

North Tyneside Council

Report to Cabinet

Date: 1 February 2021

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

Portfolio(s):	Elected Mayor	Cabinet Member(s):	Mrs Norma Redfearn
	Deputy Mayor		Councillor Bruce Pickard
	Finance and Resources		Councillor Ray Glindon
	Housing and Transport		Councillor Steve Cox
	Community Safety and Engagement		Councillor Carole Burdis

Report from Service Area:

Senior Leadership Team

Responsible Officer:

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Wards affected:

All

PART 1

1.1 Executive Summary:

1.1.1 On 3 August 2020, Cabinet agreed its 2021-2025 Financial Planning and Budget Process incorporating the associated Engagement Strategy. This report represents a key milestone in the development of the 2021/22 Budget and 2021-2025 Medium-Term Financial Plan (MTFP), as it sets out Cabinet's draft Budget proposals for the next financial year and beyond.

1.1.2 Cabinet's draft Budget proposals will ensure that the Authority continues to:

- deliver the priorities as set out in the Our North Tyneside Plan;
- protect and improve the things which matter most to residents – with no cuts to frontline services;
- drive forward the regeneration ambitions for the whole of the Borough;
- support residents and businesses to enable North Tyneside to recover and grow;
- tackle poverty and inequalities to ensure that no-one is left behind;
- keep North Tyneside as a great place to live, work and visit; and
- ensure a sustainable Medium-Term Financial Plan.

- 1.1.3 The Authority's 2020/21 Budget and accompanying MTFP were agreed by full Council in February 2020, prior to the significant escalation of the COVID-19 pandemic. Inevitably, the MTFP agreed in February 2020 could not foresee the adjustments which have been necessary to respond to COVID-19 during the current financial year.

The 2021/22 Budget is being prepared in exceptional circumstances and there is a significant level of risk and uncertainty in relation to the level of funding that will be available to local government in 2021/22 and beyond. Key reforms to local government funding, including the Fair Funding Review, Business Rates Retention and reform of adult social care funding have all been repeatedly delayed. Nationally, the Comprehensive Spending Review (CSR), which would have set out the Government's spending plans over the next three years, has been delayed. In November 2020, the Government announced a one-year spending round for 2021/22 and on 17 December 2020 published the Provisional Local Government Finance Settlement for 2021/22. Full details of the Provisional Settlement are included in Annex A, section 3.

- 1.1.4 The Provisional Settlement confirms that Core Spending Power (CSP) for local authorities will increase by 4.5% in cash terms in 2021/22. Cabinet should be aware that the Government's assumption is that to achieve this increase all authorities will implement the maximum allowed Council Tax increase of 5%: a 2% increase for general Council Tax and a 3% increase for the Adult Social Care Precept. In calculating CSP, the Government has assumed that each authority's Council Tax Base, used to calculate the total level of Council Tax resources, has increased in line with their average Council Tax Base growth since 2016/17.

The Government has estimated that local authorities will have access to an additional £1.0bn of social care resources in 2021/22. However, of this, £0.700bn is assumed to be raised from the Adult Social Care Precept and £0.300bn has been identified as additional grant funding. Cabinet should be aware that unlike in previous years there will be no New Homes Bonus returned surplus in 2021/22. The Government has used the surplus to partially fund the social care grant, the increase in revenue support grant and the new lower-tier services grant.

As in previous years, the key feature of the Provisional Settlement is the increased reliance on increasing Council Tax: 87% of the increase in CSP for 2021/22 is from assumed Council Tax increases (52% in 2020/21) and is accompanied by relatively low increases in grant funding. In recent Settlements, raising local taxation has, in the main, been the Government's short-term solution to the fact that there is still no sustainable Settlement for local government or a route to pay for rising demand and costs in social care.

- 1.1.5 The Elected Mayor and Cabinet's draft Budget proposals therefore include, for consideration, a 1.99% general Council Tax increase and a 3% Adult Social Care Precept increase. In proposing this rise the Authority has moved to protect those who will be hardest hit by providing discounts for Council Tax from one-off funding related to the pandemic and by continuing the Authority's work on poverty intervention. For the whole Borough, the Authority is directing those additional resources to important front-line services and investing in homes and jobs which will continue to make North Tyneside a great place to live, work and visit. The Medium-Term Financial Plan (MTFP) includes the cumulative impact of these increases for the subsequent financial years 2022/23 to 2024/25.

- 1.1.6 When the 2020/21 Budget and MTFP were agreed in February 2020, nobody could have predicted the financial impact of the COVID-19 pandemic both nationally and locally. Reports published by both the Office for National Statistics and the Office for Budget Responsibility describe the significant economic impact that COVID-19 has had on public sector finances; this impact has also been felt locally. Whilst the Government has provided some additional funding to cover the financial impact suffered as a result of the pandemic in relation to lost income and additional expenditure, it does not cover all the financial pressures.
- 1.1.7 Throughout the response to the pandemic, the Authority has provided local leadership and has taken action to maintain the delivery of vital services to residents and businesses across the Borough. Additional support has also been given to the NHS and wider health system through enhanced hospital discharge processes to free up capacity, protect vulnerable people, support businesses, and ensure the safety of all staff delivering this vital work.
- 1.1.8 The ongoing impact of COVID-19, along with continued uncertainty about future funding, represents a significant challenge for the Authority. This report sets out an approach for Budget-setting that takes account of this. Despite the unprecedented level of risk and uncertainty, the Authority will continue to develop its Budget plans for 2021/22 and beyond on the basis of maintaining continued progress to deliver the Ambition for North Tyneside and the priorities of the Our North Tyneside Plan (the Council Plan).
- 1.1.9 The Spending Review 2020 announced on 25 November 2020 and the Provisional Settlement has confirmed some of the assumptions made in the preparation of these draft Budget proposals, but there remains a need for ongoing flexibility to respond to changing circumstances, particularly in light of the forecast economic impacts. The MTFP will continue to be updated in light of future Government announcements and as the scale of the impact of COVID-19 on the Authority becomes clear.
- 1.1.10 There are a number of assumptions and judgements (paragraph 1.5.17) built into the figures presented that lie mainly outside the control of the Authority and need to be finalised. The estimates of amounts will therefore need to be subject to further review before they can be confirmed.
- 1.1.11 Cabinet, in its report of 30 November 2020, set out the estimates for all aspects of the Elected Mayor and Cabinet's proposed spending and resource plans for the Housing Revenue Account (HRA) Budget for 2021-2025 and associated Investment Plan 2021-2026 (within Annex 1). In addition, the report outlined the proposed changes to housing rent, garage rent and service charges for 2021/22.
- 1.1.12 Cabinet is now formally asked to approve the proposed spending and resource plans for the HRA Revenue Budget for 2021/22 in accordance with the responsibilities of Cabinet pursuant to the Local Government Act 2000. In addition, Cabinet is also asked to approve the housing element of the 2021-2026 Investment Plan, the proposed 1.5% rent increase from April 2021 (in line with Government policy), and the proposals in relation to housing service charges and garage rents for 2021/22. The proposed spending plans have been updated to reflect the 2020/21 in-year monitoring position for the HRA as reported to Cabinet on 25 January 2021 and the updated balances position now anticipated for the beginning of the 2021/22 financial year.

