's policy for social rent, based on rent increases of Consumer Price Index (CPI) + 1% which was the policy prior to the introduction of 4 years of rent reductions implemented under the Welfare Reform and Work Act 2016;
- (d) Increase service charges for 2020/21 in line with CPI except where reviews of services have taken place to reflect changes in actual costs; for the majority of service charges for 2020/21 the increase will be 1.7%;
- (e) 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. For 2020/21 it is recommended that garage rents will have no indexation applied whilst the new charging structure is embedded, and that from 2021/22 the rent increase will return to being based on the long-term target for CPI (2%);
- (f) Note the assessment in relation to the current year's budget monitoring information (2019/20), and indications of financial plans for 2020-2024 for the Housing Revenue Account;
- (g) Note the Capital Investment Strategy (Appendix D (iv)) which sets out the general principles followed by both the General Fund and HRA in relation to the Authority's approach to capital investment. This draft will be due for approval by full Council at its meeting on 20 February 2020 as part of the overall Financial Planning and Budget process. In relation to the HRA, Cabinet is asked to specifically note that the principles of the Capital Investment Strategy will apply to the updated 2020-2025 Asset Management Strategy for the HRA;
- (h) Note the draft Treasury Management Statement and Annual Investment Strategy for 2020/21 (Appendix E) which sets out the general principles followed by both the General Fund and HRA in relation to the Authority's

management of investments, cash flows, banking, money market and capital transactions. Cabinet is asked to specifically note the continued policy of paying off existing debt where affordable and appropriate within the HRA Business Plan, which will see an estimated £162.600m reduction in loans attributed to the HRA from the start of self-financing to the end of this 30-year plan;

- (i) Agree the HRA Investment Plan 2020-2025 (Annex 1 and Appendix D (ii));
- (j) To note that 2017/18 saw the end of the 5-year transitional arrangements for the use of a “proxy” for calculating a depreciation charge, and that 2020/21 will see the continuation of the current method to calculate a “true” depreciation charge; and
- (k) Approve the Prudential Indicators which are specific to the Housing Revenue Account as set out in Appendix D (iii) to this report.

### **1.3 Forward Plan:**

Twenty eight days’ notice of this report has been given and it first appeared on the Forward Plan that was published on 23 December 2019.

### **1.4 Council Plan and policy framework:**

1.4.1 The Budget and Policy Framework Procedure Rules are set out in Part 4.7 of the Authority’s Constitution. The Budget is guided by paragraph 4.7.3 covering the process for the preparation, consideration and final approval of the Authority’s Council Tax requirement and Council Tax level. The statutory and constitutional requirements for preparing, considering and approving these issues drive the timetable for the Financial Planning and Council Tax setting process of the Authority.

1.4.2 The development of the Financial Plan and Budget has followed the same timetable as in previous years. The proposals have been presented to Overview and Scrutiny during the course of the Budget setting process.

1.4.3 The Financial Planning and Budget process is a fundamental part of the overall governance and assurance framework of the Authority. This in turn provides assurance that is considered as part of preparing the Annual Governance Statement each year.

### **1.5 Information:**

#### General Fund

1.5.1 2019/20 is the final year of the 2016 Spending Review, which had afforded local government some financial certainty with which to plan over the medium term. The Spending Round 2019 (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’ core components of the 2019/20 Local Government Finance Settlement. The lack of a multi-year Spending Review has meant that there is a

significant level of uncertainty when undertaking financial planning for the longer term.

On 7 January 2020 the Chancellor confirmed that the 2020 Budget will be announced on 11 March. Departmental allocations are due to follow in Autumn 2020 and as announced in SR19 it is expected that a multi-year spending review will be conducted for capital and resource budgets beyond 2020/21.

In addition to this, as announced in SR19, 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 implemented, alongside the Business Rates reset.

Both the Government's Budget, due on 6 November 2019, and the Provisional Local Government Finance Settlement, due in early December 2019, were delayed. Following the conclusion of the General Election, the Government published the Provisional Local Government Finance Settlement (PLGFS) for 2020/21 on 20 December 2019 via a written statement. The content of the Provisional Settlement was largely known in advance as it is based on a technical consultation paper published in October 2019 that set out in more detail the Government's plans for allocating the resources announced in the Spending Round 2019 (SR19). The Final Local Government Settlement is expected to be published in late January or early February.

