Appendix A

2021-2025 Medium-Term Financial Strategy

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North Tyneside Council

Contents

1. Executive Summary

1.1 This is an initial review of the Authority's Medium-Term Financial Strategy (MTFS). The MTFS sets the financial context for the Authority's resource allocation process and budget-setting. It is based on a financial forecast over a rolling four-year timeframe from 2021/22 to 2024/25 which will help ensure resources are aligned to the outcomes in the Our North Tyneside Plan.

1.2 The Authority's current Medium-Term Financial Strategy (MTFS) was agreed prior to the significant escalation in the severity of the COVID-19 pandemic. The impact of this outbreak in North Tyneside is having far-reaching consequences, and inevitably will require changes to the MTFS and underlying budget assumptions which will need to be taken into account as part of 2021/22 budget planning activity.

1.3 The Authority is still evaluating how the likely 2021/22 gap will be funded. Without an increased level of Government assistance, there are likely to be significant savings to be found to deliver a balanced Budget in 2021/22 and over the medium-term to 2024/25. Initial estimates are that the budget gap for the period of the MTFS is likely to be in the region of between £41m and £65m.

1.4 Despite the level of uncertainty, reviewing the MTFS remains essential to ensuring the Authority's medium-term financial sustainability. The Authority will have to make very difficult choices in the years ahead about which services to prioritise. To avoid cuts to services, the Authority continues to explore alternative options of service delivery to ensure that services remain fit for purpose in the context of smaller budgets. This may mean revisiting the expectations of residents in order to protect services for the most vulnerable. The opportunity to work with partners and neighbouring authorities remains in order to maintain and improve outcomes against a backdrop of reducing public spending.

1.5 Looking beyond the immediate impacts of coronavirus, the overall level of uncertainty means that the financial environment for local government remains extremely challenging for the foreseeable future. Local authorities continue to face a growing gap between funding and service pressures, driven in part by demographic changes, unfunded burdens such as the National Living Wage, and the needs of vulnerable social care users becoming increasingly complex. Children's services, in both social care and education, particularly for children with special educational needs and disabilities, are also under very significant stress. This pressure is anticipated to increase in the medium-term as a result of additional needs driven by effects of COVID-19 and the associated lockdown. Other services have been subject to significant restrictions which have also seen increasing pressure placed on discretionary and preventative services.

1.6 Over the coming months and whilst the budget activity for 2021/22 is progressing the refresh of the Medium-Term Financial Strategy will determine the likely levels of resource available over the medium-term; determine the level of spending and priority commitments arising from the COVID-19 recovery plan and the Authority's ambitions over the medium-term. Given that there is likely to be a funding gap the refresh will also identify additional options to deliver budget reductions that can be evaluated alongside spending priorities.

2. Introduction

2.1 The Medium-Term Financial Strategy (MTFS) is a key part of the Authority's Budget and Policy Framework which aims to ensure that all financial resources are directed towards delivery of Authority priorities. The MTFS is a four-year plan which sets out the Authority's commitment to provide services that meet the needs of people locally and that represent good value for money within the overall resources available to it.

The MTFS is what links the Authority's vision and priorities with forecasted resources and budgets and shows how the Authority's finances will be structured and managed to ensure that this fits with, and supports, the priorities of the Authority and its partners.

The strategy considers:

- International and national economic influences on the Authority;
- The influence of Central Government policy and strategy;
- Local factors which influence policy within the Authority; and
- Delivering key policies and priorities.

The strategy brings together the key issues affecting the:

- Revenue Budget;
- Investment Plan;
- Treasury Management Strategy; and
- Capital and Investment Strategy.

2.2 The MTFS establishes the likely level of revenue resources available to the Authority over the medium-term and also estimates the financial consequences of the demand for Authority services. It improves financial planning and strategic financial management through providing the financial context within which the Authority's budget will be set.

The review of the MTFS also allows for consideration of the Authority's reserves policy and level of reserves to ensure there is adequate protection against unforeseen events.

<u>The Principles of the MTFS</u>

2.3 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.

2.4 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 in section 5, 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. Government providing additional funding;
   b. Corporate / centrally identified savings opportunities; and
   c. Service departments 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, 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.

3. Financial Context

Financial Strategy

3.1 The Medium-Term Financial Strategy (MTFS) is designed to ensure that the Authority's resources are prioritised to meet the needs of residents; the Authority is able to operate as a going concern; and is able to set a balanced budget each year. The MTFS ensures that:

- The Authority maintains a prudent approach in regard to its finances over the 4 years of the MTFS; and
- The savings programme focuses on the achievement of ongoing savings but recognises the value of one-off savings to support both the implementation of savings and one-off investment.

In compiling the MTFS the Authority has considered a number of factors which influence the resources and expenditure that it has available to it. These have been reviewed and take into consideration international, national, regional and local issues. These have been examined to ensure that the MTFS reflects the most up to date financial position for the Authority.

Factors Influencing the Medium-Term Financial Strategy

3.2 Local authority funding is subject to both national and international influences, which can have a significant impact on the level of services to be provided and our Authority's ability to provide them. This section will briefly outline some of the key economic issues affecting the Authority's forecasts over the next few years.