1.2 Recommendation(s):

1.2.1 In relation to the Elected Mayor and Cabinet's proposals for the General Fund Revenue Budget, Dedicated Schools Grant, Investment Plan and Housing Revenue Account, Cabinet is recommended to:

General Fund Revenue Budget, Dedicated Schools Grant and Investment Plan

- (a) agree the key principles being adopted in preparing the Medium-Term Financial Strategy for the Authority, subject to an annual review;
- (b) Note that Cabinet's estimates of amounts in the setting of the Council Tax requirement will be submitted to full Council for its meeting on 18 February 2021, in accordance with the Authority's Constitution and Budget and Policy Framework Procedure Rules;
- (c) Note that Cabinet's proposals for the 2021-2026 Investment Plan (Appendix D (i)), including the draft Capital Investment Strategy (Appendix D (iv)) and Prudential Indicators for 2021-2026 (Appendix D (iii)), in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Framework and the proposed Minimum Revenue Provision (MRP) Policy in line with capital finance regulations, will be submitted to full Council for its meeting on 18 February 2021;
- (d) Consider and agree the estimates of amounts in relation to the 2021-2026 Investment Plan, including prudential indicators for 2021-2026 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Framework and a proposed Minimum Revenue Provision (MRP) Policy in line with capital finance regulations (Appendices D (i) and D (iii));
- (e) Note that all approved schemes within the 2021-2026 Investment Plan will be kept under review by the Investment Programme Board;
- (f) Note that Cabinet's proposals for the Treasury Management Statement and Annual Investment Strategy for 2021/22 will be submitted to full Council for its meeting on 18 February 2021 Appendix E (i);
- (g) Approve the Treasury Management Statement and Annual Investment Strategy for 2021/22 Appendix E (i);
- (h) Consider and agree the draft proposals in relation to the Treasury Management Statement, Annual Investment Strategy for 2021/22 and Treasury Management Practices (TMPs) Appendix E (ii);
- (i) Note that any implications that affect the information in this report arising from decisions of Cabinet on 1 and 8 February will be provided as a supplementary report to full Council on 18 February 2021;
- (j) Note the outcomes from the engagement process on both the Council Plan and Budget proposals (Appendix F);
- (k) Agree the formal Reserves and Balances Policy for the Authority, subject to review at least annually (Appendix G);

- (l) Note the key aspects of the 2021/22 Provisional Local Government Finance Settlement announced on 17 December 2020 and how these have been incorporated into the Medium-Term Financial Plan of the Authority. In addition, Cabinet should note the outstanding information required to allow the Elected Mayor and Cabinet to finalise the proposals;
- (m) Note the medium-term financial challenges and financial risks facing the Authority and agree to address these issues as part of the Efficiency Programme for the Authority, to deliver continued financial stability and prudent management of its financial resources;
- (n) Consider and agree the estimates of amounts for the 2021/22 setting of the Council Tax requirement including the General Fund Revenue Budget, thereby calculating the proposed level of Council Tax to be recommended to full Council for approval, including an assessment in relation to the current year's budget monitoring information (2020/21) and indications for the Financial Plan for 2021/22;
- (o) Request the Chief Finance Officer to prepare the appropriate Council Tax requirement and Budget Resolution document for full Council's consideration at its meeting on 18 February 2021;
- (p) Note the conclusions of the Overview, Scrutiny and Policy Development Committee's review of the 2021/22 initial Budget proposals (Appendix I) and note any impact the recommendations may have on the General Fund Budget proposals and note that any recommendations of the Overview, Scrutiny and Policy Development Committee in relation to Cabinet's final Budget proposals will be considered by Cabinet on 8 February 2021;
- (q) Note the Provisional Statement by the Chief Finance Officer (Annex 1, Section 9);
- (r) Authorise the Elected Mayor to make any final amendments to Cabinet's proposals in relation to any outstanding information to enable due consideration to be given to the final level of Council Tax that Cabinet proposes to full Council for approval for 2021/22;
- (s) Authorise the Chief Executive, in consultation with the Elected Mayor, Deputy Mayor, Cabinet Member for Finance and Resources and the Senior Leadership Team, to manage the overall Efficiency Programme and note that decisions made under this delegated authority will be reported to Cabinet as part of the regular budget monitoring information provided; and
- (t) Grant delegated authority to the Chief Executive, in consultation with the Elected Mayor and Head of Resources, to authorise the purchase of homes, on the open market, providing value for money is demonstrated and the cost can be contained within existing financial resources of the Authority. This is to ensure the programme of delivery of affordable homes and homes at market rent is progressed in line with Cabinet's priorities.

