Appendix A

2023-2027 Medium-Term Financial Strategy

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North Tyneside Council

Contents

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 2023/24 to 2026/27 which will help ensure resources are aligned to the outcomes in the Our North Tyneside Plan.

1.2 The Authority's 2022/23 Budget and MTFS were agreed in February 2022. 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.

A number of pressures within the Authority's budget are driven by Central Government decisions, including elements of pay and price market pressures which are linked to the National Living Wage, social care reform, and pressures relating to assumed reductions in funding (for example the New Homes Bonus grant in 2023/24).

1.3 The Authority is still evaluating how the likely 2023/24 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 2023/24 and over the medium-term to 2026/27. Initial estimates are that the budget gap for the period of the MTFS is likely to be in the region of between £30m and £50m.

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 to protect services for the most vulnerable. The opportunity to work with partners and neighbouring authorities remains to maintain and improve outcomes against a backdrop of reducing public spending.

1.5 The Authority's financial planning had largely assumed that COVID-19 pressures would abate in line with the withdrawal of Government support. However, 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.

1.6 Over the coming months and whilst the budget activity for 2023/24 is progressing the refresh of the MTFS will determine the likely levels of resources available. There will be a focus on determining the level of spending and priority commitments arising from the significant rise in inflation which is impacting energy and fuel costs as well as increasing the cost of the Authority's supply chain across a number of Services.

The 2022/23 pay award has yet to be agreed, the current Medium-Term Financial Plan has included an assumption of a 2% increase per year to 2025/26 which, based on current information, would be insufficient to cover the anticipated increase which could be more than 6%. There will inevitably be an ongoing pressure relating to COVID-19 in relation to both additional expenditure and lost income, the Authority will aim to mitigate this as far as it possibly can.

A full assessment of the ongoing impact is currently being undertaken and the MTFS will be updated to reflect this once this has been completed. 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 2023/24 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 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.

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 2023/24 Budget all services will be required to take part in Budget Challenge sessions;

4) In order to inform further revisions of the 2023/24 MTFS 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 2022/23 Budget gap will include:
   a. Government providing additional funding;
   b. Corporate / centrally identified savings opportunities;
   c. Service departments 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, 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 MTFS

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 2022 and local government funding

3.3 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.

The Office for Budget Responsibility assessed the Spring Statement position as follows:

The public finances have emerged from the pandemic in better shape than expected. But Russia's invasion of the Ukraine will push inflation to a 40-year high of almost 9%, and living standards are set for a historic fall over the next 12 months. The Chancellor has used his Spring Statement to deliver rebates and tax cuts that reduce that fall by a third to just over 2% and a pair of personal tax cuts undo one-sixth of the total tax rises he has previously announced. This leaves him with £30 billion of headroom against his fiscal targets.

3.4 The key economic forecasts from the Spring Statement were:

- GDP growth forecasts for 2022 have been reduced from 6% to 3.8%.
- CPI inflation is expected to peak in the 4th quarter of this year at around 8.7%, and is currently 6.2%. RPI is consistently higher than CPI.
- Borrowing is forecast to increase to £99bn for 2022/23, reducing to £32bn in 2026/27.

3.5 The key policy announcements made as part of the Spring Statement include:

- Fuel duty will be reduced by 5p a litre from 6pm 23 March 2022 until March 2023. This is estimated to mean a reduction of just over £3 on a standard tank of fuel;
- The National Insurance Primary Threshold and Lower Profits Limit (for employees and the self-employed respectively) will be raised by £3,000, from £9,880 to £12,570 from July 2022. This aligns the NI threshold with the threshold for income tax, meaning people must earn £12,570 per year before paying income tax or NI. This increase is forecast to benefit almost 30 million people, with a typical employee saving over £330 in the year from July. Around 70% of NICs payers will pay less NICs, even after accounting for the introduction of the Health and Social Care Levy;
- VAT will be reduced to 0% on home energy-saving measures such as insulation, solar panels and heat pumps for five years from April 2022;
- The Household Support Fund will be extended with an additional £500m from April 2022, on top of the £500m already provided since October 2021, bringing total funding to £1 billion. The fund will continue to be administered by local authorities in England;
- The former Chancellor confirmed a number of existing business rates measures and including that SMEs in the retail hospitality and leisure sectors will receive a 50% discount in business rates up to £0.110m, alongside targeted business rate exemptions to support the decarbonisation of non-domestic buildings which would be brought forward;
- A reduction in the basic rate of income tax from 20% to 19%, however this will not be implemented until April 2024; and
- Opening the second round of bidding to the £4.8 billion Levelling Up Fund.