- 1.5.2 The Authority's initial Budget proposals were prepared based on the assumptions included in SR19 announced in September and the detail contained within the technical consultation. This approach was recommended in a letter to local authority chief executives and chief finance officers, received from the Ministry of Housing Communities and Local Government on 5 November 2019. The letter advised that, when drawing up draft budgets for 2020/21, local authorities should take account of the proposals that the Government published in the SR19 technical consultation.
- 1.5.3 The Provisional Settlement was largely in line with SR19 with no material changes made to the headline funding previously announced. The Provisional Settlement provided further detail in relation to the specific funding allocations to authorities as previously included in the technical consultation. The headline announcements are included below, and further details of the Authority's specific funding allocations are included in Annex 1:
- Departmental spending to increase by 4.4% 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 £1 billion 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 terms increase in the Public Health and Revenue Support Grant;
- 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.
- The Settlement Funding Assessment increase will be in line with the small Business Rates multiplier, 1.7%; and
- The extension of compensation for under indexation of the Business Rates multiplier in 2020/21.

The financial impact of the Provisional Settlement for the Authority, subject to the Final Settlement confirmation is included in section 3.8 of the Annex.

The 2020/21 Provisional Settlement brings a much-needed increase in core spending power for local authorities, however, the position for future years remains uncertain. There remains no clear longer-term national funding plan beyond 2020/21, with uncertainty in a number of key funding areas, most notably, the outcome of the 2020 Spending Review (delayed from this year), the distribution of funding across local government (through the Fair Funding Review) and the impact of the anticipated Business Rates reforms and reset.

The draft Budget proposals aim to protect essential services and make sure that the Authority operates as efficiently as possible to provide value for money for local taxpayers. In addition, the proposals aim to protect essential services for the people of North Tyneside, invest in the future of the borough, grow the local economy, and create more jobs and opportunities in a borough that works better for residents.

- 1.5.4 With so many competing demands, the Elected Mayor and Cabinet have carefully scrutinised the Authority's finances. Whilst the additional funding from the Government announced in the Spending Round is welcomed, it is not considered sufficient to address the underlying need, particularly following the austerity measures implemented since 2010/11.

#### Dedicated Schools Grant

- 1.5.5 On 19 December 2019 the Education and Skills Funding Agency (ESFA) published the 2020/21 Dedicated Schools Grant (DSG) allocations. This is based on October 2019 school census data. The 2020/21 allocation for North Tyneside is £165.721m, which is an increase of £9.120m (5.82%) on funding received in 2019/20. This funding covers the 4 blocks of the DSG, Schools, Central Schools Services, Early Years and High Needs. Full details of the funding allocation are included in Section 6, Annex 1.

Whilst additional funding was received for Schools, Early Years and High Needs, funding for the Central Schools Services has been reduced by the DfE in relation to historical commitments by £0.311m, which represents a 20% reduction on funding received in 2019/20. The DfE had previously announced its intention to reduce the funding for the historical commitment's element of the Central Schools Services block, however, there was no indication from the DfE that a 20% reduction for 2020/21 would be applied.



1.5.6 On 20 December 2019 the Minister of State for Schools Standards confirmed the funding for Schools and Early Years. This followed the statement made by the Secretary of State for Education on 3 September 2019 confirming the three-year funding settlement for schools. The main headlines from that statement were nationally, additional funding will be £2.6 billion in 2020/21, £4.8 billion in 2021/22 and £7.1 billion in 2022/23. The statement also included the following detail in relation to 2020/21:

- An increase in per pupil funding for all schools in line with inflation in 2020/21 (1.8%) with minimum per pupil funding levels set at Primary £3,750, Key Stage 3 £4,800 and Key Stage 4 £5,300;
- Minimum rate per pupil for Primary schools rising to £4,000 in 2021/22;
- Additional funding of £780m in 2020/21 for children with special educational needs;
- Additional Early Years funding of £66m;
- Additional funding of £400m in 2020/21 for further education;
- Confirmation that the Government will continue to support additional teachers' pension costs for schools; and
- Commitment to move towards a 'hard' National Funding Formula for schools as soon as practical.

1.5.7 The Authority welcomes the announced increases in funding; however, this will only go so far in addressing the pressures that are being managed across the DSG.

