

North Tyneside Council

Report to Cabinet

Date: 19 September 2022

Title: 2023-2027 Financial Planning and Budget Process incorporating the Associated Engagement Strategy

Portfolio(s):	Elected Mayor	Cabinet Member(s):	Norma Redfearn
	Deputy Mayor		Councillor C Johnson
	Finance and Resources		Councillor M Rankin
	Housing		Councillor J Harrison

Report from Service Area: Finance

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Wards affected: All

PART 1

1.1 Executive Summary

1.1.1 This is the initial report to Cabinet outlining the process to be adopted for the Authority's Financial Planning and Budget process for 2023/24 as part of the proposed framework for the four years 2023/24 to 2026/27. Further reports will follow as part of the process of setting the Authority's Budget for the financial year 2023/24. The next report to Cabinet will be on 28 November 2022 and will outline Cabinet's initial Budget proposals.

This report sets out information in relation to the proposed 2023-2027 Financial Planning and Budget process, including key decision milestones. This will include:

- A review of the Medium-Term Financial Strategy (MTFS) and Medium-Term Financial Plan (MFTP);
- Development of the detailed General Fund and Housing Revenue Account Budgets for 2023/24;
- An update of the Investment Plan and the Treasury Management Strategy; and
- The Budget Engagement Strategy to be adopted as part of the 2023-2027 Financial Planning and Budget process.

1.1.2 While this report forms an important part of the Authority's Budget-setting process for the 2023/24 Budget, it also provides Cabinet with an overview of the potential financial implications for both the current year and for the period of the Authority's Medium-Term Financial Strategy (MTFS).

- 1.1.3 In addition, this report acknowledges the continuing exceptional circumstances in which the 2023/24 Budget will need to be prepared. The Authority is continuing to operate in a period of significant financial uncertainty brought about by a combination of the ongoing impact of the pandemic, significant high levels of inflation which is impacting energy and fuel costs and the outcome of the pay award for 2022/23 and future years. The Authority is currently assessing the impact of the financial implications of the reforms in relation to Adult Social Care, which will undoubtedly add to the financial pressure which the Authority faces in 2023/24 and future years.
- 1.1.4 All of these factors will have an impact on the organisation's ability to achieve planned Budget savings and income for 2023/24, its capacity to develop and deliver new Budget proposals for 2023/24, and on the wider Budget position, which is the subject of extremely high levels of uncertainty. The report sets out details of a proposed Budget planning process for 2023/24 but recognises that there will be a need for flexibility. In this context, the report also provides a summary of key areas of wider risk and uncertainty for Cabinet to consider.

1.2 Recommendations

It is recommended that Cabinet:

- (a) notes the revised Medium-Term Financial Strategy and the proposed principles for Budget planning for 2023/24, as set out at Appendix A and section 1.5.11;
- (b) approves the proposed outline 2023-2027 Financial Planning and Budget process which incorporates the key decision milestones and dates, as set out at Appendix B;
- (c) recognises that there may be a requirement for flexibility within both the Budget-setting process and the assumptions used, as a result of future Government announcements and other developments relating to current and forecast inflation levels, the pay award and the ongoing financial impact of the pandemic;
- (d) approves the Budget Engagement Strategy as part of the 2023-2027 Financial Planning and Budget process as set out at Appendix C; and
- (e) considers the key Budget risks and uncertainties as set out in the Medium-Term Financial Strategy, including the implications of announcements made at the Spring Budget 2022 and subsequently as part of the COVID-19 response.

1.3 Forward Plan:

Twenty-eight days' notice of this report has been given and it first appeared on the Forward Plan that was published on 8 July 2022.

1.4 Information

Council Plan and Policy Framework

- 1.4.1 The Budget and Policy Framework Procedure Rules are set out in Part 4.7 of the Authority's Constitution. The Budget is guided by paragraph 4.7.3 covering the process for the preparation, consideration and final approval of the Authority's Budget. The constitutional requirements for preparing, considering and approving the Budget drive the timetable for the Financial Planning and Budget process.

- 1.4.2 The development of the Budget will follow the process laid down in the Authority's Constitution. The Financial Planning and Budget process is a fundamental part of the overall governance and assurance framework of the Authority. This in turn provides assurance that the Budget is considered as part of preparing the Annual Governance Statement to Council each year.
- 1.4.3 The priorities in the Council Plan (the "Our North Tyneside Plan") provide the strategic policy framework within which Budget resources will be allocated for 2023-2027.

