Annex 1

2020-2024 Financial Planning and Budget Process:

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

North Tyneside Council

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1. Introduction

1.1.1. This Annex sets out North Tyneside Council's proposed General Fund and Housing Revenue Account (HRA) Budget for the financial year 2020/21, together with indicative plans for the next three years 2021/22-2023/24. This follows on from the initial Cabinet Budget proposals of 25 November 2019, which formed the basis on which Cabinet has sought the views of residents, tenants and partners.

1.1.2. The first section of the Annex sets out the engagement approach taken during December and January with the Authority's key stakeholder groups. Appendix F to this Annex summarises the outcomes of that engagement.

1.1.3. In setting the Budget for the upcoming and future financial years it is crucial that the resource allocations align with the overall vision and strategic priorities of the Elected Mayor and Cabinet. Section 3 of this Annex summarises the key strategic plans which must be considered when setting the Budget and which must form part of the development of Cabinet's Medium-Term Financial Strategy.

1.1.4. Medium-term financial planning is fundamental in order to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term. The highlights of the Provisional Local Government Finance Settlement which have been included, where appropriate, in the 2020/21 Budget proposals are detailed at the end of section 3 of this Annex.

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

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

1.1.7. During December 2019, the Budget sub-group of the Overview, Scrutiny and Policy Development Committee considered and scrutinised Cabinet's approach to Budget engagement and Cabinet's initial Budget proposals. Section 9 of this Annex proposes how Cabinet should consider responding to any recommendations made by the sub-group in relation to the 2020/21 Budget.

1.1.8. The Council is legally required to set a balanced Budget for the General Fund for 2020/21 to meet statutory duties and provide services such as social care and environmental services. For the HRA, the Council Tax payer cannot subsidise those living in social housing and the rents and service charges paid by the tenants cannot be used to fund unrelated council services. It is also illegal for an authority to budget for a deficit in its HRA or use HRA reserves for General Fund expenditure.

1.1.9. Sections 10 and 11 of the Annex outline the duties and responsibilities imposed on local authorities through the Local Government Act 2003: the financial risks, risk assessment and actions necessary to mitigate against the risks posed within the Budget proposals. The Act requires Members and officers to take into account the

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Chief Finance Officer’s report on the robustness of the Budget and the adequacy of the Authority’s financial reserves.

2. Engagement Approach

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

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

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

2.1.3 Engagement with residents and others took place between 26 November 2019 and 21 January 2020. This was done via:

- an on-line questionnaire published on the North Tyneside Council website;
- face to face sessions with the Residents Panel and other key stakeholder groups; and
- four drop-in events (one at each of the Customer First centres).

2.1.4 In the face to face discussions attendees were provided with information about the refreshed Council Plan, the Authority's Budget and Cabinet's initial Budget proposals as agreed on 25 November 2019. Attendees were asked to give their views on the proposed Council Plan and the Budget proposals.

2.1.5 At the drop-in events, officers were able to talk to residents about Cabinet's proposals and people were given the opportunity to complete the same questionnaire as was published on the website. Residents were also offered the opportunity to access information and complete the surveys in hard copy through Customer First Centres. All these engagement opportunities were publicised widely to explain how people could get involved.

2.2 <u>Target Audiences</u>

2.2.1 The engagement approach aimed to reach different sectors of the population through a targeted approach. The approach delivered both universal engagement as well as engagement with particular groups e.g. carers, people who are deaf or hard of hearing.

Specific external audiences:

- Residents of North Tyneside

- People who use our services
- Children and young people
- Older people
- The North Tyneside Strategic Partnership
- Business community
- Schools
- Voluntary and community sector (including faith groups)
- Carers
- Tenants

Internal audiences:

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

Approach

2.2.2 The engagement approach aimed for maximum reach by offering a range of different opportunities for people to have their say. In line with the Authority's Engagement Strategy principles agreed by Cabinet on 9 September 2019, these opportunities were:

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

2.2.3 Information about the Budget proposals was provided on the Authority's website www.northtyneside.gov.uk. This included information to explain the context and set out the proposals. 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.

2.2.4 Members of the Residents Panel were invited to attend two sessions throughout December 2019 which provided them with further context to the Budget setting process, enabled them to listen to the proposals and provided face-to-face feedback. The sessions aimed to give residents a clearer understanding of local authority finance and Budget setting processes that enabled them to critically appraise the initial proposals and then feedback accordingly. Participants also got the opportunity to meet senior officers to have their questions answered directly.

2.2.5 Targeted events were held for key stakeholder groups including: Staff Panel, businesses, schools, young people, community and voluntary sector, trade unions and the North Tyneside Strategic Partnership.

2.2.6 Introduced this year were drop-in sessions across the four Customer First Centres. Facilitated by senior officers, these were held at different times of day and included weekends to ensure maximum opportunity for residents to attend.

2.2.7 Engagement with people who use the Authority’s services, or their representatives, was via existing networks. The engagement programme was advertised via the press and social media and at key outlets and facilities including libraries, Customer First Centres, community centres and leisure centres and this year included advertising in GP surgeries.

3. Strategic Plans

3.1 Strategic Plan Considerations

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

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

3.2 Our North Tyneside Plan

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

3.2.2 This vision and policy context reflect the updated priorities of the Elected Mayor and Cabinet for the next four years and the work of the North Tyneside Strategic Partnership which includes all of the organisations and sectors who work together with the Authority to deliver an improved future for the Borough and its residents.

3.2.3 The Council Plan continues to provide a clear framework for the Authority to plan its use of resources. It provides the context for all financial decisions and the operational delivery of services both at borough level but also increasingly as the Authority continues to work alongside other local authorities across the region, statutory partners and with business through the North East Local Enterprise Partnership.

3.2.4 The Council Plan has three key themes: Our People, Our Places and Our Economy. These themes are based on the Elected Mayor's priorities for her second term.

Our People will:

- Be listened to so that their experience helps the Council work better for residents;
- Be ready for school – giving our children and their families the best start in life;
- Be ready for work and life – with the right skills and abilities to achieve their full potential, economic independence and meet business needs;

- Be healthy and well – with the information, skills and opportunities to maintain and improve their health, well-being and independence, especially if they are carers;
- Be cared for, protected and supported if they become vulnerable including if they become homeless; and
- Be encouraged and enabled to, whenever possible, be more independent, to volunteer and to do more for themselves and their local communities.

Our Places will:

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

Our Economy will:

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

3.3 Our North Tyneside Plan Performance

3.3.1 The Our North Tyneside Plan (the Council Plan) sets out a range of measures for ensuring that our people are ready for school, ready for work and life and are cared for safeguarded and healthy if required. The following is a summary of the latest performance with delivering the plan. A full report was approved by Cabinet on 20 January 2020.

Our People

Based on an analysis of the latest data, North Tyneside has strong performance with:

Continued progress with supporting young people to be ready for school:

- 72% reached a good level of development at the Foundation Stage, which is in line with the national figure of 72%. Since 2013, North Tyneside has improved by 24% points, which is 4% points greater than the national improvement.

More young people being ‘ready for work’:

- 67% of pupils have reached the Expected Level in Reading, Writing and Mathematics in North Tyneside at Key Stage 2 (age 11). This is an improvement from 2017 and remains higher than the provisional national average. At Key Stage 4 (GCSE) North Tyneside’s overall performance in English and Maths 4+ remains in line with last year; and
- This performance is supported by the high number of North Tyneside primary and secondary schools that are rated as Good or Outstanding by Ofsted. Around 8 in 10 young people attend a school that is ranked as Good or Outstanding.

People being cared for and supported, especially if they become homeless:

- Only 52 people were accepted as homeless in 2018/19, which is down from 179 the previous year. This significant improvement is due to the changes that were introduced at the start of the year, which ensured a greater focus on prevention and triage work in order to prevent an individual becoming homeless; and
- Despite the widely reported challenges, there continues to be strong performance in supporting people through both adults’ and children’s social care. 73% of users feel that the Adult Social Care Service has made them safe, which is higher than the national position.

Our Places

Based on an analysis of the latest data, North Tyneside has strong performance with:

People being happy to live in North Tyneside:

- 79% of people are satisfied with their local area as a place to live. This is above comparator councils (which are reporting between 66% and 74%) and is in line with last year and the national LGA survey.

Delivering a clean, green, healthy, attractive, safe and sustainable environment:

- There was less than 1,000 tonnes of rubbish per household collected last year, due to a number of changes, including at the Household Waste and Recycling Centre. The amount of waste collected from households and operations has now at its lowest level. The proportion of household reuse, recycling and composting has shown improvement since the introduction of alternate weekly collections; and
- The Authority's carbon footprint has reduced by 45% since the baseline year of 2010/11 and is on course to achieve the target of a 50% reduction by 2027.

Delivery of the Authority's Affordable Homes Programme is on track to deliver 3,000 affordable homes across the Borough between 2014/15 and 2023/24:

- 1,471 Affordable homes have been completed so far. This exceeds the performance from the previous 10 years by 75%.

Promotion of parks, beaches, festivals and seasonal activities:

- Three beaches in North Tyneside are among a group of only 52 beaches in the country to win both a Blue Flag and Seaside Award. Half of the Blue Flag awards given to North East beaches were presented in respect of North Tyneside beaches. Six of the warden managed parks in North Tyneside have retained their Green Flag Awards; and
- The Authority's events and festivals programme continues to attract visitors year-round. Over 180,000 visitors attended events in the past year.

<u>Our Economy</u>

Based on an analysis of the latest data, North Tyneside has strong performance with:

Supporting new businesses and building on our strengths, including our existing world class companies, and small and growing enterprises:

- The number of registered businesses in North Tyneside has grown every year since 2011, which has led to an increase of around 15,000 jobs in the Borough since 2013. there are now 85,000 jobs;
- Ensuring that young people in North Tyneside have the right high-level skills to progress and succeed in the jobs market is key to the success of the local economy; and
- While the rate of apprenticeship starts by population has decreased from last year, in part due to national changes, North Tyneside remains in the top quintile performance band. There has also been an increase in the rate of higher (level 4) apprenticeship starts.

Taking all of this into account, the Our North Tyneside Plan has at its core, two fundamental policy aims:

First, whilst there has been success across the Plan over the last four years, there is still a need to reduce the inequalities that persist in North Tyneside. Within our Borough, the Council continues to have some of the least deprived neighbourhoods in the country but also some of the most deprived in terms of financial independence, skills, qualifications, health and well-being.