Schools in North Tyneside have faced difficult financial challenges and have seen continued pressure with rising costs relating to pay awards, including the implications of the Nation Living Wage, and North Tyneside Living Wage, pension contributions, apprenticeship levy and other inflationary pressures. In addition, as has been widely publicised, school Budgets are under pressure as a consequence of national policy.

North Tyneside, like many local authorities both regionally and nationally, is experiencing an increase in the numbers of children with Special Education Needs and Disabilities (SEND). The number of children with an Education Health and Care Plan (EHCP) continues to increase and the complexity of the needs of those children and young people continues to grow. There has been a notable increase locally in the numbers of children with Autism Spectrum Disorder (ASD) and/or Social, Emotional and Mental Health difficulties, and profound and multiple learning difficulties. Responding to this increase in needs is creating pressure on the High Needs Block of the Dedicated Schools Grant. The pressure within High Needs has continued to increase in 2019/20 with a forecast in-year outturn variance of £4.533m. The Authority will receive an additional £3.309m in 2020/21 through the High Needs block of the DSG, however, it is not sufficient to address the underlying increase in need.

1.5.8 In September 2017 the Department for Education (DfE) published plans to move to a separate National Funding Formula (NFF), covering Schools, High Needs and Central School Services. The DfE initially proposed a two-year transition period to implement the NFF where local authorities would continue to set a local formula to distribute funding to individual schools. However, in July 2018, the Government

confirmed that, as many local authorities had already made significant progress towards implementing the NFF in the first year, and to continue to support a smooth transition, local authorities would continue to determine local formulae in 2020/21.

As in previous years, the Authority will determine the local formula to distribute funding to mainstream schools and academies for the financial year 2020/21. The formula will apply directly to maintained schools for the financial year, and for academies it will form the basis for their funding, distributed by the ESFA, for the year starting 1 September 2020. The local formula must comply with statutory guidance, but within these confines the final decision on the formula rests with the Authority after consultation with schools and the Schools Forum.

For the financial years 2018/19 and 2019/20, in consultation with Schools Forum and the Authority's maintained schools, the Authority made the decision to maintain the existing local funding formula (LFF) in full. In North Tyneside, Secondary schools currently benefit favourably from a local ratio of total funding per pupil (1:1.42 in 2019/20), compared to the national average ratio of 1:1.29 on which the NFF has been based. The decision to maintain the LFF in full in 2018/19 and 2019/20 has afforded Secondary schools a period of financial stability whilst preparing for future changes to their funding. In addition, it has allowed the Authority to consider how the move to the NFF would affect individual schools.

During 2019/20 the Authority has worked with schools to review the LFF and model the impact of moving the LFF towards the NFF. In September 2019, Schools Forum received a report which provided the results of the review and the preferred options for consideration which would form the basis of consultation with all schools. The Authority has a duty to consult with all mainstream schools over proposed changes to the LFF. The consultation took place from 16 September to 11 October and the results were considered by Schools Forum at its meeting on 13 November 2019.

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 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 Minimum Funding Guarantee (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.

- 1.5.9 On 16 January 2020 Schools Forum agreed to the Authority's final proposals for the LFF. Therefore, resource allocations to schools for 2020/21 will be made on that basis.
- 1.5.10 At its meeting on 25 November 2019 Cabinet agreed (section 1.2.1, (f)) to authorise 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 for 2020/21 in line with the school funding arrangements set out in that report. Resource allocations to schools have been submitted to the ESFA on 21 January 2020 as required by the deadline. Schools will be notified of their allocations no later than 29 February 2020.

### Our North Tyneside Plan and Engagement

- 1.5.11 The Our North Tyneside Plan 2020 – 2024 provides the policy framework or context for the Budget proposals set out in this report. The Plan, which has been refreshed to reflect two key policy developments as agreed previously by full Council, namely the declaration of a climate emergency and the role of the North of Tyne Combined Authority, is set out in Appendix A to this report.
- 1.5.12 Engagement on both the refreshed Our North Tyneside Plan and the draft Budget proposals set out in this report took place from 26 November 2019 to 21 January 2020. The engagement approach was agreed by Cabinet on 9 September 2019.

