

North Tyneside Council

Report to Cabinet

Date: 3 August 2020

Title: 2021-2025 Financial Planning and Budget Process incorporating the Associated Engagement Strategy

Portfolio(s):	Elected Mayor	Cabinet Member(s):	Norma Redfearn
	Deputy Mayor		Councillor B Pickard
	Finance and Resources		Councillor R Glindon
	Housing and Transport		Councillor S Cox
	Community Safety and Engagement		Councillor C Burdis

Report from Service Area: Finance

Responsible Officer: Janice Gillespie, Head of Resources **Tel:** (0191) 643 5701

Wards affected: All

PART 1

1.1 Executive Summary

1.1.1 This is the initial report to Cabinet outlining the process to be adopted for the Authority's Financial Planning and Budget process for 2021/22 as part of the proposed framework for the four years 2021/22 to 2024/25. Further reports will follow as part of the process of setting the Authority's Budget for the financial year 2021/22. The next report to Cabinet will be on 30 November 2020 and will outline Cabinet's initial Budget proposals.

This report sets out information in relation to the proposed 2021-2025 Financial Planning and Budget process, including key decision milestones. This will include:

- A review of the Medium-Term Financial Strategy (MTFS) and Medium-Term Financial Plan (MTFP);
- Development of the detailed General Fund and Housing Revenue Account Budgets for 2021/22;
- An update of the Investment Plan and the Treasury Management Strategy; and
- The Budget Engagement Strategy to be adopted as part of the 2021-2025 Financial Planning and Budget process.

1.1.2 While this report forms an important part of the Authority's Budget-setting process for the 2021/22 Budget, it also provides Cabinet with an overview of the potential financial

implications of COVID-19, for both the current year and for the period of the Authority's Medium-Term Financial Strategy (MTFS). An initial review of the MTFS has been carried out in light of future government announcements and, as the scale of the financial impact of COVID-19 becomes clear, it will need to be updated.

1.1.3 In addition, this report acknowledges the exceptional circumstances in which the 2021/22 Budget will need to be prepared. This will have an impact on the organisation's ability to achieve planned Budget savings and income for 2020/21, its capacity to develop and deliver new Budget proposals for 2021/22, and on the wider Budget position, which is the subject of extremely high levels of uncertainty. The report sets out details of a proposed Budget planning process for 2021/22 but recognises that there will be a need for flexibility. In this context, the report also provides a summary of key areas of wider risk and uncertainty for Cabinet to consider.

1.2 Recommendations

It is recommended that Cabinet:

- (a) notes the revised Medium-Term Financial Strategy and the proposed principles for Budget planning for 2021/22, as set out at Appendix A and section 1.5.11;
- (b) approves the proposed outline 2021-2025 Financial Planning and Budget process which incorporates the key decision milestones and dates, as set out at Appendix B;
- (c) recognises that there may be a requirement for flexibility within both the Budget-setting process and the assumptions used, as a result of future Government announcements and other developments relating to COVID-19;
- (d) approves the Budget Engagement Strategy as part of the 2021-2025 Financial Planning and Budget process as set out at Appendix C; and
- (e) considers the key Budget risks and uncertainties as set out in the Medium-Term Financial Strategy, including the implications of announcements made at the Spring Budget 2020 and subsequently as part of the COVID-19 response.

1.3 Forward Plan:

It has not been possible to give 28 days' notice of this report as historically a report on the budget process has been submitted to Cabinet in September each year. However, due to the financial challenges faced by the Authority in light of the response to and recovery from COVID-19 the report was brought forward to the August Cabinet meeting. It first appeared on the Forward Plan that was published on 10 July 2020.

1.4 Information

Council Plan and Policy Framework

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

- 1.4.2 The development of the Budget will follow the process laid down in the Authority's Constitution. The Financial Planning and Budget process is a fundamental part of the overall governance and assurance framework of the Authority. This in turn provides assurance that the Budget is considered as part of preparing the Annual Governance Statement to Council each year.
- 1.4.3 The priorities in the Council Plan (the "Our North Tyneside Plan") provide the strategic policy framework within which Budget resources will be allocated for 2021-2025.

Background

- 1.4.4 The last few years have been uncertain and challenging for local government but financial planning for 2021/22 is particularly difficult. The financial outlook for local government and public services due to the impact of COVID-19 is just starting to emerge and therefore it is almost impossible to predict the ongoing financial impact to the Authority's resources with any certainty.
- 1.4.5 The new Chancellor of the Exchequer, Rishi Sunak, announced the Spring Budget 2020 on 11 March 2020. The Budget included various announcements with implications for local authority funding, including a plan to undertake a Comprehensive Spending Review (CSR), due to be completed in July 2020. As part of the response to COVID-19, the Chancellor announced on 24 March 2020 that the CSR would be delayed from July to enable the Government to remain focused on responding to the public health and economic emergency.

On 21 July 2020 the Chancellor announced the launch of the CSR which will be published in the Autumn 2020; no date has been given for when the review will be concluded. The review will set UK Government departments' resource budgets for the years 2021/22 to 2023/24 and capital budgets for the years 2021/22 to 2024/25, and devolved administrations' block grants for the same period.