Background

- 1.4.4 The Authority is continuing to operate in a period of significant financial uncertainty brought about by a combination of the ongoing impact of the pandemic, significant high levels of inflation which is impacting energy and fuel costs and the outcome of the pay award for 2022/23 and future years. Currently there continues to be significant uncertainty in relation to funding levels for 2023/24 onwards, although the Authority is aware that a rollover settlement is likely.

Cabinet should also note that at the time the Authority's Budget and Medium-Term Financial Plan was set in February 2022 it would have been impossible to anticipate or make provision for either the economic impact of the Russian invasion of the Ukraine, or the wider cost of living crisis that has emerged in recent months. As the Budget process progresses the impact of this and other factors as described above will need to be accounted for, and therefore it remains essential for the Authority to have a robust plan in place to enable the preparation of a balanced and sustainable Budget.

This report therefore sets out the process by which the Authority will build on the 2022/23 Budget to develop the detailed financial plans for future years, which will secure the Authority's financial position and safeguard the provision of essential services into 2023/24 and beyond.

- 1.4.5 The former Chancellor of the Exchequer, Rishi Sunak, delivered the Spring 2022 Budget on 23 March 2022. There were limited announcements which will impact on the Authority's budget position directly, although there were some measures which will require administration by local authorities including an extension of the Household Support Fund from April 2022 (a further £500m nationally) and various business rates changes. Full details of the key economic forecasts and key policy announcements made in the Spring Budget are included within the Medium-Term Financial Strategy which is appended to this report.
- 1.4.6 Alongside the Spring Statement, the former Chancellor published a "Tax Plan" setting out a three-part plan to strengthen the economy over the remainder of the Parliament. It is intended to:
- help families with the cost of living;
 - support growth in the economy, and
 - ensure the proceeds of growth are shared fairly.

The Authority will need to respond to any specific consultations arising from the Tax Plan as they are published and will consider the detailed implications of the Spring Statement for the Authority's 2023/24 Budget as it is developed.

- 1.4.7 As in recent years, the Authority will not receive detailed information about funding allocations for 2023/24 until autumn 2022 at the earliest. Ongoing uncertainty continues

around local government and wider public sector finances including the need for a long-term financial settlement for local government. Spending review announcements in 2021 covered one year only and as a result there remains high uncertainty about the levels of funding for 2023/24 and beyond. For 2022/23 a new one-off “Services Grant” was announced which partially funded the additional 1.25% employers National Insurance contributions which form part of the reforms of Adult Social Care. Continuation of this grant has yet to be confirmed although the Authority’s Medium-Term Financial Plan assumes the funding will reduce by 50% in 2023/24.

1.4.8 Cabinet will be aware that it remains a major concern that the Government continues to place significant reliance and expectations on locally raised income. If this trend persists the financial pressures for 2023/24 and beyond may become unsustainable. The Government has yet to announce the Council Tax referendum limit for 2023/24 but it is expected that a general Council Tax increase of 2% will remain in place. Since 2016/17 the Government has allowed local authorities to raise additional income to support the rising costs of providing Adult Social Care by way of levying a precept for Adult Social Care, without having to hold a referendum. Following the failure of the Government to provide authorities with sustainable funding to support rising costs of supporting the Borough’s most vulnerable residents the Authority, in line with the Governments expectations, has made full use of the precept raising ability. At the time of writing this report no announcements have been made in relation to any precept levy which will be available to local government for the 2023/24 financial year.

1.4.9 Any consideration of the Authority’s Medium-Term Financial Strategy and Medium-Term Financial Plan must be undertaken in the context of the funding outlook and risks for local government and what that means for the Authority. Full details of the funding outlook for local government are included in section 3 of the Medium-Term Financial Strategy.

1.4.10 The current Medium-Term Financial Plan (MTFP) covers the period to the end of 2025/26. Whilst there continues to be a great deal of financial uncertainty, recommended practice suggests that due consideration is given not only to the short-term but to how the Authority will continue to finance its activities in the medium-term. It is therefore recommended at this stage that the MTFP covers the four-year period 2023/24 to 2026/27.

1.5 Policy Context

Council Plan 2021-2025

1.5.1 The Council Plan was refreshed following the mayoral election in May 2021. The updated Council Plan was approved by Full Council on 23 September 2021. The Council Plan reflects the current policy priorities of the Elected Mayor and Cabinet for the next four years and the future vision of 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 in addition to the Master Plan for North Shields, we will bring forward Master Plans for Wallsend and Whitley Bay town centre areas. 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 sustain and grow, 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 range of cultural and sporting activities to support the health and wellbeing of our residents;
- 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;
- We will reduce the number of derelict properties across the borough; and
- We will review how the council purchases and contracts for goods and services to maximise value for money, social value and environmental sustainability.

