Appendix A

2022-2026 Medium-Term Financial Strategy

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1. Executive Summary

1.1 This is an initial review of the Authority's Medium-Term Financial Strategy (MTFS). The MTFS sets the financial context for the Authority's resource allocation process and budget-setting. It is based on a financial forecast over a rolling four-year timeframe from 2022/23 to 2025/26 which will help ensure resources are aligned to the outcomes in the Our North Tyneside Plan.

1.2 The Authority's 2021/22 Budget and Medium-Term Financial Strategy (MTFS) were agreed in February 2021, during the third national lockdown imposed in response to the COVID-19 pandemic. Although some of the impacts of COVID-19 have become clearer during this time, there remain many significant unknowns in terms of the societal, organisational and financial implications. Over the last 18 months, the Authority has made fundamental changes in relation to both ways of working, and financial planning. However, at this point it appears that Government intends that funding support for COVID-19 pressures will be withdrawn during, or in some cases at the end, of the current financial year.

1.3 The Authority is still evaluating how the likely 2022/23 gap will be funded. Without an increased level of Government assistance, there are likely to be significant savings needed to deliver a balanced Budget in 2022/23 and over the medium-term to 2025/26. Initial estimates are that the budget gap for the period of the MTFS is likely to be in the region of between £30m and £45m.

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

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

1.6 Over the coming months and whilst the budget activity for 2022/23 is progressing the refresh of the Medium-Term Financial Strategy will determine the likely levels of resources available; determine the level of spending and priority commitments arising from the COVID-19 recovery plan and the Authority's ambitions over the medium-term. Given that there is likely to be a funding gap the refresh will also identify additional options to deliver budget reductions that can be evaluated alongside spending priorities.

2. Introduction

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

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

The strategy considers:

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

The strategy brings together the key issues affecting the:

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

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

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

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

2.3 The Authority has previously agreed a set of principles as part of the process to develop the Budget. The majority of those principles remain relevant for budget-setting for 2022/23 and for the Medium-Term Financial Plan (MTFP). However, it is important that there is a clear understanding of the work that will need to be undertaken in the lead up to Cabinet presenting its initial Budget proposals in November 2021. It has therefore been necessary to revise the approach to preparing the Budget for 2022/23 and the MTFP.

Where appropriate, the principles set out below provide more detail of the how the work will be undertaken. This will give a clear focus on financial planning priorities over the coming months in order to produce a balanced Budget in 2022/23 and achieve financial balance over the medium-term.

2.4 The underlying aim is to ensure that the Authority can continue to deliver the Council Plan, focus on delivering the phased approach to recovery, as set out in the Framework for Recovery report described in section 6, and do this within the available resources:

1) The overall financial strategy will be to ensure that the Authority's resources are directed to achieving the Council Plan and associated outcomes. The Authority's strategy will be reviewed on at least an annual basis;

2) Overall, Authority spending should be contained within original Budget estimates. If, following monthly budget monitoring, Service budgets are projected to exceed original estimates, plans should be prepared setting out the actions required to ensure spending at the end of the year does not exceed original estimates;

3) In preparation for setting the 2022/23 Budget all services will be required to take part in Budget Challenge sessions;

4) In order to inform further revisions of the 2022/23 Medium-Term Financial Strategy there will be a fundamental review of the assumptions relating to:
   a. council tax and business rates planning;
   b. forecast delivery of planned 2021/22 savings programmes and viability of previously planned savings;
   c. cost and income pressures, including new pressures resulting from COVID-19;
   d. any further Government funding announcements for 2021/22 and future years; and
   e. seek to identify proposals to begin to address future years, reflecting need for longer term planning.

5) Options to address any shortfall in savings to close the 2022/23 Budget gap will include:
   a. Government providing additional funding;
   b. Corporate / centrally identified savings opportunities; and
   c. Service departments identifying further savings.

6) The Authority will maintain its General Fund Balance at a minimum level of £7.000m at the end of each year, subject to a risk assessment as part of the annual budget-setting process;

7) The Authority will aim to balance its revenue Budget over the period of the Medium-Term Financial Plan without reliance on the use of the General Fund Balance. The MTFP will cover the period 2022/23 to 2025/26;

8) The Authority will plan for any changes to specific grants/interim funding/financial settlement/legislation;

9) The Authority will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed at least annually;

10) Opportunities for working in collaboration and partnership and for different ways of working will be identified and developed where this will support the delivery of the Authority's outcomes and improve service efficiency and delivery. This will include the use of wellbeing powers, development of trading opportunities and different business models, and the sourcing and securing of external funding;

11) The Authority will consider the use of prudential borrowing to support capital investment to deliver the Council Plan and will ensure that the full costs of borrowing are taken into account when investment decisions are taken;

12) The Authority will aim to promote and stimulate strong and sustainable economic growth leading to wellbeing and prosperity for residents and communities, supported by a planned approach to strategic investment managed through the Authority's Investment Plan;

13) The Authority will continue to review its strategic assets to maximise the potential to release value for strategic re-investment and to ensure that asset requirements are aligned to the delivery of services across the Borough;

14) The Authority recognises the impact of increases in Council Tax levels and fees and charges on our residents, many of whom are struggling on relatively low income and low wealth and will therefore balance the need for increases against the delivery of the Our North Tyneside Plan and demand for services. This will include the consistent application of an agreed fees and charges policy;

15) The Authority will continue to consider business risk in all decision-making process and, alongside this, will ensure that resources are aligned to reduce any material financial risk to the Authority; and

16) The Authority will continue to review its Treasury Management Strategy and the efficient management of debt on an annual basis, with an ongoing focus on delivering safe stewardship.