Housing Revenue Account

- (a) Consider any recommendations arising from the Overview, Scrutiny and Policy Development Committee's consideration of Cabinet's initial Budget proposals for the 2021/22 Housing Revenue Account (HRA) Business Plan and Budget proposed by Cabinet on 30 November 2020 and note any impacts that the recommendations may

have on these proposals and note that any recommendations of the Overview, Scrutiny and Policy Development Committee in relation to Cabinet's final Budget proposals will be considered by Cabinet on 1 February 2021;

- (b) Consider and agree the final proposals in relation to the 2021/22 Housing Revenue Account Budget and associated Business Plan;
- (c) Increase individual housing rents by 1.5% as outlined in Annex 1 HRA to this report and in the HRA section of 30 November 2020 Cabinet report in line with the Government's policy for social rent, based on rent increases of Consumer Price Index (CPI) + 1% which was the policy prior to the introduction of 4 years of rent reductions implemented under the Welfare Reform and Work Act 2016;
- (d) Increase service charges for 2021/22 in line with CPI except where reviews of services have taken place to reflect changes in actual costs; for the majority of service charges for 2021/22 the increase will be 1.5%;
- (e) A review of the garage-letting process was concluded and implemented in 2019/20 which resulted in a phased approach over two years to harmonise garage rents. For 2021/22 it is recommended that garage rents will increase by 1.5%;
- (f) Note the assessment in relation to the current year's budget monitoring information (2020/21), and indications of financial plans for 2021-2025 for the Housing Revenue Account;
- (g) Note the Capital Investment Strategy (Appendix D (iv)) which sets out the general principles followed by both the General Fund and HRA in relation to the Authority's approach to capital investment. This draft will be due for approval by full Council at its meeting on 18 February 2021 as part of the overall Financial Planning and Budget process. In relation to the HRA, Cabinet is asked to specifically note that the principles of the Investment Strategy will apply to the updated 2021-2026 Asset Management Strategy for the HRA;
- (h) Note the draft Treasury Management Statement and Annual Investment Strategy for 2021/22 Appendix E (i) which sets out the general principles followed by both the General Fund and HRA in relation to the Authority's management of investments, cash flows, banking, money market and capital transactions. Cabinet is asked to specifically note the continued policy of paying off existing debt where affordable and appropriate within the HRA Business Plan, which will see an estimated £111.148m reduction in loans attributed to the HRA from the start of self-financing to the end of this 30-year Plan;
- (i) Agree the HRA Investment Plan 2021-2026 (Annex 1 HRA and Appendix D (ii));
- (j) To note that 2017/18 saw the end of the 5-year transitional arrangements for the use of a "proxy" for calculating a depreciation charge, and that 2021/22 will see the continuation of the current method to calculate a "true" depreciation charge; and
- (k) Approve the Prudential Indicators which are specific to the Housing Revenue Account as set out in Appendix D (iii) to this report.

1.3 Forward Plan:

Twenty-eight days' notice of this report has been given and it first appeared on the Forward Plan that was published on 4 December 2020.

1.4 Council Plan and Policy Framework

- 1.4.1 The Budget and Policy Framework Procedure Rules are set out in Part 4.7 of the Authority's Constitution. The Budget is guided by paragraph 4.7.3, covering the process for the preparation, consideration and final approval of the Authority's Council Tax requirement and Council Tax level. The statutory and constitutional requirements for preparing, considering and approving these issues drive the timetable for the financial planning and Council Tax setting process of the Authority.
- 1.4.2 The Budget proposals will also be presented to the Overview, Scrutiny and Policy Development Committee during the course of the Budget-setting process. The priorities in the 2020-2024 Our North Tyneside Plan provide the strategic framework within which Budget resources are allocated.
- 1.4.3 The Financial Planning and Budget process is a fundamental part of the overall governance and assurance framework of the Authority. This in turn provides assurance that is considered as part of preparing the Annual Governance Statement each year.

1.5 Information:

1.5.1 Background

- 1.5.1 On 20 February 2020, full Council approved a Medium-Term Financial Plan for the period 2020/21 to 2024/25, providing a financial framework to support the delivery of the Authority's priorities as set out in the 2020-2024 Our North Tyneside Plan. The Budget set in February for 2020/21 was balanced, based on a robust set of assumptions in relation to the resources available and prudent estimates of the expenditure that was necessary to deliver the Authority's Services.
- 1.5.2 Whilst the Authority was aware of COVID-19 at the time of Budget-setting, it would have been impossible to predict the significant escalation of the pandemic which led to the first national lockdown being implemented by the Government on 23 March 2020, and the subsequent financial implications that would follow this.
- 1.5.3 As Budget-planning activity progresses, Cabinet will be aware that there is a significant amount of uncertainty remaining. Social care continues to be funded by short-term one-off grant allocations and, in the absence of a sustainable funding solution, the Government has continued to suggest that local authorities apply an Adult Social Care Precept of up to 3% for 2021/22, which leaves the financial burden of supporting vulnerable adult residents with local taxpayers.
- 1.5.4 It is without doubt that the need for the Authority to respond to the COVID-19 pandemic has adversely impacted the financial position of the Authority. As Cabinet will be aware, in a normal year it is challenging to deliver a balanced in-year position against the Budget. The financial impact of COVID-19 has compounded this challenge and, as described in the November Financial Management report, the current estimated pressure due to COVID-19 at the end of November is £1.383m for the General Fund and £1.524m for the Housing Revenue Account.