This will mean working in a very different way to ensure that resources can be more effectively targeted at the people who need them most. To ensure that all residents have a successful, healthy and safe future, no matter where they live in the Borough; and

The second is to continue to invest in the Borough's future and to create a prosperous economy that will generate income and provide the jobs and training opportunities that will be essential to successfully tackling these inequalities, the key areas of investment being:

- coastal regeneration;
- Swans/the North Bank of the Tyne;
- town centres;
- new and improved schools;
- road and other transport improvements in line with the agreed Transport Strategy;
- housing (particularly affordable homes) in line with agreed Housing Strategy;
- support for businesses; and
- marketing the Borough to secure more inward investment and generate more visitors as a tourist destination.

3.4 Cabinet Policy Priority – Poverty Intervention Fund

3.4.1 Cabinet considers it necessary to take futher action to support residents in North Tyneside who are experiencing poverty and financial hardship due to the increasing detrimental impact of Universal Credit and other Government welfare reforms. Cabinet is proposing to create a Poverty Intervention Fund aims to provide focus and direction on the priorities for improving services and opportunities for residents. This will be supported with the use of £1.000m from the Strategic Reserve which will be earmarked for this purpose. The work will be led by the Deputy Mayor and the Cabinet Member for Finance.

3.5 Local Plan

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

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

3.6 Ambition for North Tyneside

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

Since agreeing the Ambition for North Tyneside, significant progress has been made by the Authority and its partners in keeping its promise and delivering a range of projects across the Borough. This includes commencing work on the second phase of the Centre for Innovation in Wallsend. New family housing has been brought forward at the coast on sites that formerly blighted the Authority's coastal visitor offer such as the former Avenue Public House. There has been investment in flood defences at Killingworth Lake as well as further investment in the Authority's housing stock, highways and schools. A full progress report was considered by Cabinet on 25 November 2019.

3.7 Medium-Term Financial Strategy

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

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

3.8 Provisional Local Government Finance Settlement

3.8.1 The Provisional Local Government Finance Settlement is a key part of annual Budget setting. It provides the annual determination of funding to local government.

3.8.2 The Provisional Local Government Finance Settlement was announced on 20 December 2019 by the Secretary of State for Housing, Communities and Local Government. Major new funding announcements were made in the Spending

Round 2019, announced on 4 September 2019 with the Provisional Settlement, subject to Final Settlement confirmation, providing details of the allocations of additional social care funding. The highlights of the Provisional Settlement are detailed below and have been included in the 2020/21 Budget proposals where appropriate:

Business Rate Retention Scheme

- The multiplier is based on the September CPI and it will increase from 49.1p to 49.9p in 2020/21, an increase of 1.7%; and
- Continuation of the compensation for under indexation of the Business Rates multiplier in 2020/21.

Council Tax thresholds

The maximum general increase in Band D will be 1.99% in 2020/21. This is lower than the maximum threshold in the two previous years (2.99% in 2018/19 and 2019/20):

- Core principle of a maximum increase of 1.99% in Band D. This applies to unitaries, county councils, London boroughs, GLA precept, and fire and rescue authorities;
- Continuation of the Adult Social Care Precept. Maximum flexibility of 2% in 2020/21;
- Shire district councils will be able to increase Band D by the higher of 1.99% or £5; and
- Police and Crime Commissioners precept has yet to be announced.

New Homes Bonus

- The national baseline for New Homes Bonus (NHB) will remain at 0.4% for 2020/21. The major change in NHB is that the new amounts earned in Year 10 will only attract an NHB reward for one year (2020/21). In the following year (2021/22), rewards will only be paid in respect of years 8 and 9, and in year 2022/23 only for year 9.

Social care grants

The social care grants announced in the 2018 Autumn Budget will continue in 2020/21. There were two elements to the funding:

- Winter Pressures Funding: £240m North Tyneside will receive £1.031m in 2020/21, this funding will be rolled into the Improved Better Care Fund with no restrictions on its use; and
- Social Care Support Grant: £410m for adults' and children's social care. North Tyneside will receive £1.761m in 2020/21. Local authorities can use this additional funding to alleviate demand on the NHS for adult social care. However, the grant can also be used to fund social care services for older people, people with disabilities and children.

As announced in the Spending Round 2019, an additional £1 billion of grant funding will be distributed for social care in 2020/21. This funding is being distributed using the Adults Relative Needs Formula and the equalisation of

£150m of Council Tax income. Subject to confirmation in the Final Settlement the Authority will receive £4.446m in 2020/21.

Rural Services Delivery Grant

- No change in funding or the methodology for 2020/21 (no impact for the Authority).

Negative Revenue Support Grant

- The elimination of negative RSG will continue in 2020/21 (no impact for the Authority).

Public Health Grant

- A real terms increase in the public health budget was announced in the Spending Round 2019. However, the Provisional Settlement did not include information about the national total, or individual authority allocations of the Public Health Grant for 2020/21.

Former Independent Living Fund Recipient Grant

- This grant will continue in 2020/21 and the Authority will receive £0.612m.

3.8.3 Table 1 below shows the movement in income and expenditure as a result of the Provisional Settlement and other Government announcements made since the November Cabinet meeting.

Table 1: Financial impact of the Provisional Settlement and other Government announcements

Movement since November Cabinet	£m
Resources	0.633
New Homes Bonus	(1.023)
S31 Grant NNDR – Indexation compensation	(1.666)
Social Care Grant	(0.146)
Total Income Movement	**(2.202)**
National Living Wage	0.590
Review of Growth	0.652
Contingency for inflation pressures	0.960
Total Expenditure Movement	**2.202**

On 31 December 2019 the Government announced that low paid workers will receive a 6.2% pay rise with a new National Living Wage of £8.72 from the start of April 2020. The impact of this increase for the Authority for 2020/21 is £0.590m, this has been included as an additional growth pressure.

The current budget monitoring position as at 30 November 2019 is a forecast pressure of £3.483m. It is important that Cabinet and Senior Managers take account of the current financial position of the Authority when considering the Budget for 2020/21. To manage the financial risk identified for 2020/21 Cabinet propose an additional £0.652m for current Budget pressures.

The Contingency Budget has been increased by £0.960m to provide for inflation risks during 2020/21.

4. General Fund

4.1 Medium-Term General Fund Position

4.1.1 2019/20 is the final year of the 2016 Spending Review, that Spending Review 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.

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).

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

4.1.3 The draft Budget proposals aim to protect essential services and make sure that the Authority operates as efficiently as possible to provide excellent 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.

4.1.4 With so many competing demands to pay for services, 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. In terms of balancing the

MTFP, Cabinet continue to consider proposals that would begin to meet an estimated funding gap in the region of £39.574m over the next four financial years.

4.2 Funding social care pressures

4.2.1 Of the funding announced in SR19, subject to Final Settlement confirmation, the Provisional Settlement confirmed that the Authority will receive £4.446m of the additional £1 billion social care grant. The Government has pledged to maintain this funding for the lifetime of the parliament; therefore, the Medium-Term Financial Plan has been updated to reflect this.

As described in section 3.8.2 the social care grants announced in the 2018 Autumn Budget will continue in 2020/21, at the same level received in 2019/20 (£2.792m).

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

4.3 Council Tax

4.3.1 Council Tax Support

In 2013/14 the national Council Tax Benefit scheme came to an end, and Local Council Tax Support was introduced in its place. At the same time, funding was transferred into the Settlement Funding Assessment (SFA, comprising Revenue Support Grant and Business Rates) after being cut by over 10%. As this funding is not separately ring-fenced within the SFA, it has effectively been cut at the same rate as the Authority's SFA has been cut for each subsequent year.

This has put significant additional strain onto the General Fund Budget and resulted in the Authority, as well as many other local authorities, seeking to collect some Council Tax from working age people who previously received 100% Council Tax Benefit.

Council Tax Support under the Authority's current scheme is capped at 85% of an individual's Council Tax liability, meaning that working age people are charged 15% of their Council Tax before they receive Council Tax Support.

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

Cabinet are not proposing any changes to Council Tax Support in 2020/21 as stated in the Financial Planning & Budget Process report to Cabinet of 25 November 2019.

4.3.2 Council Tax Empty Homes Premium

On 16 January 2020, it was determined by full Council that from 1 April 2020 the Authority would implement an Empty Homes Premium. This is in increase in the Council Tax charge for a property and is applied when a property is empty and substantially unfurnished over a certain period of time. Over 450 properties in the Borough are currently considered to have been empty and substantially unfurnished for a period in excess of two years. This premium is being applied to encourage owners of long-term empty properties to bring them back into occupation and is in line with Government legislation. Using funding generated from this additional Premium, the Authority will work with owners to assist them to bring their empty properties back into use. The Empty Homes Premiums being applied are as follows:

- From 1 April 2020, where a property has been empty and unfurnished for two years but less than five years an additional 100% Council Tax Premium will be applied; and
- Where a property has been empty five years or more the Council Tax Premium is increased to 200%.

In addition, full Council also determined on 16 January 2020, that from April 2021, where a property has been empty for ten years or more, the Council Tax Premium would increase to 300%.

4.4 <u>Business Rates</u>

4.4.1 The level of Business Rates is set by the Government and is based on the rateable value of non-domestic properties across North Tyneside. The Authority previously had no direct financial interest in the collection of Business Rates and acted purely as an agent of the Government. However, since 2013/14 the Authority has retained 49% of the Business Rates collected and paid the other 51% over to the Government (50%) and the Tyne and Wear Fire and Rescue Authority (1%). As a result, the Authority now has a direct financial incentive to maximise the amount of Business Rates collected in North Tyneside.

North Tyneside Council was part of the North of Tyne Combined Authority Business Rates Pilot Scheme for 2019/20 (along with Newcastle City Council and Northumberland County Council). For 2019/20 only, 74% of the Business Rates collected was retained under this arrangement, with the additional income being pooled across the pilot.

For 2020/21, the retention figure for North Tyneside Council will revert back to 49% of the Business Rates collected, with the other 51% again being paid over to the Government (50%) and the Tyne & Wear Fire and Rescue Authority (1%).

4.4.2 The 2017 national revaluation of Business Rates resulted in a slight reduction in total rateable value in North Tyneside, as was also experienced across the North East region. The Government adjusts authorities’ top-up grants to ensure that no authority suffers a detriment as a result of the revaluation.

The Authority, like all other authorities, remains exposed to the risk of Business Rate appeals, which are determined by the Valuation Office Agency. The Government introduced a new check, challenge and appeal process in April 2017 which appears to have improved the efficiency of the appeals process, as challenges against rateable values have significantly reduced in both 2017/18 and 2018/19. Due to the impact of appeals in previous years, it has been assumed that Business Rates income remains at the current budgeted level until confidence in the new system is assured.