3. Financial Context

Financial Strategy

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

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

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

Factors Influencing the Medium-Term Financial Strategy

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

Spring Budget 2021 and local government funding

3.3 The Chancellor of the Exchequer, Rishi Sunak, delivered the Spring 2021 Budget on 3 March 2021. This was only the Chancellor's second Budget, but as part of the Government's response to COVID-19 there have been 13 major fiscal announcements since the previous Budget on 11 March 2020. This was also the first budget since the UK entered the various lockdowns imposed in response to COVID-19, and the UK's departure from the European Union. The Budget included details of the continuing package of measures and set out the next phase of the Government's plan to tackle the virus and protect jobs. The two main issues for the Budget to address were:

- How and when to begin paying down the debts arising from the pandemic; and
- What continued support will be offered to households and businesses impacted by the pandemic.

In this context, the Chancellor's speech addressed the response to the COVID-19 pandemic and plans for the recovery. However, it should be noted that there were very few announcements about the detail of public sector funding and in particular:

- No mention of the long-term funding of social care;
- No mention of various other reforms to local government finance including fair funding and business rates (although the Government's interim response to the fundamental review of business rates was published on 23 March 2021, with final report due in Autumn 2021); and
- Departmental funding allocations have only been published for 2021/22 which would suggest there may be little prospect of a long-term local government settlement for 2022/23 onwards.

The Chancellor confirmed that economic support will be maintained until the country has exited lockdown (until September 2021). This includes extensions to furlough, support for the self-employed, support for businesses in the form of business rate relief and targeted grants, and education catch-up funding.

3.4 The Chancellor also used the Budget to outline a number of other initiatives which will see funding flowing to local authorities. These included the Levelling Up Fund, and the UK Community Renewal Fund. Both funds will be subject to a bidding process.

3.5 The Office for Budget Responsibility (OBR) published updated March 2021 forecasts for the economy alongside the Budget and commented that forecasts reflected "an economy that is weaker in the near term but rebounding faster than we forecast in November" and that this enabled the Chancellor to do three things:

- extend the virus-related rescue support to households, businesses and public services by a further £44.3 billion, taking its total cost to £344 billion;
- boosted the recovery, through a temporary tax break costing more than £12 billion a year that encourages businesses to bring forward investment spending from the future into this year and next; and
- as the economy normalises, he has taken a further step to repair the damage to the public finances in the final three years of the forecast by raising the headline corporation tax rate, freezing personal tax allowances and thresholds, and taking around £4 billion a year more off annual departmental spending plans, raising a total of £31.8 billion in 2025/26.

3.6 The Budget provided detailed Departmental Expenditure Limits for 2021/22 only, although longer term commitments/settlements have been provided for schools, the NHS and defence. At a summary level, the OBR state that Government forecasts indicate a cut of "more than £15 billion a year from departmental resource spending from 2022/23 onwards", which suggests a challenging Spending Review later this year, particularly for unprotected areas of spending. The Budget document states that the Government "will conduct a Spending Review later this year to set future departmental RDEL and CDEL budgets as well as devolved administrations' block grants. Details on the Spending Review, including the RDEL and CDEL envelopes, will be set out in due course." However, for now, the general approach to strengthening the public finances appears to be centred on tax increases (including freezing the rates for personal tax allowances and higher rate threshold from April 2022 and increasing the rate of corporation tax from 2023). As such the precise implications for local government and other public sector funding are hard to determine.

3.7 As in previous years, the Authority will not receive detailed information about funding allocations for 2022/23 and beyond until Autumn 2021 following the outcome of the CSR. Whilst a multi-year settlement is welcomed and will give local authorities some degree of certainty, until the details are released Budget planning for 2022/23 remains extremely challenging. There is very little time for Government to undertake a full multi-year spending review and in this context a one-year roll over of the local government settlement is increasingly likely for 2022/23.

Beyond the immediate impact of COVID, the overall level of uncertainty means that the financial environment for local government is set to remain highly challenging. There continues to be a growing gap between funding and service pressures. This is driven by demographic changes, unfunded burdens such as the National Living Wage, and the needs of vulnerable social care users becoming increasingly complex. Children's services, in both social care and education (particularly the High Needs Block), are also under very significant stress. Other Council services (for example transport, planning, environment, and trading standards) have been subject to significant financial restrictions. In turn these have a knock-on effect by increasing the pressure placed on discretionary and preventative services.

Latest Consumer Prices Index Figures

3.8 The latest CPI figures were published in July by the Office for National Statistics. The CPI rose by 2.0% in the 12 months to July 2021, down from 2.5% to June; on a monthly basis, CPI was unchanged in July 2021, compared with a rise of 0.4% in July 2020. The September CPI figure is usually used to set the business rates multiplier for the coming year, and (for the 2021/22 financial year) was the inflation figure applied to authorities Settlement Funding Assessment levels.

4. Local Policy Context

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

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

This vision and policy context is currently being refreshed and updated following the mayoral election in May 2021 and to consider the impact the COVID-19 pandemic has had on the Borough. The proposed policy priorities in the refreshed Our North Tyneside are subject to consideration of any supplementary information received during the engagement process, which concludes on 15 August. The final policy priorities will be presented to the full Council Meeting on 23 September 2021.

The proposed refreshed Council Plan reflects the current policy priorities of the Elected Mayor and Cabinet for the next four years and the work of the North Tyneside Strategic Partnership, which includes all of the organisations and sectors who work together with the Authority to deliver an improved future for the Borough and its residents.

By listening to our residents, businesses and visitors, the proposed refreshed Council Plan provides a clear framework for the Authority to plan its use of resources. It provides the context for all financial decisions and the operational delivery of services both at Borough level but also increasingly as we work alongside other local authorities across the region, statutory partners, the community and voluntary sector and with business through the North East Local Enterprise Partnership.

