ANNEX 1

2021-2025 Financial Planning and Budget Process:

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

North Tyneside Council

INDEX

1. Introduction

1.1.1. In setting the Budget for the upcoming and future financial years it is crucial that the resource allocations align with the overall vision and strategic priorities of the Elected Mayor and Cabinet. Medium-term financial planning is fundamental in order to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term.

1.1.2. The Council is legally required to set a balanced Budget for the General Fund for 2021/22 to meet statutory duties and provide services such as social care and environmental services. For the HRA, the Council Tax payer cannot subsidise those living in social housing and the rents and service charges paid by the tenants cannot be used to fund unrelated Council services. It is also illegal for an authority to budget for a deficit in its HRA or use HRA reserves for General Fund expenditure.

1.1.3. The duties and responsibilities imposed on local authorities through the Local Government Act 2003 are covered in sections 7 and 8, which covers the financial risks, risk assessment and actions necessary to mitigate against the risks posed within the Budget proposals. The Act requires Members and officers to consider the Chief Finance Officer's report on the robustness of the Budget and the adequacy of the Authority's financial reserves.

2. Our North Tyneside Plan

The Our North Tyneside Plan 2020-2024 (the Council Plan) sets out the overall vision and policy context within which the Financial Plan and Budget proposals will operate. Since 2015 North Tyneside has worked to a clear set of priorities through the Our North Tyneside Plan. These priorities have formed the basis of the Framework for COVID-19 Recovery in North Tyneside.

The Our North Tyneside Plan is structured in three key themes – Our People, Our Places and Our Economy. Through our engagement activity over the summer in the Big Community Conversation with our Residents Panel, it is clear that the priorities in the Plan continue to reflect those of residents. Through the Big Community Conversation, residents were asked for their views on what is important for the borough in recovering from the pandemic. These priorities are all included in the Our North Tyneside Plan as 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; and
- Be encouraged and enabled to, whenever possible, be more independent, to volunteer and to do more for themselves and their local communities.

Our Places will:

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

Our Economy will:

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

Performance against the priorities in the Our North Tyneside Plan

Inevitably the pandemic has had an impact on service delivery, particularly during the main national lockdown period from March to July where many services were not able to be delivered in the usual way. There has continued to be an impact during the recent period of local restrictions from September and further into the latest national lockdown from 5 November. An overview of current performance against the key outcome measures for the Our North Tyneside Plan is set out below:

Our People:

- In North Tyneside, 8 in 10 young people attend a school that is ranked as Good or Outstanding.
- At the end of August 2020, 3.58% of 16 to 17-year olds are classed as NEET (Not in education, employment or training), which is in line with previous years and significantly lower than the North East rate at 5.64%;
- Schools were closed during lockdown except for children of keyworkers and vulnerable pupils and reopened at the beginning of the school year. During that period, the School Improvement Service provided extensive home learning resources and led the DFE laptops for school's project during the lockdown period. The Catering Service delivered nearly 16.5k free school meals and 700 food hampers to children.
- The number of children in care remains consistent. 300 in September 2020, compared to 309 in September 2009. Can we say anything about the impact of the pandemic i.e. have we seen an increase in activity re safeguarding concerns etc at Gateway
- Only 56 people were accepted as homeless in 2019/20 compared to 52 in 2018/19. The Homeless Reduction Act placed a greater focus on prevention and triage work in order to prevent an individual becoming homeless. During the pandemic all rough sleepers have been placed in emergency accommodation throughout.
- In March 2020, the Authority set up a Local Support Hub to support residents identified by the NHS and general practitioners as clinically extremely vulnerable and a higher risk of serious complications from Covid 19. There were 9,628 residents identified as clinically extremely vulnerable and the Local Support Hub provided regular support with shopping, prescriptions, welfare calls to over 1.8k residents.
- Continued to serve our customers through customer services in a Covid Secure way – handling on average X queries per month/week (need to say if that is up or down on previous years

Our Places:

- All the council housing stock continues to meet the Decent Homes Standard and 99% of homes are occupied, including the North Tyneside Living schemes;
- Delivery of the council's Affordable Homes Programme remains on track to deliver 3,000 affordable homes across the borough between 2014/15 and 2023/24. 1,570 affordable homes have been completed so far;
- At the end of March 2020, the Authority's carbon footprint has decreased by 46% since 2010/11 and it is likely that the Authority will achieve the 50% reduction target by the 2023 target date. In July 2019 North Tyneside Council declared a Climate Emergency and set the ambitious target to become carbon neutral by 2050. A Climate Emergency Board has been established to oversee a wide range of projects. Projects completed so far include the introduction of Air Source Heat Pumps and Solar PV electricity generation at the Killingworth depot site, expanding the range of recycling materials in kerbside recycling to include plastics, securing funding to retrofit 69 businesses to reduce carbon dioxide and nitrogen oxide and introducing age and emissions standards for taxis and private hire vehicles. As well as securing grant funding to upgrade taxis, so they meet Clean Air Zone compliance standards coming into operation in 2021. the end of March 2020, the amount of waste collected boroughwide reduced by 1.2k tonnes compared to the previous year and the proportion of reuse, recycling and composting increased to 39%. The amount of waste sent to landfill in year was also at its lowest level recorded for any year. This improvement is largely due to the introduction of alternate weekly waste collections and improvements made at the Household Waste Recycling Centre. The introduction of an appointment system at the centre during the pandemic period has not had any detrimental impact and has been received very positively by customers;
- The Ambition for North Tyneside continues to successfully deliver a broad range of regeneration improvements across the borough. Achievements in the last year include public realm improvements to Forest Hall shopping centre; successful opening of the Centre for Innovation; the restoration of Grade 2 listed Georgian terrace on Northumberland Square; replacing derelict and eyesore sites along the coastline with attractive high quality family housing and significant investment in highways and schools across the borough. Plans continue with: North Shields Master Plan; improvement works on the Northern Promenade; investment in Segedunum.
- Three beaches in North Tyneside have been awarded the Blue Flag beach award, the internationally recognised gold standard for beaches. In addition, Longsands Beach, Tynemouth, has been placed in the top 10% of attractions worldwide in the 2020 Trip Advisor Travellers' Choice Awards and has attracted a Seaside Award for excellence
- Successfully reopened all leisure services in a Covid Secure way in line with government guidance including leisure centres, swimming pools and libraries, but the impact re visitor numbers has been significantly impacted of course; and
- Once able to restart services in line with Govt guidance, continued to deliver full range of services re housing repairs, highways and construction schemes.

Our Economy:

- The COVID-19 pandemic has had a significant impact on both businesses and residents from an economic point of view. During the first national lockdown from March this year, 21% of the working age population in North Tyneside were placed

on the Job Retention Scheme. The number of Universal Credit claimants living in the borough sharply increased in April from 11k claimants in March 2020 to 18.5k in September. Almost half of Universal Claimants in North Tyneside are searching, planning or preparing for work;

- The number of registered businesses in North Tyneside has grown every year since 2011. There were 5,315 businesses registered in the Borough at the beginning of 2020. However, this year there has been a significant reduction in the number of business start-ups and the number of job vacancies being advertised. The number of business start-ups have reduced sharply by 21% at the end of September 2020 compared to September 2019. Job vacancy advertisements have reduced by 10.5%at the end of September 2020 compared to the same period last year.
- The Authority has supported businesses to recover and grow through access to practical and financial support, advice and information and signposting to local and national grant opportunities. Some of the initiatives include:
    - Securing match funding through the North of Tyne Capacity Fund which enabled the Voluntary and Community Sector to continue to deliver their employability project.
    - Establishing a dedicated helpline for businesses
    - Administering £34m of Govt grant funding to over 3,000 eligible businesses
    - Delivering a joint communications campaign with the North Tyneside Business Forum to inform, support and signpost businesses to relevant help.
    - Introducing a pavement licensing scheme to support the hospitality sector
    - Developing a Town Centre Recovery Plan.
    - Successfully reopening town centres in June in a Covid Secure way
    - Supporting 8 categories of suppliers with supplier relief.
    - Providing free advertising for local businesses in the Our North Tyneside magazine.

