

Overview, Scrutiny & Policy Development Committee

17 January 2022

Budget Sub-group report

Author: Budget Sub-group

Wards: All

1 Purpose of Report

To inform Overview, Scrutiny & Policy Development Committee of the work undertaken by the Budget Sub-group in scrutinising the 2022/26 Financial Planning and Budget Process: Cabinets Initial Budget proposals.

2 Recommendations

1. The Overview, Scrutiny & Policy Development Committee is recommended to refer the report of the Budget Sub-group, as set out in the report to Cabinet for consideration as part of the 2022/26 budget setting process.
2. That the Budget Sub-group be delegated to make any further recommendations and/or views on behalf of the Overview, Scrutiny & Policy Development Committee to Cabinet at its meetings on the 31 January 2022 & 7 February 2022.

3 Background

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

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

The following Members served on the group:

Councillor Liam Bones
Councillor Sean Brockbank
Councillor Debbie Cox
Councillor Cath Davis
Councillor Muriel Green

Councillor Janet Hunter
Councillor Janice Mole
Councillor Bruce Pickard
Councillor Paul Richardson
Councillor Willie Samuel

The group met on the 15 December where Senior Officers presented 2022/26 Cabinets Initial Budget proposals and Business Cases.

Councillor Martin Rankin – the Cabinet Member for Finance was invited and attended the meeting to offer further insight if/when required.

At its meeting on the 15 December 2021, further information on a number of areas of the budget was requested, including the updated position of the Government Settlement. It should be noted that upon receipt this information the report may be amended before submission to Cabinet for consideration.

On agreement of the Overview, Scrutiny & Policy Development Committee the Budget Sub-group is scheduled to reconvene and consider Cabinet Final Budget Proposals for 2022/26 that will take place on Tuesday 1 February 2022.

Refreshed Our North Tyneside Plan & Budget Engagement

The Our North Tyneside Plan 2021 – 2025 was approved by Full Council on 23 September 2021 and provides the policy framework or context for the Budget proposals.

The plan features five themes that reflect priorities aimed at creating a North Tyneside that is thriving, family-friendly, caring, secure and green. All five themes have a clear set of associated policy priorities.

The Budget Engagement strategy included a combination of activity, that involved an online survey, virtual and face to face meetings. Budget information had been publicised widely on all the Council's media platforms where stakeholders could view a video, complete an online survey and provide feedback to posed questions.

Further promotion was made through in the Council magazine and in Community Conversations corners of the main libraries of the borough, where information and hardcopy surveys for residents were available.

There had been specific targeted budget engagement with a range of stakeholders that included North Tyneside Strategic Partnership, Businesses, Schools, Voluntary Sector and the Black and Minority Ethnic community.

Reassurance was given that all information provided promoted engagement through a range of choices, such as online, telephone, email where views could be raised and recorded.

General Fund

The sub-group understood that there was continued uncertainty in relation to how the impact of Covid-19 on the financial plan and the implications to Council Services in the future. It was noted that the full impact in business rate collection had not yet emerged, some business rate reliefs had ended and there was some uncertainty to the support of further future reliefs being available. This uncertainty suggested the possible risks and challenges that businesses in North Tyneside could face in the future.

2020/21 Outturn

The financial outturn position for 2020/21 realised a General Fund Surplus of £2.5m that was due to the low interests' rates and delay in capital and treasury management.

The sub-group heard and understood the approach taken to address risks and that the surplus was allocated to:

- Address risks of school deficits with £1m into Education Reserve
- Address approach to planning for the return of Partner Services with £1m into Change Reserve
- £0.5m to address Health and Safety Risks associated with Council Buildings

The sub-group considered this a reasonable approach in light of the future income and service uncertainty.

Current In-year position

At the September 2021 financial position it had been noted that the forecast budget pressure was £5.962m of which £4.161m related to Covid and £1.801m to Business As Usual activity.

Covid had increased budgetary pressures in relation cost pressures for Adults and Children's Social Care and income losses to Sport and Leisure and Catering.