The Council Plan future vision is of a North Tyneside in the following five themes:

- thriving
- family-friendly
- caring
- secure
- green

Each of these five themes has a clear set of policy priorities and outcomes as set out below

A thriving North Tyneside

- We will regenerate the high streets of North Shields and Wallsend and will bring forward Master Plans for Wallsend and Whitley Bay town centres. We will also bring investment and improvements to the North West area of the Borough and ensure that regeneration delivers ambition, opportunity and benefits for all of our residents

- We will bring more good quality jobs to North Tyneside – by helping local businesses to grow and making it attractive for new businesses to set up or relocate in the Borough;
- We will invest in adult education and to support apprenticeships to make sure people have the right skills for the job;
- We will keep our libraries and leisure centres open as part of a vibrant cultural and leisure offering;
- We will continue to be the destination of choice for visitors through the promotion of North Tyneside's award-winning parks, beaches, festivals and seasonal activities; and
- We will reduce the number of derelict properties across the Borough.

A family-friendly North Tyneside

- We will support local schools, making sure all children have access to a high-quality education with opportunities to catch up where needed after the pandemic;
- We will provide outstanding children's services, events and facilities so North Tyneside is a great place for family life; and
- We will ensure all children are ready for school including through poverty proofing the school day – giving our kids the best start in life.

A caring North Tyneside

- We will provide great care to all who need it, with extra support available all the way through to the end of the pandemic;
- We will work with the care provision sector to improve the health and well-being working conditions of our care heroes;
- People will be cared for, protected and supported if they become vulnerable, including if they become homeless;
- We will support local community groups and the essential work they do; and
- We will work to reduce inequality, eliminate discrimination and ensure the social rights of the people of North Tyneside are key to council decision making.

A secure North Tyneside

- Council wardens will work with Northumbria Police to tackle antisocial behaviour;
- We will continue to invest £2m per year in fixing our roads and pavements;
- We will maintain the Council Tax support scheme that cuts bills for thousands of households across North Tyneside;
- We will take a holistic view to tackling health and socio-economic inequalities across the Borough including through our Poverty Intervention Fund to tackle food poverty;
- We will provide 5000 affordable homes.
- We will review the supply chain of services delivered on behalf of the Council to maximise value for money and environmental sustainability

A green North Tyneside

- We will keep increasing the amount of waste that can be recycled and introduce food waste collections and deposit return schemes;
- Council environmental hit squads will crack down on littering;
- We will secure funding to help households to install low-carbon heating;
- We will increase opportunities for safe walking and cycling, including providing a segregated cycleway at the coast; and
- We will publish an action plan of the steps we will take and the national investment
- We will seek to make North Tyneside carbon net-zero by 2030.

Local Plan

4.3 The Local Plan is the second key strategic element that drives the direction of resources in the Borough and was adopted by the Authority on 20 July 2017. The Plan, the first spatial strategy for 15 years, sets a vision for the Borough for the next 15 years. It sets out in detail how the Borough can be a thriving, prosperous and attractive place to live and work. It details how the Borough will require around 9,800 homes (in addition to about 4,700 that already have planning permission) and employment land for at least 12,700 new jobs. The Office of National Statistics projected an increase of 15,800 people between 2014 and 2032. The population of North Tyneside in 2032 is expected to be 218,500.

4.4 The Our North Tyneside Plan has at its core, two fundamental policy aims. First, whilst there has been success across the plan there is still a need to reduce the inequalities that persist in North Tyneside. Within our Borough we continue to have some of the least deprived neighbourhoods in the country but also some of the most deprived in terms of financial independence, skills, qualifications, health and well-being. This will mean working in a very different way to ensure that resources can be more effectively targeted at the people who need them most to ensure that all residents have a successful, healthy and safe future, no matter where they live in the Borough.

The second is to continue to invest in the Borough's future and to create a prosperous economy that will generate income and provide the jobs and training opportunities that will be essential to successfully tackling these inequalities. The key areas of investment being:

- coastal regeneration
- Swans/the North Bank of the Tyne
- town centres
- new and improved schools
- road and other transport improvements in line with the agreed Transport Strategy

- housing (particularly affordable homes) in line with agreed Housing Strategy
- support for businesses
- marketing the Borough to secure more inward investment and generate more visitors as a tourist destination

Ambition for North Tyneside

4.5 At its meeting on the 26 November 2018, Cabinet considered and adopted the Ambition for North Tyneside. The report, which articulates the Elected Mayor and Cabinet's ambition for North Tyneside, explains in more detail the Elected Mayor and Cabinet's future ambitions for each part of the Borough. The Ambition for North Tyneside plan aligns with the Local Plan and aims to match the ambition for the Borough with the plans set out for the Borough. Cabinet receives an annual update on the delivery of these plans and a further updates will be received by Cabinet in due course. These reports are included as background papers to the MTFS.

5. Approach to Balancing the Medium-Term Financial Plan

5.1 The 2021/22 Medium Term Financial Plan agreed in February 2021 included planned efficiency savings for 2021/22, 2022/23 and 2023/24 and covered the following:-

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

In addition to the planned savings, options are being developed 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 opportunities under four themes:-

Digital, Data & Customer; Using technology and our data to identify and deliver opportunities to improve customer service and efficiency. Maximising innovation opportunities.

Workforce Planning & Organisational Development; Organisation wide proposals, which underpin the other three themes, to make the best use of our greatest asset, our teams. What skills we will need and where the market and our succession planning will need to be considered.

Commissioning, Procurement & Commercial Opportunities; How we purchase and engage with our supply chain, delivering against a transparent procurement plan to secure financial benefits, transparency of demand will assist with commercial leverage.

Asset Management; Having a full and clear understanding of the costs of our asset base, both in terms of our operational assets and moving towards a comprehensive Asset Management Plan.

6. Key Challenges facing the Authority

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

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

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

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

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

Impact on Resources

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

6.6 It is highly likely that key income sources including Council Tax (through both the Collection Fund and Tax Base growth) and Business Rates will be under significant pressure in 2021/22 and over the medium-term, requiring a revision to planning assumptions. Work is underway to establish the likely impacts, but at this stage it remains too early to forecast with any confidence.