3. General Fund

3.1 Council Tax Support

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

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

Under national rules pensioners are protected from any capping of maximum awards to ensure they are not subject to a reduction in Local Council Tax Support and may still be awarded reductions of up to 100% of their Council Tax liability.

Council Tax Support under our current scheme for working age claimants is capped at 85% of an individual's Council Tax liability, meaning that working age people are charged 15% of their Council Tax before they receive Council Tax Support. Cabinet is not proposing any changes to Council Tax Support in 2021/22.

It is noted that COVID-19 has led to an increase in the numbers of claimants of Local Council Tax Support. This is a direct cost to the Authority as it ultimately reduces the Council Tax base as Council Tax Support is applied as a discount.

3.2 Business Rates

3.2.1 The level of Business Rates is set by the Government and is based on the rateable value of non-domestic properties across North Tyneside. Prior to April 2013 the Authority had no direct financial interest in the collection of Business Rates and acted purely as an agent of the Government. However, for the financial years 2013/14 through to 2018/19 the Authority has retained 49% of the business rates it collects and paid the other 51% over to the Government (50%) and the Tyne and Wear Fire and Rescue Authority (1%). This was due to the introduction of the Business Rate Retention Scheme. This resulted in a direct financial incentive to maximise the amount of business rates collected in North Tyneside.

For the financial year 2019/20 the Authority, together with Newcastle City Council and Northumberland County Council, submitted a joint bid to the Ministry of Housing, Communities and Local Government and were successful in being granted pilot status for a 75% Business Rate Retention scheme. The reason for submitting a bid is to benefit from the retention of a higher level of Business Rate income over and above the baseline level set by Government. It was agreed that any gains achieved by the 75% pilot scheme would be allocated by the North of Tyne Combined Authority in line with its vision and investment priorities.

The Authority reverted back to 49% Business Rates Retention in 2020/21 and this will continue in 2021/22.

3.2.2 The Authority, like all other authorities, remains exposed to the risk of Business Rate appeals, which are determined by the Valuation Office Agency. The Government introduced a new check, “challenge and appeal process” in April 2017 which appears to have improved the efficiency of the appeals process, as challenges against rateable values have significantly reduced since 2017/18. However, the impact of COVID-19 on demand and occupation of business premises may subsequently see fluctuations in market rental levels As rateable values are directly linked to market rental levels this may lead to a reduction in rateable values and ultimately business rate income.

3.2.3 The Government have continue to announce packages of support for business throughout COVID-19. These include:

- Providing 100% business rate relief for businesses in the retail, hospitality and leisure sectors for the financial year 2020/21.
- 100% business rate relief to nurseries providing childcare for the financial year 2020/21
- Providing business grants of £10,000 to small businesses and grants of up to £25,000 for businesses in the retail, hospitality and leisure sector dependent on their rateable values; and
- Recent announcement of further support during local lockdown tiers in the form of monthly grants to some qualifying businesses. Awaiting further details on this.

This money is fully reimbursed to Local Government through Section 31 grants.

4. Housing Revenue Account (HRA)

4.1.1 The Housing Revenue Account is required to produce a 30-year Business Plan; however, a four-year Medium-Term Financial Plan (MTFP) for revenue has been produced which brings this in line with the same MTFP period as the General Fund. The General Fund and Housing Revenue Account Investment Plan spans a five-year period, in line with the Capital Investment Strategy.

4.1.2 Whilst the current economic situation presents significant challenges, the Authority is still able to produce an MTFP for the HRA, which enables over £288m of revenue spend over the next 4 years to manage and maintain the housing stock and meet the aspirations of Cabinet and tenants.

4.1.3 As well as protecting the significant investment in the service delivered via revenue and the MTFP, the HRA also represents a significant element of the Authority's overall Investment Plan. In line with the key priorities of Cabinet outlined above, over the next 5 years a total of £116.708m has been provided to enable the existing stock to be maintained at the Decent Homes Standard. In addition, in line with the Mayor and Cabinet's Affordable Homes pledges, a total of £24.470m has been identified to fund the new build schemes identified in the Affordable Homes Plan.

4.1.4 The proposals to resource the revised MTFP and 30-year HRA Business Plan will be subject to the full engagement process, and consultation over the choices available to ensure the objectives can be achieved.

4.2 Background and Policy Context

4.2.1 The Authority is responsible for managing just under 14,500 houses. Rents and service charges provide most of the resources available to the HRA, which is then used to fund the management and maintenance of the housing stock. This income and expenditure is accounted for in a ring-fenced account as required by law under the Local Government and Housing Act 1989. Although accounted for separately, the HRA forms an intrinsic part of the Authority's overall vision and Council Plan, and this report sets the context within which the HRA Financial Plan and Budget proposals are set.

4.2.2 The Authority is in unprecedented times due to the coronavirus pandemic. In line with virtually all areas of the economy, the provision of vital public services including housing has seen major disruption to service delivery. Where relevant, this report outlines the impact that Covid-19 has had on the housing service, and if it will have a bearing on the Budget for 2021/22.

4.2.3 The Authority is still facing the impact of the continued roll-out of Universal Credit and other welfare reforms, which brings greater pressure on our tenants in terms of managing their finances, and on the Authority's income collection teams who have a responsibility to try and help sustain tenancies, and help tenants manage their money so that they do not end up in financial hardship or significant arrears, all of which could have a direct impact on the bottom line of the HRA, and the quality of the services that we are then able to provide.

4.2.4 Following the removal of the HRA debt cap in 2018, it is now up to the Authority to determine the level of any unsupported borrowing it wishes to undertake to fund new build or decent homes work, in line with the Prudential Code, which means applying the key tests to ensure that any debt taken on is "prudent, affordable and sustainable". The approach to debt management is reviewed yearly and is discussed in more detail below.

4.2.5 April 2019 saw the Housing Property and Construction Service established within Environment, Housing and Leisure. The first year of operation was highly successful and saw circa £40m of works delivered across a range of areas across all the Authority's housing stock and public buildings portfolio. The benefits identified from the benefits realisation process were baked into the HRA Business Plan last year and continue to support core services and adding value by funding initiatives such as the new tenant priorities budget within Housing Repairs.

4.2.6 Of course, nobody could have predicted that 12 months into this new service we would be facing a global pandemic. Plans to deliver an even more ambitious programme of works in 2020/21 than last year had to be redrawn as the country entered the initial 3-month lockdown period. As services started to return new COVID-secure ways of working have had to be introduced to keep everybody safe, and certain types of works had to be deferred because of social distancing. In financial terms, every scheme is looked at individually to see what safety and social-distancing measures are required. These issues have been considered in the sums provided to fund the Council's Housing Asset Management Plan. As well as COVID-19 considerations, a full review of the Asset Management Plan has been undertaken, and further work is ongoing to continue to improve, and create a service that best meets the ongoing needs of our tenants and residents whilst delivering greater efficiency and improved value for money.

4.2.7 These challenges continue to be considered as part of the updating of the 30-year plan which aims to ensure the long-term viability of the HRA in line with the policy direction of the Mayor and Cabinet and the needs of our tenants. For the purposes of the current Financial Planning and Budget process, a four-year revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that projections beyond 2021/22 are indicative at this stage. A five-year timeframe is being proposed for the Housing Capital Investment Plan once again in line with the 2021-26 General Fund Investment Plan.