Spring Budget 2020 and local government funding

3.3 The new Chancellor of the Exchequer, Rishi Sunak, announced the Spring Budget 2020 on 11 March 2020, the first Budget since the December 2019 General Election. Although it has since been substantially overshadowed by the ongoing response to COVID-19, the Budget included various announcements with implications for local authority funding. These included:

- The Government planned to undertake a Comprehensive Spending Review (CSR) which was due to complete in July 2020. The Budget identified that departmental revenue spend (Resource DEL) was forecast to increase in real terms by 2.8% per annum on average over the CSR, but the Treasury also indicated that this would be lower for some areas as it included existing commitments. The precise impact for local government was therefore unknown but increases in funding at the headline rate were clearly unlikely. As part of the response to COVID-19, the Chancellor announced on 24 March that the Comprehensive Spending Review 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 focussing on delivery.

- The Government continues to explore the long-term reform of adult social care, with plans to establish a cross-party consensus on the issue, and structured talks on options for reform originally planned for May 2020. While there are no details currently about what proposals might ultimately look like, the Secretary of State for Health and Social Care has written to MPs and Peers identifying the need to address the injustices within the system and find a balance between people continuing to contribute to their care without having to face catastrophic costs. The letter also confirmed the intention that nobody is forced to sell their home to pay for care.

- The outcome of this process clearly has the potential for a significant impact on local government. In announcing the action plan for adult social care in response to COVID-19, the Government has confirmed that it remains committed to a long-term action plan for social care" and acknowledges that putting social care on a sustainable footing, where everyone is treated with dignity and respect, is one of the biggest challenges that we face as a society. The government will then bring forward a plan for social care for the longer term."

- The Budget included some very significant short-term extensions to current business rates reliefs for 2020/21, which have since been further expanded and will see a substantial proportion of business properties exempted from paying rates in 2020/21. Alongside a planned fundamental review of Business Rates, these measures further call into question the viability of Business Rates as a buoyant long-term funding source for local government.

- The Chancellor confirmed a new remit for the Low Pay Commission for the National Living Wage (NLW) to reach 2/3 of median earnings by 2024. Initial estimates are that this will result in limited pressures for the Authority in the short term, but this will be highly dependent on a number of factors including the actual level at which the NLW is set each year, the local government pay award level, and the impact for third party care providers. Estimates will continue to be refined to feed into the 2021/22 budget-setting process.

- The Government intended to publish an English Devolution White Paper in the summer, although it would appear likely that this may now be delayed.

3.4 In most cases the detailed impact of these announcements will not become clear until later in the year for the reasons set out. It is also worth noting that with the response to COVID-19 dominating Government business, it has been confirmed that key reforms to local government funding including the Fair Funding Review (FFR) and increased local retention of Business Rates will not go ahead in 2021/22. It had previously been expected that exemplifications of the Fair Funding Review would be available in the spring. As mentioned above, the Chancellor had also stated that the Treasury would be undertaking a “fundamental” review of Business Rates.

The terms of reference confirm that although not the main focus, the review will have regard to the role of Business Rates in the funding of local government and local services, and the impact of any changes on business rates retention and the delivery of existing reforms to the business rates system. Significantly however, the review was not intended to cover the overall level of funding for local government and it would appear likely that this will be delayed, like the FFR. The Budget also made no reference to the implementation of increased local retention of business rates for local government as a whole.

3.5 As in previous years, the Authority will not receive detailed information about funding allocations for 2021/22 and beyond until autumn 2020 following the outcome of the CSR. 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.

The representations deadline gives and indication that the CSR will not be released until at least October 2020. Given that the Cabinet will be considering its initial budget proposals in November 2020 budget planning activity will still have to be undertaken with a significant degree of uncertainty in relation to funding levels for 2021/22. Some clarity might have been provided by any interim Fair Funding Review announcements, but this now appears unlikely.

3.6 Looking beyond the immediate impacts of coronavirus, the overall level of uncertainty means that the financial environment for local government remains extremely challenging for the foreseeable future. Local authorities continue to face a growing gap between funding and service pressures, driven in part by demographic changes, unfunded burdens such as the National Living Wage, and the needs of vulnerable social care users becoming increasingly complex. Children’s services, in both social care and education are also under very significant stress. This pressure is anticipated to increase in the medium-term as a result of additional needs driven by effects of COVID-19 and the associated lockdown. Other services such as transport, planning, environment, and trading standards have been subject to significant restrictions which have also seen increasing pressure placed on discretionary and preventative services.

Latest CPI Figures

3.7 The latest CPI figures were published on 15 July by the Office for National Statistics. CPI inflation was 0.6% for the 12 months to June, an increase on the 0.5% in the 12 months to May. The September CPI figure is usually used to set the business rates multiplier for the coming year, and (for the 2020/21 financial year) was the inflation figure applied to authorities Settlement Funding Assessment levels.

4. Local Policy Context

4.1 From a local policy context, in addition to the Medium-Term Financial Strategy, the Authority also has the following:

4.2 The Our North Tyneside Plan 2020-2024 sets out the overall vision and policy context within which the Financial Plan and Budget are set.