4.4.3 Previous Autumn Statements and Budget events (the last budget being in October 2018) have announced a number of changes to offer additional support to businesses in reducing their Business Rates liability. These include:

- Retail Discount Scheme providing up-front support to the Business Rates system through reducing bills by one-third for retail properties with a rateable value below £51,000, for 2 years from April 2019, subject to state aid limits;
- The introduction of 100% business rate relief for all public lavatories with the aim of helping keep these amenities open; and
- Amendments to the Small Business Rate Relief Scheme, including increasing the eligibility thresholds, permanently doubling of the relief, and extension of the relief period for those ratepayers taking on an additional property.

The next Budget is due to be announced on 11 March 2020. The Conservative Government's election manifesto promised an increase in the Retail Discount Scheme from 33% relief to 50% relief for 2020/21 and some additional support for pubs.

There are currently 360 retail properties in North Tyneside benefitting from the Retail Discount Scheme with an overall cash value of £920,000 relief. If the scheme is increased to 50% relief, then this figure will reach approximately £1.38m relief throughout 2020/21. This money is fully reimbursed to local government via a payment ("section 31 grant") as set out in Section 31 of the Local Government Act 2003.

4.5 Devolution

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

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

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

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

4.6 Brexit

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

4.7 General Fund Medium-Term Financial Plan

4.7.1 As set out in the report to Cabinet on 25 November 2019, Cabinet's approach to developing the 2020/21 Budget has been to take, as far as possible, a balanced approach to developing the Budget in order to maintain those services most residents wish to access as well as investing in those services for the Authority's more vulnerable residents.

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) an increase in Business Rates baseline funding in line with inflation. These proposals remain unchanged and form the basis of the Provisional Settlement.

The Elected Mayor and Cabinet's draft Budget proposals therefore include for consideration a 1.99% general Council Tax increase and an 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.

It is important for Cabinet to note that this is in line with the general increase in Council Tax recommended by the Government. Although increases may be assumed for medium-term planning purposes, any increase in Council Tax in future years will need to be considered by Cabinet and agreed by full Council in line with current constitutional arrangements.

4.7.2 Pension Valuation

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

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

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

Table 2: Chief Finance Officer Recommendation

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

4.7.3 General Fund Resources

Table 3 below sets out the assumed level of resources available to fund the General Fund Budget, developed using the following assumptions:

- Revenue Support Grant, Business Rate Retention and Business Rates Top Up grant are in line with the proposed Spending Round 2019 and the move back to 49% Business Rates Retention for 2020/21;
- Inflation increase in Business Rates of CPI of 1.7%;
- Council Tax Base growth has been considered as at the end of November 2019 with assumptions for further growth based on indications from the Local Plan, with prudent consideration taken of the timing of expected delivery and potential risks of economic impacts on a slowdown of housing growth; and
- An estimated 2019/20 Council Tax surplus of £0.636m based on the year-end forecast position of the Collection Fund.

These assumptions take the overall position on resources from £155.730m in 2019/20 to an estimate of £156.148m by 2023/24 as detailed in Table 3 below.

Table 3: 2020-2024 General Fund Financial Plan Resources Assumptions, prior to Council Tax increases

	2019/20 £m		2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Council Tax	94.364		97.015	97.407	97.799	98.191
Estimated Council Tax surplus	1.365		0.636	0.000	0.000	0.000
Revenue Support Grant	0.000		11.380	11.380	11.380	11.380
Business Rates	42.582		27.955	27.044	26.564	26.072
Business Rates Top Up	17.419		20.505	20.505	20.505	20.505
Total Resources Available	**155.730**		**157.491**	**156.336**	**156.248**	**156.148**

Table 4 below sets out the impact on available resources should an increase in Council Tax and an Adult Social Care Precept (ASCP) be agreed in 2020/21. The Spending Round 2019 assumes a general Council Tax increase of up to 1.99% and an ASCP of 2% which would generate a further estimated £3.870m of resources in 2020/21, the impact of which is set out below:

Table 4: 2020-2024 General Fund Medium-Term Financial Plan resources with potential Council Tax increase and Adult Social Care Precept included

	2019/20 £m		2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Council Tax	94.364		97.015	97.407	97.799	98.191
Estimated Council Tax Surplus	1.365		0.636	0.000	0.000	0.000
General Council Tax 1.99%	0.000		1.930	1.938	1.946	1.954
Adult Social Care Precept 2%	0.000		1.940	1.948	1.956	1.964
Revenue Support Grant	0.000		11.380	11.380	11.380	11.380
Business Rates	42.582		27.955	27.044	26.564	26.072
Business Rates Top Up	17.419		20.505	20.505	20.505	20.505
Total Resources Available	**155.730**		**161.361**	**160.222**	**160.150**	**160.066**

4.8 <u>Cost pressures</u>

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

- Legislative / regulatory changes;
- Pay and price inflationary increases: increases in pay are based on an assumed 2% pay increase;
- Increasing demand for services: increased demand for social care services coupled with the complexity of individuals' needs (for example increased numbers of adults with complex learning disabilities);
- The impact of the Improved Better Care Fund (IBCF) grant announced after the 2019/20 Budget had been agreed including the additional impact for 2020/21; and
- Corporate pressures increase support to apprenticeships, changes to utilities and ICT pressures, changes to schools and an increase in contingency provision.

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

4.8.2 In the context of setting the Budget for 2020/21, it is also important to consider the in-year Budget monitoring position. The first report to Cabinet which detailed the forecast outturn as at May 2019 identified an in-year pressure of £5.263m. At month 8 this position has improved, and the forecast outturn pressure is now estimated to be £3.483m (as at 30 November 2019).

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

Taking the available baseline resources into account and the growth pressures identified, the gap/efficiency requirement for 2020/21 is currently estimated at £4.675m with a projected total of £39.574m to the end of 2023/24, as set out in Table 5 below:

Table 5: 2020-2024 General Fund Medium-Term Financial Plan cumulative funding gap

	2019/20 £m		2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Estimated General Fund Base Budget	154.726		155.730	157.491	156.336	156.248
Estimated Growth / Pressures	11.557		12.328	12.779	11.796	11.225
Estimated Resources / Carry Forward General Fund Base Budget	(155.730)		(157.491)	(156.336)	(156.248)	(156.148)
Funding Gap / Efficiencies	**10.553**		**10.567**	**13.934**	**11.884**	**11.325**
2019/20 Full year effect of business cases in future years			(1.346)	(1.262)	(0.982)	(0.000)
Revised Resources Gap			**9.221**	**12.672**	**10.902**	**11.325**
Adult Social Care Grant			(4.446)	0.000	0.000	0.000
IBCF – 2% CPI			(0.100)	0.000	0.000	0.000
Gap before Council Tax options and efficiencies			**4.675**	**12.672**	**10.902**	**11.325**
Cumulative funding gap before Council Tax and efficiencies	**10.533**		**4.675**	**17.347**	**28.249**	**39.574**

The indicative cumulative funding gap over the period of the Financial Plan is £21.003m as detailed in Table 6 below. This is after taking into consideration the potential options for Council Tax at 1.99% for 2020/21, Adult Social Care Precept at 2% and the current savings proposals which are being considered by Cabinet as part of the Budget setting process.

Table 6: 2020-2024 General Fund Medium-Term Financial Plan cumulative funding gap before Council Tax options and 2020/21 Budget proposals

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Gap before Council Tax and Adult Social Care Precept options and 2020/21 Budget proposals	4.675	12.672	10.902	11.325
Council Tax increase at 1.99% 2020/21 only	(1.930)	(1.938)	(1.946)	(1.954)
Adult Social Care Precept at 2% 2020/21 only	(1.940)	(1.948)	(1.956)	(1.964)
2020/21 savings proposals	(0.805)	(0.530)	(0.625)	(1.035)
Annual funding gap	**0.000**	**8.256**	**6.375**	**6.372**
Cumulative funding gap	**0.000**	**8.256**	**14.631**	**21.003**

4.9 Efficiency Savings

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

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

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

4.9.4 The Customer Service programme is expected to undertake a series of service reviews that will focus on ensuring the Authority delivers efficient and effective services. Appendix C sets out in more detail the efficiency savings for 2020-2024, which are summarised in Table 7 below:

Table 7: Efficiency Savings 2020-2024

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

5. Housing Revenue Account

5.1 Introduction

5.1.1 Cabinet is being asked to approve the Housing Revenue Account (HRA) Business Plan and Budget for the financial year 2020/21. This includes housing rent, garage rent and service charge changes, and the HRA elements of the Investment Plan. This Budget also includes indicative plans for the next three years in line with the Financial Planning and Budget process for the General Fund, as well as a 30-year balanced HRA Business Plan. Cabinet have sought views of residents, tenants and partners on these plans on this basis.

5.2 Background and Government Policy Context

5.2.1 North Tyneside Council is responsible for the management of just under 14,700 council houses. Council housing rents and service charges form the majority of income to the HRA. It is this income that is used to fund the management and maintenance of the housing stock. As required by law, this income and expenditure is accounted for in a ring-fenced account.

5.3 Housing Green Paper

5.3.1 The Government published the Green Paper “A New Deal for Social Housing” in August 2018, which arose from a desire to consult on changes post-Grenfell. This Green Paper sought to redress the balance between residents and landlords, tackle the stigma attached to social housing and to ensure that social housing can provide a stable base to both support people when they need it but also enable social mobility. Consultation on this paper closed on 6 November 2018 and Cabinet await the Government’s response to the outcomes of that consultation, and any resulting impact on housing policy/legislation.

5.4 Right to Buy Consultation

5.4.1 Alongside the Green Paper the Government also issued a consultation paper regarding the process that allows local authorities to use Right to Buy (RTB) receipts to deliver new homes. This consultation on this closed on 9 October 2018 and Cabinet await the outcome of this. Early assessment is the policy focus will remain a continuation of increasing home ownership opportunities and there will be minimum change for the Authority. Cabinet will be kept informed of any relevant changes that are announced.

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

5.5.1 The Authority continues to respond to the implications, in housing terms, resulting from the implementation of the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016. 2020/21 sees the end of the Governments policy to reduce rent by 1% for 4 years as enacted in the Welfare Reform and Work Act 2016 for all housing stock. From April 2020 the Government has announced that social rents will return to an annual increase based on Consumer Prices Index (CPI) plus 1%. This will be for at least 5 years which will allow a degree of certainty when considering longer-term business planning.

5.6 Removal of the HRA Borrowing Cap

5.6.1 In the October 2018 Spending Review, the Government removed the HRA borrowing cap. This gave local authorities the freedom to determine the level of unsupported borrowing they undertake to fund housing spend in line with the Prudential Code. The Authority's position has been assessed against the levels of rental income that can be raised to support increased borrowing, 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. It is not proposed to increase the level of borrowing in the HRA at this point in time. 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 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.