4.2.8 HRA tenants will be consulted on these initial proposals, and the final HRA Budget will be presented to Cabinet in February 2021. At that meeting in February, Cabinet will be asked to approve the HRA Business Plan and Budget for 2021/22, including the housing rent, garage rent and service charge changes along with the Housing Capital Investment Plan.

4.3 Key Objectives and headline assumptions for the Housing Service

4.3.1 The over-riding objectives for the housing service are in line with the agreed Housing Strategy and, as far as possible within financial constraints, are to;

1. Ensure the application of the principles of economy, efficiency and effectiveness;
2. Continue to invest in the existing stock to maintain the Decent Homes Standard;

3. Maintain and develop effective engagement with tenants;
4. Continually monitor the impact of changes such as Universal Credit and other welfare reform on our tenants and ensure they have the appropriate support;
5. Work with private landlords to refurbish stock where appropriate;
6. Undertake environmental improvements to estates to ensure that they are clean and safe;
7. Support the delivery of Affordable Homes across the Borough;
8. Specifically increase the delivery of new-build homes where practicable; and
9. Create sustainable tenancies and maximise rental income collection.

4.3.2 The key headlines for the HRA Budget for 2021/22 are as follows:

1. <u>Rent and Service Charges</u>

A) Rent Policy - April 2020 saw the re-introduction of rent increases based on the Consumer Prices Index (CPI) plus 1% for at least the next 5 years. The baseline for 2021/22 is the CPI rate as of September 2020 which was 0.5%. Hence, the rent increase proposed for 2021/22, to be in line with Government policy, is 1.5%. The base HRA Business Plan assumes a 3% rent increase per annum as 2% is the Government target for CPI. The CPI rate has been steadily falling since the start of the pandemic, and hit a low in August 2020 of 0.2%, this was believed to have been heavily impacted by the introduction by the Chancellor of nearly £0.500bn of funding for the “Eat Out to Help Out” scheme which dampened the inflation rate. Once the funding for that scheme was pulled the inflation rate has started to increase again albeit only to 0.5% in September. The impact of this on the HRA Business Plan is to reduce the forecast rental income over 30 years by just under £45.000m. As part of this budget report we have looked at putting together a package of measures to fill the gap. The key drivers were to ensure support to the Housing Investment Plan to maintain the existing stock to a decent standard, and to protect resources identified to fund the HRA elements of the Affordable Homes programme.

Because of the 4-year imposed rent reduction we had already taken nearly £0.500bn out of the 30-year plan previously, and the vast majority of that had been identified by making some difficult choices within the Housing Investment Plan. Hence the proposal that these savings needed to balance the 2021-51 Plan will be achieved from a package of revenue savings, namely:

- A review of bad debt provision;
- A review of levels of in-year contingency provided within both the Management and repairs budgets;
- Tweaking the approach to debt management within the Treasury Management Strategy for the HRA, to slow down the rate at which we repay debt over the life of the Plan, as the strategy was always to repay debt where prudent, and if we were able to afford to do so;
- A review and rebasing of rental income streams to iron out any obvious variances; and
- Commence a fundamental review of the structure of the Housing Property and Construction service, which should deliver savings in both operational and management and support costs, which will be necessary as the volume of work delivered across the entire service may well drop as a

result of the impact of COVID-19 on the Authority's overall financial position.

This package of measures would be sufficient to deliver the efficiencies needed to balance the plan whilst protecting the key Cabinet and Mayoral priorities of:

- a commitment to deliver more affordable housing by increasing the resources available for the HRA element of the Affordable Homes strategy;
- Maintaining the tenants' priorities budget within repairs to focus on key areas of need, those initial areas of focus being pest control, empty homes standard and property health checks;
- Strengthening the resources available to support our tenants in coping with the changes arising from welfare reform and the continued roll-out of Universal Credit; and
- Ensuring that our existing housing stock is maintained to the Decent Homes Standard.

B) It is proposed to increase service charges for 2021/22 in line with the rent increase at CPI + 1%. For most service charges for 2021/22 the increase will be 1.5%.

C) A review of the garage letting process was concluded and implemented in 2019/20 which resulted in a phased approach over two years to harmonise garage rents. This exercise was completed this year, so for 2021/22 it is recommended that garage rents will increase in line with rent and service charges being based on CPI + 1% which will see a 1.5% increase.

D) The Authority will continue to move to target rent when properties become empty.

E) An initial review of service charges attached to North Tyneside Living schemes has been undertaken, and service charges attached to those schemes will be increased in line with rents at CPI + 1% i.e. 1.5%. However, as the schemes continue to become established and fully operational, we are endeavouring to gather more accurate trend data, and ensure that service charges reflect actual costs as closely as possible.

F) The Authority also continues to monitor the impact of welfare reform changes. Service charges on affordable rent properties are not exempt, as the 80% of market rent calculation includes any service charges. The importance of ensuring that our tenants are kept fully informed of the requirements of the new scheme is fully recognised and ensuring that they are supported in managing the impact of change. In North Tyneside Universal Credit numbers continue to increase, at the end of September 2020 around 3,000 tenants were on Universal Credit and in arrears totalling £2.525m. The Authority had already allocated additional resources to support those tenants affected by the changes in last year's Budget. Due to issues caused by the pandemic, there were delays in recruitment but most posts have now been filled, and tenants should now be getting the support they need. Members will continue to be updated of any significant further welfare reform changes as they become clear.

G) It is assumed that the policy agreed by Cabinet in January 2014 to protect the tenants in situ at the point the PFI scheme commenced from excessive increases in North Tyneside Living rents will continue. Also, as previously all new tenancies commence at the newly calculated rents which are higher because of the increased value of the properties, a proportion of which is used to calculate the rent. It is estimated that this protection will cost in the region of £0.050m in 2021/22 and is steadily reducing year on year.

H) From April 2018 Cabinet agreed that the Authority would move from a 50 to a 52-week rent year to align with the continued roll-out of Universal Credit. This sees tenants' weekly rent spread over 52 weeks, although for those residents that wish to continue paying over 50 weeks this option is available. This policy will continue as agreed by Cabinet and 2021/22 will continue to align to UC as it is a 52-week year unlike 2019/20 which as a 53-week year will have caused issues for some tenants.

2. <u>The Housing Capital Investment Plan 2021-2026</u>

The Housing Capital Investment Plan has been refreshed based on the revised Asset Management Strategy, along with revised sums identified to fund new build proposals. The key assumptions that have been made in developing the Housing Capital Investment Plan for 2021-2026 are as follows:

A) Acknowledging the impact of the COVID-19 pandemic, recognising that there will need to be additional consideration given to ensure all COVID-secure measures are followed in the workplace and out on site, which may require different welfare arrangements depending on the site, additional PPE, sanitisers etc;

B) Review of Housing Investment Plan spend based on maintaining Decent Homes, continuation of a fencing programme and other core items included in the refreshed Asset Management Plan, would see core spend of £116.708m over the next 5 years 2021-26, plus new build spend of £24.470m based on continuing the existing approach to HRA new build within Cabinet's overall Affordable Homes Strategy; and

C) Spend for 2021/22 of £26.362m including £2.500m for the continuation of a new build / conversion / acquisition council house programme (including re-programming from 2020/21).

These figures are based on maintaining the key principles of Cabinet's existing approach to debt management and self-financing.