In addition, to delivering business as usual, the Authority has needed to mobilise its workforce to undertake new responsibilities and lead the local response to the pandemic. The COVID-19 Support Hub was specifically set up to support and protect the clinically extremely vulnerable residents in the Borough during the first national lockdown when they were required to shield in their homes to protect themselves from the virus. Proactive work has continued to support the care sector to meet the additional operation costs due to COVID-19. The Authority has also effectively administered over £34.8m of grants to eligible businesses to help support the local economy, whilst also ensuring that the public and staff are protected by introducing effective control measures to public buildings and open spaces in the Borough.

Cabinet will be aware that some services had to be suspended during the initial escalation of the pandemic and due to national lockdown measures. This led to a significant loss of sales, fees and charges income, with school improvement, leisure, cultural and catering services seeing the biggest income losses. On 2 July 2020, the Government announced that financial support would be provided to local authorities for income lost on sales, fees and charges. This income compensation scheme provides support for some of the income lost; however, the Authority is required to cover the first 5% of any budgeted losses. This area poses a specific risk for 2020/21 and the medium term as it remains uncertain how quickly demand for services will recover. It is likely that the Authority will continue to see reduced income levels in relation to sales, fees and charges in future years.

The impact of COVID-19 poses a significant risk to the local economy, which will influence the Authority's ability to raise resources. Increased levels of unemployment, resulting in higher claims for Universal Credit coupled with a suppressed level of growth in new properties, means that it is highly likely key income sources, including Council Tax, will be under significant pressure in 2021/22.

Business rates income is also likely to be impacted in the event of business closures, due to increases in the number of properties claiming empty property relief where businesses either cease trading or seek to take advantage of changed working patterns to reduce property costs. Appeals against rateable values may increase where rental values have been impacted.

Demand for adult social care has increased as a direct result of the pandemic, and it is possible that some of the increases in demand will continue into 2021/22. The care market has also experienced increases in operational costs and lost income due to under occupancy in some care homes where the Authority has supported with grants that have been received by the Government. There is a risk that a rise in the underlying costs will impact market prices which will not be covered by additional funding from the Government; this would leave the Authority with increased financial pressures in 2021/22.

There is the potential for additional cost pressures in Children's Services, linked to surges in demand, particularly in relation to looked after children, as the Authority sees the impact of rising unemployment on family life, in particular for those families already managing financial hardship. In addition, there is a risk that the wider operating environment has changed, which may put pressure on assumptions about traded services with schools.

- 1.5.5 Cabinet will be aware that in challenging circumstances the priorities, as set out in the Our North Tyneside Plan, continue to be met and that the Authority has a good track record of delivering those priorities within the funding resources that are available. This

is evidenced by the fact that Cabinet has delivered balanced outturns, without the need to use reserves, in each of the last three financial years.

- 1.5.6 Whilst the approach to Budget-setting this year feels very different and there is a significant amount of risk and uncertainty, Cabinet will continue to plan for the future, listening and focusing on the priorities of residents and businesses. This includes producing a balanced Budget for 2021/22 and a Medium-Term Financial Plan based on a reasonable and prudent set of assumptions. Despite the unknowns, the residents and businesses that live and work within the Borough need certainty that the Authority is continuing to deliver services that meet their needs and that their money is being spent well.

Approach to Managing Uncertainty

- 1.5.7 Whilst there is still a significant level of uncertainty, the Authority will continue to deliver best practice as would be expected for its residents. That means there is a refreshed four-year Medium-Term Financial Plan for both the General Fund (GF) and Housing Revenue Account (HRA) alongside a five-year capital investment programme. Those financial plans have been based on a benchmarked set of assumptions which have included information from HM Treasury, the National Office of Statistics and the Office for Budget Responsibility, CIPFA, dialogue with the Society of Municipal Treasurers, as well as the local Treasurers across the LA7 and Association of North East Councils areas.

In 2020/21, a three-year settlement was announced as part of the Local Government Finance Settlement for the Dedicated Schools Grant (DSG) covering the period to 2022/23. The final 2021/22 DSG allocation was announced on 18 December 2020, financial planning for high needs and early years is based on the revised DSG grant allocation.

The Authority's reserves and balances continued to be reviewed in light of the changing picture of risk and uncertainty, and that will be reflected in the Chief Finance Officer's Section 151 Statement, included in the Annex to this report.

- 1.5.8 The Authority has continued to engage effectively with its NHS partners and has worked collaboratively with partners across the care sector. In June, Cabinet outlined its approach to supporting the care sector and produced an action plan of measures which ensured that care homes across the Borough received financial support to safeguard services for the most vulnerable residents in the Borough. Cabinet will be considering options over the MTFP period, with a particular focus on a stronger approach to commissioning and demand management across the care sector, ensuring that services will meet individuals' needs, maintaining a sustainable care market and that all services offer value for money. This will take account of the changing nature of demand for adult social care services and the challenges facing adult social care nationally.
- 1.5.9 The latest estimates of the financial impact of the COVID-19 pandemic are set out in the November Financial Management report. Many of the additional costs, lost income and undeliverable savings in the current year will have an extended impact on the 2021/22 Budget. As at November 2020, the total estimated financial impact of COVID-19 including the HRA was £28.596m. This includes estimated additional costs of £22.399m, lost income of £12.682m and estimated savings of £6.485m this has been funded by £25.689m of grants leaving a gap of £2.907m for the Authority to fund. Further details of this are included in Table 1 below:

Table 1: Estimated Financial Impact of COVID-19

Service	Lost Income	Increased Costs	Savings	Net Impact of COVID-19
	£m	£m	£m	£m
Commissioning & Asset Management	2.653	2.329	(1.578)	3.404
Environment Housing & Leisure	7.546	0.905	(0.243)	8.208
Adult Social Care	0.017	13.495	(4.447)	9.065
Children's Social Care and Public Health	1.021	3.118	(0.097)	4.042
Law and Governance	0.342	0.000	(0.120)	0.222
Central	0.000	0.831	0.000	0.831
Corporate Strategy	0.080	0.013	0.000	0.093
Regeneration & Economic Development	0.055	0.000	0.000	0.055
Resources	0.968	0.184	0.000	1.152
Total	12.682	20.875	(6.485)	27.072
HRA	0.000	1.524	0.000	1.524
Grand Total	12.682	22.399	(6.485)	28.596
Government Grants				(25.689)
2021/22 Net Impact				2.907

