

Overview, Scrutiny & Policy Development Committee

18 January 2021

Budget Sub-group report

Author: Budget Sub-group

Wards: All

1 Purpose of Report

To inform Overview, Scrutiny & Policy Development Committee of the work undertaken by the Budget Sub-group in scrutinising the 2021/25 Financial Planning and Budget Process: Cabinets Initial Budget proposals.

2 Recommendations

1. The Overview, Scrutiny & Policy Development Committee is recommended to refer the recommendations and/or views of the Budget Sub-group, as set out in the report to Cabinet for consideration as part of the 2021/25 budget setting process.
2. That the Budget Sub-group be delegated to make any further recommendations and/or views on behalf of the Overview, Scrutiny & Policy Development Committee to Cabinet at its meeting on the 8 February 2021.

3 Background

The Council's constitution places a duty on the Overview, Scrutiny and Policy Development Committee to examine and contribute to the formulation of the Cabinet's budget and strategic planning proposals.

Invitations were extended to all non-executive members of the Council to seek volunteers to serve on the Budget sub-group.

The following Members served on the group:

Councillor Sandra Graham
Councillor Jim Allan
Councillor Sean Brockbank
Councillor Debbie Cox
Councillor Muriel Green

Councillor John O'Shea
Councillor Pam McIntyre
Councillor Anthony McMullen
Councillor Paul Richardson
Councillor Willie Samuel

The group met on the 17 December where Senior Officers presented 2021/25 Cabinets Initial Budget proposals.

Councillor B Pickard – the Cabinet Member was in attendance to provide further insight if/when required.

A further meeting took place on the 12 January 2021 where it received updated information on the level of central government funding for the Authority. Members present were Councillors S Graham, K Barrie, M Green, A McMullen, P Richardson, J O'Shea and W Samuel.

A further meeting has been arranged for the Budget Sub-group to reconvene and consider Cabinet Final Budget Proposals for 2021/25 that will take place on Tuesday 2 February 2021.

4 Budget national context

The sub-group was provided and an overview of the current financial environment, which demonstrated that there was a clear understanding that there was a great deal of National Uncertainty due to the effect of Covid-19 and the uncertainty would continue into the future.

The Authority has a good record of financial management throughout the ongoing challenging times and the Covid-19 pandemic had impacted the ability to plan a budget fully again this year.

The Comprehensive Spending Review (CSR) that was expected to provide the Governments spending plans over the next three years was delayed and a one-year spending round was announced by the Chancellor in November.

The Covid-19 pandemic will affect unprotected areas of public spending such as local government and it was projected that nationally there will be a £10bn reduction in planned spending in 2021/22 (compared to March 2020 budget).

Public Sector Net Borrowing was at a level of £55bn in March 2020 Budget and will rise to £394bn in 2021/22.

Public Sector Net Debt is expected to exceed 100% Gross Domestic Product (GDP) in 2021/22, which if interest rates rise would leave local government exposed to risk.

Consumer Price Index (CPI) had experienced a large downturn and was at 0.55% (September 2020) and forecasted to rise slowly and not achieving the 2% target until 2025/26. This has a direct impact on inflation risk and will have impact on the HRA business plan.

The Core Spending Power will see a reduction from 5.1% in 2020/21 to 4.5% in 2021/22.

Settlement Funding Assessment (SFA), made of Council Tax, Business Rates and top up grant for Business Rates and Revenue support grant, showed there was an increased reliance on council tax and specific grant funding to deliver services and there was a clear view that as SFA reduced there was a need to rely on increases in council tax.

It was noted the SFA had seen a cumulative reduction of 30% since 2016/17.

5 Council Plan

The Our North Tyneside Plan 2020 – 2024 provides the policy framework or context for the Budget proposals.

The Plan continues to be structured in three key themes – Our People, Our Places and Our Economy and forms the basis of the framework for COVID-19 recovery in North Tyneside.

Engagement activity occurred during the summer in the Big Community Conversations with the Residents Panel, with priorities in the plan reflecting those of residents.

6 Understanding impact on budget

The authority is required to produce a balanced budget, a Medium Term Financial Plan (MTFP) and a Housing Revenue Account (HRA) 30 year business plan each financial year.

The impact of Covid-19 has affected the costs and the loss of services income, the requirement of doing things differently and the changes in demands and risks had significantly impact on the economy.

The updated 4 year plan was benchmarked both nationally and locally against reasonable assumptions and its was emphasised that there needed to be a clear understanding to the ongoing risks arising from the impact of Covid-19.

2020/21 in year position

At September the position saw the General Fund being presumed at a level of £5.142m with £4.259m resulting to the impact Covid. This left a £0.883m pressure from the business as usual activity.

The starting position of the 2021/22 showed a funding gap of £6.370m.