3. <u>Housing Repairs Budget 2021/22</u>

Cabinet was presented last year with a proposal to create a Tenant Priorities budget from some of the savings realised from the creation of the Housing Property and Construction Service. A significant amount of work was undertaken to look at tenant priorities, and a list of options for prioritising resource allocation was put forward, and for 2019/20 the following were given priority, namely:

- Improving the Empty Homes standard;
- Free pest control service for tenants; and
- Property health checks i.e. scheduled maintenance visits as opposed to reactive ones to properties identified as high maintenance.

In the light of the delays caused by the pandemic in starting these initiatives, it is recommended that these areas remain the focus of the tenant priorities budget for 2021/22, as the objectives remain key to meeting tenants' aspirations.

4. ICT Systems Review

There is a need for a fundamental review of all the Housing ICT systems currently in use across the service. Northgate has never been fully reviewed to assess its ongoing suitability and whether it needs to be replaced or upgraded. We are also nearly 2 years into the contract for the Accuserv system used to support HPC's activity, and so this will shortly be under review to decide the future path for that system. A key part of any review would be to assess the benefits and market test whether there is a suitable "unified" system available that could meet most of the service's needs. This project will be a major exercise needing dedicated resources and a proper governance process put in place. Indicative revenue and capital resources have been identified within the plan over the next 4 years to enable this work to be carried out. The figures will be revised and confirmed as project plans and reviews commence, and we have a clearer picture of what needs to change.

5. HRA Unallocated Working Balances

Sustain unallocated working HRA balances at a minimum of £2.5m at this stage.

6. Right to Buy (RTB) Sales

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

Table 1: Right to Buy Sales 2011/12 to date

2011/12	30
2012/13	85
2013/14	122
2014/15	100
2015/16	135
2016/17	136
2017/18	158
2018/19	135
2019/20	120
2020/21 to-date (Sept)	52

As part of changes the Government introduced in 2012/13, the Authority signed an agreement that allows RTB receipts above the levels assumed as part of self-financing to be retained if they are used to fund new build homes at a 30% contribution rate within 3 years. This has seen an additional £6.285m of Capital Receipts retained to the end of 2019/20, which has helped deliver £18.842m of

new build schemes. The trend in RTB sales is reflected in the 2021/22 Business Plan profile for stock numbers with circa 115 RTB sales and other disposals assumed.

7. Treasury Management Strategy (TMS) and the HRA Borrowing "Cap"

The HRA is an integral part of the Authority's TMS. When self-financing was introduced in 2012/13 all stock-retaining authorities had to decide on their approach to debt. Each had to either take on additional debt or have debt paid off, based on the assessed ability of the level of debt that their business plans could be expected to manage. For North Tyneside this meant borrowing £128m of loans from the Public Works Loan Board to pay our allocated share of debt to the Treasury. Each Authority was allocated a "cap" representing the maximum amount of debt that could be held by the HRA. This Authority was one of only a handful nationally where the debt held was above the "cap". Actual debt was £290.825m compared to the calculated cap of £270.585m but the Government "flexed" the cap to match the actual position.

All authorities were in different positions regarding actual debt held and the cap, most were below but many were at or near the cap which restricted their options. Each had to decide what debt and risk approach they would take to both fund investment in existing stock and potentially any new build opportunities. Cabinet agreed at this point to set aside money where possible to repay debt each year, to bring our overall debt holdings down below the cap. The recommended strategy was not to seek to repay all debt held over the initial 30 years. This approach enabled revenue surpluses to be created, which have been utilised to fund a programme of HRA new build spend totalling £23.864m to the end of 2019/20. By the end of March 2020, the Authority's actual HRA debt stood at £264.877m compared to the £290.825m "cap", and by March 2021 it is anticipated that the debt will drop further to £249.673m. Hence, the Authority has already created some headroom through the prudent approach agreed to its Treasury Management strategy.

These 2021/22 draft budget proposals are based on the existing Cabinet agreed policy approach to debt. As mentioned in the cover report the only real change proposed to the current plan for 2021-51 is to slow down the rate at which debt is repaid, in order to help fund a package of savings that will counter the loss of an estimated £45m of rental income due to the current low rate of CPI. It is estimated that this change in the Treasury Management approach would provide £35m of the estimated £45m of savings required. If this approach is taken over the life of the plan it is estimated that just under a further £75m of debt will be repaid over the next 30 years, compared to £105m in the base model based on a target 3% rent increase per annum.

The Table below shows the reduction in HRA debt included in the current proposals.

Table 2 – Impact on HRA Debt 2021-2051 of Revised Business Plan

Description	Debt Movement
	£m
Opening Self-Financing Debt	290.825
Opening HRA Debt 01/04/2021	249.677
Closing HRA Debt after 30 Years	174.677
Debt Repaid over 30 years	75.000
Debt Repaid from start of SF	116.148

8. Self-Financing and Depreciation

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

4.4 HRA Summary Financial Plans

4.4.1 In summary, the HRA Business Plan modelled to create these draft proposals has the following key assumptions, most of which are based upon continuing with current Mayoral and Cabinet policy priorities:

- Additional rental income of CPI plus 1%, with a proposed rent increase for 2021/22 of 1.5%, with a longer-term assumption based on CPI target that equates to 3% per annum;
- Garage rent and service charges will increase in line with rental income increases of 1.5% for 2021/22;
- The Tenant Priorities budget created last year will be maintained, particularly as much of the agreed work has been halted by the pandemic, albeit a lot of work is being undertaken to try and make some meaningful progress in each area before the end of 2020/21;
- Resources identified over the next 4 years to undertake full review of current ICT systems and produce an options appraisal of future needs for the service, and then procure and implement the agreed best solution; and
- The base Capital Investment Plan has been refreshed based on an update of the Asset Management Plan and includes continuation of a new build programme in line with Mayoral priorities and the Affordable Homes Plan.

4.4.2 The updated HRA Business Plan for 2021-2026 contains over £24m to support the HRA new build programme over the next 5 years, whilst continuing to repay some debt. The impact that Brexit could have on interest rates and borrowing rates and therefore the impact on the HRA debt position remains unknown. It is

prudent that Cabinet maintains its borrowing policy at this stage, until more surety can be gained over future economic trends.

4.4.3 Appendix F shows the revised four-year HRA Business Plan 2021-2025, and Appendix G splits those changes between Pressures and Growth, Efficiencies and Reserves and Contingencies. The HRA Business Plan for 2021-51 (available as a background paper) starts with an assessment of the budget monitoring position as of 30 September 2020, and the impact on HRA balances for this year. At that point, as is being reported to this meeting of Cabinet, the HRA is predicting an overspend of £0.261m against Budget for 2020/21, mainly due to the impact of the COVID-19 pandemic on service delivery in the first three months of the year. Some of the impact is mitigated by existing budgets, and some by an improving rent position, and some vacancy savings from delays in filling posts again due to the pandemic. This means that the opening balances feeding into the Business Plan as at 31 March 2021 are forecast to be £4.954m as shown in Appendix F.

The five-year Housing Investment Plan 2021-2026 is included within Appendix B (ii).

Appendix G also shows a further breakdown of the movement on Reserves and Contingencies which includes a contribution from reserves of £1.943m for 2021/22. It is proposed to reduce contingency budgets by £0.180m in 2021/22 following a review of the levels held, with separate provision made for inflation and pay awards of £0.442m for 2021/22.

5. Dedicated Schools Grant (DSG)

Background

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

5.1.2 In September 2017, the Department for Education (DfE) published the response to the stage 2 National Funding Formula (NFF) consultation and confirmed the details of the NFF for the Schools block. In 2020/21, the DSG will continue to be comprised of four blocks covering: Schools, High Needs, Early Years and the Central School Services. Each of the four blocks has their own funding formula.