Due to unprecedented uncertainty, the Chancellor did not fix a set spending envelope, but confirmed that departmental spending (both capital and resource) will grow in real terms across the CSR period and that the Government will deliver on the commitments made at the Spring Budget.

Given the impact COVID-19 has had on the economy, the Chancellor was clear there will need to be tough choices in other areas of spending at the review. As part of their preparations for the CSR departments have been asked to identify opportunities to reprioritise and deliver savings. Departments will also be required to fulfil a series of conditions in their returns, including providing evidence they are delivering the government's priorities and focusing on delivery.

- 1.4.6 The Government continues to explore the long-term reform of adult social care, the Fair Funding and Business Rates Retention reviews have been pushed back to April 2022 at the earliest, and the future of Government grants such as the Better Care Fund and Troubled Families are also uncertain. The outcome of these have the potential for a significant impact on local government and, in the absence of any announcements, this only adds to the challenge.

The COVID-19 pandemic will also have a significant financial impact on the Authority in 2020/21, with the impact then likely to be felt in future years. The Authority began to experience the impact of the outbreak in March 2020 when a number of front-line services were closed. There has been an increase in claims for Local Council Tax

Support and a reduction in business rate income due to business closures is expected. Consequently, the Authority may suffer significant reductions in income in 2020/21 and beyond.

- 1.4.7 Any consideration of the Authority's Medium-Term Financial Strategy and Medium-Term Financial Plan must be undertaken in the context of the funding outlook for local government and what that means for the Authority. Full details of the funding outlook for local government are included in section 3 of the Medium-Term Financial Strategy.

Financial Impact of COVID-19

- 1.4.8 An initial estimate of the financial impact of COVID-19 on the Authority was included in the COVID-19 - A Recovery Framework for North Tyneside report that was received by Cabinet on 29 June. At that time estimates were that the Authority was facing pressures of £24.930m. Since then, as identified in the 2020/21 Financial Management Report to 31 May 2020, the gross estimated financial impact on the General Fund for 2020/21 is £23.858m.
- 1.4.9 In March 2020, the Government originally provided £6.822m to the Authority to support the response to the COVID-19 pandemic. Since then, the Government have made two further funding announcements. On 28 April, the Government announced a further £5.709m of grant funding and on 2 July a further £1.777m. These three tranches of funding, totalling £14.308m, have been provided to enable the Authority to deliver its COVID-19 response across all services. It remains unclear what period this funding is intended to cover.

The Authority submitted its third return (for June) to the Ministry of Housing, Communities and Local Government (MHCLG) on 19 June. This response continued to highlight the Authority's key messages that funding to date appears inadequate to address currently anticipated cost and income pressures for 2020/21. The MHCLG has also published a summary of the first and second round returns on 21 June.

- 1.4.10 The response to COVID-19 is likely to result in significant cost and income pressures in 2020/21, as well as impacting on the scope to achieve planned 2020/21 savings, and the capacity to develop new proposals for the 2021/22 Budget. The forecast use of the COVID-19 grant identifies a shortfall in funding, although there remains a high degree of uncertainty around some of these estimates. If these costs were to fully materialise, and no additional funding were provided, the Authority would need to seek to mitigate the impact over the remainder of 2020/21.

The Government's response and decisions about local authority funding in 2021/22 will be hugely significant. The Government has an opportunity as part of the COVID-19 response to deliver a permanent step change in the recognition of the importance of social care, and to fund local authorities to provide a key contribution as part of the national recovery.

- 1.4.11 As described in section 1.4.5 above, funding announcements are not expected until the Autumn 2020. Whilst a multi-year settlement is welcomed and will give local authorities some degree of certainty, until the details are released Budget planning for 2021/22 remains extremely challenging. The Authority will have an opportunity to make representations to HM Treasury to inform policy development for the CSR. The guidance received for the submission is that it should be based on the priorities of the CSR as set out in the Chancellors statement. The deadline for representations to be submitted is 24 September 2020.

- 1.4.12 The current Medium-Term Financial Plan (MTFP) covers the period to the end of 2023/24. Whilst there is a great deal of financial uncertainty, recommended practice suggests that due consideration is given not only to the short-term but to how the Authority will continue to finance its activities in the medium-term. It is therefore recommended at this stage that the MTFP covers the four-year period 2021/22 to 2024/25.

1.5 Policy Context

Council Plan 2020-2024

- 1.5.1 The current Council Plan (the “Our North Tyneside Plan”) was approved by Council on 20 February 2020. The Plan sets out the overall vision and policy context within which the Financial Plan and Budget proposals are set. It provides a clear strategic framework for the Authority and its partners to operate within. The Plan also provides the strategic policy context for all financial decisions and delivery of services. This programme is designed to reshape services to ensure that the outcomes set out in the Council Plan can be delivered within the resources allocated through the Financial Planning and Budget-Setting process.
- 1.5.2 The Council Plan is focused on ensuring that the Authority works better for its residents. It is supported by three key plans, “We Serve”, “An Ambition for North Tyneside” and the Medium-Term Financial Plan.

The Council Plan has three key themes: Our People, Our Places and Our Economy. These themes are based on the Mayor’s priorities for her second term. The Plan includes descriptions of how the organisation will support people in accessing high quality education, deliver regeneration projects across the borough and ensure that North Tyneside is business friendly. The outcomes for the three themes are set out below:

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.
- 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.
- 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.
- Continue to support investment in our business parks, units and Town Centres.