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 social care services, events and facilities so North Tyneside is a great place for family life; and
- We will ensure all children are ready for school and that schools have an inclusive approach so that all of our children and young people have 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 working conditions of care workers;
- People will be cared for, protected and supported if they become vulnerable, including if they become homeless;
- We will support local community groups, carers and young carers 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 in partnership with Northumbria Police to prevent and tackle all forms of antisocial behaviour;
- We will invest an additional £2m per year on fixing our roads and pavements;

- We will maintain the Council Tax support scheme that cuts bills for thousands of low-income households across North Tyneside;
- We will tackle health and socio-economic inequalities across the borough including through our Poverty Intervention Fund to tackle food poverty; and
- We will provide 5000 affordable homes.

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 low income 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.

Review of the Medium-Term Financial Strategy (MTFS) and Medium-Term Financial Plan

- 1.5.2 In line with the principles agreed with Cabinet for setting the annual Budget, an initial review of the Medium-Term Financial Strategy (MTFS) has been performed. The revised MTFS is included as Appendix A to this report.
- 1.5.3 The Authority's 2022/23 Budget and MTFS were agreed in February 2022. At that time, it would have been impossible for the Authority to foresee the global economic impact of the Russian invasion of the Ukraine which has had and continues to have a devastating impact on the world economy. Rising interest rates and inflation have caused a significant impact leading to a cost-of-living crisis which will see a real term reduction in living standards for families throughout the Borough. At the time of writing this report inflation has reached 10.1% and it is expected that it will rise further towards the end of the financial year. This will have a significant impact on the cost of delivering essential Services and it will increase the costs associated with delivering the Investment Plan.

The Authority's financial planning had largely assumed that COVID-19 pressures would abate in line with the withdrawal of Government support. However, as reported to Cabinet in May in the Budget Monitoring report, the Authority continues to feel the financial effects of the pandemic in relation to both the continued levels expenditure supporting post pandemic Service needs and income for some Services have yet to reach pre-pandemic levels. The Authority did carry forward COVID grants which have been used to smooth the financial position in 2022/23, however, it is anticipated that these grants will be fully utilised in the current financial year with no residual funding available to meet any ongoing costs relating to the pandemic. This poses a significant risk to the Authority's financial position for 2023/24 and future years and the Senior Leadership Team, supported by Senior Officers are already looking ways this risk can be mitigated and reduced as the Budget-setting process progresses.

- 1.5.4 As described in section 1.4.7 above, funding announcements are not expected until the Autumn 2022. Whilst a multi-year settlement is welcomed and will give local authorities some degree of certainty, until the details are released Budget planning for 2023/24 remains extremely challenging.

The impact of the pandemic is having far-reaching consequences and has required an adjustment in both organisational priorities and ways of working. The pandemic has undoubtedly caused long term changes to a number of the Authority's services, particularly in respect of joint working, public expectations, levels of demand, and the underlying cost base. Services such as children's and adult social care have seen a significant impact from the pandemic, affecting service delivery, demand, and ways of working across almost all areas of the business.

- 1.5.5 Legislation, policies and practices have all seen changes in the previous months; consolidating these and responding to further changes in future will be crucial. In addition, it is highly likely that key income sources including Council Tax, through both the Collection Fund and tax base growth, and business rates will continue to be under significant pressure in 2022/23. The current MTFs position therefore incorporates prudent assumptions about these income streams, which will need to be reviewed over the course of the Budget-setting period.
- 1.5.6 Finance officers have worked through a range of assumptions and the potential gap between available resources and anticipated expenditure for the General Fund across the next 4 years could be anywhere between £30m to £50m.
- 1.5.7 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 2023/24 and for the 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 2022. It has therefore been necessary to revise the approach to preparing the Budget for 2023/24 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 2023/24 and achieve financial balance over the medium-term.

- 1.5.8 The underlying aim is to ensure that the Authority can continue to deliver the Council Plan, 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 2023/24 Budget all services will be required to take part in Budget Challenge sessions during July and August;
 - 4) In order to inform further revisions of the 2023/24 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 2022/23 savings programmes and viability of previously planned savings;

- c. cost and income pressures, including unfunded pressures resulting from the impact of inflation and the residual impact on expenditure and income relating to COVID-19;
 - d. any further Government funding announcements for 2022/23 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 2023/24 Budget gap will include:
 - a. The Government providing additional funding;
 - b. Corporate / centrally identified savings opportunities;
 - c. Services identifying further savings; and
 - d. A freeze on all non-essential expenditure and recruitment.
- 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 2023/24 to 2026/27;
- 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/general power of competence, 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. A full review of the investment plan will be undertaken to ensure all planned investment is prudent, affordable and the Authority continues to deliver value for money;
- 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.