The DfE initially proposed a two-year transition period (2018/19 and 2019/20) where local authorities would continue to set a local formula to distribute funding to individual schools. However, in July 2018, as a result of the significant movement witnessed towards the NFF, the Government confirmed that these transitional arrangements would continue into at least 2020/21. In 2019, the DfE confirmed that the transitional arrangements will continue into 2020/21 and probably 2021/22, with the expected move to “hard” NFF being likely in 2022/23.

5.1.3 In 2021/22, as in 2019/20 and 2020/21, the Authority will receive its DSG funding based on the DfE National Funding Formula. In August 2020, the DfE published indicative allocations under the NFF at school level using October 2019 census data. This shows the funding level for each mainstream school based on the NFF using the 2021/22 Primary Unit of Funding (PUF) and Secondary Unit of Funding (SUF) with October 2019 pupil numbers.

This information is for planning purposes only as local formulae used by each local authority can still vary from the NFF within the guidance issued by the DfE. The DSG allocation to the Authority for 2021/22 will be published in December 2020 using the October 2020 census results.

5.1.4 The Schools NFF for 2021/22 will continue to have the same factors as at present. The Government announced its intention to implement the formula to address historic underfunding and move to a system where funding is based on need. The key aspects of the formula for 2021/22 are:

- The minimum per pupil funding levels will be set at Primary £4,180, Key Stage 3 £5,215 and Key Stage 4 £5,715;
- The funding floor will be set at 2% per pupil, in line with forecast inflation to protect per pupil allocations for all schools in real terms. This minimum increase in 2021/22 allocations will be based on the individual school’s NFF allocation in 2020/21;
- Schools that are attracting their core NFF allocations will benefit from an increase of 3% to the formula’s core factors; and
- Growth funding will be based on the same methodology as in 2020/21, with the same transitional protection ensuring that no authority whose growth

funding is unwinding will lose more than 0.5% of its 2020/21 Schools block allocation.

In addition, two important restrictions will continue:

- Local authorities will continue to set a Minimum Funding Guarantee in local formulae, which in 2021/22 must be between +0.5% and +2.00%. This allows them to mirror the real terms protection in the NFF, which is the Government's expectation; and
- Local authorities can only transfer up to 0.5% of their Schools block to other blocks of the DSG, with their Schools Forum approval. To transfer more than this, or any amount without their Schools Forum approval, they will have to make a request to the DfE, even if the same amount was agreed in the past two years.

5.1.5 The North Tyneside illustrative allocation for the Schools block, Central Schools Services block and High Needs block in 2021/22 (using census 2019 i.e. static pupil numbers) is shown below. The Authority has yet to receive confirmation of the Early Years block allocation; therefore, this has not been adjusted and remains at the same funding level as received in 2020/21 until further information is received from the DfE:

Table 3: Indicative Dedicated Schools Grant funding allocation 2021/22

	2021/22 Schools block units of funding (£'s)	**Schools Block**	**CSS Block**	**Early Years Block**	**High Needs Block**	**Total Indicative DSG 2021/22**
		£m	**£m**	**£m**	**£m**	**£m**
Primary per pupil rate (£)	4,425					
Secondary per pupil rate (£)	5,841					
Indicative DSG Settlement		**135.906**	**1.854**	**13.734**	**26.101**	**177.595**

5.2 <u>Schools Block</u>

5.2.1 Officers from the Authority have been working with the Schools Finance Sub-group for several months to review the Authority's Local Funding Formula (LFF) for schools and what the potential impact would be if the LFF was moved towards the National Funding Formula (NFF). The outcome of that work was presented to Schools Forum on 1 October 2020 and two funding models were proposed:

- Model 1 – 50% movement towards the NFF
- Model 2 – 75% movement towards the NFF

Each of the models put forward were presented with three scenarios which considered different levels of Minimum Funding Guarantee (MFG) which limits the impact of changes on individual schools' funding. At its meeting on 12 September

2020, Schools Forum agreed to consult with all schools on the option of moving factor rates 50% towards the NFF.

5.2.2 At the time of writing this report a consultation on changes to the LFF is underway with all schools and will be concluded on 20 November 2020. The outcome of the consultation will be presented to Schools Forum at its meeting on 26 November 2020. The consultation results will be shared reviewed by the Cabinet Member for Finance, Cabinet Member for Children Young People and Learning, the Head of Commissioning and the Head of Resources as per recommendation 1.2.1 (l) which is included within the cover report to this Annex.

5.3 High Needs Block

5.3.1 In common with most authorities, North Tyneside is continuing to see rising pressures within provision for children with special educational needs. This is due to the increasing complexity of the needs of children and young people in addition to general rising cost levels mainly as a result of pay inflation.

The number of children with an Education Health and Care Plan (EHCP) continues to increase and there are a rising number of pupils with Autism Spectrum Disorder (ASD) as their primary need. The forecast outturn for high needs as at September 2020 is estimated at £7.999m.

A High Needs Strategic Plan was agreed by Schools Forum in May 2018, outlining a work plan to review the Authority's current special educational needs offer to ensure it meets needs appropriately at a sustainable cost.

5.4 Early Years Block

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

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

5.5 Central Schools Services Block

5.5.1 The Central Schools Services block (CSSB) provides funding for local authorities to carry out the statutory duties they hold for both maintained schools and academies in England. Schools Forum is required to approve the proposals for expenditure from the CSSB. Schools Forum will consider certain elements of funding that are held centrally within the funding allocations (known as centrally retained and de-delegated items) which are applied to benefit pupils across the Borough.

5.6 Timetable for Agreeing 2021/22 Distributions

5.6.1 The key dates which must be met in setting 2021/22 school budgets are shown in Table 4 below. This report is requesting authorisation for the Head of Resources, in consultation with the Head of Commissioning and Asset Management, the Cabinet Member for Children, Young People and Learning and the Cabinet Member for Finance and Resources, to undertake resource allocations to schools to meet these deadlines.

Table 4: Key dates for 2021/22 School Budget-setting

Date	Activity
July 2020	Department for Education (DfE) guidance issued for 2021/22
October / November 2020	Local consultation documents issued to stakeholders
20 November 2020	Consultation returns received and reviewed
26 November 2020	Schools Forum considers consultation response and agrees proposals for local funding allocation formula to individual schools, de-delegated and centrally retained budgets and any transfers between funding blocks
December 2020 / January 2021	Local Government Finance Settlement announced including school funding amounts
January 2021	Additional Schools Forum meeting (if required)
21 January 2021	Deadline for submission of final local School Allocations to DfE (the Authority Proforma Tool)
28 February 2021	Deadline for confirmation of schools' budget shares to maintained schools (in North Tyneside the intention is to issue in advance of this deadline)

6. Cabinet's initial Budget proposals for the 2021-2026 Capital Investment Plan

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

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

6.1.2 A 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. 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. The Capital Investment Strategy is attached as Appendix B(iv).

The 2020-2025 Investment Plan totalling £244.320m was approved by Council on 20 February 2020. Delivery of projects within the plan and progress to date has been reported to Cabinet as part of the bi-monthly Financial Management reports. Reprogramming of £8.784m has been identified as part of the process and this spend is now included in the 2021/22 planned spend shown below.

The following adjustments are included in the draft plan:

- Addition of an invest to save project for Streetlighting LED - in July 2019, Council declared a Climate Emergency, setting a target to reduce the carbon footprint of the Authority and the Borough by 50% by 2023 and to become carbon neutral by 2050. A key area identified to help achieve this target is to improve energy efficiency and reduce electricity used in streetlighting by the continuation of installation of LED bulbs. It is estimated that the overall project will produce a reduction in electricity kilowatt hours of over 4.6 million, reduction in CO_2 emissions of 1,281 tonnes, reduced electricity spend of over £0.600m and reduced ongoing maintenance of £0.070m;
- In view of the outcome of a number of building condition surveys, an additional £0.500m has been added to the 2021/22 Asset Planned Maintenance budget to reflect identified requirements; and,
- A new year 5 (2025/26) has been added to reflect rolling programme projects such as Asset Planned Maintenance, Additional Highways Maintenance, and ICT refresh.