The Business As Usual activity had seen cost pressures in relation to Children's Social Care, Home to School Transport and Housing Benefits.

Emphasis was given that the authority was working to ensure any grants received would be used to reduce/negate covid impact. There was anticipated that the Business As Usual activity would see a balanced position, however if this position was not realised any balance left would need to be funded by the Strategic Reserve.

Medium-Term Financial Plan Update

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

The impact of Covid-19 has continued throughout the financial year 2021/22 and it was anticipated would continue into future years as the inequality gap had grown over the period of the pandemic.

The new revised 4 year plan showed that for 2022/23 that the Base Budget spend was at a level of £175.394m with available resources before any increase to Council Tax of £163.028m, leaving an initial funding gap of £12.366m.

There are a number of business cases from previous years business that would derive efficiency throughout 2022/23. Taking these and assuming a 1.99% Council Tax increase and 1% Adult Social Care precept resulted the funding gap the Council had to address was £2.526m.

Resources Assumptions

The sub-group received detailed explanation to the resource assumptions for 2022/23 in relation to Council Tax Support and Business Rates

The Local Council Tax Support Scheme (LCTS) for working age claimants would be capped at 85% of an individual's Council Tax liability, therefore working aged people will be charged 15% of their Council Tax before they can receive Council Tax Support.

In relation to the LCTS the Sub-group noted and agreed that retention of the 85% cap of the scheme would continue to provide support to residents moving into Council Tax support and Universal Credit.

To further support residents when claiming LCTS, it was proposed that claimants on providing good cause for delay, could back date their claim up to 26 weeks an increase from 4 weeks.

The sub-group agreed with the proposal that this measure would ensure working age claimants did not lose out on entitlement from 2022/23.

The collection rate target of Council Tax was to return to 98.5% and the Housing Growth was assumed to remain at 250 Band D equivalents for a full year.

The sub-group understood that all components of Council Tax provision should determine a prudent level of housing growth as this would avoid the collection fund dropping into deficit in future years.

The level of Business Rates is set by Government and is based on rateable value of non-domestic properties across North Tyneside. The Authority retains 49% of the business rates it collects, with 50% going to Government and 1% to Tyne & Wear Fire and Rescue Authority. There was a planned increase in the Consumer Price Index (CPI) by 3.1% in the business rates multiplier, however this had been cancelled and Local Authorities would receive full compensation through Section 31 grant.

There was concern that the CPI was increasing beyond the 3.1% and there needs to be assurance that plans were in place to allow the Authority to react to the risks this could have on the collection rates.

Growth Assumption

All current growth areas had been reviewed and updated, however there needed additional consideration to growth pressures in light of new information in relation to;

- Climate Emergency Change Plan – resource support in delivering the plan
- Commercial Pressure – inflationary pressure to Adult and Children support
- Corporate pressure – the pay award offer of 1.75% had been rejected and a 2% offer was assumed in the budget, however further review may be needed due to the increases in CPI and RPI rates.
- Legislative/Regulatory – grant changes to new homes bonus
- Inflationary Changes

The sub-group raised their concern to the continuing increase in inflation and to the potential impact it would have on the Council Budget.

Autumn Budget Spending Review SR21 – key considerations made.

The Council Tax thresholds would remain at similar levels to recent years, with the threshold for “core” Council Tax increases remaining at 1.99% and the adult social care precept by a further 1%. Confirmation of the thresholds will be in the provisional settlement.

Local Government in England will receive an additional £4.8bn increase in grant funding over the next 3 years (£1.6bn in each year).

Although the allocation to be received by North Tyneside was unknown it was hoped a clear understanding would be known following the Governments settlement statement on 16 December 2021. This additional funding was being provided to aid both the Authority and local suppliers in relation to the 1.25% increase in National Insurance contribution.

The sub-group requested information that would provide an understanding to the allocation North Tyneside would receive.