Review of the Medium-Term Financial Strategy (MTFS) and Medium-Term Financial Plan

- 1.5.3 In line with the principles agreed with Cabinet for setting the annual Budget, an initial review of the Medium-Term Financial Strategy (MTFS) has been performed. The revised MTFS is included as Appendix A to this report.
- 1.5.4 The Authority's 2020/21 Budget and accompanying MTFS were agreed in February 2020, prior to the significant escalation of the COVID-19 pandemic. The impact of the pandemic is having far-reaching consequences and has already required an adjustment in both organisational priorities and ways of working. Inevitably, the MTFS agreed in February could not foresee the adjustments which may be needed to respond to COVID-19 and, as a result, changes in Budget assumptions will need to be taken into account as 2021/22 Budget planning activity progresses.
- 1.5.5 Although there are significant short-term impacts being experienced from the response to COVID-19, it remains to be seen precisely what the medium and longer-term impact will be, and as such the full implications for the Authority's Budget in 2020/21 and beyond remain to be confirmed. However, the pandemic will undoubtedly change the long-term shape of some of our services in relation to joint working, public expectations, levels of demand, and the underlying cost base.
- 1.5.6 In addition, it is highly likely that key income sources including Council Tax (through both the Collection Fund and tax base growth) and Business Rates will be under significant pressure in 2021/22, requiring a revision to planning assumptions. Work is

underway to establish the likely impacts, but at this stage it remains too early to forecast with any confidence.

Likely impacts on Business Rates include:

- Total Business Rates collectable will potentially reduce where increased numbers of businesses close (particularly as temporary financial support measures are withdrawn);
- An increase in the number of properties claiming empty property relief where businesses either cease trading or seek to take advantage of changed working patterns to reduce property costs; and
- Appeals against rateable values may increase where rental values have been impacted.

Likely impacts on Council Tax include:

- The tax base may not increase as forecast due to suppressed growth in new properties;
- Council Tax support is likely to increase linked to increased levels of unemployment and Universal Credit claims; and
- Decreases in the Council Tax collection rate due to households experiencing a reduction in income.

1.5.7 Nationally, the Government has provided additional funding to local authorities to support them in responding to coronavirus, in the expectation that authorities will play a key role in maintaining critical social care and other frontline services, assisting education and early years providers to provide care and education for key workers' and vulnerable children, supporting businesses and individuals suffering hardship, and maximising the available capacity in the health service by enabling increased levels of discharge from hospital. However, it is unclear to what extent this commitment to fund the COVID-19 response will extend to ongoing pressures for 2021/22 onwards and, as such, the Budget for next year will be developed in a climate of extreme uncertainty.

Services such as adult social care are seeing an impact from the pandemic, affecting service delivery, demand and ways of working across all parts of the service. It is also unclear how services and demand will need to operate beyond the immediate emergency period, particularly for vulnerable groups who may be affected for longer. Legislation, policies and practices have all seen changes in the previous few weeks. This will have a longer-term impact and may present opportunities for the health and social care system and for our joint work and role with partners.

1.5.8 There is a risk that the Authority will see a significant impact from winter pressures in 2020/21, particularly in the event of a second peak in the transmission of the virus.

Whether or not this occurs, it is likely that there will be surges and spikes in activity and demand for services through the next few months as lockdown measures are relaxed, for example in areas such as children's social care and services such as household waste recycling .

1.5.9 Finance officers have worked through a range of assumptions and the potential gap between available resources and anticipated expenditure for the General Fund across the next 4 years could be anywhere between £41m to £65m.

- 1.5.10 The Authority has previously agreed a set of principles as part of the process to develop the Budget. The majority of those principles remain relevant for Budget-setting for 2021/22 and for the Medium-Term Financial Plan (MTFP). However, it is important that there is a clear understanding of the work that will need to be undertaken in the lead up to Cabinet presenting its initial Budget proposals in November 2020. It has therefore been necessary to revise the approach to preparing the Budget for 2021/22 and the MTFP.

Where appropriate, the principles set out below provide more detail of the how the work will be undertaken. This will give a clear focus on financial planning priorities over the coming months in order to produce a balanced Budget in 2021/22 and achieve financial balance over the medium-term.

- 1.5.11 The underlying aim is to ensure that the Authority can continue to deliver the Council Plan, focus on delivering the phased approach to recovery, as set out in the Framework for Recovery report described earlier in this report, and do this within the available resources:

- 1) The overall financial strategy will be to ensure that the Authority's resources are directed to achieving the Council Plan and associated outcomes. The Authority's strategy will be reviewed on at least an annual basis;
- 2) Overall, Authority spending should be contained within original Budget estimates. If, following monthly budget monitoring, Service budgets are projected to exceed original estimates, plans should be prepared setting out the actions required to ensure spending at the end of the year does not exceed original estimates;
- 3) In preparation for setting the 2021/22 Budget all services will be required to take part in Budget Challenge sessions;
- 4) In order to inform further revisions of the 2021/22 Medium-Term Financial Strategy, there will be a fundamental review of the assumptions relating to:
 - a. Council Tax and Business Rates planning;
 - b. forecast delivery of planned 2020/21 savings programmes and viability of previously planned 2021/22 savings;
 - c. cost and income pressures, including new pressures resulting from COVID-19;
 - d. any further Government funding announcements for 2020/21 and future years; and
 - e. Seek to identify proposals to begin to address future years, reflecting need for longer-term planning.
- 5) Options to address any shortfall in savings to close the 2021/22 Budget gap will include:
 - a. The Government providing additional funding;
 - b. Corporate / centrally identified savings opportunities; and
 - c. Services identifying further savings.
- 6) The Authority will maintain its General Fund Balance at a minimum level of £7.000m at the end of each year, subject to a risk assessment as part of the annual Budget-setting process;

- 7) The Authority will aim to balance its revenue Budget over the period of the Medium-Term Financial Plan without reliance on the use of the General Fund Balance. The MTFP will cover the period 2021/22 to 2024/25;
- 8) The Authority will plan for any changes to specific grants/interim funding/financial settlement/legislation;
- 9) The Authority will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed at least annually;
- 10) Opportunities for working in collaboration and partnership and for different ways of working will be identified and developed where this will support the delivery of the Authority's outcomes and improve service efficiency and delivery. This will include the use of wellbeing powers/general power of competence, development of trading opportunities and different business models, and the sourcing and securing of external funding;
- 11) The Authority will consider the use of prudential borrowing to support capital investment to deliver the Council Plan and will ensure that the full costs of borrowing are taken into account when investment decisions are taken;
- 12) The Authority will aim to promote and stimulate strong and sustainable economic growth leading to wellbeing and prosperity for residents and communities, supported by a planned approach to strategic investment managed through the Authority's Investment Plan;
- 13) The Authority will continue to review its strategic assets to maximise the potential to release value for strategic re-investment and to ensure that asset requirements are aligned to the delivery of services across the borough;
- 14) The Authority recognises the impact of increases in Council Tax levels and fees and charges on our residents, many of whom are struggling on relatively low income and low wealth and will therefore balance the need for increases against the delivery of the Our North Tyneside Plan and demand for services. This will include the consistent application of an agreed fees and charges policy;
- 15) The Authority will continue to consider business risk in all decision-making process and, alongside this, will ensure that resources are aligned to reduce any material financial risk to the Authority; and
- 16) The Authority will continue to review its Treasury Management Strategy and the efficient management of debt on an annual basis, with an ongoing focus on delivering safe stewardship.

Housing Revenue Account (HRA)

1.5.12 The COVID-19 pandemic has brought a new set of significant impacts and challenges to the housing service, just as it has for other areas of service delivery across the Authority. The period of lockdown in 2020/21 has seen an extended period of time when housing repairs, asset improvements and new build schemes have been stood down, Right To Buy (RTB) applications being stalled, and there was a cessation of the re-letting of properties, with the focus during that time being on delivering emergency

elements of the service only, seeking to ensure at all times that the safety of the Authority's tenants is paramount.

The outcome of this change has been that a backlog of works has been created, and some major works have been delayed whilst all efforts are made to ensure that COVID-19 secure practices are implemented. This will inevitably have a cost impact on the delivery of certain schemes, as extra resources will be needed to make sites safe and enable social distancing in the workplace. Then in the longer-term there may continue to be an element of additional costs and this may impact on the timelines for delivery of certain works as well.

These factors will have to be built into modelling assumptions for the refresh of the 30-year HRA Business Plan, along with any anticipated impact on inflation and trends in other issues nationally, as the UK faces a serious economic downturn.

- 1.5.13 Following the end of the Kier Joint Venture, the Authority has operated its own in-house construction service. This move saw the Authority benefit from aligning the housing business to the Our North Tyneside Plan, deliver value for money to both the General Fund and the HRA and see greater flexibility between repairs and capital works resources to improve services to customers.

The first set of benefits, in financial terms, to be realised from the new service were built into the HRA Business Plan from 2020, and the HRA Budget for 2020/21 which was approved in February 2020. Permanent revenue savings of £1.500m per annum were built into the Plan, which enabled additional resources to be released into the new build programme and also to create a tenant priorities element to the repairs budget with initial focus on improving empty homes standards and carrying out property MOTs. The COVID-19 pandemic has seen a period of reduced activity in these areas, as much of the work has either been halted, or delays incurred in starting some of the new elements of the service. The main targets for the service remain to ensure that the key priorities of delivering excellent, flexible and value for money services are achieved, as we move towards a "new normal" living with COVID-19 and beyond.

- 1.5.14 2020/21 saw the first rent increase for 4 years, following the end of the 4-year period where rents were reduced by 1% per annum as enacted by Government via the Welfare Reform and Work Act 2016. From April 2020 rent policy returned to being based on increases of Consumer Prices Index (CPI) + 1% per annum for at least the next 5 years in order to give housing authorities greater planning certainty. This saw a rent increase of 2.7% for 2020/21, with a long-term assumption of 3% per annum based on Government targets of 2% per annum rates for CPI.

This is one area of the HRA Business Plan that may be adversely affected by the uncertainty surrounding the economy following the start of the COVID-19 pandemic. The impact of inflation factors on rent increases, minimising any future uplift of rental income, combined with the ongoing impact of welfare reforms, and increased take up of Universal Credit by tenants which could lead to an increase in rent arrears.