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, 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 on-going projects included in the approved Investment Plan (currently 2020-2025).

Table 5 below shows a summary of the initial draft 2021-2026 Capital Investment Plan.

Table 5: Summary of the draft Capital Investment Plan 2021-2026

Spend	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£000's	£000's	£000's	£000's	£000's	£000's
General Fund	35,842	15,352	15,458	15,988	13,435	96,075
Housing	26,362	26,043	27,400	29,949	31,424	141,178
Total	**62,204**	**41,395**	**42,858**	**45,937**	**44,859**	**237,253**

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

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

Table 6: Summary of Financing 2021-2026

Spend	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£000's	£000's	£000's	£000's	£000's	£000's
General Fund						
Council Contribution:						
Unsupported Borrowing	15,603	7,025	7,660	8,776	6,223	45,287
Capital Receipts	423	254	0	0	0	677
Revenue contribution	577	746	500	0	0	1,823
Use of reserves	0	0	0	0	0	0
	16,603	8,025	8,160	8,776	6,223	47,787
Grants & Contributions	19,239	7,327	7,298	7,212	7,212	48,288
Total General Fund Resources	**35,842**	**15,352**	**15,458**	**15,988**	**13,435**	**96,075**
Housing – HRA						
Capital Receipts	750	1,886	2,871	2,689	2,984	11,180
Revenue Contribution	10,759	9,831	9,485	11,932	12,760	54,767
Major Repairs Reserve	14,853	14,326	15,044	15,328	15,680	75,231
Total Housing HRA Resources	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**
TOTAL RESOURCES	**62,204**	**41,395**	**42,858**	**45,937**	**44,859**	**237,253**

6.1.3 The initial draft 2021-2026 Investment Plan for the General Fund includes expenditure of £35.842m in 2021/22. Of this expenditure, £19.239m (54%) is funded through grants and other external contributions.

General Fund receipts (£0.677m), already received, and Housing capital receipts of £11.180m have been assumed in the financing of housing projects within the draft Plan.

Across the life of the draft Plan, unsupported borrowing totals £45.287m, with £15.603m planned for 2021/22. Of this, £6.701m relates to invest to save projects and projects that cover the cost of borrowing through recharges: namely, Streetlighting LED, Investment in North Tyneside Trading Company and Vehicle Replacement. The cost of borrowing is included within the General Fund Revenue Budget and Financial Plan.

Work is ongoing to finalise these draft proposals. There are currently a number of projects progressing through the investment gateway process where bids have been made for external funding. It is planned that these projects will be added to the Plan once funding is secured; no spend will be committed until funding is secured.

6.2 Flexible Use of Capital Receipts

6.2.1 Guidelines issued by the Secretary of State allow for the flexible use of capital receipts, subject to certain criteria being met. These guidelines cover the period up to 31 March 2022. This flexibility allows Local Authorities to use capital receipts to fund revenue expenditure incurred to generate on-going 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.

6.3 Capital Allocations 2021/22

6.3.1 A number of capital allocations (grants) are announced by the Government as part of the Local Government Finance Settlement. These include Education Funding (Capital Maintenance and Devolved Formula Capital) (Department for Education), the Local Transport Plan (Department for the Environment) and Disabled Facilities Grants (through the Better Care Fund). Figures for 2021/22 have not yet been announced and therefore indicative figures, based on previous allocations, have been included in the draft Plan. As soon as actual allocations are announced, these figures will be updated and included in subsequent reports.

6.4 Annual Minimum Revenue Provision (MRP)

6.4.1 The Capital Finance Regulations require full Council to agree an annual policy for the Minimum Revenue Provision (MRP), the amount that is set aside to provide for the prepayment of debt (principal repayment). The Regulations require the Authority to determine an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.

There are no changes proposed to the existing policy. The 2021/22 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.

6.5 Prudential Indicators

6.5.1 The Local Government Act 2003 requires authorities to comply with the 'CIPFA Prudential Code for Capital Finance in Local Authorities'. The Prudential Code requires authorities to develop a set of Prudential Indicators for capital as laid out in the Code. The proposed indicators for 2021-2025 have been prepared using this new guidance and are attached as Appendix B(iii).

7. 2021/22 Treasury Management

Background

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

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

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

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

7.1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that an organisation's treasury management policy statement adopts the following form of words to define the policies and objectives of its treasury management activities:

1 This organisation defines its treasury management activities as:
The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2 This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3 This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement. Non-Treasury Investments are reported as part of this update. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure in an asset.

7.1.3 There are no policy changes to the Treasury Management Strategy Statement or Annual Investment Strategy which was last approved at Council on 20 February 2020; the latest Treasury Management Strategy Statement and Annual Investment Strategy have been included as Appendix C. The details in this report update the current Treasury position in the light of the updated economic position and budgetary changes already approved.

7.1.4 Since 1 April 2020 there has been one instance of a material exposure in excess of credit limits as per the Treasury Management Strategy Statement and Annual Investment Statement Credit Criteria: Barclays' close of business balance was £0.8m over the £5m limit due to a late and unnotified receipt of cash.

7.2 <u>Treasury Management Reporting</u>

7.2.1 In line with best practice, the Treasury Strategy including an Investment Strategy is considered as part of the Budget-setting process.

The Treasury Management Strategy (how investments and borrowings are to be organised), including treasury indicators; and an investment strategy.

Prudential indicators are covered earlier in this report, with detailed indicators within Appendix B(iii).

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

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

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

7.3 Current Treasury Portfolio Position

7.3.1 The Authority's debt and investment position as at 30 September 2020 is set out in Table 7 below:

Table 7: Current Treasury Portfolio Position as at 30 September 2020

	Principal Outstanding	**Average Rate**
	£m	**%**
Fixed Rate Funding		
PWLB*	250.250	3.59
PWLB – (HRA Self-Financing)	128.193	3.49
Market Loans	20.000	4.35
Temp Loans**	45.300	1.03
Total External Debt	**443.743**	
Less **Investments**		
(UK) DMO***	20.000	-0.02
Other Local Authorities	40.500	0.59
Bank Deposits	5.000	0.05
Total Investments	**65.500**	
Net Position	**378.243**	

* Public Works Loan Board
** Loans from other local authorities
*** Debt Management Office

7.4 Prospects for Interest Rates

7.4.1 The Authority has appointed Link Asset Services as its external treasury advisor;part of their service is to assist the Authority to formulate a view on interest rates. Table 8 below sets out Link Asset Services' professional view of interest rates:

Table 8: Link Asset Services' forecast interest rates – October 2020

	Bank Rate %	**5-year PWLB %**	**10-year PWLB %**	**25-year PWLB %**	**50-year PWLB %**
Dec-20	0.10	1.90	2.10	2.50	2.30
Mar-21	0.10	2.00	2.10	2.50	2.30
Jun-21	0.10	2.00	2.10	2.50	2.30
Sep-21	0.10	2.00	2.10	2.60	2.40
Dec-21	0.10	2.00	2.20	2.60	2.40
Mar-22	0.10	2.00	2.20	2.60	2.40
Jun-22	0.10	2.10	2.20	2.70	2.50
Sep-22	0.10	2.10	2.30	2.70	2.50
Dec-22	0.10	2.10	2.30	2.70	2.50
Mar-23	0.10	2.10	2.30	2.70	2.50

7.4.2 Link Asset services currently forecast that the Bank of England base rate will remain unchanged for the foreseeable future. The coronavirus outbreak has had a huge economic impact to the UK and economies around the world. After the Bank of England took emergency action in March to cut the Bank Rate to 0.25%, and then to 0.10%, it left the Bank Rate unchanged at its meeting on 6 August 2020 and the subsequent September meeting, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in the Bank Rate is expected within the forecast horizon ending on 31 March 2023, as economic recovery is expected to be only gradual andprolonged.