3.6 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.

3.7 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 Council’s 2023/24 Budget as they emerge over the coming weeks and months.

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 2022 by the Office for National Statistics. The CPI rose to 10.1% up by 8.1% in the 12 months since July 2021 when it was 2%. The September CPI figure is usually used to set the business rates multiplier for the coming year, and (for the 2022/23 financial year) was the inflation figure applied to authorities Settlement Funding Assessment levels. The current General Fund Medium-Term Financial Plan does not include any uplift to CPI rates to those areas which are impacted by this.

In recent webinars hosted by Pixel and SIGOMA representatives from the Local Government Association have been clear that the Government has indicated that there will be no new funding available for local government outside of that announced as part of the last spending review. Therefore, the quantum of funding available for local government in 2023/24 is not anticipated to increase. Due to the significant funding pressures that local government will face in 2023/24 and future years it is impossible to predict whether the Government will increase elements such as the business rates multiplier by the current CPI levels or whether these will be capped to keep within the current budget envelope.

Budget Uncertainty

3.9 A number of significant uncertainties remain which could have an impact on the overall scale of the budget gap to be addressed in 2023/24, linked to ongoing uncertainty around local government (and wider public sector finances) including:

- Further "cost of living" pressures and the wider economic impacts, including the implications of the invasion of Ukraine;
- Further cost pressures emerging to support the achievement of carbon reduction targets, above the funding provided for in the 2022/23 Budget;
- the outcome of funding reforms (previously the Fair Funding Review) intended to be consulted on during 2022/23 and implemented for 2023/24. The short-term nature of the settlement announcement (for 2022/23 only, in spite of a multi-year Spending Review) means that risks remain around the provision of this funding in future years and therefore a material impact and potential cliff-edge may emerge in 2023/24 if these assumptions have to be subsequently reversed. The trajectory for local authority funding implied by

both the Spending Review and 2022/23 settlement is for only very limited increases in core ongoing funding in 2023/24 and beyond;
- Government decisions about the council tax referendum limit or further Adult Social Care precept flexibilities in 2023/24. Government continues to make assumptions about Council Tax increases which effectively transfer the burden of funding services to North Tyneside taxpayers;
- the need for a long-term financial settlement for local government;
- delivery of other reforms to local government funding including the details of the approach to Adult Social Care reforms to implement the cap on care costs, and changes to other funding streams including the New Homes Bonus;
- The financial impact of anticipated social care and send national reviews which are assumed will not result in further unfunded burdens; and
- progress of various elements of Government policy including levelling up and the Shared Prosperity Fund.

3.10 As set out at the time of 2022/23 budget setting, the pressures within the current budget planning position are such that the Director of Resources considers that the Authority will have very limited opportunity to vary these assumptions, and in the event that the Government offered the discretion for larger increases in Council Tax, or increases in the Adult Social Care precept for 2023/24, this would be the recommendation of the Section 151 Officer in order to ensure that the Authority's financial position remains robust and sustainable.

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 2021-2025 sets out the overall vision and policy context within which the Financial Plan and Budget are set. The Council Plan was refreshed last year following the Mayoral Elections on 6 May 2021 to reflect the policy priorities of the incoming administration. Following consultation with residents and key stakeholders, Full Council agreed the refreshed Our North Tyneside Plan 2021-2025 on 23 September 2021.

By listening to our residents, businesses and visitors, the 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 has a vision of building a better North Tyneside looking to the future. Throughout all that the Authority does, there will be a clear focus on listening to and working with residents, businesses, the community and voluntary sector and all other stakeholders to ensure that things are delivered in partnership and in line with the different needs of the borough.

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 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.