This vision and policy context reflects the 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.

By listening to our residents, businesses and visitors, the 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 we work alongside other local authorities across the region, statutory partners and with business through the North East Local Enterprise Partnership.

The vision and policy context continue to reflect the priorities of the Elected Mayor and Cabinet. The plan has been updated to reflect two key policy developments; the Council's declaration of a Climate Emergency and the creation of the North of Tyne Combined Authority. The Our North Tyneside plan is focused on ensuring that the Authority works better for residents.

The 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. For example, the Plan describes how the organisation will support people to access high quality education, deliver regeneration projects across the Borough and ensure that North Tyneside is business friendly.

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

Local Plan

4.3 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 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 Office of National Statistics projected an increase of 15,800 people between 2014 and 2032. The population of North Tyneside in 2032 is expected to be 218,500.

4.4 The Our North Tyneside Plan has at its core, two fundamental policy aims. First, whilst there has been success across the plan there is still a need to reduce the inequalities that persist in North Tyneside. Within our Borough we continue 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.

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
- marketing the Borough to secure more inward investment and generate more visitors as a tourist destination

Ambition for North Tyneside

4.5 At its meeting on the 26 November 2018, Cabinet considered and adopted 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 plan aligns with the Local Plan and aims to match the ambition for the Borough with the plans set out for the Borough. Cabinet received an update on the delivery of these plans in November 2019 and a further update will be received by Cabinet in September 2020. These reports are included as background papers to the MTFS.

5. Key Challenges facing the Authority

5.1 On 29 June 2020 Cabinet received a report which outlined a framework for recovery in North Tyneside. The report set out how work will be taken forward within the Authority and across the Borough to move from the COVID-19 crisis response phase to the recovery phase.

5.2 The Authority's planning assumptions for the recovery phase are as set out below. These are in line with the Government's COVID-19 Recovery Strategy:

- the Authority must adapt to live with the virus in the community for the foreseeable future;
- any further easements to lockdown and the restart of businesses and services set by Government will be very gradual and on a phased basis;
- the "test, track and trace" arrangements will slow the spread of the virus and the Authority will work with partners on local outbreak control measures;
- shielding for the most medically critically vulnerable will remain for some time and the Authority will need to retain its support arrangements for those people;
- the Authority will see a changing nature of demand for some services such as Adult Social Care;
- social distancing and good respiratory hygiene will be key to manage the spread of infection and all work places, schools and other education facilities, retail settings and public spaces will need to be COVID-Secure;
- PPE will still be required where appropriate and the Authority will follow and promote Government guidance on its use such as the use of face coverings on public transport and in some other settings;
- there will be a significant financial impact for the Authority; and
- the economic impact across the Borough as a whole will be substantial – nationally the forecast is for 14% GDP down this year and 15% GDP up next.
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5.3 The Authority's approach to recovery for North Tyneside is a long term one, starting with three distinct phases linked to the Government's COVID-19 Recovery Strategy as well as the regional economic recovery framework. The three phases are

- Immediate "restart" phase (June – September 2020);
- Medium "transition" phase (October 2020 to March 2021 linked to Government's "Smarter Controls" phase); and
- Long term "rebuild and grow" phase (April 2021 – July 2021 linked to Government's "Reliable Treatment" phase).

5.4 A comprehensive plan of how the Authority will deliver the phased approach has been produced and a set of activities have been developed across a number of workstream areas which are aligned to the Our North Tyneside Plan priorities. As plans are developed it is important to understand the longer-term financial impact of the third phase of recovery "rebuild and grow". The Authority has a clear responsibility to drive economic recovery and support this phase for the residents and businesses across the Borough. The challenge will be how economic recovery can be sustained with limited financial resources. Work will continue with the North of Tyne Combined Authority and the wider region to ensure the opportunities for investment within North Tyneside are maintained.

Impact on Resources

5.5 The basic model of resource forecasting used for the 2020/21 MTFS remains valid. However, due to the level of uncertainty the Authority is now facing means, at least initially, there are a range of potential resource scenarios which will have to be used when considering the resources available for 2021/22 and the medium-term. The scenarios will have to be continually revised as the economic position, the pace of recovery from COVID-19 and the Government's national response becomes clearer.

5.6 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 and over the medium-term, 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 supressed 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.

Social Care Services

5.7 COVID-19 has, and will continue to have, a significant financial impact on social care services for both children and adults, in addition to the ongoing demand pressures in both of these areas.

5.8 Demographic changes, including an ageing population and the resulting increased and multiple risk factors for our residents, continues to place a strain on adult social care services. This is most apparent in terms of the increased demand for commissioned care services and the associated costs. On top of this, the impact of COVID-19 on adult social care finances has been profound. In addition to the government's Infection and Prevention Control Grant for care providers, the

Authority has provided further payments to compensate for additional costs incurred. It is anticipated that demand for care and support will increase, over and above projected demographic demand increases, as a range of informal support arrangements that have been in place for adults during the pandemic reduce or cease. Additional measures that will need to be taken to ensure quality care is delivered whilst controlling the spread of COVID-19 infection will further increase the financial pressures in this area.