Housing Revenue Account (HRA)

- 1.5.9 As the Authority started to emerge from what has been an unprecedented time of uncertainty due to the pandemic, it has now entered into a new period of uncertainty due to inflationary pressures not experienced since the 1980s brought about by a combination of factors primarily but not solely linked to the conflict in Ukraine. This has brought with it new challenges in terms of finding it difficult to source certain materials such as steel which are key to our Construction and Repair objectives. Again, this requires us to be flexible and resourceful to ensure the Authority can deliver the levels of investment necessary to maintain the Authority's existing housing stock, and in continuing to develop plans to build new ones. These issues will be key factors which will need to be built into modelling assumptions for the refresh of the 30-year HRA Business Plan, along with any other trends nationally, as the UK struggles to avoid falling into a period of recession and stagflation.
- 1.5.10 The Authority's Housing and Property Service continues to develop and evolve and ensure it aligns to the Our North Tyneside Plan, delivering value for money to both the General Fund and the HRA and making the best use of available resources across repairs and capital works to improve and deliver the best possible services to the Authority's customers. The service continues to invest additional resources into new build housing, and to match tenant priorities within the housing repairs budget by maintaining the current focus on improving empty homes standards and carrying out property health checks. The main targets for the Service remain to ensure that the key priorities of delivering excellent, flexible and value for money services are achieved.
- 1.5.11 2022/23 saw the third year of rent increases following the end of the 4-year 1% per annum reduction enacted by Government via the Welfare Reform and Work Act 2016. From April 2020 rent policy returned to being based on increases of Consumer Prices Index (CPI) + 1% per annum for at least the next 5 years in order to try to give housing authorities greater planning certainty. This saw a rent increase of 2.7% for 2020/21, an increase of 1.5% for 2021/22, and a rent increase of 4.1% in 2022/23 as CPI started to rise in line with a new period of economic uncertainty, and a return to levels of inflation not seen for decades. This up-turn in inflation has continued apace in 2022/23 and has seen CPI inflation levels surge past 10%, with many economic experts predicting that inflation may rise further by the end of the year, particularly as there is no apparent end in sight to the conflict in Ukraine.

The long-term Government target and assumption in the Business Plan for CPI inflation remains at 2% per annum, which would bring it back to a 3% per annum rent increase. However, 2023/24 is going to be a very difficult year in terms of determining the rent increase to be applied in the current climate. Currently the pension "triple-lock" remains in place which would see pensions increase by CPI whatever that rate was, and

similarly the Authority waits to see if Universal Credit and benefits will also be linked to CPI.

Whilst this could be argued that most tenants could have the additional resources to meet the increase, that ignores the reality of the increased cost of living that most of the Authority's residents are facing, with a particular squeeze on those in work, but who are just above the benefit threshold levels or those in work and already needing welfare support.

- 1.5.12 This remains a key area for refreshing the Business Plan as we move into the next budget round, September CPI will be announced in October that is the starting point for next year's rent increase. The Government had stated that for at least 5 years from 2019/20 rents would remain based on CPI, to give authorities more certainty around longer-term financial planning, but what the Authority does not know as yet is whether the Government will feel it necessary to alter this policy again because of the current economic climate, as they did with the 4-year rent decrease. There will inevitably be an element of wait and see to some extent to see if the Government steps in to prescribe what we do in this area.
- 1.5.13 To maximise the options available to Cabinet a range of Business Plan scenario modelling will be undertaken, to try and determine an optimal path through the current situation, which will look to match aspirations in terms of levels of investment in services and assets with different outcomes in terms of the resources available to fund those aspirations.
- 1.5.14 Cabinet can continue to consider options for future HRA capital investment funded by increased borrowing in accordance with the principles of the Prudential Code. Consideration of such options available as part of the 2022/23 Budget process, determined that the existing approach to debt management and repayment should be maintained in relation to the HRA. As already alluded to above the current economic situation and cost of living crisis may necessitate further scrutiny of some of these options, and the authority's overall approach to debt management as part of the business plan refresh and Budget-setting process for 2023/24.
- 1.5.15 The impact of the changes as outlined above will need to be considered as part of the updating of the 30-year HRA Business Plan, which aims to ensure the long-term viability of the HRA in line with the policy direction of the Elected Mayor and Cabinet and the needs of tenants. Considering the significant current challenges facing the authority and the country, the options available to Cabinet will be reported as part of the HRA Budget proposals which Cabinet will receive in November. For the purposes of the current Financial Planning and Budget process, a four-year revenue plan will be updated and presented in line with the principles adopted for the General Fund.