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

5.7 Insourcing of the Kier North Tyneside Joint Venture

5.7.1 April 2019 saw the construction service return to direct management of the Authority. A key priority of the transfer of the Service from Keir North Tyneside to the Authority was to realise the potential benefits and savings and redirect them into the HRA Business Plan. As highlighted last year, many of the benefits accrue against capital schemes. These savings create opportunities to either accelerate planned investment in the existing housing stock, or to invest in new build as appropriate. As the Service has bedded in, confidence is building that the benefits will be realised, and as such, these Budget proposals contain the first set of benefits that will be accrued to the HRA. These are built into the projections for 2020-2024 and are aligned to the policy priorities of the Elected Mayor and Cabinet.

The first set of benefits see an additional £1.500m per annum in revenue savings realised and built into the HRA Business Plan. In addition, it was also forecast that £1.400m of further savings will be achieved against the Investment Plan, this has been reported to Investment Programme Board, and a decision was taken to use £0.500m of that saving in-year to undertake additional emergency works within the 2019/20 programme. Alongside these positive additions to the plan, a full review of the Authority's Housing Asset Management Plan has been undertaken, and work is underway to establish the potential for further longer-term benefits and savings, with the ultimate aim of creating a service that best meets the on-going needs of the Authority's tenants and residents whilst delivering greater efficiency and value for money.

5.8 Summary

5.8.1 These challenges continue to be considered as part of the updating of the 30-year plan which aims to ensure the long-term viability of the HRA in line with the policy direction of the Elected Mayor and Cabinet and the needs of tenants. For the purposes of the current Financial Planning and Budget process a four-year revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that projections beyond 2020/21 are only indicative at this stage. A five-year timeframe is being proposed for the Housing Investment Plan in line with the overall 2020-2025 Investment Plan.

5.8.2 Housing Revenue Account tenants have been consulted on these proposals and Cabinet are asked to approve the final HRA Budget, including the housing rent, garage rent and service charge changes and the Housing Investment Plan at this meeting.

5.9 Key Objectives and headline assumptions for the Housing Service

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

- Ensure the application of the principles of Economy, Efficiency and Effectiveness;
- Continue to invest in the existing stock to maintain the Decent Homes Standard;
- Maintain and develop effective engagement with tenants;
- Continually monitor the impact of changes such as Universal Credit and other welfare reform on our tenants and ensure they have the appropriate support;
- Work with Private Landlords to refurbish stock where appropriate;
- Undertake environmental improvements to estates to ensure that they are clean and safe;
- Support the delivery of Affordable Homes across the Borough;
- Specifically increase the delivery of new build Council homes where practicable; and
- Create sustainable tenancies and maximise rental income collection.

5.9.2 The key headlines for the HRA Budget for 2020/21:

- 2019/20 marks the end of the Governments policy to reduce rent by 1% for 4 years as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI Sheltered Accommodation. From April 2020, for at least the next 5 years, rent increases will return to the previous policy of being based on the Consumer Prices Index (CPI) plus 1%. The baseline for 2020/21 is the CPI rate as at September 2019 which was 1.7%. The rent increase recommended for 2020/21 in line with Government policy will be 2.7%;
- In line with rent policy, increase service charges for 2020/21 are 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%;

- 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 which is 2%;
- Benefits identified from the service returning to direct management of the Authority will be built into the HRA Business Plan base Budget, which will be £1.500m per annum initially from revenue savings;
- There will be an increased focus on sustaining rental income through additional support to tenants, £0.350m per annum;
- The Investment Plan has been refreshed based on the revised Asset Management Plan, along with revised funding identified for new build proposals; and
- There are a number of options available to Cabinet to allocate the additional resources identified and there has been a significant amount or work undertaken to look at other tenant priorities. There is also the opportunity to look at options for allocating some resource to meet some of those priorities. These options include:
    - Improved Empty Homes;
    - Additional cleansing regimes in some of our communal areas;
    - Free pest control service for our tenants (free at the point of contact, but the HRA will pay a contribution towards the costs of the service to cover this provision);
    - Property MOTs i.e. scheduled maintenance visits as opposed to reactive ones to properties identified as high maintenance;
    - Reinstatement of a shorter painting frequency; and
    - Continuation of the fencing programme beyond existing time scales.
    - In creating the HRA Business Plan a Cabinet Tenant Priority Budget has been created totalling £0.500m which would enable some of these issues to be addressed. Proposals as to how the money could be allocated will be presented to Cabinet for approval as appropriate;
    - It is recommended that the balance of the initial £1.500m of savings identified are made available for the new build programme; and
    - Sustain working HRA balances at a minimum of £2.500m.

5.10 <u>HRA Investment Plan</u>

5.10.1 <u>Asset Management Strategy (AMS) and New Build Project Funding</u>

The Asset Management Strategy (AMS) is regularly updated and refreshed to make the stock data current, to fully identify the maintenance needs of the stock over the lives of the assets and to build these into the HRA Investment Plan. The Authority's stock is now at or above the Decent Homes Standard, therefore this year's plan is mainly a refresh of key elements around stock numbers to roll the Plan forward. However, in addition the Plan has built in savings identified from the Service delivery of the Housing Investment Plan. The Plan identifies £108.564m of works to maintain the Decent Homes Standard over the next 5 years (£21.219m for 2020/21), with an estimated £24.917m available for new build over the same period (£5.643m for 2020/21 including re-programming of £3.000m from 2019/20). These figures are based on continuing Cabinet's existing approach to debt management and self-financing.

There are alternative options available to Cabinet to increase the resources available for new build, such as increasing the level of borrowing, which is linked to the Government's removal of the HRA borrowing cap. However, due to the Public Works Loans Boards decision to increase loan interest by 1%, this is a less favourable option. The Authority will continue to look at and work on alternative solutions to increase new build, but as already mentioned this will have to be looked at in the context of the wider Affordable Homes programme, available grant funding, site availability and the continuation of the Right to Buy policy which continues to reduce housing stock numbers.

5.11 Medium-Term HRA Position

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

- Government Rent policy;
- Future funding for Supported and Sheltered Housing;
- The Asset Management Strategy and New Build projects as part of Cabinet's Affordable Housing ambitions;
- Right to Buy Sales;
- Treasury Management Strategy and the removal of the HRA borrowing cap;
- Self-Financing and Depreciation;
- North Tyneside Living; and
- Cessation of the Kier North Tyneside Joint Venture project from April 2019.

5.12 Rent

5.12.1 2019/20 was the final year of Central Government's 4-year 1% per annum rent reduction policy, introduced by the Welfare Reform and Work Act 2016. The rent policy will return to being based on the Consumer Prices Index (CPI) + 1% for at least 5 years starting April 2020. As already mentioned above, for 2020/21 this means that the rent increase recommended will be based on the CPI rate at September 2019 which was 1.7%, leading to a 2.7% rent increase in line with the Government formula. This confirms what most HRA Business Plans had assumed and gives some clarity in the medium term. Cabinet should also be aware of the following assumptions reflected in the HRA Budget and Financial Plan:

- The Authority will continue to move to target rent when properties become empty;
- An initial review of service charges attached to North Tyneside Living schemes has been undertaken, and service charges attached to those schemes will be increased in line with CPI i.e. 1.7%. However, as the schemes continue to become established and fully operational, the Authority is endeavouring to gather more accurate trend data, and ensure that service charges reflect actual costs as closely as possible;

- Cabinet agreed to exempt service charges from the 1% annual reduction and to freeze them until 2019/20 based on an assumption of low CPI rates. It is recommended that the policy is amended in line with the base for rent i.e. increases in line with CPI in future, excluding the additional 1%. That would mean a 1.7% increase for 2020/21 as explained above. Charges for furniture packs were revised in 2017/18 to reflect the newly procured service and these service charges are continually reviewed to ensure that the income collected adequately covers costs. The Authority also continues to monitor the impact of welfare reform changes. Members will be kept informed of any further announcements that clarify the position as soon as possible. Service charges on affordable rent properties are not exempt as the 80% of market rent calculation includes any service charges;
- Garage rents are linked purely to an assessment of demand for the asset with no link to rent policy, the plan proposes to continue the target of 2% increases per annum based on long-term Government CPI projections as being reasonable. However, the lettings policy and charges have been reviewed, and a revised charging policy was implemented which covers the two years up to March 2021, with the aim of harmonising charges across all garages. It is, therefore, recommended that there is no indexation applied for 2020/21 to enable the new charging regime to harmonise fully, with a return to CPI increases the following year;
- It is assumed that the policy previously agreed by Cabinet to protect existing North Tyneside Living tenants from rent increases will continue. All new tenancies commence at the newly calculated rents. It is estimated that this protection will cost in the region of £0.060m in 2020/21 and will continue to steadily reduce from this point; and
- From April 2018 Cabinet agreed that the Authority would move from a 50 to a 52-week rent year to enable better synchronisation with welfare reform changes and the introduction of Universal Credit. The impact of this change saw tenants' weekly rent spread over 52 weeks, although for those residents that wish to continue paying over 50 weeks this option was made available. This has resulted in an anomaly for 2019/20 which is a 53 week rent year, and those on Universal Credit could suffer financial hardship for that final week. The Government has not proposed any solution other than Council's using their own resources to fund any hardship, fortunately 53 week rent years don't occur that regularly, so this is an issue that won't affect 2020/21.

5.12.2 The implications of any issues arising from welfare reform changes including Universal Credit (UC) continue to be monitored. UC started to be rolled out for all new claimants in North Tyneside from February 2018 for both single claimants and families. It is important to ensure that tenants continue to be kept fully informed of the requirements of the new scheme, and to maintain the two-way communication process to ensure they are supported in managing the change, and to avoid people falling into arrears, which has been a significant factor in most of the pilot schemes to date. In North Tyneside early Universal Credit figures show that at the end of July 2019 in excess of 2,600 tenants were on UC, with 2,024 of those being in arrears totalling just under £1.592m. As stated earlier in the report, 2020/21 will see an increased focus on sustaining rental income through the investment in additional staff to support residents.

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

5.13 Future Funding for Supported and Sheltered Housing

5.13.1 As reported last year the position with regards to funding supported housing (which includes Sheltered Accommodation) remains unchanged. Originally the Government announced an intention to fundamentally change the funding for supported housing from April 2019 to a two-tier system, linking the amount provided to cover rent and service charges through the existing welfare system to Local Housing Allowance caps.