5.9 Whilst many local authorities have seen contacts and referrals relating to children's safeguarding reduce during the pandemic, this has not been the case for North Tyneside. In addition, delays in the court system have impacted on the number of children with a Child Protection Plan and ceasing to be in our care, with both direct and indirect financial implications. Looking ahead, the economic impact of COVID-19 on families is expected to contribute to increased referrals to children's services and increased costs incurred as a result of more children potentially being required to come into local authority care. All local authorities are anticipating a significant increase in demand for children's social care, particularly as schools return fully from September and there are an increased range of professionals more generally in contact with children and young people.

5.10 The impact of COVID-19 across all services is currently under review. Any longer-term implications will need to be considered in the build up to budget-setting for 2021/22. The Medium-Term Financial Strategy will be updated to reflect the review and as part of the approach to budget-setting this will form part of the Budget challenge sessions.

6. The Authority's Current Financial Position and Outlook

6.1 The Budget for 2019/20 was approved by full Council at its meeting of 21 February 2019. The net General Fund revenue budget was set at £155.730m including Efficiency Programme savings of £10.533m. The final outturn reported to Cabinet on 29 June 2020 stated an overall surplus of £0.050m.

6.2 The Budget for 2020/21 was approved by full Council at its meeting on the 20 February 2020. The net General Fund revenue budget was set at £161.361m. This included £3.244m of savings to be achieved (£0.805m relating to 2020/21). The Budget includes a number of risk areas which, if not closely monitored and controlled throughout the year, could add further pressure to the funding gap in future years. These include the delivery of agreed savings and achievement of income targets which will need to be closely monitored throughout the year.

6.3 The end of the financial year 2019/20 saw the beginning of the COVID-19 pandemic, the impact of which has been unexpected and significant. Cabinet and all Members have been kept up to date of the response the Authority has implemented as lockdown was put in place and what that meant for essential services being maintained for the most vulnerable residents of the Borough. There have been a range of services suspended such as the leisure and culture and the financial impact on the Authority arising from additional costs and lost income is anticipated to be significant during 2020/21 and beyond.

6.4 There have been a range of financial interventions introduced by the Government, and like all local authorities, North Tyneside Council has felt the impact of the on-going COVID-19 pandemic. The Authority received its share of the first tranche of the Government's Local Support Grant of £6.822m in March 2020 to support local authorities with the additional costs and income lost due to COVID-19. As lockdown measures were only introduced on 23 March 2020, the financial impact of this in 2019/20 was £0.733m and the remaining balance of £6.089m was moved to a ringfenced reserve on the balance sheet, ready for utilisation in 2020/21 when the greater financial impact is expected.

6.5 The second tranche of the Local Support Grant of £5.709m was received in May 2020 bringing the total received by North Tyneside Council to £12.531m. After the carry forward from 2019/20, the Authority currently has £11.798m of Local Support Grant funding in reserve. As the majority of the financial impact will be felt in 2020/21, work is on-going between Finance and the wider service areas to review and update on a regular basis the financial impact of additional costs and income forgone currently anticipated during 2020/21.

6.6 On 2 July, the Secretary of State for Local Government announced a funding package for councils to help address the range of COVID-19 pressures they face. This package included:

- A further £500m of unringfenced funding to respond to spending pressures, adding to the £3.2billion of unringfenced funding previously provided – the government has now announced the allocation of this additional funding;

- A new scheme to reimburse councils for lost income from sales, fees, and charges; and
- Changes so that local authorities spread their tax deficits over three years rather than the usual one. The Government will provide further details of this as part of the Spending Review.

On 16 July, the Ministry for Housing, Communities and Local Government (MHCLG) published allocations of the third tranche of COVID-19 funding. The Authority will receive a further £1.777m which brings the total Local Support Grant funding that the Authority has received to £14.308m

In addition, £6m of the funding has been top sliced for the Department for Education to use to provide targeted support to councils with large numbers of unaccompanied asylum-seeking children, though no information appears to be available on how this will be distributed. The allocations announced therefore total £494m.

6.7 Monthly returns are being submitted to the Ministry for Housing, Communities and Local Government (MHCLG) containing the latest estimates of the financial impact of COVID-19 on the Authority's finances. The June 2020 return projected the financial impact to be in the region of £24.930m (both General Fund and HRA), far in excess of the current funding made available from the Government. There are longer term impacts anticipated through an increased number of residents being eligible for Local Council Tax Support, which will impact on collection of Council Tax. In addition, despite a range of government support being put in place the Authority anticipate there will be a significant impact on the businesses in the Borough which will impact on Business Rates raised and collected both during 2020/21 and beyond.

6.8 COVID-19 will have a longer-term impact on the 2021/22 budget. It is anticipated that the potential in reduction on income from Council Tax and Business Rates as well as a potential on-going increase in demand in adults and children's social care and the ongoing impact of any savings planned for 2020/21 which are not delivered will be key issues. Scenarios are being modelled which will be used to shape the early assumptions used for the Medium-Term Financial Plan (MTFP).