Investment, Prudential Borrowing and Treasury Management

- 1.5.16 The Capital Investment Strategy is the policy framework document that sets out the principles to guide the effective allocation of capital investment across all the Authority's Services and informs decisions on capital spending priorities within the Authority's Investment Plan. Investment priorities are considered in the context of the strategic objectives of the Our North Tyneside Plan and other key strategies and plans of the Authority. The Ambition for North Tyneside report, adopted by Cabinet on 26 November 2018 and updated annually, articulates the Elected Mayor and Cabinet's ambition for North Tyneside and explains in more detail their future ambitions for each part of the Borough. Delivery of these plans sets the challenge of meeting competing priorities

against limited financial resources. It is intended that a borrowing ceiling will be applied for the Authority in terms of both borrowing requirements and revenue costs.

- 1.5.17 The Authority's capital investment plans are set out in the Investment Plan, with the latest approved programme covering the period 2022-2027. The effective use of capital resources, including asset management, is fundamental to the Authority achieving its medium and long-term strategic objectives. Capital investment has a significant impact upon the local economy and the way in which the Authority can deliver its services, helping to ensure that the Authority can continue to provide the best possible services and outcomes within North Tyneside.
- 1.5.18 Any capital investment decision will have implications for the Budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within the Authority's financial plans and to demonstrate that the capital investment is both affordable and sustainable. Revenue implications may include the costs associated with supporting additional borrowing as well as any changes to the running costs associated with the asset or wider benefits to the Authority, such as the delivery of ongoing revenue savings or additional income through the generation of Business Rates, Council Tax or energy revenues.
- 1.5.19 The 2023-2027 Financial Planning and Budget process will include a review of the current Investment Plan and the Capital Investment Strategy, including current commitments, available resources and emerging priorities, with a view to the development of a five-year Investment Plan for the period 2023/24 to 2027/28.
- 1.5.20 The Authority is observing a number of challenges directly impacting upon the delivery of planned capital projects as a result of unprecedented economic volatility which are causing significant pressure upon the availability of some materials, particularly steel, and the associated construction cost given higher than expected levels of inflation. This may result in the re-profiling of schemes as part of developing the Investment Plan in order to maximise the impact of the Authority's investment and continue to ensure value for money.
- 1.5.21 The Authority continues to actively explore external funding possibilities and other capital resources such as Community Infrastructure Levy (CIL) income, section 106 contributions and section 278 contributions when developing capital projects in order to minimise the borrowing requirement as far as possible. Within the MTFP, assumptions have been made around the level of external funding in the future, but detailed work programmes are not committed to until the allocations have been confirmed and funding strategies have been determined. Projects and investment plans may therefore be re-prioritised depending on the availability of external funding and alignment with the policy direction of the Elected Mayor and Cabinet.
- 1.5.22 The generation of capital receipts can help to provide resources to support additional capital investment or to reduce the borrowing requirement (and therefore the associated revenue costs). The availability of capital receipts has also reduced in recent years. Currently, no new capital receipts have been included within the MTFP projections. If additional capital receipts are generated during the year, this provides the Authority with the flexibility to consider the introduction of additional projects to the Investment Plan or the ability to reduce its borrowing requirements.
- 1.5.23 The Treasury Management Strategy will be reviewed in light of the refreshed Investment Plan and the overall MTFP for both the General Fund and the HRA.

Update on developing the 2023-2027 General Fund Financial Plan and Budget

- 1.5.24 Whilst decisions around Budget-setting are approved on an annual basis, the Authority must demonstrate robust medium-term financial and resource planning. Best practice suggests between three and five years as a reasonable financial planning period.
- 1.5.25 Despite the level of uncertainty with regard to local government funding beyond 2023/24 and the current economic uncertainty a four-year Financial Plan is in development. This reflects, as far as possible, known pressures and changes but is based on a range of assumptions in local government funding.
- 1.5.26 Local authorities are legally obliged to set a balanced Budget each year, and to ensure that they have sufficient reserves to cover any unexpected events. To legally balance the Budget, the Authority must make spending plans that match the estimated funding available over that time. The gap between available funds and planned net expenditure is referred to as the funding gap, or efficiency requirement. In essence, the funding gap is the best estimate of additional resources, be those reductions in expenditure or increases in income, needed to cover rising cost pressures and demand for services alongside a reduced amount of funding from the Government and, to a lesser extent, other external sources.