Likely impacts on Business Rates include:

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

Likely impacts on Council Tax include:

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

Social Care Services

6.7 COVID-19 has had a significant financial impact on social care services for both children and adults, in addition to the ongoing demand pressures in both of these areas. It is expected that there will be a lasting impact from COVID-19 on the social care finances at least in the short to medium-term, as the country continues to recover whilst still managing outbreaks of the virus.

6.8 There are continuing upward pressures on care providers' fees partially resulting from the National Living Wage but which have become more acute with the operational impact of Covid-19 on care homes and issues around high vacancy levels in a small number of care homes within the Borough. On top of this, the impact of COVID-19 on adult social care finances has been profound. In addition to the government's Infection and Prevention Control Grant for care providers, the Authority has provided further payments to compensate for additional costs incurred. It is anticipated that demand for care and support will increase as a range of informal support arrangements that have been in place for adults during the pandemic reduce or cease. Additional measures that will need to be taken to ensure quality care is delivered whilst still controlling the spread of COVID-19 infection will further increase the financial pressures in this area.

6.9 At the end of 2020/21, all but three local authorities in the region had seen an in-year reduction in the rate of referrals to Children's Services. North Tyneside was one of the three authorities that had seen an increase, which amounted to 6.4%. Across the region, the rate of referrals and complexity around safeguarding and the nature of concerns has increased. Demand has increased across Children's Services from Early Help to Child in Need and Child Protection. Children in Care numbers, however, have remained relatively stable in North Tyneside when compared to the rest of the region. Internal sufficiency of placements has been impacted throughout Covid and the Authority, at times had to source/commission external placements because of this. It is projected that there will be increased demand for children's early help and social care due to the economic and emotional impact of COVID-19 on children and families. Other significant pressures exist around High Needs and the costs associated with the number of children with an Education Health and Care Plan.

6.10 The impact of COVID-19 across all services is currently under review. Any longer-term implications will need to be considered in the build up to budget-setting for 2022/23. Currently, a significant proportion of the increased financial pressures on Adults and Children's Social Care is supported by Government Covid grant funding. If, as expected, this stops at the end of the 2020/21 financial year, the pressures that remain post Covid, will need to be supported by the Service. The Medium-Term Financial Strategy will be updated to reflect the review and as part of the approach to budget-setting this will form part of the Budget challenge sessions.

7. The Authority's Current Financial Position and Outlook

7.1 The Budget for 2020/21 was approved by full Council at its meeting on the 20 February 2020. The net General Fund revenue budget was set at £161.361m. This included £3.244m of savings to be achieved (£0.805m relating to 2020/21). The final outturn reported to Cabinet on 15 July 2021 stated an overall surplus of £2.500m.

The surplus has arisen substantially from a reduced call on the contingency budget provision for Adult Social Care, increased interest savings and savings on the Strain on the Fund budget. Consideration has been given to the risks the Authority has to manage and the following proposed use of the surplus:

- £1.000m to the Change Reserve as we move into the final third of the current Strategic Partnership contracts and prepare for exit;
- £0.500m to the Insurance Reserve in recognition of the potential investment required to manage health and safety risks of the council's estate; and,
- £1.000m to an Education Change Reserve recognising the risk to the Authority in respect of Schools in deficit.

This position was agreed by Cabinet on 15 July 2021 pending the completion of the External Audit of the Statement of Accounts.

7.2 The budget for 2021/22 was approved by full Council at its meeting on the 18 February 2021. The net General Fund revenue budget was set at £150.154m. This included £4.337m of savings to be achieved, all of which had been identified in previous years.

The forecast overall pressure is estimated at £7.420m against the approved net budget. This is made up of a forecast pressure of £1.813m on normal activities and £5.607m relating to the impact of Covid-19. The pressure on normal activities in the services is driven mainly by Health, Education, Care and Safeguarding at £7.281m, reflecting the continued pressures in Children's Services, partly mitigated by the contingency balances that were created by Cabinet as part of the 2018/19 budget setting process and continue to be held centrally to reflect the on-going pressures in social care being felt locally and nationally.

Included in this projection is £5.720m of pressures in Corporate Parenting and Placements, and £1.624m in Integrated Disability & Additional Needs. The drivers for these pressures continue from 2020/21 and arise from:

- Continued growth in demand in Children's Social Care Services;
- Growth in numbers of children with Education and Health Care Plans;
- The timing of delivery of some aspects of the Efficiency Savings Programme to the extent that achievement of some savings may be at risk; and,
- Increases in staffing costs.

It is anticipated that the outturn forecast for normal activities will improve over the course of the financial year as planned remedial actions begin to impact on both expenditure and income.

With regards to the impact of Covid-19, the main drivers behind the £18.420m impact on services are also within Health, Education, Care and Safeguarding where £9.600m is for increased costs to the Authority. Significant Covid-19 related pressures also exist in Environment, Housing and Leisure (£5.608m) and in Commissioning & Asset Management (£2.012m).

7.5 There have been a range of financial interventions introduced by the Government. The Authority received its share of the Government's Local Support Grant of £16.370m, £0.733m of this was allocated to additional costs and income lost in March 2020, meaning £15.636m was available to support council services in 2020/21. Of this, £13.466m was allocated to support revenue activities and a further £0.485m was allocated to capital. The remaining £1.685m has been carried forward to support the identified on-going impact of COVID-19 into 2021/22.

7.6 Local authorities were also compensated for losses incurred against their sales, fees and charges budgets. North Tyneside Council received £5.757m from this grant to support services and this was fully allocated.

7.7 As mentioned previously the Authority has received grants to support the businesses in the Borough. During 2020/21 £66.072m was received and £54.731m was paid across to businesses. The remaining balance will be paid out during the early stages of 2021/22.