6.9 In addition to the Local Support Grant received during 2020/21, the Authority also received a £38.494m grant from the Government aimed at supporting businesses in the retail, hospitality and leisure sector, small businesses in receipt of small business rate relief and other organisations such as community associations and sporting clubs during the pandemic. Initial estimates were that 3,014 business premises would be eligible to apply for this grant at a cost of £34.270m. The number of eligible businesses increased to 3,082 by June 2020. At that time, the Authority had made payments to 2,696 (87.5%) of the eligible businesses, totalling £31.070m, payments have continued to be made during July. Currently no assumption has been made that these reliefs and grants will be made available to support business during 2021/22.

6.10 Further impacts of the COVID-19 pandemic include the delay in the 2020 Comprehensive Spending Review (CSR), which was scheduled to be completed by

July this year. In an announcement made by the Chancellor on 21 July 2020 the CSR is now expected to be delivered in the Autumn of 2020. The CSR will be a multi-year spending review covering the period 2021/22 to 2023/24.

6.11 The Government has confirmed that the Fair Funding and Business Rates Retention (BRR) schemes review, scheduled for implementation in April 2021, will now not go ahead until April 2022 at the earliest. The statement also said that the Government will continue to work with authorities on the best approach to the next financial year, including how to treat accumulated business rates growth and the approach to the 2021/22 local government finance settlement. Until this approach is confirmed significant risks remain on the Authority's ability to update the four-year MTFP due to the ongoing uncertainty about future funding arrangements.

6.12 It has been highlighted previously by the Chief Finance Officer that the Authority has a relatively low level of reserves. The level of uncertainty with regard to the levels of funding for Local Government Finance beyond 2020/21 alongside the uncertain long term implications of how the Borough and indeed the country will recover from the impact of COVID-19 is of concern when considering the financial sustainability of the Authority, particularly when taken in the context of funding reductions the Authority has managed since 2010/11. Despite some increases, the general level of reserves available to support the Authority's budget remains relatively low when considering the current estimated gap arising from the financial impact of COVID-19.

6.13 The Strategic Reserve represents 4.32% of the General Fund 2020/21 gross budget and 9.60% of the 2020/21 net budget, with the General Fund balances added, these represent 6.27% of the 2020/21 gross budget and 13.94% of the 2020/21 net General Fund budget. There is no prescribed level of reserves advise by finance bodies with the level being considered in light of risks the authority faces not just in the current year but looking ahead.

6.14 In these unpresented times the importance of robust financial management across the Authority remains paramount. A range of tighter spending controls have been put in place to ensure no non-essential spend is incurred during 2020/21 and to ensure any COVID-19 related expenditure is appropriately considered and approved in advance of being incurred.

6.15 Medium-term financial planning remains extremely difficult due to the impact of COVID-19, the financial impacts of which are impossible to predict accurately. In addition to the impact of COVID-19 there is great uncertainty in relation to the level of funding beyond 2020 due to the changes in the Local Government finance system resulting in greater risks in relation to the localisation of business rates and the local Council Tax scheme. The unknown impacts alongside the level of risk to finances mean that these forecasts will need to be closely monitored and refreshed more frequently than usual as consequences become clear. Staying the same is not an option. The Authority is required to change to deliver its priority outcomes within the limited funding available.

7. Capital and Prudential Borrowing (Investment Strategy)

7.1 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.

7.2 The Capital Investment Strategy 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 2020-2025).

Summary of the 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**

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

Summary of Financing 2020-2025

Spend	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	Total £000s
<u>General Fund</u>						
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**
<u>Housing – HRA</u>						
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**

Flexible use of capital receipts

7.3 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.

Capital Allocations 2021/22

7.4 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 2021/22 have not yet been announced and therefore indicative figures, based on previous allocations, will be included in the draft Investment Plan. As soon as actual allocations are announced these figures will be updated and included in subsequent reports.

Annual Minimum Revenue Provision (MRP)

7.5 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.

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.

Prudential Indicators

7.6 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 indicators for 2020-2025 have been prepared using this new guidance.

7.7 The Capital Investment Strategy and Investment Plan will be updated as part of the budget-setting process. The impact of COVID-19 and the long-term view of how the Authority can support the Boroughs economic recovery through investment will be a focus for the update.

8. Reserves

8.1 Local authorities must consider the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Head of Resources is required, as part of the budget-setting process each year, to provide a statement on the adequacy of reserves that is subject to an external audit review to assess value for money and a going concern opinion.

8.2 The Authority keeps a level of reserves to protect against the risk of any uncertainties or unforeseen expenditure. This is considered best practice and demonstrates sound financial planning. Much like using savings to offset monthly household bills the use of financial reserves cannot solve a budget problem outright but allows for smoothing of impacts or allows the Authority time to ride any short-term situations before returning to normal. Therefore, reserves are mainly used to:

- Manage the impact of cuts over a longer period of time
- Invest in schemes that allow services to be delivered cheaper
- Take "one-off hits" for the Authority as a whole without the need to further reduce budgets
- Provide capacity to absorb any non-achievement of planned budget reductions in each year
- To temporarily roll over unused portions of grants that can legally be used at a later date
- To insure against major unexpected events (such as flooding)
- To guard against general risk (i.e. saving up for unexpected events)
- To guard against emergent specific risks, such as business rate appeals, Authority tax support funding cuts and welfare reform. These risks are predicted to continue to increase.