Covid-19 Impact

The cost of Covid-19 at September had shown North Tyneside Council spend was £28.056m and received £22.177m Government funding, this left a gap in funding of £5.879m, (General Fund 4.289m and HRA £1.620m).

In planning the budget all services actioned a line by line review of cost and income lost to support the understanding to finding solutions to manage additional cost, lost income and develop approaches to manage risks.

The risk of Covid highlighted the highest impact risks were associated to Sport & Leisure and to the reduction to demand in school meals. It had also highlighted the highest cost impact in relation to increased demand in children's services, increased cleaning costs and costs to school transport requirements.

Council Tax Collection

Council Tax collection is important to ensure resources are available to provide services and the percentage of net debit collected at October 2020 was at a level of 61.13% and residents had made a positive response to make arrangements to clear outstanding balance with financial year. It was highlighted that the authority had received £1.5m to pay for those eligible for Local Council Tax.

Business Rates collection

With regards to Business Rates the percentage collected at October 2020 was at a level of 64.14% with support being provided by Economic Development to businesses who had arrears with their business rates. The sub-group were reminded that retail/hospitality and the leisure sectors had no business rates to pay this year due to the Government discount.

Business Rates Risk to the MTFP

Analysis had been provided to a number of risks that could affect the MTFP which included:

- Business seeking reduced Rates through Valuation Office Agency
- Reduction in rental value to commercial property as reduced demand
- The local authority has 3 Business Parks which if occurs would have significant risks
- There was uncertainty to the number of businesses that may not reopen following furlough

Managing Social Care

The financial risk and concerns relating to Children Young People and Learning included:

Placements Spend – although children income remains stable, the spend had significantly reduced and continues to exceed the allocated budget.

Education Service funding -There is a 20% reduction in Central Schools Services Grant Funding for the School Improvement Service for each of the next 3 years and review of services and Service Level Agreements offer were ongoing.

Increased demand - There was concern of the future impact of the pandemic (e.g. increased poverty) and what increase pressure will be on services.

External Income - There was a good record of securing additional external income from services delivered for other Local Authorities, however there was a risk of this activity may reduce.

Adult Social Care

The financial risk and concerns for Adult Social Care included, the continued increase on Home Care Packages, increase residential care numbers and the impact and management of short and long-term admissions in residential placements where significant variations had been experienced throughout the pandemic.

MTFP General Fund

The sub group were provided projections of the total resources available, spending assumptions and the cumulative gap effect over the length of the MTFP together with this the best and worst case scenarios to demonstrate possible level of pressure to the general fund.

Based on 2020/21 Council Tax Collection reduction to 98% and Business Rate Rateable value reduction of 5% at the end of 2020/21 with 50% recovery in 2021/22 provided a 4 year cumulative gap of £55.974m

The best case scenario of full recovery, no impact on Council Tax would see £55.488m gap, with the worst case of Rateable Value reduction of 25% and Council Tax reduction to 97.5% would see £89.949m gap.

Housing Revenue Account

The overall impact of Covid-19 on the HRA was £1.620m.

It had been assumed that rent increases would be based on CPI 0.5% + 1% in line with the Nation Rent Policy.

The HRA 30 Year Business Plan is based on the Government target of CPI 2% + 1% = 3% rent increase per annum, the impact on the HRA plan amounts to circa £45m gap.

The 1.5% increase would also be in place for service charges and garage rents. The business plan would continue to deliver the Tenant priorities and the Affordable Homes Strategy, however, further review would need to be required to mitigate the gap.

An action plan of how the management of the business plan over the medium term indicated risks that included;

- Covid-19 impact on rental income
- Debt management in relation to potential interest rate rise
- Maintenance of the housing stock
- Right to Buy
- Covid-19 legacy impact

It was assumed that the HRA would see a budget pressure amounting to £1.943m with actions of on going service reform and treasury management being areas of possible mitigation.

Investment Programme

The sub-group was provided an insight of the projects within the Investment Programme that will be delivered through funding from Council Contributions and Grant contributions for both the General Fund and HRA, which for 2021/22 the Investment Plan totalled £62.204m

Treasury Management

Treasury management continues to be underpinned by CIPFA guidance and codes of practice that ensure security of Capital, the liquidity of investments and returns a yield.

The approach to be taken was the same that had been successful in previous years to maintain low cost balances, invest longer and securely whilst taking advantage of very low borrowing rates from temporary borrowing markets.

Efficiency programmes

The sub-group was provided a comprehensive understanding to the rationale and approaches that would be taken.

The aim would be to deliver this via a range of strategic activity which includes:

- Workforce Planning: changing the workforce over the next four years where the need to change aligns to people's plans and recruitment and skills needs;
- Commissioning Planning: looking specifically at procurement, demand management and testing joint provision with the NHS;
- Digital Strategy: cash and efficiency benefits from investing in our priority projects and delivering the Digital Strategy; and
- Asset Management Planning: investing capital to reduce revenue costs and improve the Minimum Revenue Provision position.