### External Announcements

- 1.5.13 Cabinet's draft Budget proposals are based upon available information and judgements at the time of the writing of this report. There are a number of assumptions and judgements built into the figures presented that are outside the control of the Authority and need to be finalised. The final Budget proposals will therefore need to be subject to further review before they can be confirmed. The information to be assessed and finalised is:
- (a) The Final Local Government Finance Settlement announcements for 2020/21, including Capital announcements and Specific Grants (due no later than 31 January 2020);
  - (b) Police and Crime Commissioner for Northumbria and Tyne and Wear Fire and Rescue Authority Precepts (due February 2020);
  - (c) Levies, including the Tyne and Wear element of the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Transport Levy (The North East Combined Authority due February 2020);
  - (d) Tyne and Wear Joint Service Budgets (due February 2020);
  - (e) Consideration of the impact of the economic climate on the residents of the borough and council taxpayers;
  - (f) The pay award for 2020/21 has yet to be announced, the draft Budget includes provision for a 2% pay award; and
  - (g) The Provisional Settlement did not include information about the national total, or individual authority allocations of the Public Health Grant for 2020/21 (due February 2020).
- 1.5.14 Therefore, as some external announcements are still to be received, it is recommended that Cabinet authorises the Elected Mayor, in conjunction with the

Cabinet Member for Finance and Resources and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these proposals and where necessary to make any required amendments.

### Housing Revenue Account

- 1.5.15 The HRA has faced a number of significant challenges from new legislation, particularly linked to the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016. 2019/20 saw the final year of the Government's policy to reduce rent by 1% as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI sheltered accommodation homes. 2020/21 sees the return to the Government policy of annual rent increases based on an inflation rate of, the Consumer Price Index (CPI) plus 1%, for at least 5 years giving greater certainty for longer term planning.

April 2019 saw the construction service return to direct management of the Authority. The challenge facing the Authority is to create a fit for purpose construction and maintenance operation, to best meet the needs of the Authority's tenants and residents, whilst delivering value for money. As reported to Cabinet on 25 November 2019, in the first year of operation, positive progress is being made and significant efficiencies are being delivered. The efficiencies being achieved are being re-invested in the Housing Service and are included in these budget proposals as outlined in the Annex to this report.

- 1.5.16 In the October 2018 Spending Review, the Government removed the HRA borrowing cap. This gives local authorities the freedom to determine the level of unsupported borrowing they undertake to fund housing spend in line with the Prudential Code. It is not proposed to increase our levels of borrowing at this stage. The Authority's position has been assessed against the levels of rental income that can be raised to support increased borrowing and against a background of no guaranteed additional grants to support new build, the availability of suitable sites, and no proposed cessation of the Right to Buy scheme or changes to the levels of discounts available to tenants. In addition, there is an existing programme of new build that has already been approved by Cabinet. Due to the efficiencies being identified within the HPC service the resources available to this existing programme have been significantly increased already. This position will be kept under review in line with the Authority's wider ambitions to increase affordable housing.
- 1.5.17 These challenges have been fully considered when updating the 30-year business plan, which aims to ensure the long-term viability of the HRA in line with the policy direction of the Elected Mayor and Cabinet and the needs of tenants. A four-year revenue plan has been developed to align the HRA and General Fund financial plans. Cabinet is advised that all projections after 2020/21 are indicative.
- 1.5.18 Housing Revenue Account tenants have been consulted on these draft proposals and the final HRA Budget is presented in the Annex to this report.

## **1.6 Decision options:**

- 1.6.1 The following decision options are available for consideration by Cabinet:

### Option 1

Cabinet can agree the proposals set out in this report.

### Option 2

Cabinet can agree a selection of the proposals and suggest that further / different options are considered by the Senior Leadership Team before submission to full Council on 20 February 2020.

### Option 3

Cabinet can disagree with the proposals.

Option 1 is the recommended option.

- 1.6.2 As explained in Annex 1 to the report, there is still a significant amount of externally provided information that has not yet been received by the Authority. On this basis, Cabinet is recommended to authorise the Elected Mayor, in consultation with the Cabinet Member for Finance and Resources, the Deputy Mayor and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these draft proposals.

## **1.7 Reasons for recommended option:**

- 1.7.1 Option 1 is the recommended option as the Budget proposals have been worked through with all Cabinet Members and have taken due consideration of the Budget Engagement suggestions. The reasons for recommendations are mainly legal in nature, as stated in paragraphs 2.1 and 2.2 of this report.