- 1.5.15 Cabinet can continue to consider options for further HRA capital investment funded by increased borrowing in accordance with the principles of the Prudential Code. Consideration of such options available as part of the 2020/21 Budget process, determined that the existing approach to debt management and repayment should be maintained in relation to the HRA. The COVID-19 pandemic and potential risks to levels of available resources mean that this will remain an option that is available to

raise additional resource if required, and due consideration will be given to these options as part of the business plan refresh and Budget-setting process for 2021/22.

- 1.5.16 The impact of the changes as outlined above will to be considered as part of the updating of the 30-year HRA Business Plan, which aims to ensure the long-term viability of the HRA in line with the policy direction of the Mayor and Cabinet and the needs of tenants. The work continues to re-assess the HRA Business Plan, particularly in light of the COVID-19 pandemic, and the options available to Cabinet will be reported as part of the HRA Budget proposals which Cabinet will receive in November. For the purposes of the current Financial Planning and Budget process, a four-year revenue plan will be updated and presented in line with the principles adopted for the General Fund.

Investment, Prudential Borrowing and Treasury Management

- 1.5.17 The Capital Investment Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Authority's Services and informs decisions on capital spending priorities within the Authority's Investment Plan. Investment priorities are considered in the context of the strategic objectives of the Our North Tyneside Plan and other key strategies and plans of the Authority. The Ambition for North Tyneside report, adopted by Cabinet on 26 November 2018, articulates the Elected Mayor and Cabinet's ambition for North Tyneside and explains in more detail their future ambitions for each part of the borough. Delivery of these plans sets the challenge of meeting competing priorities against limited financial resources. It is intended that a borrowing ceiling will be applied for the Authority in terms of both borrowing requirements and revenue costs.

The Authority's capital investment plans are set out in the Investment Plan, with the latest approved programme covering the period 2020-2025. The effective use of capital resources, including asset management, is fundamental to the Authority achieving its medium and long-term strategic objectives. Capital investment has a significant impact upon the local economy and helps to ensure that the Authority can continue to provide the best possible services and outcomes within North Tyneside.

- 1.5.18 Any capital investment decision will have implications for the Budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within the Authority's financial plans and to demonstrate that the capital investment is affordable. Revenue implications may include the costs associated with supporting additional borrowing as well as any changes to the running costs associated with the asset or wider benefits to the Authority, such as the delivery of ongoing revenue savings or additional income through the generation of Business Rates, Council Tax or energy revenues.
- 1.5.19 The 2021-2025 Financial Planning and Budget process will include a review of the current Investment Plan and the Capital Investment Strategy with a view to the development of a five-year Investment Plan for the period 2021/22 to 2025/26.
- 1.5.20 The Authority continues to explore external funding possibilities and other resources such as Community Infrastructure Levy (CIL) income, section 106 contributions and section 278 contributions when developing capital projects in order to minimise the borrowing requirement as far as possible. Within the MTFP, assumptions have been made around the level of external funding in the future but detailed work programmes are not committed to until the allocations have been confirmed. Projects and investment plans may therefore be re-prioritised depending on the availability of

external funding and alignment with the policy direction of the Elected Mayor and Cabinet.

- 1.5.21 The generation of capital receipts can help to provide resources to support additional capital investment or to reduce the borrowing requirement (and therefore the associated revenue costs). The availability of capital receipts has also reduced in recent years. Currently, no capital receipts have been included within the MTFP projections. If additional capital receipts are generated during the year, this provides the Authority with the flexibility to consider the introduction of additional projects to the Investment Plan or the ability to reduce its borrowing requirements.
- 1.5.22 The Treasury Management Strategy will be reviewed in light of the refreshed Investment Plan and the overall MTFP for both the General Fund and the HRA.

Update on developing the 2021-2025 General Fund Financial Plan and Budget

- 1.5.23 Whilst decisions around Budget-setting are approved on an annual basis, the Authority must demonstrate robust medium-term financial and resource planning. Best practice suggests between three and five years as a reasonable financial planning period.
- 1.5.24 Despite the level of uncertainty with regard to local government funding beyond 2020/21 and the unknown future impact of COVID-19, a four-year Financial Plan is in development. This reflects, as far as possible, known pressures and changes but is based on a range of assumptions in local government funding.
- 1.5.25 Local authorities are legally obliged to set a balanced Budget each year, and to ensure that they have sufficient reserves to cover any unexpected events. To legally balance the Budget, the Authority must make spending plans that match the estimated funding available over that time. The gap between available funds and planned net expenditure is referred to as the funding gap, or efficiency requirement. In essence, the funding gap is the best estimate of additional resources, be those reductions in expenditure or increases in income, needed to cover rising cost pressures and demand for services alongside a reduced amount of funding from the Government and, to a lesser extent, other external sources.