7.5 Economic Update (Provided by Link)

7.5.1 Economic performance has been driven by COVID-19 and the continued fallout for this worldwide pandemic. The Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10% and has remained at this level since. The Bank of England has committed to quantitative easing (QE) of £745bn. The fall in GDP in the first half of 2020 was revised from 28% to 23% and then subsequently to -21.8%, one of the largest falls in output in any developed nation. Peak unemployment has been revised down from 9% in Q2 to 7.5% by Q4 2020. It is currently forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022.

7.5.2 Any possibility of negative rates has been reduced in at the least the next six months or so; negative interest rates will be less effective when other methods are available. Whilst QE is the main method of economic stimulus, the £300bn announced between March and June meetings will continue into next year, suggesting a slow of purchases are to be expected to about £4bn a week. This allows the Bank of England to allow the economy to progress and be ready to dip in as necessary.

The potential of second wave remains a downside risk, however as seen of late the use of ‘localised’ lockdowns are likely to be the preferred method over a national lockdown. Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery.

7.5.3 Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

Some longer-term adjustments to account for such as office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this

crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

7.6 COVID-19 Impact on Cash

7.6.1 The impact of COVID-19 on cashflow for the Authority has resulted in several large grants being front-loaded to the Authority. In March 2020, the Authority drew down £25.000m of PWLB to bolster the Authority's cash position, de-risk our borrowing requirement and take advantage of historically low levels in PWLB, and by doing so has contributed to the surplus cash balance. Whilst a proportion of this is currently invested out for a fixed term, the Authority is currently carrying a cash surplus balance. However, it is anticipated this surplus will unwind as COVID-19 restrictions are reduced. Projected reduced revenue streams, increased costs and repayment of outstanding debt is forecast to utilise cash balances within the year. It is therefore prudent to assume that the Authority will be in a deficit cash position to the amount of the projected budget pressure.

7.6.2 The Authority is under-borrowed to the value of £57.655m as at 31 March 2020 and, whilst the Authority cannot borrow to fund this revenue pressure, it can look to utilise reserves, unwind its under-borrowed position and externalise borrowing.

7.7 Municipal Bonds Agency (MBA)

7.7.1 The MBA has, since the last mid-year update, undertaken two bond issuances with Lancashire County Council (LCC). The first bond issuance was undertaken in February 2020. A £350m inaugural five-year floating rate bond which is linked to SONIA was successfully issued. The second issuance was a £250m ultralong maturity (40-year) fixed rate bond. As noted by the bond denominations, bond issuances are particularly useful for raising large amounts of capital, and whilst the return of bond issuances is a favourable development for local authorities, the application to North Tyneside Council is limited. Nonetheless, the development of UK local authority bond market will be watched closely.

7.8 Development of Derivatives in the Local Authority Space

7.8.1 A recent development in the Local Authority Treasury space has been Plymouth City Council who have undertaken the first interest swap deal since a High Court ruling in 1991 banned local authorities from undertaking such transactions. That ruling declared that local authorities had no power to engage in interest rate swap agreements because they were beyond their borrowing powers.

7.8.2 Plymouth Council undertook a £75m swap stating that the Localism Act 2011 gave local authorities in England a "general power of competence". Section 1 of the Act says: "A local authority has power to do anything that individuals generally may do." The legislation has enabled Plymouth to go through with the swap transaction. CIPFA and Link Asset Services, advisors to North Tyneside Council, are of the view that the derivative is ultra vires i.e. outside its legal powers.

7.9 Negative investment rates

7.9.1 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grant funding to local authorities to help deal with the COVID-19 crisis; this has caused some local authorities to have sudden large increases in cash balances to be invested, some of which was only very short term until those sums were able to be invested.

7.9.2 As for money market funds (MMFs), yields have continued to reduce. Some fund managers have suggested that they might resort to reducing fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market. This has seen a number of market operators, now including the Debt Management Account Deposit Facility, offer nil or negative rates for very short-term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions.

7.9.3 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

7.10 Non-Treasury Investments

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

7.10.2 The Authority recognises that investments in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios. It is recognised that the risk appetite for these activities may differ from that for treasury management. The Authority maintains records of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation’s risk exposure.

7.10.3 At 31 March 2020, the Authority held the following investments on its balance sheet:

- Equity:

Newcastle Airport Holding Company Ltd £7.272m (£10.886m 31/3/19)
North Tyneside Trading Company £7.568m (£5.159m 31/3/19)
LIFT Co £0m

The shares in Newcastle Airport are held primarily for economic regeneration. The cost of the original investment was £0.235m and the shares in North Tyneside Trading Company relate to two subsidiaries. The first, amounting to £5.568m, relates to investment in affordable homes in line with the Cabinet's priorities using section 106 funding. The second, amounting to £2.000m, relates to investment in Aurora Properties (Sale) Ltd for the provision of housing for sale on the open market.

- Loans

High Point View £1.329m (£2.650m 31/3/19)
Aurora Properties (Sale) Ltd £4.000m (£2.059m 31/3/19)
Sub ordinated debt – Dudley and Shiremoor JSC £0.160m ((£0.160m 31/3/19)
Sub ordinated debt – Whitley Bay JSC £0.110m ((£0.110m 31/3/19)

High Point View: It is anticipated that this amount will be repaid over the next few months as the properties are sold and Aurora Properties (Sale) Ltd. The loans are expected to be repaid over the next 3 years upon completion of the property developments.

7.10.4 The current 2020/21 and proposed 2021-2025 Capital Investment Plan includes further planned investment in the Trading Company of £8.005m (which includes £3.997m in section 106 funding). There are currently no losses expected on any of the Authority's non-treasury investments or any indications that a loss may arise. However, this position is kept under constant review as market conditions are expected to remain very volatile. Over the period of the Financial Plan (2020-2025), income from these investments is expected to be over £2.000m from staff recharges, interest and dividends.

8. Provisional Statement to Council by the Chief Finance Officer

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

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

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

The intention would be to make a full Statement as part of the report to the Council meeting on 20 February 2021, when all outstanding information should be available.

8.1.2 The 2021/22 Budget needs to be prepared with reference to the Financial Management Code (the FM Code) published by CIPFA. The FM Code provides guidance about the principles of good and sustainable financial management and requires authorities to demonstrate that processes are in place which satisfy these principles. It identifies risks to financial sustainability and sets out details of a framework of assurance which reflects existing successful practices across the sector. In addition, the Code establishes explicit standards of financial management and highlights that compliance with these is the collective responsibility of Elected Members, the Chief Finance Officer and the wider Senior Leadership Team. Full compliance with the FM Code is required from the 2021/22 Budget and further details of how this has been achieved will be set out in the February Cabinet report as appropriate.

8.2 <u>Robustness of Estimates</u>

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

- The general financial standing of the Authority;
- The underlying Budget assumptions from the Financial Strategy;
- Future Budget pressures and growth proposals, including the impact of prudential borrowing for the 2021-2025 Capital Investment Plan;
- The adequacy of the budget monitoring and financial reporting arrangements in place;
- The adequacy of the Authority's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2019/20 Statement of Accounts, presented to the Audit Committee on 18 November 2020; and
- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority.