In addition, there was to be a separate top-up grant for each area to be administered by the top tier Local Authorities to cover "support", very likely to be much along the lines of the old Supporting People system, which would have had significant resource implications for the authority. These proposals led to significant concern among the housing sector that this could have signalled the cancellation or delay of any future development of supported housing schemes in a sector which has seen ever increasing need. Following a full consultation process the Government announced that in the short-term funding for existing supported housing would remain within the housing benefit system. This helps ensure that, at least in the short-term, sheltered accommodation remains an affordable and viable alternative for our ageing population. This does mean that there may be further implications for new supported housing but at this stage there have been no further announcements.

5.14 Right to Buy (RTB) Sales

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

Table 8: Right to Buy Sales 2011/12 to date

Year	Total number of Properties
2011/12	30
2012/13	85
2013/14	122
2014/15	100
2015/16	135
2016/17	136
2017/18	158
2018/19	135
2019/20 to Dec	91

5.14.2 As part of changes the Government introduced back in 2012/13, the Authority signed an agreement that allows RTB receipts above the levels assumed as part of self-financing to be retained as long as they are used to fund new build homes at a 30% contribution rate within 3 years. This has seen an additional £5.563m of Capital Receipts retained to the end of 2018/19, which has helped deliver £16.996m of new build schemes to-date.

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

5.15 Treasury Management Strategy (TMS) and the HRA Borrowing "Cap" removal

5.15.1 The HRA is an integral part of the TMS for the Authority, and decisions were taken at the point of the introduction of self financing in 2012 as to the approach to be taken to HRA debt. When self-financing was introduced, all stock retaining authorities were either given an additional allocation of debt or had some of their debt paid off, depending on an assessment of the value of their 30-year Business Plans and the amount of debt they could be expected to manage. For North Tyneside this meant raising £128.000m of additional loans through borrowing via the Public Works Loan Board to pay our allocated share of debt to the Treasury. Each Authority at that point was allocated a "cap" which represented the maximum amount of debt that could be held attributable to the HRA. The Authority at that time was one of only a handful nationally where the actual debt held was above the "cap". The Authority's debt was £290.825m against a calculated cap of £270.585m but the Government "flexed" our cap to match our actual debt position to enable self-financing to happen.

5.15.2 The Authority had to decide what debt and risk approach they wanted to take to fund both investment in existing stock and potentially any new-build opportunities. Cabinet agreed at this point to steer a middle course around risk, setting aside money where possible to repay debt each year to bring our overall debt holdings down below the cap. It was not the intention at that time however to repay all debt held over the initial 30 years. This debt repayment approach has created some revenue surpluses which have been utilised to fund a programme of HRA new build with HRA new build spend totalling £22.674m to the end of 2018/19. In addition, by the end of March 2019 the Authority's actual HRA debt stood at £254.818m compared to the £290.825m "cap", and by the end of March 2020 it is anticipated that the debt will drop further to £250.216m.

It is against this background that consideration needs to be given to the Government's proposals to remove the HRA borrowing cap. The proposals move from utilising revenue sums to guarantee affordability of schemes to a policy of increasing borrowing to fund more new build spend and this brings with it the need to consider the following factors and risks:

- No proposed change to the RTB policy at this stage;
- No guaranteed grant-funding to support new-build spend;
- Potential additional flexibility around the use of additional RTB receipts;
- Availability of suitable land assembly for social housing new-build schemes and all related planning considerations; and
- Pace at which schemes would need to be delivered to support additional borrowing costs.

5.15.3 At this point last year, the Authority was on the verge of bringing 400 staff back from Kier, which led to the proposal to delay such considerations. In the light of the above factors it is not recommended to change the existing approach at this stage. However, continued review of the alternative approaches to raising funding for new build will be carried out and will inform future reports to Cabinet, including further fundamental review of the 30-year HRA business Plan.

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

There are a number of other important factors to consider:

The Council's overall Treasury Management Strategy:

- Any change in approach has to be considered across the whole Council, and more importantly any change to the borrowing strategy would have to be approved by full Council. The HRA limits on borrowing have been set to mirror the slow reduction in debt over time, any increase in borrowing would break the Authority's ceiling unless Council agreed to lift the ceiling;

Current PWLB interest rates and Brexit implications:

- When self-financing was introduced the Authority took advantage of historically low interest rates to borrow the funding required to buy itself out of the HRA subsidy system, those rates averaged out at just under 3.5% per annum in interest on £128.000m. Those rates have remained at or below those types of levels since that time. In light of these figures the option of increased borrowing becomes far more attractive but only if the rates stay low, and this has already been tested by the PWLB increasing loan rates by 1% unexpectedly in October 2019. Current external advice from the Authority's Treasury advisers Link Asset Management suggests that even if there was a "No Deal" Brexit and the economy went into recession, that rates would remain relatively low for at least the next 3 years and may fall further if there was a need to stimulate the economy; and

Land Assembly and Capacity:

- Cabinet would need to be sure that any attempt to increase funding for new build could be matched by both the developer capacity and the land sites available to deliver the new build schemes in the timescales necessary to generate additional rental income to sustain the business plan long-term. It is intended that any option to proceed would depend upon a realistic strategy for land assembly and delivery to be developed to match any increased funding.

5.16 <u>Self-Financing and Depreciation</u>

5.16.1 From 2017/18 the Government has required that all local authorities calculate a true depreciation charge as a true bottom line cost to the HRA. The approach developed by the Authority calculates a simple depreciation charge based on splitting investment works across a number of component elements of a building and linking that to the way the Authority's properties are valued using a number of "beacon properties" i.e. a sample of properties which represent the different standard types of properties held by the Authority. The level of depreciation calculated using this method will be able to be contained within the amounts currently budgeted in the 30-year HRA Business Plan.

5.17 Construction Project 2019

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

5.18 Summary Plans

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

- Additional rental income of CPI plus 1% with a proposed rent increase for 2020/21 of 2.7%, with a longer-term assumption based on CPI target that equates to 3% per annum;
- Garage rent and service charges will settle with some minor delay for garages at increases of CPI per annum;
- Revenue savings from the Service of £1.500m per annum have been assumed and built into the plan;
- Increased focus on sustaining rental income following the roll-out of Universal Credit, investing in the region of £0.350m in additional staff to support tenants;
- A potential budget for additional Cabinet and Tenant priorities of up to £0.500m per annum would be created, with a list of costed options to be presented to Cabinet as appropriate; and
- The base Investment Plan has been refreshed based on an update of the Asset Management Plan, and includes savings anticipated from the service returning to direct management of the Authority.

The updated HRA Business Plan for 2020-2024 builds in savings to enhance the new build programme in the next few years and continues to repay some debt. Table 9 below shows the reduction in HRA debt included in the current plan.

Table 9: Impact on HRA Debt 2020-2050 of Revised Business Plan

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

The initial Budget proposal figures in the 25 November 2019 Cabinet report start from the HRA budget monitoring position reported to the same meeting for the period to the end of September 2019, which showed projected year-end balances of £7.584m. For this report, the figures have been updated to reflect the budget monitoring position to 30 November 2019, which were reported to the 20 January 2020 meeting of Cabinet which show estimated balances improving further to

£7.592m as at 31 March 2020, with a net contribution to balances in-year of £0.289m. The revised Business Plan provides for an increase in the level of funding for new build to maintain the focus on increasing the number of Affordable Homes in the Borough. The big unknown currently is the impact Brexit could have on our debt position, and if interest rates went up considerably contradictory to external Treasury Management advice and borrowing rates shifted significantly. It is prudent that Cabinet does not look to change its borrowing policy at this stage, until more certainty can be gained over future economic trends.

Table 10 below shows the revised four-year HRA Business Plan 2020-2024, and then Table 11 splits those changes between Pressures and Growth, Efficiencies and Reserves and Contingencies. The five-year Housing Investment Plan 2020-2025 is included within Appendix D (ii).

5.18.2 A further breakdown of the movement on Reserves and Contingencies is shown in Table 12 below; this includes a contribution from reserves of £2.589m for 2020/21. It is proposed to create additional contingency budgets of £0.596m to recognise inflationary increases and a pay award.

Table 10: Housing Revenue Account (HRA) 2020-2024 (Base Case – existing debt approach)

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

	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
HRA Balances	**£m**	**£m**	**£m**	**£m**	**£m**
Estimated HRA Balances B/Fwd	**(7.304)**	**(7.593)**	**(5.004)**	**(3.577)**	**(2.533)**
Contribution to/from HRA	**(0.289)**	**2.589**	**1.427**	**1.044**	**(0.193)**
Estimated HRA Balances C/Fwd	**(7.593)**	**(5.004)**	**(3.577)**	**(2.533)**	**(2.726)**

Annex 1

Table 11: 2020-2024 Housing Revenue Account Financial Plan

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

Table 12: 2019–2023 Housing Revenue Account Reserves and Contingencies

HRA Revenue Balances	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Increase in Contingencies	0.165	0.066	0.016	0.017
Contribution to/(from) Balances	(0.258)	1.162	0.383	1.237
TOTAL	**(0.093)**	**1.228**	**0.399**	**1.254**

6. Dedicated Schools Grant (DSG)

6.1 Background

6.1.1 The Dedicated Schools Grant (DSG) can only be used for the purposes of the Schools Budget as defined in the School and Early Years Finance Regulations 2018. The DSG funds those delegated budgets allocated to individual schools, nurseries (and other Early Years settings) and, High Needs provision including special schools and alternative provision.

6.1.2 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. Table 13 below shows the funding allocated to each of the funding blocks.

Table 13: Dedicated Schools Grant funding allocation 2020/21

Block	2017/18 Baseline	2018/19 Allocation	2019/20 Allocation	2020/21 Allocation	Increase from 19/20
Schools	115,395,359	116,593,953	120,925,612	126,793,678	5,868,066
Central School Services	2,499,839	2,314,345	2,343,094	2,051,119	(291,975)
High Needs	18,680,303	19,291,295	19,817,842	23,126,597	3,308,755
Early Years	12,063,976	13,553,344	13,514,336	13,749,296	234,960
TOTAL	**148,639,477**	**151,752,937**	**156,600,884**	**165,720,690**	**9,119,806**
Change from 2017/18 Baseline £	-	3,113,460	7,961,407	17,081,213	
Change from 2017/18 Baseline %	-	2.09%	5.36%	11.49%	
Change per Year £	-	3,113,460	4,847,947	9,119,806	
Change per Year %	-	2.09%	3.19%	5.82%	

6.1.3 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 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.

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.

6.1.4 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.