Reserves Policy

8.3 The Authority's policy on reserves is outlined within the MTFS principles as follows:

The Authority will maintain its general balances at a minimum of £7.000m. The Strategic Reserve will be maintained at a level of £10.000m over the period of the MTFP to cover any major unforeseen expenditure. The Authority will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.

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 annually.

The Authority's Strategic Reserve is available to support budget-setting over the period of the MTFS and usage should be linked to the achievement of financial sustainability over the medium-term.

Review of Reserves

8.4 A review of all reserves is undertaken twice a year and covers:

- The purpose for which the reserve is held,
- An assessment of the appropriate level of the reserve to meet potential future;
- liabilities, in line with the Authority's reserves policy and aligned to the risk management framework;
- Procedures for the reserve's management and control, and
- A process and timescale for future reviews to ensure continuing relevance and adequacy.

8.5 The 2019/20 Revenue Outturn position was reported to Cabinet on 29 June 2020, showing the balance of usable reserves of £47.762m. (including ring fenced reserves and un-ringfenced), Grant Reserves of £0.084m and HRA Reserves of £19.102m. Of the above balances only £19.181m is un-ringfenced as shown in the table below.

Reserves & Balances	Projected Closing Balances				
	2019/20 £000's	**2020/21 £000's**	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**
Reserves					
General Fund Ringfenced	28.581	22.876	22.175	21.624	21.624
General Fund Unringfenced	19.181	18.369	18.369	18.369	18.369
General Fund Grants	0.084	1.045	1.005	0.945	0.945
HRA	19.102	18.049	18.148	18.701	18.701
Reserves Sub Total	**66.948**	**60.339**	**59.697**	**59.639**	**59.639**
Balances					
General Fund	7.000	7.000	7.000	7.000	7.000
Schools	0.165	-2.201	-4.201	-6.201	-6.201
HRA	7.804	5.004	3.577	2.533	2.533
Balances Sub Total	**14.969**	**9.803**	**6.376**	**3.332**	**3.332**
Grand Total Reserves & Balances	**81.917**	**70.142**	**66.073**	**62.971**	**62.971**

8.6 Whilst an initial review of the reserves position has taken place it will be necessary to undertake a thorough assessment of reserves throughout the budget-setting process. An explanation of each reserve and balances as at 31 March 2020 can be found in the Authority's draft Statement of Accounts for 2019/20.

In these unpresented times the importance of robust financial management across the authority remains paramount. A range of tighter spending controls have been put in place to ensure no-nonessential spend is incurred during 2020/21 and to ensure any COVID-19 related expenditure is appropriately considered and approved in advance of being incurred.

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.

Financial Assurance

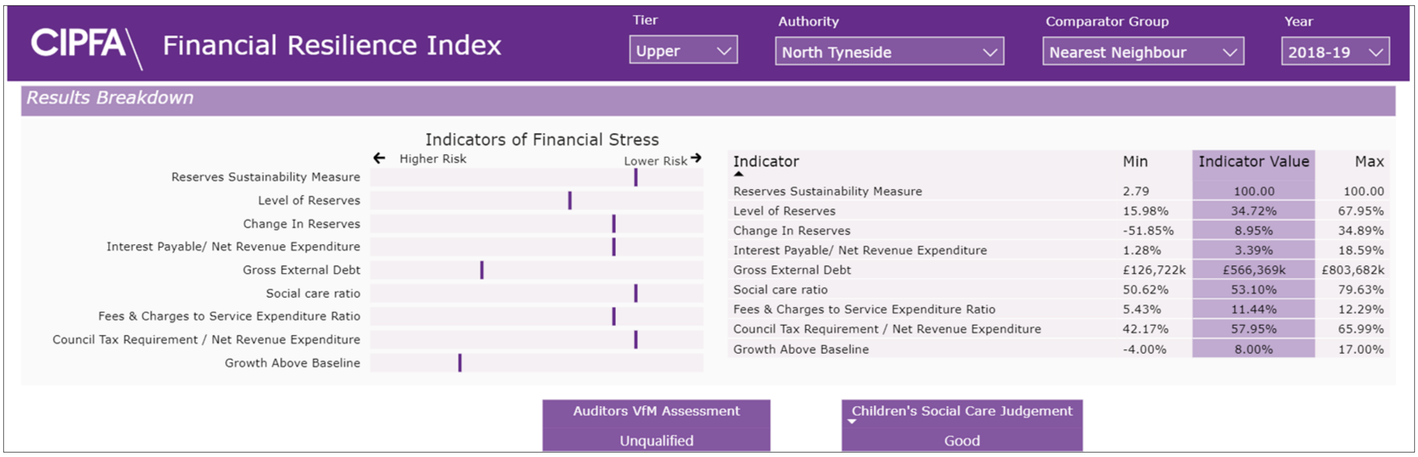
8.7 Each year as part of the annual accounts process the Authority must demonstrate that it is a going concern. This means it must show that it is financially sound in this time of austerity and changing local authority structures. The Authority has an Internal Audit function who continually assess and review the financial management and control framework to ensure that it remains fit for purpose. On top of this the Authority is scrutinised by its external auditors, Ernst & Young, who will review and comment on whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

Financial resilience

8.8 CIPFA Financial Resilience Index

The Chartered Institute for Public Finance Accountants (CIPFA) has recently published a paper: ‘Building financial resilience: managing financial stress in local authorities’ intended to help Chief Financial Officers and their authorities build financial resilience into all aspects of their planning and operations. It identifies the warning signs of financial stress and explains the pillars on which financial resilience depends.