Additional funding would be available for social care reform in Local Government (£3.6bn over 3 years to implement “the cap on personal care costs and changes to the means test” with a reference included to moving towards fairer cost of care). There was some uncertainty to how this would impact services.

From the total £5.4bn social care reform funding, a further £1.7bn was to be allocated over 3 years “to improve the wider social care system” and £500m would be made available to “improve” the social care workforce. Again, there was uncertainty to the mechanism to how this funding would be provided with the potential to increase risk to the Authority.

There are various smaller allocations within the core funding announcement, including £200m for the “cross-government Supporting Families programme”, £37.8m for cyber security, and £34.5m to “strengthen local delivery and transparency”.

There had been no announcement about local government funding reforms (Fair Funding Review or business rates changes) however on the 10 November 2021, the new Department for Levelling Up, Housing and Communities (DLUHC) announced that the government had plans to abandon the approach to 75% Business Rates retention, advising that policy would conflict with the government’s “levelling up agenda”.

In terms of any key announcements for the Housing Revenue Account no indications had been made that Central Government was expecting to impose a cap on landlords for social housing rent increases.

It was noted that the Government had made statements to increased funding availability for Local Authorities, with the amounts stated being extensive, however there was concern that the Council was unable to determine the level of funding that North Tyneside would receive due to the lack of clarity from Government.

The sub-group understood this impacts the ability of providing residents and businesses a transparent and understandable budget and requests that following the provisional Settlement Statement that levels of funding directly being allocated to North Tyneside be announced.

Service Risks / New Burdens

Adult Social Care

Understanding was needed to the demands relating to shifts from Care Home/Home Care/ Supported Living and the impact of Covid, including the effect to the budget in the longer term.

The Authority had sought to enable resident can stay in their homes, however over the longer term the support required becomes more complex, which can trigger sustainability and workforce issues.

The sub-group was informed of a pilot project that had started in conjunction with Northumbria Healthcare Trust, which was developing a Joint Home Care model to address expected workforce issues by developing a career approach to those moving into the Care sector and providing the necessary progression and associated employment benefits.

The Authority was also working with the North of Tyne Combined Authority to understand the care sector as an area of required skill growth.

An affordable contract offer had been secured for 2021/22 was in place with further understanding would be required of the Social Care Reform and how that would affect the contract offer for 2022/23 and into the future.

The sub-group was provided information to the range of reform measures that could impact future provision.

Children Social Care

Although the Authority had sustained a stable level of children in care, there had been an increase of complexity, which has resulted in increased expenditure.

There had been an increase in statutory social care cases, children requiring a need plan and children with a child protection plan.

This had impacted on the workforce case load, with added risk to being able to retain Social Workers in a competitive demand environment.

There is a limited market, which increased cost and the inability to source external residential placements.

The sub-group understood this has been an ongoing issue and consideration was needed to find more local provision and find solutions to ensure demand can be managed.

High Needs/SEND

There was continuing pressure with regards to the High Needs Block of the Dedicated Schools Grant, which was seeing a cumulative deficit forecast to year end £12.551m (at September 2021).

There was an impact on the General Fund, through increased Statutory assessments and Home to school transport. The Authority has a Recovery Plan in place and was continuing to work with schools and Department of Education to address issues.

There was concern to the length of time it would take to have an achieve a managed approach.

Action to manage risks

The Authority has a Change reserve that is used to support actions to reduce cost and reduce risks and benefit in the future years.

The sub-group considers use of the Change Reserve be further used to support activity that would benefit the reduction in social care expenditure.

Consideration of the impact of COVID

It was understood that there would be a continue impact to services due to the Covid-19 pandemic which would need to be reviewed in the coming 2-3 years.

There was increased demand for Home Care provision, Adults/Children Social Care, in addition to the risks to fees and charges for some services.

The sub-group considers the proposal to create a COVID reserve through a re-allocation from Strategic Reserve an appropriate measure and for transparency of use should be reported through the established Council Financial Monitoring process.