6.1.5 The Schools NFF for 2020/21 will continue to have the same factors as at present. The Government announced its intention to implement the formula to address historic underfunding and move to a system where funding is based on need. The key aspects of the formula for 2020/21 are:

- The minimum per pupil funding levels will be set at Primary £3,750, Key Stage 3 £4,800 and Key Stage 4 £5,300. The following year, in 2021/22, the primary minimum level will rise to £4,000;

- The funding floor will be set at 1.84% per pupil, in line with forecast inflation to protect per pupil allocations for all schools in real terms. This minimum increase in 2020/21 allocations will be based on the individual school's NFF allocation in 2019/20;
- Schools that are attracting their core NFF allocations will benefit from an increase of 4% to the formula's core factors;
- There will be no gains cap in the NFF, unlike the previous two years, so that all schools attract their full core allocations under the formula;
- A technical change will be made to the mobility factor so that it allocates this funding using a formulaic approach, rather than on the basis of historic spend; and
- Growth funding will be based on the same methodology as in 2019/20, with the same transitional protection ensuring that no authority whose growth funding is unwinding will lose more than 0.5% of its 2019/20 schools block allocation.

In addition, two important restrictions will continue:

- Local authorities will continue to set a Minimum Funding Guarantee in local formulae, which in 2020/21 must be between +0.5% and +1.84%. This allows them to mirror the real terms protection in the NFF, which is the Government's expectation; and
- Local authorities can only transfer up to 0.5% of their Schools block to other blocks of the DSG, with their Schools Forum approval. To transfer more than this, or any amount without their Schools Forum approval, they will have to make a request to the DfE, even if the same amount was agreed in the past two years.

6.2 Schools Block

6.2.1 Since 2015/16 school balances have fallen by £6.038m to £1.599m (79%) in North Tyneside. Schools 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 inflationary pressures on premises, equipment and materials costs. In addition, as has been widely publicised, school Budgets are under pressure as a consequence of national policy.

6.3 High Needs Block

6.3.1 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.

6.4 Early Years Block

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

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

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

6.4.3 In November 2019 Schools Forum agreed that an Early Years sub group should make recommendations on North Tyneside's Early Funding Formula for 2020/21. A sub-group was convened on the 28 November 2019, that comprised representation from:

- Grasmere Academy
- Fieldhouse Nursery
- Sir James Knott Nursery
- Holystone Out of School Club

(Apologies were received from 3 other settings).

6.4.4 The sub-group agreed to recommend the proposed Early Years funding formula factors shown in Table 14, to Schools Forum for 2020/21. The group agreed that the funding formula should continue to comprise the base rate and statutory deprivation supplement. The group agreed not to include any of the voluntary supplements, which are rurality, flexibility, efficiency and 30 hours delivery.

The early years sub-group recommended a £0.09 per hour increase to the 3 & 4-year-old base rate and a £0.02 increase on the higher deprivation rate. The new rates apply to both the extended and universal entitlements. The sub-group recommended that the 2-year old hourly rate should increase from £5.20 to £5.26. The remaining elements of the funding formula are unchanged.

Table 14: Proposed Funding Formula – Early Years Block

		Local funding formula 2019/20	Proposed Local funding formula 2020/21
2-Year Old Base Rate		£5.20 per hour	£5.26
3- and 4-Year Old Hourly Base Rate		£4.34 per hour	£4.43
3- and 4- Year Old Hourly Deprivation Supplement –	Quartile 1	£0.12 per hour both universal and extended hours	£0.14
	Quartile 2	£0.06 per both universal and extended hours	£0.06
Early Years Pupil Premium		£0.53	£0.53
Additional Payment to Maintained Nursery School		100% pass through of Maintained Nursery School rate allocated by Department for Education	100% pass through of Maintained Nursery School rate allocated by Department for Education
SEN Inclusion Fund		£8.26 per hour	£8.26 per hour
Disability Access Fund		£615	£615

6.4.5 The new funding formula will be implemented from Summer Term 2020 onwards. In July 2019, Schools Forum were informed that a cumulative balance had accrued on the Early Years block and work would be undertaken to identify the final position. Once all outstanding charges and commitments have been accounted for, the Early Years Block has accrued a cumulative underspend of £827,276. This comprises of three elements:

- Disability Access Fund £39,655
- Special Educational Needs Funding £217,172
- 3 & 4-Year-Old Funding £267,099 & £303,350

The cumulative surplus accrued on the Disability Access Fund and SEN Inclusion Fund will be retained to support the inclusion of children and young people with special educational needs and disabilities who are seeking to accesses their Early Years entitlements.

The surplus generated on the 3 and 4-year-old funding will be returned to providers of the 3 and 4-year-old entitlement subject to a prudent retention of £100,000 to protect against potential fluctuations in future funding. The remaining surplus will be distributed to providers of 3 and 4-year-old places, which is consistent with the recommendations of the Early Years sub group. The surplus accumulated on the 3 and 4-year-old funding budgets will be distributed proportionately, according to the amount of funded 3 and 4-year-old hours (universal and extended) providers have delivered during the 2019/20 financial year. Payments will be made to Ofsted registered Early Years providers, with any outstanding balances deducted before a payment is made.

6.5 Central Schools Services Block

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

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

The 2020/21 funding for 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.

6.6 Timetable for Agreeing 2020/21 Distributions

6.6.1 The key dates which must be met in setting 2020/21 school Budgets are shown in Table 15 below.

Table 15: Key dates for 2020/21 school budget setting

Date	Activity
July 2019	Department for Education (DfE) guidance issued for 2020/21
October 2019	Local consultation documents issued to stakeholders
October 2019	Consultation returns received and reviewed
13 November 2019	Schools Forum considers consultation response and agrees proposals for local funding allocation formula to individual schools, de-delegated and centrally retained budgets and any transfers between funding blocks
19/20 December 2019	Provisional Local Government Finance Settlement announced including school funding amounts
16 January 2020	Additional Schools Forum meeting (if required)
21 January 2020	Deadline for submission of final local School Allocations to DfE (the Authority Proforma Tool)
29 February 2020	Deadline for confirmation of Schools Budget shares to maintained schools (in North Tyneside the intention is to issue in advance of this deadline)

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

7.1.1 Capital investment generally relates to spending on physical assets that have a useful life of more than one year. This can be new assets, improvements to existing assets, or loans to third parties for a capital purpose.

Investment of this nature plays an important role in ensuring the Authority meets its health and safety responsibilities, it also plays an important role in improving economic opportunities across all parts of the Borough. Whilst some investment directly contributes to economic development, all has an indirect impact by providing stimulus to the economy, creating employment opportunities, supporting skills and development or contributing to confidence.

7.1.2 The Capital Investment Strategy (Appendix D (iv)) has been developed to help support the delivery of capital investment and ensure that the investment programme builds on previous success, with a strong focus on delivery of the Our North Tyneside Plan outcomes and linking to the Our Ambition for North Tyneside report to 25 November 2019 Cabinet. The Strategy also provides a framework to enable projects to be developed with the aim of helping to deliver revenue savings to assist the Authority in managing the financial pressure it faces.

All proposals for capital investment follow a structured gateway process, and are challenged by Members and senior officers, from the initial ideas stage, through the delivery stage and finally to post implementation. All proposals are considered in terms of their strategic alignment with the Our North Tyneside Plan, Our Ambition for North Tyneside and the revised Efficiency Programme.

The Investment Programme Board (IPB) meets on a monthly basis and, as part of its monthly meetings, receives an update on all ongoing projects included in the approved Investment Plan (currently 2019-2023).

Table 16 below shows a summary of the draft 2020-2025 Investment Plan:

Table 16: Summary of the draft Investment Plan 2020-2025

Spend	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	Total £000s
General Fund	40,445	24,932	15,046	15,532	14,284	110,239
Housing	26,862	25,841	26,257	27,235	27,886	134,081
Total	**67,307**	**50,773**	**41,303**	**42,767**	**42,170**	**244,320**

A schedule of the individual projects included in the draft plan is attached as Appendix D (i). Where applicable, confirmation of external funding will also be required before projects are able to proceed.

The estimated revenue implications of these schemes have been included in the revenue Budget.

Table 17: Summary of Financing 2020-2025

Spend	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	Total £000s
General Fund **Council contributions:**						
Unsupported borrowing	26,431	15,248	6,862	7,848	7,100	63,489
Capital receipts	423	423	254	0	0	1,100
Revenue contribution	577	577	746	500	0	2,400
Use of reserves	679	0	0	0	0	679
	28,110	16,248	7,862	8,348	7,100	67,668
Grants and contributions	12,335	8,684	7,184	7,184	7,184	42,571
Total General Fund Resources	**40,445**	**24,932**	**15,046**	**15,532**	**14,284**	**110,239**
Housing – HRA						
Capital receipts	3,821	3,329	2,970	3,922	3,068	17,110
Revenue contribution	10,215	9,237	9,548	9,093	10,100	48,193
Major Repairs Reserve	12,826	13,275	13,739	14,220	14,718	68,778
Total HRA Resources	**26,862**	**25,841**	**26,257**	**27,235**	**27,886**	**134,081**
TOTAL RESOURCES	**67,307**	**50,773**	**41,303**	**42,767**	**42,170**	**244,320**

7.1.3 The draft 2020-2025 Investment Plan for the General Fund includes expenditure of £40.445m in 2020/21. Of this expenditure, £12.335m (30%) is funded through grants and other external funding contributions.

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

Across the life of the draft Investment Plan, unsupported borrowing totals £63.489m. The cost of borrowing is included within the General Fund Revenue Budget and Medium-Term Financial Plan. Included within this is a loan to Port of Tyne to facilitate the development of the Royal Quays Enterprise Park. The costs of this borrowing will be met by the Port of Tyne.

Work is ongoing to finalise these draft proposals. Included in the Investment Plan is funding for the Northern Promenade, this will support work to improve the Rendezvous Café and the carpark area during 2020/21. There are currently a number of projects progressing through the investment gateway process where bids have been made for external funding. These projects include Murton Gap infrastructure, Highway Maintenance Challenge Fund and Transforming Cities. It is planned that these projects will be added to the Investment Plan once funding is secured.

7.2 Flexible use of capital receipts

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

7.3 Capital Allocations 2020/21

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

7.4 Annual Minimum Revenue Provision (MRP)

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

The MRP is the amount that is set aside to provide for the prepayment of debt (principal repayment). The regulations require the Authority determines an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.