Financial Sustainability

- 1.5.26 As part of the update of the MTFS and the MTFP, full consideration has been given to the Authority's Reserves and Balances Policy and level of reserves to ensure adequate protection against unforeseen events. Within the existing statutory and regulatory framework, it is the responsibility of the Head of Resources (in her role as Chief Finance Officer) to advise the Authority about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.
- 1.5.27 The Authority, acting on the advice of the Chief Finance Officer, must make its own judgments on the level of reserves and balances taking into account all the relevant local circumstances. These include operational and financial risks, and the arrangements in place to manage them, including adequate and effective systems of internal control. The duties of the Chief Finance Officer in relation to the level of reserves are covered by the legislative framework described in 1.4.1 above. Under the Local Government Act 2003, the Chief Finance Officer must report to Council on the adequacy of reserves (section 27) and reserve transactions must be taken account of within the required Budget monitoring arrangements (section 28).

1.5.28 Setting the level of reserves is just one of several related decisions in the formulation of the financial strategy and the Budget for a particular year. This is carried out as part of the Authority's Financial Planning and Budget process. Account is taken of the key financial assumptions underpinning the Budget, alongside consideration of the Authority's financial management arrangements. In addition to the cash flow requirements of the Authority, the following factors are considered:

- The treatment of inflation and interest rates;
- Estimates of the level and timing of capital receipts;
- The treatment of demand-led pressures;
- The treatment of planned efficiency savings / productivity gains;
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital investment developments;
- The availability of other funds to deal with major contingencies and the adequacy of provisions; and
- The general financial and economic climate in which the Authority operates.

1.5.29 Reserves are reviewed during the financial year and table 1 below shows the estimated use, following reviews of all General Fund reserves over the period to March 2025:

Table 1: General Fund Reserves Summary 2019/20 to 2024/25

Reserves Summary	Closing Balance 31/03/20 £m	Net Contribution(to) / From Reserves					Total
		2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	
General Fund Balances	(7.000)	0.0000	0.000	0.000	0.000	0.000	(7.000)
General Fund Reserves	(47.762)	6.517	0.701	0.551	0.000	0.000	(39.993)
General Fund Grants	(0.084)	(0.961)	0.040	0.060	0.000	0.000	(0.945)
Total Reserves	(54.846)	5.556	0.741	0.611	0.000	0.000	(47.938)

1.5.30 In assessing the adequacy of reserves, consideration is given to the level of un-earmarked reserves available for the management of financial risk to the Authority. The General Fund reserves total of £47.762m includes £26.923m of earmarked reserves, and £20.839m of un-earmarked reserves. The un-earmarked reserves are made up of the following:-

- Strategic Reserve
- Support Change Fund Programme Reserve
- Redundancy and Remuneration Reserve

There is anticipated use of the Redundancy & Remuneration Reserve and the Support Change Fund Programme Reserve over the period of the MTFP leaving the Strategic Reserve as the only material reserve which is un-earmarked.

1.5.31 Table 2 below sets out the level of un-earmarked General Fund reserves held at the end of the 2019/20 financial year as a proportion of the 2020/21 Gross Expenditure Budget and General Fund Net Revenue Budget.

Table 2: Reserves comparison for 2019/20 against 2020/21 North Tyneside Gross Expenditure and Net General Fund Budget

	2019/20 Balance £m
Strategic Reserve	15.489
Support Change Fund Programme	3.691
Redundancy and Remuneration Reserve	1.659
Total Un-earmarked Reserves	20.839
Gross Expenditure Budget	358.860
Reserves as a % of Gross Expenditure Budget	5.81%
General Fund Net Revenue Budget	161.361
Un-earmarked Reserves as a % of General Fund Net Revenue Budget	12.91%

- 1.5.32 There are many factors involved when considering appropriate levels of reserves which need to be assessed by individual local authorities. Included in the 2019/20 Annual Completion Report from the external auditor was a comparison across the LA7 region of levels of balances. This indicated that un-earmarked reserves within North Tyneside are lower than most in the region.
- 1.5.33 The Chief Finance Officer considers that, at this time, these reserve levels are adequate, but will continue to review this in light of the degree of uncertainty surrounding the future of local government funding and the potential impact of COVID-19. The Chief Finance Officer will consider the level of Strategic Reserve that should be sustained over the period of the four-year MTFP as part of the refresh of the Plan.

Equality and Diversity Considerations

- 1.5.34 The Authority has specific responsibilities under the Equality Act 2010 and Public Sector Equality Duty. Part of this is to ensure that the potential effects of decisions on those protected by the equalities legislation are considered prior to any decision being made. The Authority will continually monitor the effect of our Budget-setting process and decision-making by using equality impact assessments.
- 1.5.35 Full impact assessments will be included in all proposals for inclusion with the initial Budget proposals in November 2020 in order to be available to Cabinet when it further considers the MTFP and Budget proposals on 30 November 2020. An equality impact assessment is also carried out on the proposed Budget Engagement Strategy.

The Public Sector Equality Duty of the 2010 Equality Act requires that public sector organisations publish information annually relating to people with protected characteristics who are its employees or are affected by its policies and practices. In addition, at least once every four years, organisations should include consideration of the equality objectives the organisation thinks it should achieve to meet the general equality duty.

The Authority has not published the Annual Equality and Diversity Review as the Equality and Human Rights Commission has relaxed monitoring due to COVID-19. A

report outlining the review will be presented to Cabinet once it has been completed in accordance with the Authority's Equality and Diversity governance arrangements.