Financial Sustainability

- 1.5.27 As part of the update of the MTFs and the MTFP, full consideration has been given to the Authority's Reserves and Balances Policy and level of reserves to ensure adequate protection against unforeseen events. Within the existing statutory and regulatory framework, it is the responsibility of the Director of Resources (in his role as Chief Finance Officer) to advise the Authority about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.
- 1.5.28 The Authority, acting on the advice of the Chief Finance Officer, must make its own judgments on the level of reserves and balances taking into account all the relevant local circumstances. These include operational and financial risks, and the arrangements in place to manage them, including adequate and effective systems of internal control. The duties of the Chief Finance Officer in relation to the level of reserves are covered by the legislative framework described in 1.4.1 above. Under Section 27 of the Local Government Act 2003, the Chief Finance Officer must report to Full Council on the adequacy of reserves and reserve transactions must be taken account of within the required Budget monitoring arrangements (section 28).
- 1.5.29 Setting the level of reserves is just one of several related decisions in the formulation of the financial strategy and the Budget for a particular year. This is carried out as part of the Authority's Financial Planning and Budget process. Account is taken of the key financial assumptions underpinning the Budget, alongside consideration of the Authority's financial management arrangements. In addition to the cash flow requirements of the Authority, the following factors are considered:
- The treatment of inflation and interest rates;
 - Estimates of the level and timing of capital receipts;
 - The treatment of demand-led pressures;
 - The treatment of planned efficiency savings / productivity gains;
 - The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital investment developments;

- The availability of other funds to deal with major contingencies and the adequacy of provisions; and
- The general financial and economic climate in which the Authority operates.

1.5.30 Reserves are reviewed during the financial year and table 1 below shows the estimated use, following reviews of all General Fund reserves over the period to March 2027:

Table 1: General Fund Reserves Summary 2021/22 to 2026/27

Reserves Summary	Closing Balance 31/03/22 £m	Net Contribution(to) / From Reserves					Total
		2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	
General Fund Balances	(7.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(7.000)
General Fund Reserves	(55.993)	10.914	1.894	1.186	0.926	6.697	(34.376)
General Fund Grants	(18.484)	12.874	4.368	0.568	0.152	0.232	(0.291)
Dedicated Schools Grant	12.851	0.393	4.674	(8.419)	(2.500)	(1.500)	5.500
Total Reserves	(68.626)	24.181	10.936	(6.665)	(1.422)	5.429	(36.167)

1.5.31 In assessing the adequacy of reserves, consideration is given to the level of un-earmarked reserves available for the management of financial risk to the Authority. The General Fund reserves total of £55.993 includes £35.545m of earmarked reserves, and £20.448m of un-earmarked reserves. The un-earmarked reserves are made up of the following:-

- Strategic Reserve
- Support for Change Fund Programme Reserve
- Redundancy and Remuneration Reserve

There is anticipated use of the Redundancy & Remuneration Reserve and the Support for Change Fund Programme Reserve over the period of the MTFP leaving the Strategic Reserve as the only material reserve which is un-earmarked.

1.5.32 Table 2 below sets out the level of un-earmarked General Fund reserves held at the end of the 2021/22 financial year as a proportion of the 2022/23 Gross Expenditure Budget and General Fund Net Revenue Budget.

Table 2: Reserves comparison for 2021/22 against 2022/23 North Tyneside Gross Expenditure and Net General Fund Budget

	2021/22 Balance £m
Strategic Reserve	14.426
Support Change Fund Programme	4.498
Redundancy and Remuneration Reserve	1.525
Total Un-earmarked Reserves	20.448
Gross Expenditure Budget	365.827
Reserves as a % of Gross Expenditure Budget	5.59%
General Fund Net Revenue Budget	163.512
Un-earmarked Reserves as a % of General Fund Net Revenue Budget	12.51%

1.5.33 There are many factors involved when considering appropriate levels of reserves which need to be assessed by individual local authorities. 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, the continued cost and inflationary pressures, as well the legacy impacts 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.

Equality and Diversity Considerations

1.5.34 The Authority has specific responsibilities under the Equality Act 2010 and Public Sector Equality Duty. Part of this is to ensure that the potential effects of decisions on those protected by equality legislation are considered prior to any decision being made. The Authority will continually monitor the effect of its Budget-setting process and decision-making by using equality impact assessments.

1.5.35 Full impact assessments will be included in all proposals for inclusion with the initial Budget proposals in November 2022 in order to be available to Cabinet when it further considers the MTFP and Budget proposals on 28 November 2022. An equality impact assessment is also carried out on the proposed Budget Engagement Strategy.