There are no changes proposed to the existing policy. The 2020/21 policy is set out in full below:

(a) Existing assets pre-1 April 2007: MRP will be charged at 2% per annum;
(b) Supported borrowing: MRP will be charged at 2%;
(c) Unsupported borrowing: for all assets financed by unsupported borrowing, MRP will be charged over the estimated life of the assets. This may include assets financed through PFI schemes and finance leases;
(d) Lease transactions treated as “on balance sheet”: an element of the annual charge to the Authority for the lease will be treated as repayment of capital (i.e. repayment of principal and interest). The principal element is effectively the MRP charge for the year. This MRP charge will be equal to the element of the rent/service charge that goes to write down the balance sheet liability; and
(e) Loans made for capital purposes for which borrowing is taken out: MRP will be based on the actual principal repayment schedule relating to the loan provided.

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

7.5 Prudential Indicators

7.5.1 The Local Government Act 2003 requires authorities to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. The Prudential Code requires authorities to develop a set of Prudential Indicators for capital as laid out in this Code. The proposed indicators for 2020-2025 have been prepared using this new guidance and are attached as Appendix D (iii).

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

8.1 Background

8.1.1 The Authority is required to operate a balanced Budget, which broadly means that cash raised during the year will meet cash expenditure. A key part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Authority's low risk policy, providing adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Authority's investment plans. These capital plans provide a guide to the borrowing needs of the Authority, essentially the longer-term cash flow planning to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long- or short-term loans or using longer-term cash flow surpluses.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or on larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available Budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of any sums invested, as a loss of principal will in effect result in a loss to the General Fund balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

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

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

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

This Capital Investment Strategy is reported separately from the Treasury Management Statement (Appendix E). Non-treasury investments will also be reported separately through the Capital Investment Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercial investments usually driven by expenditure in an asset.

8.2 Treasury Management Reporting

8.2.1 In line with best practice, the Treasury Management Statement and Annual Investment Strategy (Appendix E) is considered as part of the Budget setting process.

There are two other main reports each year, which incorporate a variety of policies, estimates and actuals which are approved by Cabinet. These reports are:

A Mid-Year Treasury Management Report
This will update Members with the progress of the capital position, amending prudential indicators as necessary, and indicate whether the Authority is meeting the strategy or whether any policies require revision; and

An Annual Treasury Report
This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the Strategy.

8.3 Treasury Management Strategy for 2020/21

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

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

8.4 Training

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

8.5 Treasury management Consultants

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

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

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

8.6 Current Treasury Portfolio Position

8.6.1 The Authority's debt and investment position as at 31 December 2019 is set out in Table 18 below:

Table 18: Current Treasury Portfolio Position as at 31 December 2019

	Principal Outstanding	Average Rate
	£m	%
Fixed Rate Funding		
PWLB*	225.250	3.64
PWLB – (HRA Self Financing)	128.193	3.49
Market loans	20.000	4.35
Temporary loans	71.470	1.10
Total External Debt	**444.913**	
Less **Investments**		
DMO**	18.300	0.50
Lloyds Bank	5.000	0.70
Other local authorities	5.000	0.75
Total Investments	**28.300**	
Net Position	**416.613**	

*Public Works Loan Board
**Debt Management Office

8.7 Prospects for Interest Rates

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

Table 19: Link Asset Services forecast interest rates – (January 2020)

	Bank Rate %	5 year PWLB %	10 year PWLB %	25 year PWLB %	50 year PWLB %
Dec-19	0.75	2.30	2.60	3.20	3.10
Mar-20	0.75	2.40	2.70	3.30	3.20
Jun-20	0.75	2.40	2.70	3.40	3.30
Sep-20	0.75	2.50	2.70	3.40	3.30
Dec-20	0.75	2.50	2.80	3.50	3.40
Mar-21	1.00	2.60	2.90	3.60	3.50
Jun-21	1.00	2.70	3.00	3.70	3.60
Sep-21	1.00	2.80	3.10	3.70	3.60
Dec-21	1.00	2.90	3.20	3.80	3.70
Mar-22	1.00	2.90	3.20	3.90	3.80
Jun-22	1.25	3.00	3.30	4.00	3.90

8.7.2 Link Asset Services are currently forecasting the Bank of England base rate to remain unchanged until March 2021, in which the Monetary Policy Committee may vote to increase rates to 1.00%, with another possible rate rise in June 2022.

Since Link have provided the above forecast, we have seen weakening economic data leading to market sentiment deteriorating. This combined with dovish comments from the Bank of England Governor as well as other members of the MPC, markets have subsequently price in / increased the likelihood of a rate cut. The current probability of a rate cut at the next MPC meeting (30 Jan 2020) is at 59%. Therefore, we consider the forecast provided in Table 19 as optimistic.

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

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

8.8 <u>Investment and Borrowing Rates</u>

- Investment returns are likely to remain low during 2020/21 but to be on a gently rising trend over the next few years;
- Borrowing interest rates have been volatile so far in 2019/20 with an overall downward trend leading to historic lows. This has resulted in long-term PWLB rates being at unprecedented and historic lows. However, on 9 October 2019 the Treasury announced an increase in the margin over gilt yields of 1.00% on top of the current margin of 0.80% for new borrowing from the PWLB. Therefore, total margin over gilt yields is 1.80%. There was no

prior-warning that this would happen, and now every local authority must reassess how to finance their external borrowing needs and the financial viability of future capital expenditure;

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

8.9 Borrowing Strategy

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

The Authority's borrowing strategy will give consideration to the following:

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

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

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

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

8.10 Policy on borrowing in advance of need

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

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

8.11 Debt rescheduling

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

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

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

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

8.12 Municipal Bonds Agency (MBA)

8.12.1 It has recently been announced the first bond issuance by the MBA is nearing completion. This is the first step in the evolution of the MBA, finer details of the bond issuance are still to be announced. This represents the start of the full operation of the MBA, and details of borrowing opportunities will become clearer as further bonds are issued.

The Agency hopes that the borrowing rates will be lower than those offered by the PWLB. The Authority may make use of this new source of borrowing as and when appropriate.

8.13 Annual Investment Strategy

8.13.1 Investment policy on the management of risk

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

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

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

The Authority's investment priorities are:

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

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

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

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

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

4. This Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in

Appendix E under the categories of 'specified' and 'non-specified' investments:

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

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

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

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

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

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

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

11. All investments will be denominated in sterling; and

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

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

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

8.14 Investment Strategy

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

- If it is thought that the Bank of England base rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as short-term or variable; or
- Conversely, if it is thought that the base rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectation

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

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

8.15 Creditworthiness Policy

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

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

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

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

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

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

Authority will also use market data and market information on any external support for banks to help support its decision-making process.

8.17 Non-treasury investments

8.17.1 The definition of an investment covers all the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations. The definition of an investment also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party.

The Authority recognises that investments in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

It is recognised that the risk appetite for these activities may differ from that for treasury management.

The Authority maintains records of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

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

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

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

In terms of the equity investments:

- The shares in Newcastle Airport are held primarily for economic regeneration. The cost of the original investment was £0.235m; and
- The shares in North Tyneside Trading Company relate to two subsidiaries. The first, amounting to £4.093m, relating to investment in affordable homes in line with the Cabinet's priorities using section 106 funding. The second, amounting to £1.066m, relating to investment in Aurora Properties (Sale) Ltd for the provision of housing for sale on the open market.

In terms of the loans:

- High Point View: It is anticipated that this amount will be repaid over the next few months as the properties are sold; and

- Aurora Properties (Sale) Ltd: the loans are expected to be repaid over the next 3 years upon completion of the property developments.

There are currently no losses expected on any of the Authority's non-treasury investments or any indications that a loss may arise. However, this position is kept under constant review as market conditions are expected to remain very volatile. Over the period of the Financial Plan (2020-2024), income from these investments is expected to be over £2.000m from staff recharges, interest and dividends.

Treasury Management training was provided to Cabinet on 11 March 2019. A further session will be provided by Link Asset Services to all members involved in the investment decision-making process during 2020/21.

9. Response to the Overview, Scrutiny and Policy Development Committee Recommendations

9.1 Summary

9.1.1 This section of the Annex considers the response required by Cabinet to any recommendations made by the Overview, Scrutiny and Policy Development Committee following its scrutiny and challenge of the 2020-2024 Financial Planning and Budget process.

9.1.2 The Budget sub-group of Overview, Scrutiny and Policy Development Committee has received two presentations and updates to allow consideration of Cabinet's initial Budget proposals. This is in line with the statutory and constitutional requirements for preparing the annual Budget.

9.1.3 Cabinet must formally respond to any recommendations made by the Overview, Scrutiny and Policy Development Committee in considering its final Budget proposals. It is therefore proposed that Cabinet considers any recommendations in relation to the General Fund Budget, the 2020-2024 Investment Plan and the 2020/21 Treasury Management Statement and Annual Investment Strategy at its meeting on 3 February 2020.

9.1.4 The sub-group met on the 16 December 2019 where senior officers presented Cabinet's Initial 2020 - 2024 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 Bruce Pickard
- Councillor Ray Glindon

9.2 Budget Sub-Group Considerations

9.2.1 The Committee noted the challenges facing Cabinet arising from a one-year spending review, the delay in the announcement of the provisional financial settlement, the uncertainty of the impact of Brexit and the General Election. The sub-group acknowledged that in light of those circumstances the inital Budget proposals are based on a number of assumptions due to elements outside the Authority's control. However, the sub-group was encouraged during the detailed explanation of all the assumptions in the 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.

9.2.2 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).

9.2.3 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 Our Ambition for North Tyneside Plan saw the continuation of regeneration across the Borough such as the creation of the Masterplan for North Shields.

9.2.4 Again, in relation to the priority to provide a clean, green, healthy and safe environment, the sub-group was reassured that the Authority 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.

9.2.5 The sub-group was also informed that the Cabinet member responsible for Environment and Transport was with officers developing the plan to deal with the climate emergency and recommended that scrutiny officers help in the development of this plan.

9.2.6 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. The sub-group was encouraged that the Authority was utilising its community hubs following investment and refurbishment of these hubs to bring the third sector and Police services into the Wallsend Community First Centre.

9.2.7 Cabinet are recommended to ensure that a scrutiny officer is invited to help develop the plan for climate emergency. There were no recommendations made in relation to Cabinets proposed refresh of the Council Plan, engagement approach or the initial Budget proposals for the General Fund, HRA, the 2020-2025 Investment Plan and the 2020/21 Treasury Management Statement and Annual Investment Strategy.

9.2.8 A further meeting has been arranged for the budget sub-group to reconvene and consider Cabinet’s draft Budget proposals for 2020 - 2024 that will take place on Tuesday 4 February 2020, where implications of this report will be considered. Any recommendations made at this meeting that may have an impact on the final Budget proposals will be considered by Cabinet on 10 February 2020.