A line-by-line review and risk assessment has been performed against all areas that have seen a financial impact as set out above. Consideration has been given to how some of those impacts may continue into 2021/22 and a set of actions has been developed to manage these. It is prudent to expect that there will be an ongoing financial impact and Table 2 below sets out the areas assessed as medium or high risk which will be closely monitored as Budget-setting activity progresses:

Table 2: Income and Expenditure Risk Assessment of the Potential Financial Impact of COVID-19 in Future Years

Income		Expenditure	
Area of Risk	Risk Assessment	Area of Risk	Risk Assessment
School Improvement	Amber	COVID secure buildings	Amber
Sport and Leisure	Red	Demand in Children's Services	Red
Cultural Facilities	Amber	Demand in Adult Social Care	Red
Catering Services	Amber	Cleaning	Red
Property Lettings	Amber	Home to school transport	Red
		Increased bad debts	Amber

1.5.10 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 Plan. These priorities have also 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. The Authority's engagement activity over the summer in the Big Community Conversation with its Residents Panel and subsequent engagement on the Council Plan and Cabinet's initial Budget proposals that took place on 7 January 2021,

has confirmed 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 in the Annex to this report.

2021-2025 Medium-Term Financial Plan

1.5.11 General Fund

The Elected Mayor and Cabinet have worked with the Senior Leadership Team (SLT) since the summer to prepare the draft Budget proposals. The Budget assumptions used for the 2020-2024 Medium-Term Financial Plan have been revised based on national, local and internal changes.

Resources have been revised to take account of the potential impact of COVID-19 on Council Tax and Business Rates in line with the risks described in section 1.5.4. The SLT have reviewed the anticipated growth and efficiency assumptions and where necessary these have been revised. Table 3 below shows the high level Medium-Term Financial Plan for 2021-2025 prior to the provisional settlement announcement, the estimated resources available do not include any assumptions for an increase in Council Tax.

The draft Medium-Term Financial Plan for the General Fund before any income or expenditure adjustment relating to the Provisional Settlement indicates a “gap” of £6.370m in 2021/22. Without actions over the four-year MTFP period, the cumulative impact is in the region of £42.548m.

Table 3: 2021-2025 Draft Medium-Term Financial Plan

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Spend Assumptions	166.492	159.498	172.722	173.722
Estimate of resources available	(160.122)	(145.341)	(161.492)	(162.931)
Gap	6.370	14.157	11.230	10.791
Cumulative Gap		20.527	31.757	42.548

Provisional Local Government Finance Settlement 2021/22

Table 4 below shows the movement in income and expenditure as a result of the Provisional Settlement and other Government announcements made since the 30 November 2020 Cabinet meeting. The Authority’s income has increased by £1.911m and expenditure has increased by £0.499m, giving a net increase in income of £1.412m.

Table 4: Provisional Settlement and other Government announcements

Movement since November Cabinet	£m
Resources	2.213
New Homes Bonus	0.991
S31 Grant NNDR – Indexation compensation	(0.056)
S31 Retail / Nursery Relief	(0.809)
Business Rates – Cost of Collection	(0.003)
Revenue Support Grant	(0.006)
Social Care Grant	(1.474)
Lower Tier Services Grant	(0.297)
Income Guarantee – Council Tax	(0.463)
Income Guarantee – Business Rates	(1.055)
S31 Local Council Tax Support 2021/22	(2.065)
Business Rates Volatility Reserve	1.113
Total Income Movement	(1.911)
Review of Growth	0.499
Total Expenditure Movement	0.499
Total Net Increase in Income	(1.412)

The financial impact of the movement in income and expenditure as a result of the Provisional Settlement and other Government announcements on the net revenue Budget is shown in table 5 below. The residual gap remaining for 2021/22 prior to any proposed increase in Council Tax is £4.958m.

Table 5: Financial impact of the movement in expenditure and income

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Gap	6.370	14.157	11.230	10.791
Movement in Income & Expenditure	(1.412)	1.649	(0.371)	(0.371)
Gap	4.958	15.806	10.859	10.420
Cumulative Gap	0.000	20.764	31.623	42.043

1.5.12 Housing Revenue Account

Just like the General Fund, the Housing Revenue Account (HRA) continues to face financial pressures which have been impacted further by the COVID-19 pandemic. The impact of the pandemic on the economy has a significant impact for the HRA. Rent increases for next year are based on the Consumer Price Index (CPI) rate, as at September, plus 1%. The rate announced for September 2020 was 0.5% compared to the CPI target rate of 2%. This creates a reduction in assumed rental income of around £45m over the next 30 years, which will require a package of measures to mitigate the impact on the 30-year plan.

Table 6: 2021-2025 Draft Medium-Term Financial Plan – Available Resources and Estimated Spend

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Estimate of Resources Available	69.093	70.589	72.292	73.943
Spend Assumptions	71.036	70.968	72.220	73.981
Net Expenditure	1.943	0.379	(0.072)	0.038

1.5.13 2021-2026 Draft Investment Plan

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 £10.284m has been identified as part of the process and this spend is now included in the 2021/22 planned spend shown below (£11.343m 2021-2026).