2023/24 Financial Planning and Budget process - Timetable of Key Decision Milestones

1.5.36 Key aspects of the 2023/24 Financial Planning and Budget process timetable are set out at Appendix B to this report, highlighting key decision milestones in the process.

1.5.37 The Elected Mayor and Cabinet are responsible for formulating the Authority's Budget. The Cabinet Member for Finance and Resources, in close consultation with the Elected Mayor, has been nominated as the lead Cabinet Member for the overarching 2023-2027 Financial Planning and Budget process. The Director of Resources will be the project sponsor.

The Budget Engagement Strategy

- 1.5.38 North Tyneside Council is committed to being an organisation that works better for residents and to ensure that it listens and cares. This commitment includes giving residents and other key stakeholders an opportunity to be involved in the Financial Planning and Budget process.
- 1.5.39 The aim of the Budget Engagement Strategy is to reach different sectors of the population through an approach that encompasses engagement with residents as a whole and customers/users of services as well as particular groups of people, including those with protected characteristics. The approach also ensures reach with particular interest groups such council housing tenants. The Budget Engagement Strategy also ensures targeted activity with specific external and internal stakeholder groups. Full details of the Budget Engagement Strategy are set out at Appendix C to this report.

1.6 Decision options:

- 1.6.1 The Authority's Constitution and Budget and Policy Framework Procedure Rules set out the stages to be completed in relation to agreeing the Budget of the Authority. There are no other options available in relation to this. The Budget Engagement Strategy forms part of the 2023-2027 Financial Planning and Budget process.
- 1.6.2 Cabinet is referred to the legal requirements as stated in paragraph 2.2 of this report.

1.7 Reasons for recommended option:

- 1.7.1 The reasons for the recommendations are mainly legal in nature, as stated in paragraphs 2.1 and 2.2 of this report.

1.8. Appendices:

Appendix A: 2023-2027 Medium-Term Financial Strategy

Appendix B: Financial Planning and Budget process: Timetable of Key Milestones

Appendix C: 2023/24 Budget Engagement Strategy

1.9. Contact officers:

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Background information:

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

- (a) Authority's Constitution and Budget and Policy Framework Procedure Rules
<https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/October%202020.pdf>
- (b) 2021-2025 Our North Tyneside Plan
<https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/ONT%20Plan%202021-25.pdf>
- (c) Treasury Management Strategy
<https://democracy.northtyneside.gov.uk/documents/s7277/Financial%20Management%20Report%20to%2030%20September%202021-Appendix-3.pdf>
- (d) COVID-19 – A Framework for Recovery in North Tyneside
<https://democracy.northtyneside.gov.uk/documents/s4039/Covid-19%20-%20A%20Framework%20for%20Recovery%20in%20North%20Tyneside.pdf>
- (e) 2021/22 Provisional Finance Outturn Report
<https://democracy.northtyneside.gov.uk/documents/s9265/2021-22%20Provisional%20Finance%20Outturn%20Main%20Report.pdf>
- (f) 2021/22 Draft Statement of Accounts
<https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/Draft%20Statement%20of%20Accounts%202021-22%20.pdf>
- (g) North Tyneside Highway Asset Management Plan Annual Information Report 2020
<https://democracy.northtyneside.gov.uk/documents/s4538/North%20Tyneside%20Highway%20Asset%20Management%20Plan%20Annual%20Information%20Report%202020.pdf>
- (h) An Ambition for North Tyneside Update
<https://democracy.northtyneside.gov.uk/documents/s7901/An%20Ambition%20for%20North%20Tyneside%20-%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/s7231/Climate%20Emergency%20Update.pdf>
- (k) North Tyneside Homelessness Prevention and Rough Sleeping Strategy 2019-2021
<https://democracy.northtyneside.gov.uk/documents/s1968/North%20Tyneside%20Homelessness%20Prevention%20and%20Rough%20Sleeping%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/s6188/North%20Tyneside%20Transport%20Strategy%20Annual%20Report%202020-21.pdf>
- (o) Workforce Development Plan

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

- 2.1.1 The financial implications arising from the outcomes of this report will be appraised as part of the decisions included in the Authority's 2023-2027 Medium-Term Financial Plan (MTFP), incorporating the 2023/24 Budget-setting process. Decisions on the Budget in relation to the General Fund, Housing Revenue Account, school's funding and the Investment Plan need to be made within the overall context of the resources available to the Authority and within the legal framework for setting budgets. The Authority will need to examine closely the links with key funding partners and their proposed financial plans, including an assessment of the impact of any grant fall-out over the proposed four-year resource-planning period.
- 2.1.2 Cabinet and Council need to have due regard to the Chief Finance Officer's advice in relation to the levels of reserves and balances proposed as part of the four-year MTFP for 2023-2027 in accordance with the Authority's Reserves and Balances Policy most recently agreed by Council on 17 February 2022.
- 2.1.3 The only direct financial implications arising from this report will be any residual costs arising from support for engagement activity. These costs will be met from existing budgets.
- 2.1.4 The Budget Engagement Strategy for 2023/24 will, in part, help to inform decisions about what will be included in the four-year MTFP for 2023-2027.