7.8 Additional funding of £11.811m was received to support our residents, including direct financial support for our most vulnerable but also to support the Authority to put in place measures to keep residents safe whilst they continued to enjoy our coastline, town centres and the many attractions throughout the Borough, when restrictions allowed. Of this funding £4.616m was spent during 2020/21, with £7.195m carried forward to 2021/22. Of the funding carried forward £5.302m of it related to Contain Outbreak Management and the Authority has a range of proposals to spend this funding to help contain outbreaks as the Borough continues to see an easing of restrictions.

7.9 The Government provided £5.471m to help support the Care Home market and all of the £5.471m was allocated in 2020/21. The Authority also received £2.264m to support its schools and £2.031m was allocated with the remaining £0.233m anticipated to be allocated in early 2021/22.

7.10 There were further indirect impacts of the COVID-19 pandemic which included the delay in the 2020 Spending Review, which was scheduled to be completed by July 2020. Additionally, the Fair Funding and Business Rates Retention (BRR) schemes review, scheduled for implementation in April 2021, will now not go ahead until April 2022 at the earliest. This led to further significant risk and challenges remain to the Authority's ability to update the four-year Medium-Term Financial Plan.

7.11 It has been highlighted previously by the Chief Finance Officer that the Authority has a relatively low level of reserves. Uncertainty with regard to the levels of funding for Local Government Finance beyond 2020/21, alongside the long-term implications of how the Borough and indeed the country will recover from the impacts of COVID-19 is of concern. The financial sustainability of the Authority remains a significant concern, particularly when taken in the context of funding reductions the Authority has managed since 2011/12.

7.14 The other general fund earmarked reserves total £65.487m, which is an increase of £33.130m from the 2019/20 position of £32.357m. Of this increase £19.298m relates to COVID-19 grants with specific conditions that have been imposed in spending those grants, and some of which the Authority acts as an agent for the government on. These COVID-19 balances are projected to be spent over the early part of 2021/22.

7.15 When setting the 2021/22 Budget reference was made to the impact of reliefs given to business for NNDR and residents for Council Tax on the collection fund which flows through into future years. Grant funding received in 2020/21 in respect of this relief of £15.153m is planned to be used during 2021/22 to mitigate the collection fund deficit and the impact on overall resources.

7.16 The net movement in HRA reserves and balances is a decrease of £2.179m. The HRA reserves have increased by £0.623m to £19.725m in 2020/21 and the HRA balances have decreased by £2.802m to a total of £5.001m. Within the HRA reserve total, £12.390m relates to PFI reserves.

7.17 School Balances show an increase of £3.556m this is a significant improvement of £10.476m against the planned deficit balance position of £6.755m. As at 31 March 2021, the DSG account is showing a net deficit balance of £7.932m, mainly caused by the increased pressures in High Needs. This compares to a deficit balance of £3.262m in 2019/20. Whilst the Authority does have some plans to recover this deficit position, there remains uncertainty as to how this is to be resolved, adding further risk for the Authority in the short to medium term.

7.18 The Government has confirmed that the Fair Funding and Business Rates Retention (BRR) schemes review, scheduled for implementation in April 2021, will now not go ahead until April 2022 at the earliest. The statement also said that the Government will continue to work with authorities on the best approach to the next financial year, including how to treat accumulated business rates growth and the approach to the 2022/23 local government finance settlement. Until this approach is confirmed significant risks remain on the Authority's ability to update the four-year MTFP due to the ongoing uncertainty about future funding arrangements.

7.19 It has been highlighted previously by the Chief Finance Officer that the Authority has a relatively low level of reserves. The level of uncertainty with regard to the levels of funding for Local Government Finance beyond 2021/22 alongside the uncertain long term implications of how the Borough and indeed the country will recover from the impact of COVID-19 is of concern when considering the financial sustainability of the Authority, particularly when taken in the context of funding reductions the Authority has managed since 2010/11. Despite some increases, the general level of reserves available to support the Authority's budget remains relatively low when considering the current estimated gap arising from the financial impact of COVID-19.

7.20 The Strategic Reserve (£14.504m) represents 4.09% of the General Fund 2021/22 gross Budget and 11.46% of the 2021/22 net Budget, with the General Fund balances (£7.000m) added, these represent 6.06% of the 2021/22 gross Budget and 16.99% of the 2021/22 net General Fund Budget. There is no prescribed level of reserves advice by finance bodies with the level being considered in light of risks the Authority faces not just in the current year but looking ahead.

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

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

8. Capital and Prudential Borrowing (Investment Strategy)

8.1 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.

8.2 The Capital Investment Strategy has been developed to help support the delivery of capital investment and ensure that the investment programme builds on previous success, with a strong focus on delivery of the Our North Tyneside Plan outcomes and linking to the Our Ambition for North Tyneside. The Strategy also provides a framework to enable projects to be developed with the aim of helping to deliver revenue savings to assist the Authority in managing the financial pressure it faces.

All proposals for capital investment follow a structured gateway process, and are challenged by Members and senior officers, from the initial ideas stage, through the delivery stage and finally to post implementation. All proposals are considered in terms of their strategic alignment with the Our North Tyneside Plan, Our Ambition for North Tyneside and the revised Efficiency Programme.

The Investment Programme Board (IPB) meets on a monthly basis and, as part of its monthly meetings, receives an update on all ongoing projects included in the approved Investment Plan (currently 2021-2026).