The level of contingencies currently remains at £4.636m as these are initial Budget proposals which will be finalised by Cabinet once consultation is concluded and the final Local Government Finance Settlement is known.

Reserves, whilst relatively low, are adequate for the risks the Authority faces and can support the Efficiency Plan that is being set out.

8.2.2 The Cabinet is aware it must keep under review its Medium-Term Financial Strategy and four-year Financial Plan, in the context of the 2020-2024 Our North Tyneside Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2021/22 in isolation to future years' needs and pressures. Each year's Budget must continue to be considered within the context of the four-year Financial Plan, the four-year Investment Plan, the Financial Strategy and the global economic position prevailing at the time.

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

8.3 Capital Investment Strategy

8.3.1 In line with the 2017 'Consultation on Proposed Changes to the Prudential Code's' new requirement that the Chief Finance Officer of an Authority should report explicitly on the 'deliverability, affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions', the Authority has ensured that that all projects within the 2021-2026 Investment Plan follow the full gateway and governance procedure prior to inclusion on the Plan which ensures the deliverability, affordability and risk associated with each decision is fully understood prior to any decisions being made.

In terms of the overall investment position of the Authority, as set out above, a draft 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 Council Plan outcomes.

8.4 Adequacy of Financial Reserves

8.4.1 General Fund

The 2021-2025 Financial Plan currently assumes no use of reserves to support the Budget. My view is that the current Financial Plan should aim to maintain the Strategic Reserve at a minimum planned level of £10.000m over the life of the Financial Plan. Any unplanned use of the Strategic Reserve over the 2021-2025 Financial Plan may take the level outside of this boundary and corrective action would be needed to demonstrate how the £10.000m agreed level would be restored. Table 9 below shows the reserves as at the 31 March 2020 and the projected reserve levels over the period of the Financial Plan:

Table 9: Reserves and Balances as at 31 March 2020 and from 2021/22-2024/25

Reserves and balances	Projected Opening Balances					
	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s
Reserves						
General Fund ringfenced	22.492	21.981	21.805	21.191	20.626	19.300
General Fund unringfenced	19.181	18.990	17.990	17.490	17.490	17.490
General Fund grants	9.435	2.781	2.255	1.956	1.687	1.582
Dedicated Schools Grant	(3.262)	(7.999)	(7.999)	(7.999)	(7.999)	(7.999)
HRA	19.102	18.752	19.048	19.522	19.934	20.282
Reserves Sub Total	**66.948**	**54.505**	**53.099**	**52.160**	**51.737**	**50.654**
Balances						
General Fund Balances	7.000	7.000	7.000	7.000	7.000	7.000
School Balances	0.165	(2.201)	(4.201)	(6.201)	(8.201)	(10.201)
Housing Revenue Account Balances	7.803	4.954	3.011	2.632	2.704	2.666
Balances Sub Total	**14.969**	**9.753**	**5.810**	**3.431**	**1.503**	**(0.535)**
Grand Total Reserves and Balances	**81.917**	**64.258**	**58.909**	**55.591**	**53.240**	**50.119**

8.5 Housing Revenue Account (HRA)

8.5.1 Table 10 below sets out the movement in reserves of the HRA. The Budget proposals ensure that a minimum of £2.500m is retained in HRA revenue balances each financial year covering the two years of the Financial Plan to ensure some measure of contingency and financial stability. The proposals, as they currently stand, also balance the Plan over the longer 30-year period, which is what the Government requires authorities to demonstrate as part of the self-financing proposals.

Table 10: 2021–2025 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Opening Reserve Balance	(7.803)	(4.954)	(3.011)	(2.632)	(2.704)
Contributions (to)/from balances	2.850	1.943	0.379	(0.072)	(0.038)
Predicted Reserve Balance Carried Forward	**(4.954)**	**(3.011)**	**(2.632)**	**(2.704)**	**(2.666)**

8.5.2 Guidance on local authority reserves and balances is given in CIPFA's Local Authority Accounting Panel (LAAP) Bulletin 99. This states that *"Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option",* and so the proposed 2020/21 Budget does not contradict the issued guidance. The Bulletin does then go on to say *that "It is not normally prudent for reserves to be deployed to finance current expenditure".* The 2021-2025 Financial

Plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long-term reliance on reserves.

9. Overall Financial Risk Assessment

9.1.1 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.

9.2 Key Financial Risks

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

Table 11: Key Financial Risks and mitigating actions

Potential Risk	Initial Response
There is a risk that the levels of savings and income the Authority has included in the Budget proposals are not fully deliverable.	A robust challenge process has taken place to align proposals to the Efficiency Statement and how this enables the Authority to deliver its Efficiency Programme. This programme will then 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 on the Authority's 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 SLT are provided as part of the in-year financial management process. The Customer Service Steering Group will be sighted on the outcomes from any Service Reviews undertaken during 2020/21and into 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 2020. This includes any assumptions with regards to the ongoing impacts of the COVID 19 Pandemic.	The authority has demonstrated robust response to financial management actions if the assumptions that have been made prove to be incorrect. The Authority continues to work closely with national, regional and sub-regional financial networks to help ensure that it 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. The announcement of the Spending Review 2020 clearly gives more information regarding spending plans and financial support to Local Government for 2021/22. More detail will be set out in the Provisional Settlement expected late December 2020.
There is a risk that, because of financial pressures within the Clinical Commissioning Group (CCG), the Authority does not receive a full transfer of funding from health to social care and the continuation of funding for existing services funded through the Better Care Fund (BCF) and S256 agreements. This would have a significant financial impact to the Council.	The Policy and Framework and Guidance for the BCF specifically requires that funding transferred for social care should, as a minimum, be at the equivalent level as that of 2016/17 plus inflation. Following escalation to a national panel, the BCF contribution from the CCG has been agreed and 2020/21 and a Section 75 legal agreement is being drawn up on this basis.
There is a risk that not all growth pressures have been identified in the 2020/21 proposed Budget.	Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand-led pressures exceed Budget provision.	Demand-led pressures continue in areas such as Adults and Children's Social Care and the impact of the Living Wage on our care providers (and the price for services the Authority then has to pay) have been taken into consideration as part of these initial Budget proposals and continue to be closely monitored.
There is a risk that specific factors arising during 2020/21 have not been fully taken into account when preparing the 2022/22 Budget.	The 2020/21 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures that factors arising during the year are highlighted.
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 30 September 2020, a pressure of £5.142mm was reported against the 2020/21 Budget this included the impact of COVID 19. Core Business as usual had a pressure of £0.883m, which is expected to improve as we progress to year end. Unfunded Covid pressures

	currently stand at £4.129m at the end of September. As assessment of the ongoing impact and risk of those covid cost pressures and income losses may continue into 2021/22 has been undertaken and considered in light of the levels of reserves.
There is a risk that the contingency provision included in the Financial Plan for 2021/22 is insufficient.	The review of the base Budget and the reflection of the 2020/21 pressures into 2021/22 have been considered as part of the Financial planning process
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 process and planning process.
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 Housing Revenue Account. 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. Further welfare reform changes, including the implementation of Universal Credit and its revised payment period, and changes proposed in the new Welfare Reform and Work Act 2016.	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 Capital 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 Authority has representation on the MHCLG and CIPFA HRA working groups. This enables specific NTC 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 and 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 Britain formally leaves the EU. This has a potentially significant financial impact due	The potential impact from leaving the EU has been included in the Authority's 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

to loss of revenue grant and a potential loss of opportunities, i.e. capital grant and other revenue sources.	the opportunity to exert any influence that it 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.