## **1.8 Appendices:**

Annex 1:	2020-2024 Financial Planning and Budget Process – Cabinet’s draft Budget Proposals for the General Fund and Final Budget Proposals for the Housing Revenue Account
Appendix A:	2020-2024 ‘Our North Tyneside’ Plan
Appendix B	General Fund 2020-2024 Financial Pressures Summary
Appendix C	General Fund 2020-2024 Efficiency Savings
Appendix D (i)	2020-2025 Investment Plan Summary
Appendix D (ii)	2020-2025 HRA Investment Plan
Appendix D (iii)	Prudential Indicators 2020-2025
Appendix D (iv)	Capital Investment Strategy 2020-2025

Appendix E	2020/21 Treasury Management Statement and Annual Investment Strategy
Appendix F	Budget Engagement Summary
Appendix G	Reserves and Balances Policy
Appendix H	2020/21 Financial Planning and Budget Timetable of Key Future Decision Milestones
Appendix I	Report of the Overview, Scrutiny and Policy Development Committee
Appendix J	Glossary of Terms

## 1.9 Contact officers:

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## 1.10 Background information:

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

- (a) 2020-2024 Financial Planning and Budget Process: Cabinets initial Budget proposals, Cabinet 25 November 2019

<https://democracy.northtyneside.gov.uk/ieDecisionDetails.aspx?ID=197>

- (b) 2020-2024 Financial Planning and Budget Process, incorporating the Council Plan and associated Budget Engagement Strategy, Cabinet 9 September 2019. The report items are as follows: 5b

<https://my.northtyneside.gov.uk/sites/default/files/meeting/related-documents/5b%20Budget%20and%20Financial%20Plan%20Process%20Report.pdf>

(c) Local Government Finance Settlement, letter to Chief Executive / Chief Finance Officers from the Ministry of Housing Communities and Local Government

(d) Provisional Local Government Financial Settlement

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2020-to-2021>

(e) State of the Area Report 2019

<https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/State%20of%20the%20Area%20Report%202019.pdf>

(f) CIPFA local authority reserves and balances

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/local-authority-accounting-panel/laap-bulletins/laap-99>

(g) 2019/20 Financial Management Report to 30 November 2019 – Cabinet 20 January 2020. The report items are as follows: Agenda item 6, pages 7 – 66

<https://democracy.northtyneside.gov.uk/documents/g372/Public%20reports%20pack%2020th-Jan-2020%2018.00%20Cabinet.pdf?T=10>

(h) Local Council Tax Support Scheme 2019/20

<https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/North%20Tyneside%20Council%202019-20.docx.pdf>

(i) Budget Proposals

(j) General Fund Budget Summaries

(k) [MHCLG's Guidance on Local Government Investments](#)

(l) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017

(m) CIPFA Treasury Management Guidance Notes 2018

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

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

2.1.1 The financial implications arising from this report are appraised as part of the decisions made about what will be included in the Authority's Financial Plan,

incorporating the 2020/21 Budget setting process. Decisions on the Budget in relation to the General Fund, Housing Revenue Account, Dedicated Schools Grant (DSG), Capital Investment Plan, Treasury Management Statement and Annual Investment Strategy need to be made within the overall context of the resources available to this Authority and within the legal framework for setting budgets. The Authority will need to examine closely the links with its key funding partners and their proposed financial plans, including an assessment of the impact of any grant fall-out over the proposed four-year resource planning period.

- 2.1.2 Cabinet and full Council need to have due regard to the Chief Finance Officer's advice in relation to the levels of reserves and balances proposed as part of the four-year Financial Plan for 2020-2024, as issued in guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) in July 2014. A provisional statement to Council by the Chief Finance Officer is included in Annex 1 to this report.

## **2.2 Legal**

- 2.2.1 The Local Government Finance Act 1992 (Section 32: Calculation of Budget Requirement) requires the Council to set a balanced budget in the context of the resources available, including Central Government Grants, Business Rates and Council Tax income. The Localism Act 2011 inserted a new Section 31 into the Local Government Finance Act 1992, which requires the calculation of a Council Tax requirement by billing authorities, rather than a budget requirement calculation, as previously. The Localism Act 2011 also abolished Council Tax capping in England. It instead introduced new provisions into the 1992 Act, making provision for Council Tax referendums to be held in England if an authority increases its Council Tax by an amount exceeding the principles determined by the Secretary of State. The current principles for local authorities with responsibility for social care (county and unitary authorities) provide that a referendum is required if general Council Tax is to increase by 2% or more.
- 2.2.2 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 an authority that it considers to be making inadequate provisions.
- 2.2.3 The 2020-2024 Financial Planning and Budget process has been prepared to comply with the time scales required within the Budget and Policy Framework Procedure Rules contained in the Authority's Constitution and legislative requirements that the Council Tax requirement is determined before 11 March in any year.
- 2.2.4 Section 76 (2) of the Housing Act 1989 requires each authority to produce a Housing Revenue Account Budget in the January and February that immediately precede the financial year to which it will relate. In relation to the Housing Revenue Account (HRA) draft revenue Budget and associated Business Plan, there is a legal requirement to give all tenants four weeks' notice of any rent changes. In order to allow time for the production and delivery of the appropriate