Summary of the Investment Plan 2021-2026

Spend	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	Total £000s
General Fund	56,366	25,714	18,344	17,488	13,435	131,347
Housing	31,747	26,274	27,400	29,949	31,424	146,794
Total	**88,113**	**51,988**	**45,744**	**47,437**	**44,859**	**278,141**

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

Summary of Financing 2021-2026

Spend	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	Total £000s
General Fund Council contributions:						
Unsupported borrowing	17,210	10,960	10,546	10,276	6,223	55,215
Capital receipts	765	254	0	0	0	1,019
Revenue contribution	579	746	500	0	0	1,825
Use of reserves	262	0	0	0	0	262
	18,816	11,960	11,046	10,276	6,223	58,321
Grants and contributions	37,550	13,754	7,298	7,212	7,212	73,026
Total General Fund Resources	**56,366**	**25,714**	**18,344**	**17,488**	**13,435**	**131,347**
Housing – HRA						
Capital receipts	2,047	1,886	2,871	2,689	2,984	12,477
Revenue contribution	10,759	9,831	9,485	11,932	12,760	54,767
Major Repairs Reserve	17,689	14,557	15,044	15,328	15,680	78,298
Grants and contributions	1,252	0	0	0	0	1,252
Total HRA Resources	**31,747**	**26,274**	**27,400**	**29,949**	**31,424**	**146,794**
TOTAL RESOURCES	**88,113**	**51,988**	**45,744**	**47,437**	**44,859**	**278,141**

Capital Allocations 2021/22

8.3 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 2022/23 have not yet been announced and therefore indicative figures, based on previous allocations, will be included in the draft Investment Plan. As soon as actual allocations are announced these figures will be updated and included in subsequent reports.

Annual Minimum Revenue Provision (MRP)

8.4 The Capital Finance Regulations require the full Council to agree an annual policy for the Minimum Revenue Provision (MRP).

The MRP is the amount that is set aside to provide for the prepayment of debt (principal repayment). The regulations require the Authority determines an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.

The proposed 2022/23 policy is set out in full below:

(a) Existing assets pre-1 April 2007: MRP will be charged at 2% per annum;
(b) Supported borrowing: MRP will be charged at 2%;
(c) Unsupported borrowing: for all assets financed by unsupported borrowing, MRP will be charged over the estimated life of the assets. This may include assets financed through PFI schemes and finance leases;
(d) Lease transactions treated as “on balance sheet”: an element of the annual charge to the Authority for the lease will be treated as repayment of capital (i.e. repayment of principal and interest). The principal element is effectively the MRP charge for the year. This MRP charge will be equal to the element of the rent/service charge that goes to write down the balance sheet liability; and
(e) Loans made for capital purposes for which borrowing is taken out: MRP will be based on the actual principal repayment schedule relating to the loan provided.

Prudential Indicators

8.6 The Local Government Act 2003 requires authorities to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. The Prudential Code requires authorities to develop a set of Prudential Indicators for capital as laid out in this Code. The indicators for 2022-2027 will be prepared using this guidance.

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

9. Reserves

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

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

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

Reserves Policy

9.3 The Authority’s policy on reserves is outlined within the MTFS principles as follows:

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

The Authority will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed annually.

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

Review of Reserves

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

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

9.5 The 2020/21 Revenue Outturn position was reported to Cabinet on 15 July 2021, showing the balance of usable reserves of £99.715m. (including ring fenced reserves and un-ringfenced), Grant Reserves of £34.321 and HRA Reserves of £19.725m. Of the above balances only £20.810m was un-ringfenced. A projection of the reserves and balances position over the MTFP is shown below.

The General fund grants projected MTFP balances include negative DSG balances.

Reserves & Balances	Projected Closing Balances				
	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
Reserves					
General Fund Ringfenced	25.082	23.515	23.094	22.894	18.398
General Fund Unringfenced	11.456	9.506	9.256	9.006	8.756
General Fund Grants	(4.909)	(10.361)	(8.563)	(6.845)	(6.126)
HRA	19.770	19.592	19.287	19.203	19.104
Reserves Sub Total	**51.399**	**42.252**	**43.074**	**44.257**	**40.132**
Balances					
General Fund	7.000	7.000	7.000	7.000	7.000
Schools	2.221	0.721	(0.779)	(2.279)	(3.779)
HRA	3.012	2.633	2.705	2.667	2.661
Balances Sub Total	**12.233**	**10.354**	**8.926**	**7.388**	**5.882**
Grand Total Reserves & Balances	**63.632**	**52.605**	**52.000**	**51.654**	**46.014**

9.6 Whilst an initial review of the reserves position for 2021/22 has taken place it will be necessary to undertake a thorough assessment of the impact on reserves over the MTFP throughout the budget-setting process. An explanation of each reserve and balances as at 31 March 2021 can be found in the Authority's draft Statement of Accounts for 2020/21

In these unpresented times the importance of robust financial management across the authority remains paramount. A range of tighter spending controls have been put in place to ensure no-nonessential spend is incurred during 2021/22 and to ensure any COVID-19 related expenditure is appropriately considered and approved in advance of being incurred.

The Chief Finance Officer considers that, at this time, these reserve levels are adequate, but will continue to review this in light of the degree of uncertainty surrounding the future of local government funding and the potential impact of COVID-19. The Chief Finance Officer will consider the level of Strategic Reserve that should be sustained over the period of the four-year MTFP as part of the refresh of the plan.

Financial Assurance

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

Financial resilience

9.8 CIPFA Financial Resilience Index

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

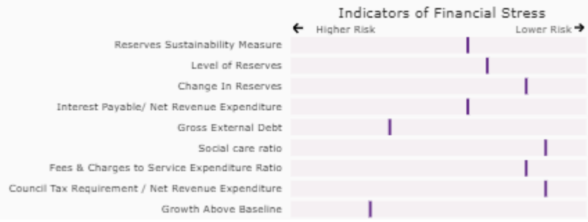
CIPFA has outlined the warning signs of financial stress exhibited by local authorities. The table below shows how the Authority is performing against these warning signs.