Table 7: Summary of the draft Investment Plan 2021-2026

Spend	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	Total £000's
General Fund	39,012	17,262	15,458	15,988	13,435	101,155
Housing	26,362	26,043	27,400	29,949	31,424	141,178
Total	65,374	43,305	42,858	45,937	44,859	242,333

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

1.5.14 Dedicated Schools Grant

Cabinet will be aware that school funding is a matter for the Department for Education; either by direct funding agreements with academy trusts or delegated by local authorities to schools where budget management is the delegated responsibility of each governing body. As in previous years, Cabinet has determined the local formula to distribute funding to mainstream schools and academies for the financial year 2021/22. The formula will apply directly to maintained schools for the financial year, and for academies it will form the basis for their funding, distributed by the Education, Skills and Funding Agency (ESFA), for the year starting 1 September 2021. Full details of the Dedicated Schools Grant allocations for 2021/22 are included in Section 5 of Annex 1.

1.5.15 Mayor and Cabinet Options:

2021-2025 General Fund Medium-Term Financial Plan

The Medium-Term Financial Plan approved by full Council in February 2020 included a 1.99% general increase in Council Tax and a 2% Adult Social Care Precept for 2020/21 only. As announced in the Provisional Settlement, the Government has confirmed that local authorities' Core Spending Power (CSP) will increase by 4.5% and that there is an additional £1bn for social care. Cabinet should be aware that the increase in CSP and the additional funding for social care includes an assumption that local authorities will increase their Band D Council Tax by the maximum allowed, which for 2021/22 has been

confirmed at 4.99%: 1.99% for General Council Tax and 3% for the Adult Social Care Precept.

These draft Budget proposals include a proposed Council Tax and Adult Social Care Precept in line with the Government's assumptions. Based on the Council Tax Base as set by Cabinet on 25 January 2021, this would raise approximately £4.958m of additional funding for 2021/22 (made up of £1.977m general Council Tax, 1.99% and £2.981m from the Adult Social Care Precept, 3%). The final level of any change in Council Tax will be confirmed in February 2021 following a decision by full Council. Table 8 below sets out the impact on the Budget gap and the Medium-Term Financial Plan should an increase in Council Tax and an Adult Social Care Precept (ASCP) be agreed in 2021/22:

Table 8: 2021-2025 General Fund Medium-Term Financial Plan cumulative funding gap including the proposed Council Tax options

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Gap	4.958	15.806	10.859	10.420
General Council Tax – 1.99%	(1.977)	(1.986)	(2.001)	(2.016)
Adult Social Care Precept – 3%	(2.981)	(2.994)	(3.016)	(3.039)
Gap	0.000	10.826	5.842	5.365
Cumulative Gap	0.000	10.826	16.668	22.033

Cabinet Policy Priority - Poverty Intervention Fund (PIF)

Cabinet recognise the importance of continuing to support residents in North Tyneside who are experiencing poverty and financial hardship. In addition to the financial hardship due to the increasing detrimental impact of Universal Credit and other Government welfare reforms, families and residents in the Borough are also suffering from the financial impact of COVID-19. Cabinet are therefore proposing to set aside £0.600m to continue to support residents through the PIF during 2021/22.

Cabinet proposes to fund the expenditure using £0.250m of residual funding from the £1.000m that was set aside for the PIF during 2020/21 and a further £0.350m will be funded in the first instance by the Strategic Reserve which will be earmarked in 2021/22 for this purpose. Cabinet will look to utilise any residual COVID-19 grants where the terms and conditions of the grants allow for this in order to minimise any call on reserves.

2021-2025 Efficiency Programme

The 2020-2024 Medium-Term Financial Plan agreed in February 2020 included planned savings for 2021/22 to 2023/24 as shown in Table 9 below:

Table 9: 2021-2024 Efficiency Programme as at February 2020

Efficiency Programme	2021/22 £m	2022/23 £m	2023/24 £m
2018/19 Full Year Effect of Budget Proposals	(0.762)	(0.482)	
2019/20 Full Year Effect of Budget Proposals	(0.500)	(0.500)	
2020/21 Full Year Effect Budget Proposals	(0.530)	(0.625)	(1.035)
Total Prior Year Budget Proposals	(1.792)	(1.607)	(1.035)

The 2021/22 Efficiency Programme relating to prior years covers the following:

- Contractual changes
- Expenditure reduction
- Income growth
- Service provision – commissioning
- Corporate

In addition to the planned savings, the Elected Mayor and Cabinet are developing options for consideration to continue to drive down costs and balance the General Fund over the next four years of the Medium-Term Financial Plan. The aim is to do this via a range of strategic activities which include:

- 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 the Authority's priority projects and delivering the Digital Strategy; and
- Asset management planning: investing capital to reduce revenue costs and improve the Minimum Revenue Provision position.

Housing Revenue Account

The options that are being developed for consideration to balance the HRA and mitigate against the estimated impact on rental income due to the low rate of the CPI are:

- An ongoing review of bad debt provisions and the associated assumptions;
- A review of levels of in-year contingency provided within both the Management and Repairs budgets;
- Review of the approach to debt management within the Treasury Management Strategy for the HRA, to slow down the rate at which the Authority repay debt over the life of the 30-year Business Plan, as the strategy was always to repay debt where prudent and if the Authority could afford to do so; and
- Continue the review of the structure of the Housing Property and Construction Service, which should deliver savings in both operational and management and support costs.

2021-2026 Investment Plan Options

In addition to the agreed 2020-2025 Investment Plan, proposals for the 2021-2026 Investment Plan for consideration as part of Budget-setting are set out below:

- 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 CO2 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 five (2025/26) has been added to reflect rolling programme projects such as Asset Planned Maintenance, Additional Highways Maintenance and ICT refresh.

Dedicated Schools Grant

North Tyneside, like many local authorities both regionally and nationally, is experiencing an increase in the numbers of children with Special Educational Needs and Disabilities (SEND). The number of children with an Education Health and Care Plan (EHCP) continues to increase and the complexity of the needs of those children and young people continues to grow. There has been a notable increase locally in the numbers of children with Autism Spectrum Disorder (ASD) and/or Social, Emotional and Mental Health difficulties (SEMH), and profound and multiple learning difficulties. Responding to this increase in needs is creating pressure on the High Needs block of the Dedicated Schools Grant (DSG). The pressure within High Needs has continued to increase in 2020/21 with a forecast in-year outturn variance of £3.690m, bringing the estimated cumulative pressure to £8.232m. The funding allocation for High Needs shows that the Authority will receive an additional £3.099m in 2021/22, however, it is not sufficient to address the underlying increase in need.