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 the Authority continues 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 update 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 2022/23 Medium Term Financial Plan agreed in February 2022 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 continue 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 The Authority's financial planning had largely assumed that COVID-19 pressures would abate in line with the withdrawal of Government support. However, 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.

6.2 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 2022/23 alongside the uncertain long term implications of how the Borough and indeed the country will continue to live alongside the impacts 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.

6.3 Another key challenge is around inflation and the impact that will have on key expenditure around utilities, waste disposal as well as the impact it will have on the supply chain and costs of materials for Capital projects, HRA projects and general goods and services within revenue. The CPI rate in July 2021 was 2% by March 2022 this had risen to 7% and as recently reported in July 2022 the rate was 10.1%, an increase of 8.1% in just one calendar year. The impact on the cost of and access to materials is further impacted by the on-going conflict in Ukraine.

6.4 The ringfenced Dedicated Schools Grant (DSG) is received from the Government and administered by the Authority and is the main source of income for the schools' budget. The DSG first fell into deficit during 2017/18 and it is an important element of the financial management of the Authority that the DSG is not in a deficit position. As a result, there has been action to address the deficit working collaboratively with Schools Forum although increasing numbers of children with special needs entering the education system has offset some of the progress.

Such deficits have come under increasing scrutiny from the Department for Education (DfE) and during 2021, the Authority was required to submit a draft DSG Management Plan to the Education, Skills and Funding Agency (ESFA) as its DSG deficit was more than 1% of the total value of the DSG as at March 2021. As a consequence, since then, the Authority's DSG deficit has remained under review.

Liaising with the DfE during 2021/22 the Authority has been working to firm up plans to reduce the DSG deficit and this work is now being overseen by the Strategic Education and Inclusion Board. The Authority submitted a draft DSG Management plan to the ESFA in August 2021 which outlined the main areas of priority that focus on reducing the deficit on the High Needs block of the DSG. As of 2022/23 the Authority has been invited to be part of the ESFAs Safety Valve Intervention programme from September 2022. The Authority has had early discussions with representatives from the ESFA and as plans are firmed up over the coming months the ESFA will continue to challenge and support the Authority through to the Safety Valve process commencing in September 2022.

For 2022/23 £150m of revenue funding is available to support the cumulative deficit position of those authorities who are part of the Safety Valve programme, however, the ESFA have been clear that access to this funding will only be agreed once a robust DSG Management Plan is in place.The current cumulative deficit position on the High Needs block of the DSG at the end of the 2021/22 financial year is £13.512m. This is an increase of £4.792m since March 2021.

6.5 A key risk for the Authority is that the statutory override to ring-fence DSG deficits from councils' wider financial position in their statutory accounts is due to come end after the accounts for the financial year 2022/23. At which point authorities will need to demonstrate their ability to cover DSG deficits from their available reserves. Due to the level of the deficit on the High Needs block of the DSG it is imperative that the Authority's DSG Management Plan meets the ESFA's requirements to ensure the historic deficit can be supported by funding that is available.

6.6 There are a number of current key risks which will impact on future HRA Business Planning, most of which are linked to the current economic climate and high rates of inflation. Inflation continues to trend upwards, having recently passed 10% and next year's rent increase will be based on the September 2022 Consumer Prices Index (CPI) rate of inflation. It is unclear at this stage if the rate was around 10% if there would be Government intervention to restrict the size of any rent increase.

6.7 The cost of the goods and materials needed to maintain the housing stock, and to meet Cabinet's aspirations to build new homes is rising significantly. Should resources raised through rent increases not match the rising costs, then the Authority will face more difficult choices around what can and cannot be delivered, certainly in the short to medium term.

The potential impact of the cost-of-living crisis our most vulnerable residents continues to be monitored closely to assess what the full impact of this will be on the rate of increase in the levels of arrears, which have doubled since 2015.

6.8 One other key factor in terms of HRA Business Planning are the number of homes that our managed and the impact of Right to Buy (RTB). Cabinet will know that Government significantly increased the discount rates attached to RTB back in 2012 to incentivize more sales, but this appeared to have steadied at between 100-120 sales per annum over the last three years. However, 2021-22 saw the largest number of sales since the changes were introduced at 167, and if this trend was to continue it would eat into the key resource base and put further pressure on our ability to tackle tenant waiting lists. This would also make it more important to add to the stock, but as set out above in a much more difficult cost environment.