Resilience Index 2021

CIPFA Financial Resilience Index

Tier: Upper | Authority: North Tyneside | Comparator Group: Nearest Neighbour | Year: 2019-20

Results Breakdown



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	5.47	100.00	100.00
Level of Reserves	14.72%	36.45%	76.09%
Change In Reserves	-35.40%	24.31%	52.15%
Interest Payable/ Net Revenue Expenditure	1.30%	3.75%	17.42%
Gross External Debt	£147,398k	£578,811k	£894,637k
Social care ratio	50.48%	53.72%	80.62%
Fees & Charges to Service Expenditure Ratio	6.17%	11.66%	13.64%
Council Tax Requirement / Net Revenue Expenditure	44.34%	59.80%	65.95%
Growth Above Baseline	-4.00%	8.00%	17.00%

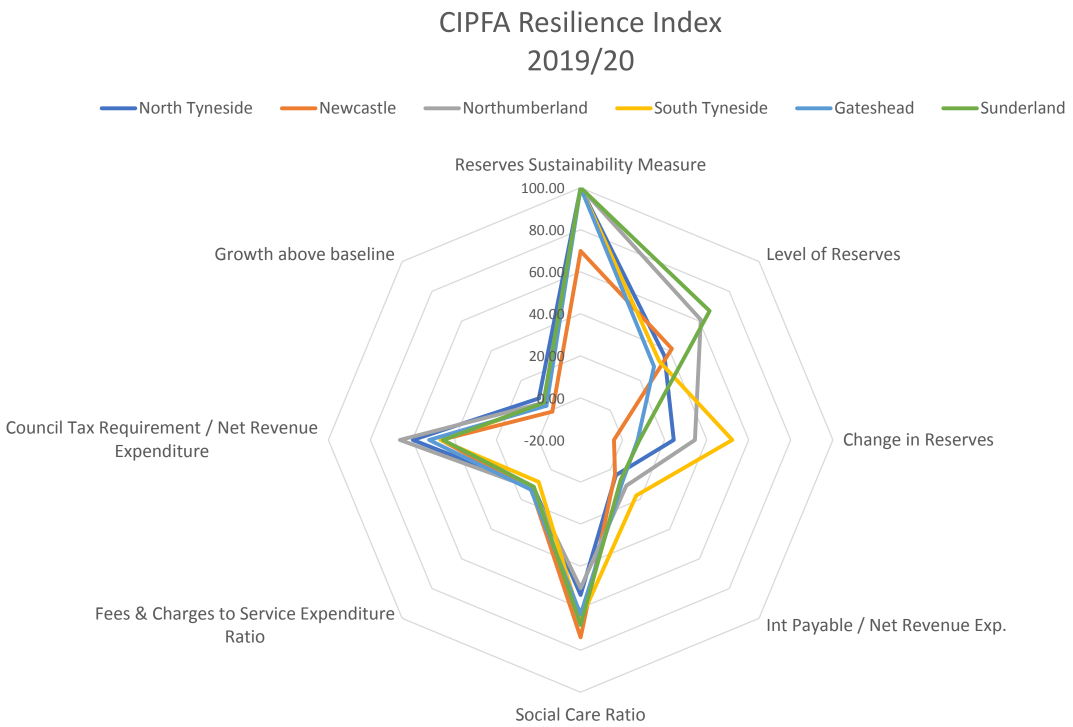
CIPFA has identified four key pillars of financial resilience:

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

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

9.6.1 The CIPFA Resilience index plotted against neighbouring Authorities show North Tyneside Council as being in robust and sustainable financial position as well as demonstrating the Authority being broadly aligned against our neighbours for financial resilience.

Note the 2019/20 Resilience Index from CIPFA is currently the latest set of indicators.



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

CIPFA Financial Management Code

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

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

10. Risk Assessment

Overall Financial Risk Assessment

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

Key Financial Risks

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

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

There is a risk of being unable to set a balanced budget for 2022/23 and over the period of the MTFP.	Managed during the budget setting for 2022/23 and robust budget challenge.
There is a risk that the levels of savings and income the Authority has included in the Budget proposals are not fully deliverable.	A robust challenge process has taken place to ensure proposals can be delivered. All savings and income will be monitored throughout the year to identify any areas which are not delivering savings as planned so corrective action can be taken.
There is a risk that if the Efficiency Programme is not successfully implemented the Authority may be unable to deliver improved services and meet the increased demand for services within reducing resources. This could have the financial impact of the Authority not delivering on its Budget.	An overall Budget Proposal Document and Terms of Reference are in place for all existing and new Efficiency Programme projects. This spans all service redesign projects Monthly Updates to the Senior Leadership Team are provided as part of the in-year financial management process. The Customer Service Steering Group will be sighted on the outcomes from any Service reviews undertaken during 2022/23.
There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2025/26 may be wrong, resulting in changes to the current targeted savings by 2025/26, for the General fund and for the HRA, which will be considered by Cabinet in January 2022.	Through a robust approach to financial management the authority is in a position to respond to determine actions necessary if the assumptions that have been made prove to be incorrect. The Authority work closely with national, regional and sub-regional financial networks to help ensure that the Authority is informed and aware of any national developments. Being involved in the consultation process enables any issues or concerns specific to NTC to be highlighted before final decisions are made.
There is a risk that not all growth pressures have been identified in the 2022/23 proposed Budget.	Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand - led pressures exceed Budget provision.	Demand-led pressures continue in areas such as adults' and children's social care and the impact of the Living Wage on our care providers (and the price for services the Authority then has to pay) have been