Where a local authority has an overall deficit on the DSG of 1% or more, it is required to submit a recovery plan to the Department for Education setting out how it plans to bring the overall DSG account into balance. The Authority is currently preparing a DSG recovery plan which will outline actions that will need to be taken to bring the DSG back into financial balance over a five-year period.

1.5.16 At its meeting on 1 April 2019, Cabinet agreed a report which set out 'An Ambition for North Shields and the Fish Quay'. This built on the Authority's wider regeneration objectives that were agreed at the Cabinet meeting held on 26 November 2018 where it agreed a regeneration strategy for the Borough: An Ambition for North Tyneside which identified North Shields Town Centre and Fish Quay as a specific priority. Since receiving an award of funding for £0.200m from the North of Tyne Combined Authority in March 2019, officers have been working with the North Shields Project Group, comprising the Deputy Mayor, Chief Executive and Heads of Service to refine a draft Masterplan which reflects the Authority's policy objectives, and which contains a series of self-contained projects that can be further developed and delivered as and when funding allows. As agreed by Cabinet, the overall aim for North Shields Town Centre and the

Fish Quay is to create a smaller, more vibrant and connected town centre which combines living, working and retail and is a destination in its own right. In turn, that will be connected to an increasingly vibrant Fish Quay, both of which will be supported by better transport flows, stronger infrastructure and a higher quality-built environment.

Draft Budget Proposals

1.5.17 Cabinet's draft Budget proposals are based upon available information and judgements at the time of the writing of this report. There are a number of assumptions and judgements built into the figures presented that are outside the control of the Authority and need to be finalised. These draft Budget proposals are therefore subject to further review before they can be confirmed. The information to be assessed and finalised includes:

- (a) The Final Local Government Finance Settlement announcements for 2021/22, including capital announcements and specific grants, including the Dedicated Schools Grant (DSG);
- (b) Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority Precepts (due February 2021);
- (c) Levies, including the North of Tyne element of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority Transport Levy (due February 2021);
- (d) Tyne and Wear Joint Service Budgets (due January/February 2021); and
- (e) Consideration of the impact of the economic climate on the residents of the Borough and Council Taxpayers.

Therefore, as some external announcements are still to be received, it is recommended that Cabinet authorises the Elected Mayor, in conjunction with the Cabinet Member for Finance and Resources, Deputy Mayor and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these proposals.

1.6 Decision options:

1.6.1 Option 1

Cabinet can agree the proposals set out in this report.

Option 2

Cabinet can suggest that further / different options are considered by the Senior Leadership Team and be reported back to Cabinet for further consideration.

Option 1 is the recommended option.

1.6.2 As explained in 1.5.17, there is still a significant amount of external information that has not yet been received by the Authority. On this basis, Cabinet is recommended to authorise the Elected Mayor, in consultation with the Cabinet Member for Finance and Resources, the Deputy Mayor and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these draft proposals. Recommendation 1.2.1 (r) refers.

1.7 Reasons for recommended option:

Due to external information still to be received, Cabinet is not in a position to finalise setting its proposed Council Tax level for 2021/22 in relation to the General Fund. These draft Budget proposals include an assumed general increase to Council Tax of 1.99% and an Adult Social Care Precept of 3% in 2021/22. Option 1 is the recommended option as the Budget proposals have been worked through with all Cabinet Members and have taken due consideration of the Budget Engagement suggestions. The reasons for recommendations are mainly legal in nature, as stated in paragraphs 2.1 and 2.2 of this report.

1.8 Appendices:

Annex 1	2021-2025 Financial Planning and Budget Process – Cabinet’s draft Budget Proposals for the General Fund
Annex 2	2021-2025 Financial Planning and Budget Process – Cabinet’s Final Budget Proposals for the Housing Revenue Account
Appendix A	2020-2024 Our North Tyneside Plan
Appendix B (i)	2021-2025 General Fund Medium Term Financial Plan
Appendix B (ii)	2021-2025 Budget and Financial Plan Draft
Appendix C (i)	HRA Business Plan 2021-2025
Appendix C (ii)	HRA Financial Plan and Reserves Contingency Movement
Appendix D (i)	2021-2026 Investment Plan Summary
Appendix D (ii)	2021-2026 Housing Investment Plan
Appendix D (iii)	Prudential Indicators 2021-2025
Appendix D (iv)	Capital Investment Strategy
Appendix E (i)	2021/22 Treasury Management Statement, Annual Investment Strategy and Credit Criteria
Appendix E (ii)	Treasury Management Practices (TMPs) 2021/22
Appendix F	Budget Engagement Summary 2021/22
Appendix G	Reserves and Balances Policy 2021/22
Appendix H	2021/22 Financial Planning and Budget Timetable of Key Future Decision Milestones
Appendix I	2021/22 Report of the Overview, Scrutiny and Policy Development Committee – January 2021
Appendix J	Glossary of Terms

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1.10 Background information:

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

- (1) 2021-2025 Financial Planning and Budget Process, Cabinet's Initial Budget proposals Cabinet 30 November 2020. The report items are as follows:

<https://democracy.northtyneside.gov.uk/documents/b1603/2021-2025%20Financial%20Planning%20and%20Budget%20Process%20-%20Cabinets%20initial%20budget%20proposals%2030th-Nov-2020%201.pdf?T=9>

- (2) 2021-2025 Financial Planning and Budget Process, incorporating the Council Plan and associated Budget Engagement Strategy, Cabinet 3 August 2020. The report items are as follows:

<https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CId=174&MId=426&Ver=4>

- (3) Provisional Local Government Finance Settlement

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2021-to-2022#provisional-settlement-2021-to-2022>

- (4) CIPFA local authority reserves and balances

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/local-authority-accounting-panel/laap-bulletins/laap-99>

- (5) 2020/21 Financial Management Report to 30 November 2020 – Cabinet 25 January 2021.