CIPFA has outlined the warning signs of financial stress exhibited by local authorities. The table below shows how the Authority is performing against these warning signs.



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	2.79	100.00	100.00
Level of Reserves	15.98%	34.72%	67.95%
Change In Reserves	-51.85%	8.95%	34.89%
Interest Payable/ Net Revenue Expenditure	1.28%	3.39%	18.59%
Gross External Debt	£126,722k	£566,369k	£803,682k
Social care ratio	50.62%	53.10%	79.63%
Fees & Charges to Service Expenditure Ratio	5.43%	11.44%	12.29%
Council Tax Requirement / Net Revenue Expenditure	42.17%	57.95%	65.99%
Growth Above Baseline	-4.00%	8.00%	17.00%

CIPFA has identified four key pillars of financial resilience:

- Getting routine financial management right
- Benchmarking

- Clear plans for delivering savings
- Managing reserves Indicators used in the Index include ‘reserves depletion time’, ‘level of reserves’, ‘change of reserves’, ‘council budget flexibility’, and ‘council tax to net revenue expenditure’.

These measures have indicated that the majority of local authorities are in a stable financial position and are not showing signs of financial failure in spite of managing severe budget cuts. The Index above shows the Authority to be relatively low risk across the majority of the indicators of financial risk. The CIPFA Resilience Index Indicators & Interpretation is included on pages 34 and 35 of this document.

The Authority identifies how it achieves financial resilience via the annual VFM assessment. This forms part of the annual external audit of the Authority’s accounts.

CIPFA Financial Management Code

8.9 CIPFA has developed a Financial Management Code (FM Code), which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets the standards of financial management for local authorities. It applies a principles-based approach and relates to other statutory and good practice guidance. It builds on other codes and frameworks. The principles translate into financial management standards which are obligatory but not prescriptive regarding how they are achieved.

Local authorities need to ensure that their governance and financial management meets the requirements of the code. CIPFA considers that the implementation date of April 2020 should indicate the commencement of a ‘shadow year’ and that by the end of 2020/21, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance with the FM Code will be 2021/22.

An initial consideration of the FM Code indicates that the Authority seems well placed, however a formal process to review the requirements of the FM Code is due to commence in October 2020.

9. Risk Assessment

Overall Financial Risk Assessment

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

Key Financial Risks

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

Potential Risk	Initial Response
COVID-19	
Financial Impact on Authority: There is a risk that due to the implementation of government guidelines due to the outbreak of COVID-19 that the Authority may face significant financial pressures through the loss of income from income generating services, public venues and events.	Controls will include: Assessment of income targets that will be affected; Government assurances to cover the cost of Business Rate holiday; Government Funding to cover cost of COVID-19 on the Authority; Grants received for Business Grants; Grant received for Business Rate Relief; Grant received for Hardship Fund; £14.3m COVID-19 Grant; A named finance officer to be aware of and collate impacts; monthly return to Central Government; Liaison with local and national finance peer groups for comparator discussions.
Long Term Financial Impact: There is a risk that there may be long term impact on the ongoing income from council tax and business rates	Revenue monitoring to understand affected services and areas; Update financial planning assumptions; A planned use of reserves; A named finance officer to be aware of and collate impacts.
Capture of Costs: There is a risk that we may not capture the costs associated with the response resulting in the full cost not being recovered from central government	Asked all services to set up separate cost centres specific COVID-19 costs; Head of Resources part of RCG to ensure finance actions are identified and completed; Weekly ANEC Treasurers call; Sharing information capture on issues and capture from ANEC participating Authorities. Network of organisations

	collating and sharing data e.g. LGA, SIGOMA
There is a risk of being unable to set a balanced budget for 2021/22 and over the period of the MTFP.	Managed during the budget setting for 2021/22 and robust budget challenge.
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 2021/22.
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 2021.	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 not all growth pressures have been identified in the 2021/22 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 2020/21 will not been fully taken into account when preparing the 2020/21 Budget.	The 2020/21 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 2020/21 financial management process impact on the deliverability of the 2021/22 budget.	As at 31 May 2020, a pressure of £12.968m of which £12.060m related to COVID-19 was reported against the 2020/21 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 2020/21 pressures into 2021/22 will be considered.
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.

10 Conclusion

10.1 The review of the Medium-Term Financial Strategy (MTFS) has again been undertaken against a background of significant uncertainty due to the implications of the COVID-19 pandemic. It is impossible to predict with any accuracy the financial impact of the pandemic which will not only be felt in the current financial year but also over the medium-term. This will undoubtably have implications for how the Authority delivers its services in the future and its approach to financial planning. The Authority continues to assess the financial impact and as such a further revision of the MTFS will be presented to Cabinet in November 2020.