	taken into consideration as part of these initial Budget proposals.
There is a risk that specific factors arising during 2021/22 will not been fully taken into account when preparing the 2022/23 Budget.	The 2021/22 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to the Senior Leadership Team. This process ensures factors arising during the year are taken into account.
There is a risk that the in-year pressures being reported through the 2021/22 financial management process impact on the deliverability of the 2022/23 budget.	As at 31 July 2021, a pressure of £7.420m of which £5.607m related to COVID-19 was reported against the 2021/22 Budget. All Services continue to develop and deliver actions to mitigate these financial pressures and expect the outturn forecast to improve through the year. In addition, non-essential spend continues to be minimised and a detailed review of demand-led projections aims to reduce over-commitments. Progress will be monitored through bi-monthly reporting to Cabinet and monthly reporting to the Senior Leadership Team.
There is a risk that the contingency provision included in the Financial Plan for 2021/22 is insufficient.	The review of the base Budget and the reflection of the 2021/22 pressures into 2022/23 will be considered.
There is a risk that there are insufficient levels of reserves and balances.	A full review of reserves and balances is undertaken on a regular basis as part of both the in-year monitoring and planning processes.
There is a risk that the Authority will be unable to protect its housing assets and services to tenants as a consequence of reduced income to the HRA. Government policy on welfare reform is resulting in a number of direct challenges to rent collection; the spare room subsidy and the benefit cap have already had an impact.	The budget-setting process incorporates a review of the HRA Business Plan to reflect the changes. The cost and quantity of work within the 30-year Investment Plan is revised annually to help mitigate the impact of changes. In addition, the Financial Inclusion Strategy sets out how the Authority and its partners will support its residents to better manage their finances and maximise their income. The HRA budget includes proposal to increase support to tenants in managing their ability to sustain their tenancies.

	The Authority has representation on the MHCLG and CIPFA HRA working groups. This enables specific issues to be raised and allows the Authority to comment and influence change on HRA regulation
There is a risk that there may be a significant financial impact on school resources if the number of schools requesting deficit continues to rise at its current rate. This risk is currently driven by the number of surplus places at secondary schools.	The school deficit has been identified as a priority for the Authority, headteachers and governing bodies. A programme of work has been identified, working with schools to improve the schools deficit position. This will highlight the work that is required and through working with the schools a number of initiatives will be identified and progressed.
There is a risk that North Tyneside may be placed at a disadvantage following the decision to leave the European Union in both financial and economic growth terms. The full extent of the impact will not be clear until the Authority know the precise trade terms which will apply once the UK formally leaves the EU. This has a potentially significant financial impact due to loss of revenue grant and a potential loss of opportunities, e.g. capital grant and other revenue sources.	The potential impact from leaving the EU has been included in the Authority's Medium-Term Financial Strategy. This is helping to ensure that potential areas of impact following the EU exit are highlighted and included (where relevant) in Budget planning. The Authority is a member of various regional groups which will help it keep up to speed on progress and have the opportunity to exert any influence that the Authority can. It is inevitable that there will be some impact from the decision to leave the EU, the challenge is to manage the impact where possible.

11 Conclusion

11.1 The review of the Medium-Term Financial Strategy (MTFS) has again been undertaken against a background of significant uncertainty due to the implications of the COVID-19 pandemic. It is impossible to predict with any accuracy the financial impact of the pandemic which will not only be felt in the current financial year but also over the medium-term. This will undoubtably have implications for how the Authority delivers its services in the future and its approach to financial planning. The Authority continues to assess the financial impact and as such a further revision of the MTFS will be presented to Cabinet in November 2021.

11.2 The initial review of the MTFS identifies a potential financial gap of between £30m and £45m for the next four years from 2022/23 to 2025/26. The MTFS supports the requirement to continue a rolling programme of internal indicative budget-setting and efficiency plans to bridge the financial gap. This funding gap comes on top of budget savings of £127.756m that have already been taken from budgets by this Authority since 2011/12.

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

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

Appendix A

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

Background papers:

Local Plan
Workforce Development Plan

Background information:

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

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

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

(b) 2020-2024 Our North Tyneside Plan
https://democracy.northtyneside.gov.uk/documents/s2188/Appendix%20A%202020%20-%202024%20Our%20North%20Tyneside%20Plan.pdf

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

(d) COVID-19 – A Framework for Recovery in North Tyneside
https://democracy.northtyneside.gov.uk/documents/g425/Public%20reports%20pack%2029th-Jun-2020%2018.00%20Cabinet.pdf?T=10

(e) 2020/21 Provisional Finance Outturn Report
https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CId=174&MId=738&Ver=4

(f) 2020/21 Draft Statement of Accounts
https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CId=157&MId=600&Ver=4

(g) North Tyneside Highway Asset Management Plan Annual Information Report 2020
https://democracy.northtyneside.gov.uk/documents/g379/Public%20reports%20pack%2014th-Oct-2019%2018.00%20Cabinet.pdf?T=10

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

(i) Ten Year Plan for Waste
https://democracy.northtyneside.gov.uk/documents/s1482/2%2010%20Year%20plan%20for%20Waste.pdf

(j) Climate Emergency Update
https://democracy.northtyneside.gov.uk/documents/s1484/Climate%20Emergency%20Update.pdf

(k) North Tyneside Homlessness Prevention and Rough Sleeping Strategy 2019-2021
https://democracy.northtyneside.gov.uk/documents/s1188/Homelessness%20Prevention%20Strategy%202019%20-2021.pdf

(l) A Digital Strategy for North Tyneside
https://democracy.northtyneside.gov.uk/documents/s2638/A%20Digital%20Strategy%20for%20North%20Tyneside.pdf

(m) North Tyneside Trading Company - Strategic Business Plan 2020-2023
https://democracy.northtyneside.gov.uk/documents/s3893/North%20Tyneside%20Trading%20Company%20-%20Strategic%20Business%20Plan%202020-23.pdf

(n) North Tyneside Transport Strategy Annual Report
https://democracy.northtyneside.gov.uk/documents/s805/North%20Tyneside%20Transport%20Strategy%20Annual%20Report.pdf

CIPFA Resilience Index Indicators & Interpretation

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

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