6.9 The Bank of England as part of their monetary policy have been increasing interest rates to manage the continued rise in inflation, with interest rates forecast to rise further. However, the rise in interest rates will only partially manage inflation due to the underlying inflation being driven by international energy price increases driven by the conflict in Ukraine and Russia. The above risks are impacting the capital investment plan from the perspective of increasing costs in relation raw material and labour costs. This is also exacerbated by increasing interest rates which will have a bearing on the cost of borrowing for the Authority going forward.

Social Care Services

6.10 The Health, Education, Care and Safeguarding (HECS) services continue to experience significant demand-led pressures as earlier diagnosis combined with cases become more complex increase costs. These pressures are likely to be further impacted by legislative changes through central government such as the Fair Cost of Care exercise which is under way and will potentially lead to fee increases within the homecare and residential care markets. The HECS service also has challenges around recruitment and retention. It has become increasingly challenging to recruit staff into roles within the HECS service and to retain the employment of staff long-term within the profession.

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.

6.11 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.

6.12 At the end of 2021/22, 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.

6.13 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 2023/24. The pressures that remain post Covid, will need to be supported by Services. The MTFS 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 2021/22 was approved by full Council at its meeting of 18 February 2021. The net General Fund Budget was set at £150.154m including efficiency savings of £4.537m (£1.180m of 2021/22 impact of prior year business cases and £3.357m of prior year savings requiring a permanent solution in 2021/22). The final outturn reported to Cabinet on 27 June 2022 stated a marginal overspend on business-as-usual activities of £0.078m.

As part of a review undertaken of the Authority's Minimum Revenue Provision (MRP), a change to the methodology used to calculate the MRP resulted in a reduced MRP charge being made in 2021/22 by moving from a straight-line method to the annuity approach for unsupported borrowing. This change resulted in a lower charge of MRP being made than the Authority had budgeted for in 2021/22. This has added a further surplus of £5.893m to the General Fund outturn position. The balance of £5.893m is proposed to be transferred to a new MRP earmarked reserve as part of the final accounts process. This will be confirmed once the External Audit of the Authority's accounts has been concluded and reported to the Audit Committee in November 2022.

7.2 The Budget for 2022/23 was approved by full Council at its meeting on the 17 February 2022. The net General Fund revenue budget was set at £163.512m. This included (£7.257m) of savings to be achieved, of which (£3.113m) relates to new business cases included in the 2022-2026 Medium-Term Financial Plan, (£1.607m) of full year effect of prior year business cases and (£2.537m) of savings previously achieved by one-off mitigations and non-permanent solutions.

Prior to any mitigation, the Authority's approved net revenue budget is forecast to outturn with a pressure of £19.115m. The Authority, as would be expected at this stage of the financial year, is taking a prudent approach to forecasting including in relation to the on-going impact of COVID-19 which currently is forecast to add pressures of £4.082m to the General Fund in 2022/23. These pressures are primarily where fees and charges income has yet to return to pre-pandemic levels, where additional fixed term staff are employed to cover increased demand or to enable front-line service provision to continue unimpacted by employees needing to self-isolate. In addition to COVID-19, global market pressures exist around the Authority's supply chain and current inflation levels, these combined add a further £3.687m to the overall pressure. The remaining £11.346m relates primarily to staffing and other income related pressures across the services.

7.3 As part of the 2022-2026 Medium-Term Financial Plan (MTFP) agreed by Council in February £2.200m was set aside from the Change Reserve to support additional pressures in Home to School Transport (£1.800m), Special Educational Needs (£0.400m), additional children's social care provision (£1.200m) and for the development of the Customer Relationship Management programme (£0.200m).

In addition to the use of the Change Reserve, £2.000m was also set aside to create a Covid-19 Reserve as part of the 2022-2026 MTFP, this included (£0.650m) to support additional caseloads within Children's Services, (£0.350m) to support Home to School Transport and (£1.000m) to support reduced fees and charges income following the pandemic.