Corporate Risks

The corporate risks that needed consideration which included the continued Economic impact of Covid on Businesses and Services, Comprehensive Spending Review (SR21) / Fair Funding / Business Rates, School Deficits and Inflation /Interest Rates.

The sub-group considered it an appropriate measure to ensure adequate levels of reserves to ensure the Authority could manage potential risks. It considered the approach to increase the reserve Created for Schools Deficit and the contingency budget to be appropriate.

Approach to Savings

A seven business cases that were designed to deliver financial and /or customer service improvement were presented, these were grouped under four themes:

Digital, Data & Customer

Using technology and our data to identify and deliver opportunities to improve customer service and efficiency. Maximizing innovation opportunities.

Workforce Planning & OD

Organisation wide proposals, which underpin many of the other 3 priorities, to make the best use of our greatest asset, our teams.

Commissioning, Procurement & Commercial

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 and non-operational assets and moving towards a comprehensive Asset Management Plan.

In considering the business cases the sub-group understood the rationale to each presented, however there were questions in relation to the narrative and reporting on financial information and the need for this to be consistent across all business cases to ensure transparency and understanding.

Housing Revenue Account

Members were reminded that there is a requirement for the 30-year Housing Revenue Account Business Plan to be refreshed every year.

Rent increases for next year are based on the Consumer Price Index (CPI) rate, as at September, plus 1%. The CPI rate announced for September 2021 was 3.1% which will lead to a proposed rent increase for 2022-23 of 4.1%.

There were some key objectives in the plan, which included maintaining the existing stock, meeting increased Affordable Homes ambitions with the plan having committed £51.226m from HRA over 10 years. There were also a need to respond to the Authority's Climate Change Emergency, by funding increased sustainability measures and starting to address the decarbonisation agenda.

There would be continued focus on supporting residents to sustain tenancies, and help tenants manage their money so that they do not end up in financial hardship or significant arrears. Reviews had been undertaken to ensure the right support was available to tenants.

In 2022/23 there was to be some organisational changes with regards to Housing Management with the establishment of a new Directorate of Housing.

To ensure the Authority has access to the necessary trades there was to be further investment into the apprenticeships which would reduce the skills gap and trade retention for future years.

There was risk identified through clear evidence of shortages of certain key materials such as steel and wood, accompanied by increasing prices as a result along with the current upwards pressure on inflation, effecting both the capital programme and the day-to-day repairs.

2022-2027 Investment Plan Options

Key additions to the Investment plan were

Asset Plan Maintenance of £0.5m investment based on completed building condition surveys to reflect identified requirements to maintain Health and Safety Standards.

Climate Change Decarbonisation an indicative contribution of potential investment of £250k for 2022/23, whilst plans were being progressed and in development, which Electric Vehicles replacement plan was part.

A review of the Industrial Estates portfolio would be undertaken to understand the maintained benefit and consider options for change through the appropriate governance arrangements.

With regards to risk there had been increased contingencies of £2.3m to counteract inflationary increases for material costs and skills shortage in the construction industry.

The sub-group understood that with the appropriate project management in place would ensure all risks were be considered before starting a project or progressing a programme of work and that prudent decision making was required to reschedule works if projects encounter budgetary pressure through material/skills shortages.

Treasury Management

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

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

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

4 Presenting Officers

The following officers presented to the sub-group:

Janice Gillespie – Director Head of Resources
Jacqueline Laughton – Assistant Chief Executive
Mark Longstaff - Director of Commissioning and Asset Management
Phil Scott - Director of Environment, Housing and Leisure
John Sparkes - Director of Regeneration and Economic Development
Darrell Campbell - Principal Accountant
Claire Emmerson - Senior Manager Financial Planning and Strategy
Sarah Heslop - Strategic Manager Commercial and Procurement
Haley Hudson - Customer and Digital Strategy Manager
Daniel Simms - Chief Information Officer.

5 Background Information

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

2022-2026 Financial Planning and Budget Process: Cabinet's Initial Budget proposals
Business Cases