2020/21 Financial Planning and Budget process - Timetable of Key Decision Milestones

- 1.5.36 Key aspects of the 2021/22 Financial Planning and Budget process timetable are set out at Appendix B to this report, highlighting key decision milestones in the process.
- 1.5.37 The Elected Mayor and Cabinet are responsible for formulating the Authority's Budget. The Cabinet Member for Finance and Resources, in close consultation with the Elected Mayor, has been nominated as the lead Cabinet Member for the overarching 2021-2025 Financial Planning and Budget process. The Head of Resources will be the project sponsor.

The Budget Engagement Strategy

- 1.5.38 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.
- 1.5.39 The aim of the Budget Engagement Strategy is to reach different sectors of the population through an approach that encompasses engagement with residents as a whole and customers/users of services as well as particular groups of people, including those with protected characteristics. The approach also ensures reach with particular interest groups such as carers, older people, children and young people, council housing tenants. The Budget Engagement Strategy also ensures targeted activity with specific external and internal stakeholder groups. Full details of the Budget Engagement Strategy are set out at Appendix C to this report.

1.6 Decision options:

- 1.6.1 The Authority's Constitution and Budget and Policy Framework Procedure Rules set out the stages to be completed in relation to agreeing the Budget of the Authority. There are no other options available in relation to this. The Budget Engagement Strategy forms part of the 2021-2025 Financial Planning and Budget process.
- 1.6.2 Cabinet is referred to the legal requirements as stated in paragraph 2.2 of this report.

1.7 Reasons for recommended option:

- 1.7.1 The reasons for the recommendations are mainly legal in nature, as stated in paragraphs 2.1 and 2.2 of this report.

1.8 Appendices:

Appendix A: 2021-2025 Medium-Term Financial Strategy

Appendix B: Financial Planning and Budget process: Timetable of Key Milestones

Appendix C: 2021/22 Budget Engagement Strategy

1.9 Contact officers:

Janice Gillespie, Head of Resources and Chief Finance Officer
Tel No 0191 643 5701

Claire Emmerson, Senior Manager Financial Strategy and Planning
Tel No 0191 643 8109

Jacqueline Laughton, Head of Corporate Strategy and Customer Service
Tel No 0191 643 7070

1.10 Background information:

The following background papers/information have been used in the compilation of this report and are available at the office of the author:

- (a) Authority's Constitution and Budget and Policy Framework Procedure Rules

<https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/December%202019.pdf>

N.B. The Budget and Policy Framework can be found at part 4.7 of the Constitution.

- (b) 2020-2024 Our North Tyneside Plan

<https://democracy.northtyneside.gov.uk/documents/s2188/Appendix%20A%202020-%20-%202024%20Our%20North%20Tyneside%20Plan.pdf>

- (c) Treasury Management Strategy

<https://democracy.northtyneside.gov.uk/documents/s2195/Appendix%20E%20-%20Treasury%20Management%20Strategy%20Statement%20and%20Annual%20Investment%20Strategy%202020-21%20Credit%20Cr.pdf> (Annex 1, Section 8, page 61)

- (d) COVID-19 – A Framework for Recovery in North Tyneside

<https://democracy.northtyneside.gov.uk/documents/g425/Public%20reports%20pack%2029th-Jun-2020%2018.00%20Cabinet.pdf?T=10>

- (e) 2019/20 Provisional Finance Outturn Report

<https://democracy.northtyneside.gov.uk/documents/g425/Public%20reports%20pack%2029th-Jun-2020%2018.00%20Cabinet.pdf?T=10>

- (f) 2019/20 Draft Statement of Accounts

<https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/2019-20%20Statement%20of%20Accounts%20-%20Draft%20Subject%20to%20Audit.1.pdf>

- (g) North Tyneside Highway Asset Management Plan Annual Information Report 2019

<https://democracy.northtyneside.gov.uk/documents/g379/Public%20reports%20pack%2014th-Oct-2019%2018.00%20Cabinet.pdf?T=10>

- (h) An Ambition for North Tyneside Update

<https://democracy.northtyneside.gov.uk/documents/s1477/8%20An%20Ambition%20for%20North%20Tyneside%20Update.pdf>

- (i) Ten Year Plan for Waste
<https://democracy.northtyneside.gov.uk/documents/s1482/2%2010%20Year%20plan%20for%20Waste.pdf>
- (j) Climate Emergency Update
<https://democracy.northtyneside.gov.uk/documents/s1484/Climate%20Emergency%20Update.pdf>
- (k) North Tyneside Homelessness Prevention and Rough Sleeping Strategy 2019-2021
<https://democracy.northtyneside.gov.uk/documents/s1188/Homelessness%20Prevention%20Strategy%202019%20-2021.pdf>
- (l) A Digital Strategy for North Tyneside
<https://democracy.northtyneside.gov.uk/documents/s2638/A%20Digital%20Strategy%20for%20North%20Tyneside.pdf>
- (m) North Tyneside Trading Company - Strategic Business Plan 2020-2023
<https://democracy.northtyneside.gov.uk/documents/s3893/North%20Tyneside%20Trading%20Company%20-%20Strategic%20Business%20Plan%202020-23.pdf>
- (n) North Tyneside Transport Strategy Annual Report
<https://democracy.northtyneside.gov.uk/documents/s805/North%20Tyneside%20Transport%20Strategy%20Annual%20Report.pdf>
- (o) Workforce Development Plan