notifications, the Rent and Service Charge increase will be presented to the 3 February 2020 Cabinet meeting for approval.

- 2.2.5 In accordance with the above and the Local Government Act 2000 (and the Regulations made under that Act), Cabinet is responsible for considering and determining the issues raised in this report.

## **2.3 Consultation / Community engagement**

### **Internal consultation**

- 2.3.1 Each Cabinet Member has been consulted on the individual proposals put forward in this report, with regular discussions held between the Chief Executive, Head of Resources, Heads of Service, the Elected Mayor and Cabinet.

### **Community engagement**

- 2.3.2 The 2020/21 Budget Engagement Strategy was agreed at Cabinet on 9 September 2019. The Authority's overall approach to engagement ensures that the public should have opportunities to have their say throughout the year. Engagement on Cabinet's initial Budget proposals and 'Our North Tyneside Plan' priorities took place from 26 November 2019 to 21 January 2020. The Budget proposals have been shaped in the context of the refreshed 'Our North Tyneside Plan' 2020-2024.
- 2.3.3 This engagement gave residents the opportunity to have their say online, via social media, and through face to face sessions including both through delivering drop-in sessions at Customer First Centres and at events. There have also been meetings with key groups of stakeholders, including the Residents Panel, Staff Panel, businesses, schools, young people, community and voluntary sector, Trade Unions and North Tyneside Strategic Partnership, to discuss the Budget proposals and the changes to the refreshed 'Our North Tyneside Plan' 2020-2024.

## **2.4 Human rights**

- 2.4.1 All actions and spending plans contained within the Budget are fully compliant with national and international Human Rights Law. For example, Article 10 of the European Convention on Human Rights guarantees freedom of expression, including the freedom to 'hold opinions and to receive and impart information and ideas'. Article 8 of the Convention guarantees the right to respect for private and family life.

## **2.5 Equalities and diversity**

- 2.5.1 In undertaking the process of the Budget setting, the Authority's aim will at all times be to secure compliance with its responsibilities under the Equality Act 2010 and in particular the Public Sector Equality Duty under that Act.

To achieve this, an Equality Impact Assessment has been carried out on the Budget Engagement process. The aim is to remove or minimise any disadvantage for people wishing to take part in the engagement programme. Specific proposals on how services will seek to meet budgetary requirements have been subject to

Equality Impact Assessments. A cumulative impact assessment (CIA) of all of these has been undertaken. It found that the proposals do not have any cumulative impact on either employees or residents with characteristics protected under the Equality Act 2010.

## **2.6 Risk management**

2.6.1 Individual projects within the Financial Plan and Budget are subject to full risk reviews. For larger projects, individual project risk registers are / will be established as part of the Authority's agreed approach to project management. Risks will be entered into the appropriate operational, strategic, corporate or project risk registers and will be subject to ongoing management to reduce the likelihood and impact of each risk.

## **2.7 Crime and disorder**

2.7.1 Projects within the Financial Plan and Budget will promote the reduction of crime and disorder within the Borough. Under the Crime and Disorder Act 1998, local authorities have a statutory duty to work with partners on the reduction of crime and disorder.

## **2.8 Environment and sustainability**

2.8.1 The 'Our North Tyneside' Plan states that "We will reduce the carbon footprint of our operations and will work with partners to reduce the Borough's carbon footprint". A number of the proposals will contribute to this including those to reduce the Authority's energy consumption. The environmental and sustainability aspects of individual proposals will be assessed in detail as and when agreed and implemented.

## **PART 3 - SIGN OFF**

- Chief Executive  X
- Head of Service  X
- Mayor/Cabinet Member(s)  X
- Chief Finance Officer  X
- Monitoring Officer  X
- Head of Corporate Strategy and Customer Service  X