<https://democracy.northtyneside.gov.uk/documents/g430/Public%20reports%20pack%2025th-Jan-2021%2018.00%20Cabinet.pdf?T=10>

- (6) 2020/21 Financial Management Report to 30 September 2020 – Cabinet 30 November 2020.

<https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CId=174&MId=429&Ver=4>

- (7) Local Council Tax Support Scheme 2020/21

https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/North%20Tyneside%20Council%202020-21%20PDF_0.pdf

- (8) General Fund Budget Summaries

- (9) MHCLG's Guidance on Local Government Investments

- (10) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017

- (11) CIPFA Treasury Management Guidance Notes 2018

- (12) The report also makes reference to other documents which are available at the office of the author:

- Constitution
- Annual Governance Statement
- Equality Impact Assessment – Budget Engagement
- Equality Impact Assessment – Council Tax and Housing Rent increase

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

- 2.1.1 The financial implications arising from this report are appraised as part of the decisions made about what will be included in the Authority's Financial Plan, incorporating the 2021/22 Budget-setting process. Decisions on the Budget in relation to the General Fund, Housing Revenue Account, Dedicated Schools Grant, Investment Plan, Treasury Management Statement and Annual Investment Strategy need to be made within the overall context of the resources available to this Authority and within the legal framework for setting budgets. The Authority will need to closely examine the links with its key funding partners and their proposed financial plans, including an assessment of the impact of any grant fall-out over the proposed four-year resource planning period.
- 2.1.2 Cabinet and Council need to have due regard to the Chief Finance Officer's advice in relation to the levels of reserves and balances proposed as part of the four-year Medium-Term Financial Plan for 2021-2025, as issued in guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA) in July 2014. A provisional statement to Council by the Chief Finance Officer is included in the Annex to this report.

2.2 Legal

- 2.2.1 This report, setting out the 2021-2025 Financial Planning and Budget and draft Cabinet Proposals, has been prepared in compliance with the Authority's Budget & Policy Framework Procedure Rules contained in the Authority's Constitution. As stated in the body of the report, once approved by Cabinet the draft proposals will be submitted to the Overview, Scrutiny and Policy Development Committee as part of the Budget-setting process. The outcome of that Committee's review will be reported to Cabinet in February 2021 so that the review can be considered by Cabinet prior to the proposals for 2021-2025 Financial Planning and the 2021/22 Budget being submitted to full Council for approval.
- 2.2.2 In accordance with legislative requirements and the Authority's Budget and Policy Framework decisions as to the Authority's Budget are matter for full Council.

2.3 Consultation/community engagement

2.3.1 Internal Consultation

Each Cabinet Member has been consulted on the individual proposals put forward in this report, with regular discussions held between the Chief Executive, Head of Resources, Heads of Service, the Elected Mayor and Cabinet.

2.3.2 External Consultation/Engagement

The 2021/22 Budget Engagement Strategy and approach were agreed by Cabinet on 3 August 2020. Engagement with residents took place over the summer during the Big Community Conversation activity. Due to restrictions with the pandemic, this activity was more limited than the usual annual exercise. However, through the Residents Panel the Authority was able to ask residents for their views on what the priorities should be to enable the Borough to recover from the pandemic. These views and priorities have been considered both in the proposals for the Our North Tyneside Plan and Cabinet's draft Budget proposals as set out in this report. Further engagement on the Our North Tyneside Plan and Budget proposals has taken place during December 2020 and January 2021 in line with the Budget Engagement Strategy agreed by Cabinet on 3 August 2020.

2.4 Human rights

- 2.4.1 All actions and spending plans contained within the Budget are fully compliant with national and international human rights law. For example, Article 10 of the European Convention on Human Rights guarantees freedom of expression, including the freedom to 'hold opinions and to receive and impart information and ideas'. Article 8 of the Convention guarantees the right to respect for private and family life.

2.5 Equalities and diversity

- 2.5.1 In undertaking the Budget-setting process the Authority's aim will always be to secure compliance with its responsibilities under the Equality Act 2010 and in particular the Public Sector Equality Duty under that Act.

To achieve this an Equality Impact Assessment (EIA) has been carried out on the Budget Engagement process and in relation to the proposed Council Tax and Housing Rent increases. The aim of the Budget Engagement EIA is to remove or minimise any

disadvantage for people wishing to take part in the engagement programme. Mitigating actions will be taken as a result of the Council Tax and Housing Rent EIAs. Specific proposals on how services will seek to meet budgetary requirements will be subject to EIAs, which will be informed by the findings of the Budget Engagement process.

2.6 Risk management

2.6.1 Individual projects within the Financial Plan and Budget are subject to full risk reviews. For larger projects, individual project risk registers are / will be established as part of the Authority's agreed approach to project management. Risks will be entered into the appropriate operational, strategic, corporate or project risk register(s) and will be subject to ongoing management to reduce the likelihood and impact of each risk.

2.7 Crime and disorder

2.7.1 Projects within the Financial Plan and Budget will promote the reduction of crime and disorder within the Borough. Under the 1998 Crime and Disorder Act, local authorities have a statutory duty to work with partners on the reduction of crime and disorder.

2.8 Environment and sustainability

2.8.1 The Our North Tyneside Plan states that "We will reduce the carbon footprint of our operations and will work with partners to reduce the Borough's carbon footprint." A number of the proposals will contribute to this including those to reduce the Authority's energy consumption. The environmental and sustainability aspects of individual proposals will be assessed in detail as and when agreed and implemented.

PART 3 - SIGN OFF

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