2.2 Legal

- 2.2.1 The Local Government Finance Act 1992 requires the Authority to set a balanced budget in the context of the resources available, including Government grants, Business Rates and Council Tax income.
- 2.2.2 The Local Government Act 2003 imposes duties on local authorities in relation to budget setting. The Act requires that, when an authority is deciding its annual Budget and Council Tax level, members and officers must take into account a report from the Chief Finance Officer on the robustness of the Budget and the adequacy of the Authority's financial reserves.
- 2.2.3 The 2023-2027 Financial Planning and Budget process has been prepared to comply with the timescales required within the Budget and Policy Framework Procedure Rules contained within the Authority's Constitution.

2.3 Consultation/community engagement

- 2.3.1 Internal consultation

Consultation has been carried out with the Elected Mayor, Deputy Mayor, and the Cabinet Member for Finance and Resources, the Cabinet Member for Community

Safety and Engagement, the Chief Executive and the Senior Leadership Team. At the appropriate stage in the process, and the Budget proposals will be scrutinised as set down in the Authority's Constitution and Budget and Policy Framework Procedure Rules.

2.3.2 External consultation / engagement

The Budget Engagement Strategy for 2023/24 as outlined in this report sets out the process by which residents and other stakeholders will be involved in the consultation on the 2023/24 Budget as part of the 2023-2027 Financial Planning and Budget process.

2.4 Human rights

All actions and spending contained within the Budget are fully compliant with national and international human rights law. This will be detailed as part of the Financial Plan and Budget at the appropriate stage in the process. For example, Article 10 of the European Convention on Human Rights guarantees freedom of expression, including the freedom to 'hold opinions and to receive and impart information and ideas'. Article 8 of the Convention guarantees the right to respect for private and family life.

2.5 Equalities and diversity

In undertaking the process for the Budget, the Authority's aim will at all times be to secure compliance with its responsibilities under the Equality Act 2010 and in particular the Public Sector Equality Duty under that Act.

To achieve this the Authority will be taking a phased approach:

- As outlined in paragraph 1.5.35, an Equality Impact Assessment will be carried out on the proposals for the Budget Engagement Strategy. The aim will be to remove or minimise any disadvantage for people wishing to take part in the engagement activity. The Authority will make direct contact with groups representing people with protected characteristics under the Equality Act 2010 to encourage participation and provide engagement in a manner that will meet their needs. Appendix C outlines the approach the Authority is taking.
- The outcome of any decisions made following engagement activity will be subject to further Equality Impact Assessment. Any EIAs undertaken prior to Cabinet in November, will be updated following the engagement activity.

2.6 Risk management

Individual projects within the Budget are subject to full risk reviews. For larger projects, individual project risk registers are / will be established as part of the Authority's agreed approach to project management. Risks will be entered into the appropriate Service or Corporate / Strategic Risk Register(s) and will be subject to ongoing management to reduce the likelihood and impact of each risk.

2.7 Crime and disorder

2.7.1 Individual proposals within this report do not themselves have direct implications for crime and disorder. However, ultimately decisions may be made and considered as part of the overall Financial Planning and Budget process, as set down in this report.

These will be detailed as part of reporting the Budget at the appropriate stage in the process.

- 2.7.2 Under the 1998 Crime and Disorder Act, local authorities have a statutory duty to work with partners on the reduction of crime and disorder. This is fulfilled through the Safer North Tyneside partnership within the framework of the North Tyneside Strategic Partnership.

2.8 Environment and sustainability

The proposals within this report do not themselves have direct implications in relation to the environment and sustainability. However, ultimately decisions may be made and considered as part of the overall Financial Planning and Budget process of the Authority, as set down in this report. These will be detailed as part of the Budget at the appropriate stage in the process.

PART 3 - SIGN OFF

- Chief Executive X
- Directors(s) of Service X
- Mayor/Cabinet Member(s) X
- Chief Finance Officer X
- Monitoring Officer X
- Assistant Chief Executive X