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

- 2.1.1 The financial implications arising from the outcomes of this report will be appraised as part of the decisions included in the Authority's 2021-2025 Medium-Term Financial Plan (MTFP), incorporating the 2021/22 Budget-setting process. Decisions on the Budget in relation to the General Fund, Housing Revenue Account, school's funding and the Investment Plan need to be made within the overall context of the resources available to the Authority and within the legal framework for setting budgets. The Authority will need to examine closely the links with key funding partners and their proposed financial plans, including an assessment of the impact of any grant fall-out over the proposed four-year resource-planning period.
- 2.1.2 Cabinet and Council need to have due regard to the Chief Finance Officer's advice in relation to the levels of reserves and balances proposed as part of the four-year MTFP for 2021-2025 in accordance with the Authority's Reserves and Balances Policy most recently agreed by Council on 20 February 2020.
- 2.1.3 The only direct financial implications arising from this report will be any residual costs arising from support for engagement activity. These costs will be met from existing budgets.
- 2.1.4 The Budget Engagement Strategy for 2021/22 will, in part, help to inform decisions about what will be included in the four-year MTFP for 2021-2025.

2.2 Legal

- 2.2.1 The Local Government Finance Act 1992 requires the Authority to set a balanced budget in the context of the resources available, including Government grants, Business Rates and Council Tax income.
- 2.2.2 The Local Government Act 2003 imposes duties on local authorities in relation to budget setting. The Act requires that, when an authority is deciding its annual Budget and Council Tax level, members and officers must take into account a report from the Chief Finance Officer on the robustness of the Budget and the adequacy of the Authority's financial reserves. The Government has a back-up power to impose a minimum level of reserves on an authority that it considers to be making inadequate provisions.
- 2.2.3 The Council has agreed that the Council Plan is part of the policy framework (as a "local choice" plan) and as such it must be agreed in accordance with the rules of procedure relating to the Budget and Policy Framework (Part 4.7 of the Authority's Constitution).
- 2.2.4 The 2021-2025 Financial Planning and Budget process has been prepared to comply with the timescales required within the Budget and Policy Framework Procedure Rules contained within the Authority's Constitution. Decision-making in relation to the Housing Revenue Account is the responsibility of Cabinet, in accordance with section 9D of the Local Government Act 2000 (as amended).

2.3 Consultation/community engagement

2.3.1 Internal consultation

Consultation has been carried out with the Elected Mayor, Deputy Mayor, and the Cabinet Member for Finance and Resources, the Cabinet Member for Community Safety and Engagement, the Chief Executive and the Senior Leadership Team. At the appropriate stage in the process, and the Budget proposals will be scrutinised as set down in the Authority's Constitution and Budget and Policy Framework Procedure Rules.

2.3.2 External consultation / engagement

The Budget Engagement Strategy for 2021/22 as outlined in this report sets out the process by which residents and other stakeholders will be involved in the consultation on the 2021/22 Budget as part of the 2021-2025 Financial Planning and Budget process.

2.4 Human rights

All actions and spending contained within the Budget are fully compliant with national and international human rights law. This will be detailed as part of the Financial Plan and Budget at the appropriate stage in the process. For example, Article 10 of the European Convention on Human Rights guarantees freedom of expression, including the freedom to 'hold opinions and to receive and impart information and ideas'. Article 8 of the Convention guarantees the right to respect for private and family life.

2.5 Equalities and diversity

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

To achieve this the Authority will be taking a phased approach:

- An Equality Impact Assessment will be carried out on the proposals for the Budget Engagement Strategy. The aim will be to remove or minimise any disadvantage for people wishing to take part in the engagement activity. The Authority will make direct contact with groups representing persons with protected characteristics under the Equality Act 2010 to encourage participation and provide engagement in a manner that will meet their needs. Appendix B outlines the approach the Authority is taking.
- The outcome of any decisions made following engagement activity will be subject to further Equality Impact Assessment.

2.6 Risk management

Individual projects within the Budget are subject to full risk reviews. For larger projects, individual project risk registers are / will be established as part of the Authority's agreed approach to project management. Risks will be entered into the appropriate Service or Corporate / Strategic Risk Register(s) and will be subject to ongoing management to reduce the likelihood and impact of each risk.

2.7 Crime and disorder

- 2.7.1 Individual proposals within this report do not themselves have direct implications for crime and disorder. However, ultimately decisions may be made and considered as part of the overall Financial Planning and Budget process, as set down in this report. These will be detailed as part of reporting the Budget at the appropriate stage in the process.
- 2.7.2 Under the 1998 Crime and Disorder Act, local authorities have a statutory duty to work with partners on the reduction of crime and disorder. This is fulfilled through the Safer North Tyneside partnership within the framework of the North Tyneside Strategic Partnership.

2.8 Environment and sustainability

The proposals within this report do not themselves have direct implications in relation to the environment and sustainability. However, ultimately decisions may be made and considered as part of the overall Financial Planning and Budget process of the Authority, as set down in this report. These will be detailed as part of the Budget at the appropriate stage in the process.

PART 3 - SIGN OFF

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