10.2 The initial review of the MTFS identifies a potential financial gap of between £41m and £65m for the next four years from 2021/22 to 2024/25. The MTFS supports the requirement to continue a rolling programme of internal indicative budget-setting and efficiency plans to bridge the financial gap. This funding gap comes on top of budget savings of £127.756m that have already been taken from budgets by this Authority since 2011/12.

10.3 Although the financial context continues to be increasingly challenging and uncertain the Authority has a track record of identifying and delivering significant savings and achieving budget outturn under agreed budget, supported by a framework of effective financial planning. This approach will need to continue to ensure that a sustainable medium-term financial position can be maintained. The approach will need to be built upon the delivery of significant changes in service delivery arising from effective decision making at an appropriate pace.

10.4 The Authority will continue to keep the MTFS estimates under more frequent review given the high degree of uncertainty surrounding not only the implications of COVID-19 but also the potential impact on government policy and government funding decisions in relation to local government arising from future finance reforms.

Appendix A

The following background papers/information have been used in the compilation of this report, where there is no link included those reports are available at the office of the author:

Background papers:

Local Plan
Workforce Development Plan

Background information:

(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 Homlessness 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

Appendix A

CIPFA Resilience Index Indicators & Interpretation

Indicator	Description	Relationship to risk and interpretation
Reserves Burn Rate	This indicator is the ratio between the current level of reserves and the average change in reserves in each of the past three years. A negative value (which implies reserves have increased) or one greater than 100 is recoded to 100.	The indicator provides a measure of how long (in years) it will take for a council to completely denude its reserves, if they continue to use reserves at the same rate as in the previous three years. A low value suggests that there is a risk that the authority will run out of reserves. A high value says, that on current trends, they are unlikely to deplete their reserves.
Level of Reserves	This is the ratio of the current level of reserves (total useable excluding public health & schools) to the council's net revenue expenditure. We have set the figure at 100% for a small number of district councils to remove the impact of extreme outliers.	A low level of reserves may indicate that a council has low capacity to cope with financial shocks. It will also face a risk should expenditure exceed income.
Change in Reserves	This indicator shows the average percentage change in reserves (total useable excluding public health and schools) over the past three years	A council that is using up its reserves may be at risk if they do not move to a more balanced budget.
Unallocated Reserves	This indicator is calculated as the ratio of unallocated reserves to net revenue expenditure	This indicator provides some further information on the reserves indicator. A low level of unallocated reserves may be a sign that a council will struggle with financial shocks.
Earmarked Reserves	This indicator is calculated as the ratio of earmarked reserves (excluding public health and schools) to net revenue expenditure	This indicator provides some further information on the reserves indicator. A low level of earmarked reserves could mean that a council will struggle with financial shocks or that they have not planned effectively for their use of reserves.
Change in Unallocated Reserves	This indicator is the average percentage change in unallocated reserves over the past three years	This indicator provides some further information on the reserves indicator. A council that is using up its reserves may be at risk if they do not move to a more balanced budget.

Indicator	Description	Relationship to risk and interpretation
Change in Earmarked Reserves	This indicator is the average percentage change in unallocated reserves over the past three years	This indicator provides some further information on the reserves indicator. A council that is using up its reserves may be at risk if they do not move to a balanced budget.
Social Care & Interest payments ratio	This indicator is the ratio of total spending on adults' social care, children's social care and debt interest to net revenue expenditure.	This indicator provides a measure of the degree of flexibility within a council's budget. Spending on these items is less likely to be reduced compared to other categories. A high ratio suggests that the council has little flexibility to make further savings, potentially leading to risk
Children's Social Care Ratio	This indicator is the ratio of spending on children's social care to net revenue expenditure	This indicator provides a breakdown of the total ratio to allow councils to understand their relative position for this component
Adult Social Care Ratio	This indicator is the ratio of spending on adult social care to net revenue expenditure	This indicator provides a breakdown of the total ratio to allow councils to understand their relative position for this component
Grants to Expenditure Ratio	This indicator shows the proportion of net revenue expenditure funded by central government grants.	Grants are a diminishing source of funding. However, a relatively high level of grants may suggest that a council may experience financial difficulties in the future as grants continue to be a declining source of income.
Council Tax Requirement / Net Expenditure	This indicator shows the ratio of council tax as a proportion of net expenditure	As locally raised council tax becomes more important, a lower ratio may be associated with difficulties in raising the income necessary to support spending.
Retained Income from business Rates/ Net Expenditure	This indicator shows the ratio of retained income from business rates as a proportion of net expenditure	As locally raised business rates become more important, a lower ratio may be associated with difficulties in raising the income necessary to support spending.
Children's Social Care Judgement	This indicator shows the latest OFSTED judgement on the quality of children's social care	A rating of inadequate or requires improvement may be associated with future higher spending on children's social care adding to council funding pressures
Auditors VfM Assessment	This indicator shows whether auditors have produce a non-standard conclusion on a council's accounts	A non-standard judgement may indicate some concern over the financial management and decisions within a council.