10. Provisional Statement to Council by the Chief Finance Officer

10.1.1 The Local Government Act 2003 imposes duties on local authorities in relation to Budget setting. The Act requires that when an authority is deciding its annual Budget and Council Tax level, Members and officers must take into account a report from the Chief Finance Officer on the robustness of the Budget and the adequacy of the Authority's financial reserves.

The Government has a back-up power to impose a minimum level of reserves on any authority that it considers is making inadequate provisions.

In making this Statement, the Chief Finance Officer necessarily places reliance on information provided to her by other officers of the Authority as part of the Financial Planning and Budget process. Due cognisance to CIPFA's guidance in relation to the adequacy of reserves and balances will also be taken into account.

The intention is to make a full Statement as part of the report to the Council meeting on 20 February 2020, when all outstanding information should be available.

Robustness of Estimates

In assessing the robustness of estimates, the Chief Finance Officer has considered the following issues*:*

- The general financial standing of the Authority;
- The underlying Budget assumptions from the Medium-Term Financial Strategy;
- Future Budget pressures and growth proposals, including the impact of prudential borrowing for the 2020-2025 Investment Plan;
- The adequacy of the Budget monitoring and financial reporting arrangements in place;
- The adequacy of the Authority's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2018/19 Statement of Accounts, presented to full Council on 25 July 2019;
- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority; and
- The outcome of the 2019 Local Government Finance Settlement and the Spending Round 2019, which was published on 4 September 2019, and the implications for the Authority.

The level of contingencies has increased by £2.306m to £6.942m for 2020/21 as these are draft Budget proposals the level of contingencies will be finalised by Cabinet once the Final Settlement is known.

The reserves, whilst relatively low, are adequate for the risks that the Authority faces and are able to support the Efficiency Programme that is being set out for 2020/21. There remains an unprecedented level of uncertainty in relation to on-going financial support for local government and as such it is vital the Authority takes a pragmatic and prudent approach to setting the Budget for 2020/21.

The Cabinet is aware it must keep under review its Medium-Term Financial Strategy and four-year Medium-Term Financial Plan, in the context of the proposed refresh of the 2020-2024 ‘Our North Tyneside Plan’ and known key financial risks. Future pressures need to be considered and the Authority should not take 2020/21 in isolation to future years’ needs and pressures. Each year’s Budget must continue to be considered within the context of the four-year Financial Plan, the five-year Investment Plan, the Medium-Term Financial Strategy and the global economic position prevailing at the time.

To ensure that the Authority continues to keep within its approved Budget and the financial integrity of the Authority is maintained, it is essential that Budget holder responsibility and accountability continues to be recognised as set down in the Authority’s Financial Regulations and in the roles and responsibilities section of the Authority’s Budget Management Handbook.

10.2.1 Capital Investment Strategy

In line with the 2017 Consultation on Proposed Changes to the Prudential Code’s new requirement that the Chief Finance Officer of an Authority should report explicitly on the ‘deliverability, affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions’, the Authority has ensured that that all projects within the 2020-2025 Investment Plan follow the full gateway and governance procedure prior to inclusion on the Plan which ensures the deliverability, affordability and risk associated with each decision is fully understood prior to any decisions being made.

In terms of the overall investment position of the Authority, as set out above, a draft Investment Strategy has been developed to help support the delivery of capital investment and ensure that the Investment Plan builds on previous success, with a strong focus on delivery of the Council Plan outcomes.

10.3.1 Adequacy of Financial Reserves

General Fund

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

Table 20: Reserves and balances as at 31 March 2019 and from 2019/20-2023/24

Reserves and balances	Projected Opening Balances				
	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
Reserves					
General Fund ringfenced	25.318	24.113	22.876	22.175	21.624
General Fund unringfenced	19.492	18.369	18.369	18.369	18.369
General Fund grants	3.795	1.243	1.045	1.005	0.945
HRA	19.852	17.279	18.049	18.148	18.701
Reserves Sub Total	**68.457**	**61.004**	**60.339**	**59.697**	**59.639**
Balances					
General Fund	6.805	6.805	6.805	6.805	6.805
Schools	1.599	(0.201)	(2.201)	(4.201)	(6.201)
HRA	7.304	7.593	5.004	3.577	2.533
Balances Sub Total	**15.708**	**14.197**	**9.608**	**6.181**	**3.136**
Grand Total Reserves and Balances	**84.165**	**75.201**	**69.947**	**65.878**	**62.775**

<u>Housing Revenue Account</u>

Table 21 below sets out the movement in HRA reserves. The Budget proposals ensure that a minimum of £2.500m is retained in HRA revenue balances each financial year covering the four years of the Medium-Term Financial Plan to ensure some measure of contingency and financial stability. The proposals, as they currently stand, also balance the MTFP over the longer 30-year period, which is what the Government requires authorities to demonstrate as part of the self-financing proposals.

Table 21: 2020 -2024 Housing Revenue Account balances

HRA forecast movement on Reserves	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Opening Reserve balance	(7.304)	(7.593)	(5.004)	(3.577)	(2.533)
<u>Add</u>:					
Original contributions (to) / from balances	(2.331)	2.589	1.427	1.044	(0.193)
Change in contributions (to) / from balances	2.042	0.000	0.000	0.000	0.000
Predicted Reserve balance carried forward	**(7.593)**	**(5.004)**	**(3.577)**	**(2.533)**	**(2.726)**

Guidance on Local Authority Reserves and Balances is given in Local Authority Accounting Panel Bulletin 99. This states that *“balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option”.* As such, the draft 2020/21 Budget does not contradict this guidance. The Bulletin further states *that "it is not normally prudent for reserves to be deployed to finance current expenditure"*. The 2020-2024 Medium-Term Financial Plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long-term reliance on reserves.

11. Overall Financial Risk Assessment

11.1.1 Financial risks are driven by changes to Government policy and the national financial climate, issues arising throughout the year are reported as part of the financial management reporting process and those risks highlighted as part of the Authority's risk management procedures are monitored through the Authority's risk registers. As part of the monitoring process the Authority's Corporate Risk Register is monitored twice yearly by Cabinet.

Key Financial Risks

The key financial risks for the Authority, considered as part of the Financial Planning and Budget process, are set out in the Table below along with mitigating actions:

Table 22: Key Financial Risks and mitigating actions

Potential Risk	Initial Response
There is a risk that the levels of savings and income the Authority has included in the Budget proposals are not fully deliverable.	A robust challenge process has taken place to 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.
There is a risk that if the Efficiency Programme is not successfully implemented the Authority may be unable to deliver improved services and meet the increased demand for services within reducing resources. This could have the financial impact of the Authority not delivering on its Budget.	An overall Budget Proposal Document and Terms of Reference are in place for all existing and new Efficiency Programme projects. This spans all service redesign projects Monthly Updates to the Senior Leadership Team are provided as part of the in-year financial management process. The Customer Service Steering Group will be sighted on the outcomes from any Service reviews undertaken during 2020/21.
There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2023/24 may be wrong, resulting in changes to the current targeted savings by 2023/24, for the General fund and for the HRA, which will be considered by Cabinet in January 2020.	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 work closely with national, regional and sub-regional financial networks to help ensure that the Authority is informed and aware of any national developments. Being involved in the consultation process enables any issues or concerns specific to NTC to be highlighted before final decisions are made.
There is a risk that, because of financial	The Policy Framework and Guidance for

pressures within the North Tyneside Clinical Commissioning Group (CCG), the Council does not receive a full transfer of funding from health to social care and the continuation of funding for existing services funded through the Better Care Fund (BCF) and s256 agreements. This would have a significant financial impact to the Authority.	the BCF specifically requires that funding transferred for social care should, as a minimum, be at the equivalent level as that of 2016/17 plus inflation.
There is a risk that not all growth pressures have been identified in the 2020/21 proposed Budget.	Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand - led pressures exceed Budget provision.	Demand-led pressures continue in areas such as adults' and children's social care and the impact of the Living Wage on our care providers (and the price for services the Authority then has to pay) have been taken into consideration as part of these initial Budget proposals.
There is a risk that specific factors arising during 2019/20 have not been fully taken into account when preparing the 2020/21 Budget.	The 2019/20 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to the Senior Leadership Team. This process ensures factors arising during the year are taken into account.
There is a risk that the in-year pressures being reported through the 2019/20 financial management process impact on the deliverability of the 2020/21 budget.	As at 30 November 2019, a pressure of £3.483m was reported against the 2019/20 Budget. All Services continue to develop and deliver actions to mitigate these financial pressures and expect the outturn forecast to improve through the year. In addition, non-essential spend continues to be minimised and a detailed review of demand-led projections aims to reduce over-commitments. Progress will be monitored through bi-monthly reporting to Cabinet and monthly reporting to the Senior Leadership Team.
There is a risk that the contingency provision included in the Financial Plan for 2020/21 is insufficient.	The review of the base Budget and the reflection of the 2019/20 pressures into 2020/21 have been considered and an increase in the Contingency Budget of £2.306m is proposed.
There is a risk that there are insufficient levels of reserves and balances.	A full review of reserves and balances is undertaken on a regular basis as part of both the in-year monitoring 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. Government policy on welfare reform is resulting in a number of direct challenges to rent collection; the spare room subsidy and the benefit cap have already had an impact.	The Budget setting process incorporates a review of the HRA Business Plan to reflect the changes. The cost and quantity of work within the 30-year Investment Plan is revised annually to help mitigate the impact of changes. In addition, the Financial Inclusion 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. The Authority has representation on the MHCLG and CIPFA HRA working groups. This enables specific issues to be raised and allows the Authority to comment and influence change on HRA regulation
There is a risk that there may be a significant financial impact on school resources if the number of schools requesting deficit continues to rise at its current rate. This risk is currently driven by the number of surplus places at secondary schools.	The school deficit has been identified as a priority for the Authority, headteachers and governing bodies. A programme of work has been identified, working with schools to improve the schools deficit position. This will highlight the work that is required and through working with the schools a number of initiatives will be identified and progressed.
There is a risk that North Tyneside may be placed at a disadvantage following the decision to leave the European Union in both financial and economic growth terms. The full extent of the impact will not be clear until the Authority know the precise trade terms which will apply once the UK formally leaves the EU. This has a potentially significant financial impact due to loss of revenue grant and a potential loss of opportunities, e.g. capital grant and other revenue sources.	The potential impact from leaving the EU has been included in the Authority’s Medium-Term Financial Strategy. This is helping to ensure that potential areas of impact following the EU exit are highlighted and included (where relevant) in Budget planning. The Authority is a member of various regional groups which will help it keep up to speed on progress and have the opportunity to exert any influence that the Authority can. It is inevitable that there will be some impact from the decision to leave the EU, the challenge is to manage the impact where possible.