The sub-group reconvened on 12 January 2021 to receive information on the Provision Settlement figures 2021/22 following the Government announcement on the 17 December.

The Government announced several measures which included £1.55bn for expenditure in quarter1 2021/22, which North Tyneside Council would receive £5.576m.

It was highlighted that a proportion of the income may need to be used to manage the in year risk to sale fees and charges compensation scheme which will be extended for the same period.

The Authority received £2.024m as direct support to residents, which meant 5,764 working age Local Council Tax Scheme (LCTS) residents (58%) with LCTS liability did not have to pay anything with 4,174 seeing their liability reduced.

Options to support residents/business were;

Residents

LCTS – relief for contributions @ £150

Poverty Intervention Fund- balance unspent from 2020/21 circa £0.250m to be considered alongside any further allocation

Business

£1.8m 2019-20 NNDR 75% pilot returned

NTCA Capacity grant £1.5m – will continue to be spent into 2021/22

It was noted the provisional settlement indicated additional pressure £1.270m to the Authority in relation to New Homes Bonus.

From the settlement statement officers provided an update position of the General Fund which indicated changes from the settlement statement. This indicated that the initial 2021/22 budget gap of £6.370m.

Following further analysis of the budget against the reassessment indicated a rise in gap of £6.905m, with core spending power to 4.5% the government assumes that Local Authorities will increase Council Tax by 2% and include 3% Adult Social Care precept. This would see the budget gap reducing to £1.947m.

It was assumed that further notification on funding from the Tax Income Guarantee Scheme and other areas that were still awaiting confirmation would enable a balanced budget to be realised. The information would be confirmed when the group meets consider Cabinets final proposals at its meeting on the 2 February 2021.

7 Conclusions

It is acknowledged that the authority has delivered a balanced budget in the last three years without the use of reserves, however, it is clear many challenges lie ahead to delivering the priorities of Our North Tyneside Plan.

It was also acknowledged that if the budget is unable to be balanced there would be a requirement to use funding from the strategic reserve. The sub-group acknowledged that this option should be one of last resort and understood that the financial plan was to maintain the strategic reserve at a minimum planned level of £10m over the life time. It also understood that the strategic reserves consist of funding that is not accessible as they are ring-fenced for planned projects.

The sub-group wished to highlight the benefit of the Poverty Intervention Fund that was a one off fund of £1m from the reserve and accessible for use during 2020/21 and praised the foresight of the Authority as this fund had benefited the community through the pandemic.

There is concern to the loss of use and income that had shown the risks to sport and leisure & the demand for school meals offer. It is understood that this will bring a challenge for the Council to encourage consumer confidence and to come back and reuse services in the future.

There is concern to the costs and risks and impact of increased demand in children's service, the support for families and care homes how to support them.

There is concern to the possible reduction in rental value of commercial property and risk in reduction in office values in our business parks.

With consideration to the budget proposals and consideration to all the work the Council and its services have delivered to its community throughout the pandemic is admirable.

The risks and uncertainty to have final budget proposals due to delays have again arisen this year. It is understood that the Covid-19 pandemic has affected budget planning, however the continual delays to key local government reforms such as Fair

Funding Review, Business Rates Retention, reforms to adult social care and one-year settlement only increases difficulty for Local Government to plan effectively.

The Sub-group acknowledged that it was a difficult activity to draft a budget based on many assumptions due to elements outside the Authority's control. However, it was encouraged during the detailed explanation of all the assumptions in presentation from officers that the outcome of the proposed 2021/22 Budget was a balanced Budget.

The sub-group acknowledged to respond to emerging changes in the future the Authority has developed plans and strategies that will aid the delivery of efficiencies.

Through the budget the Authority continues to be ambitious in delivering the priorities of residents and businesses through its North Tyneside Plan and the sub-group endorses the approach taken.

The sub-group wishes to commend officers of the Council, its partners and volunteers for their work in the delivery of the services throughout the pandemic. It also wished to thank the financial team for providing clear coherent information throughout this budget process.

8 Presenting Officers

The following officers presented to the sub-group:

Janice Gillespie – Head of Resources

Mark Longstaff - Head of Commissioning and Asset Management

Philip Scott - Head of Environment, Housing & Leisure

Jacqui Old - Head of Health, Education, Care and Safeguarding

Claire Emmerson - Senior Manager Financial Planning and Strategy

9 Background Information

The following documents have been used in the compilation of this report and may be inspected at the offices of the author:

2021-2025 Financial Planning and Budget Process: Cabinet's Initial Budget proposals