Within the 2022-2026 MTFP, (£0.150m) was identified as planned use of the Insurance Reserve to support additional Repairs and Maintenance costs within the Authority’s Commissioning & Asset Management Service Area.

7.4 Included within the position for Central Items is (£7.713m) of contingencies; of which (£3.116m) is being used to offset the pressures in Children’s Social Care, (£1.301m) is supporting the under achievement of savings targets and (£3.296m) is being used to support the non-energy related inflationary pressures being faced by the Authority. Further to this balance, an additional (£2.264m) was set aside in the 2022-26 MTFP to support anticipated pressures in 2022/23. Of this (£1.300m) is being used to support energy related inflationary pressures, (£0.964m) supporting non-energy related inflationary pressures. With the allocation of this support, the Authority has been able to release a provision of (£0.300m) previously held on the balance sheet to support increased Special Guardianship Order costs.

The Authority was able to carry forward from 2021/22, (£2.962m) of COVID-19 related central Government grants. Of this (£1.724m) has been committed and is reflected in the £19.115m position. The remaining balance of (£1.238m) is available to support on-going COVID-19 legacy pressures.

With the inclusion of the planned support from the 2022-2026 MTFP, the adjusted General Fund position is a pressure of £10.963m. This reflects the continuing impact of COVID-19 being £0.844m over the support funding allocated. The main areas impacted are within Environment & Leisure where Sports and Leisure income from fees and charges continues to be lower than pre-pandemic levels. Initial projections suggest income will be higher than in 2021/22 but still only 80% of the income levels achieved pre-pandemic in 2019/20. Significant pressures also exist in Children’s Services, where the response to the impact of COVID-19 has seen staffing levels increase to manage a significant increase caseloads and demand for services for Children. This is not unique to North Tyneside and is being seen across the region and nationally.

7.5 The Inflation Rate has recently reached 10.1% and this is much higher than when the allocations were made in the 2022-2026 MTFP. This is forecast to add a further £1.423m in respect of both energy and non-energy related inflationary pressures. The majority of the inflation issues being in Adults Services across the external care market and contractual costs within Commissioning & Asset Management for catering supplies and the cost of Home to School Transport.

The remaining balance of £8.696m is attributable to pressures considered to be ‘Business as Usual’. Finance officers are continuing to work with Cabinet, the Senior Leadership Team and other senior officers across the Authority to review Business as Usual activity in a number of key areas:

- Children’s Services – staffing & placements;
- Children’s risks and the likelihood of crystallisation;
- SEND pressures;
- Adults Social Care – demand assumptions;
- Adults Social Care risks and the likelihood of crystallisation;
- Unachieved savings targets;
- Commissioning & Asset Management – Impact of SLA reductions;
- Law & Governance Structure – use of locums; and

- Revenues & Benefits position – review of the level of overpayments and subsequent recovery.

The aim of this work will be to ensure actions are in place to bring It is anticipated that the outturn forecast for normal activities in on balance and it is anticipated the position will improve over the course of the financial year as planned remedial actions begin to impact on both expenditure and income.

7.6 Medium-term financial planning remains extremely difficult due to the impact of ongoing pressures as outlined above including but not limited to the significant increase in inflation and the ongoing impact of COVID-19, the financial impacts of which are impossible to predict accurately. 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.

8.2 Investment of this nature plays an important role in ensuring the Authority meets its health and safety responsibilities and its assets can be used to support effective service delivery. Capital investment also plays an important role in improving economic opportunities across all parts of the Borough. Whilst some investment directly contributes to economic development and regeneration, all investment has an indirect impact by providing stimulus to the economy, creating employment opportunities, supporting skills and development and increasing market confidence.

8.3 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 directly to the delivery of the 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.

8.4 All proposals for capital investment follow a structured governance 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 and the Ambition for North Tyneside.

8.5 The revenue implications of any capital investment decision are reviewed and assessed as part of the decision to proceed with the scheme. This includes the associated capital financing costs as well as the ongoing revenue running costs. The projected revenue implications are then reflected in the Medium-Term Financial Plan and revenue Budget to ensure that the planned investment is considered to be affordable and sustainable.

8.6 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 2022-2027), the resource implications and any associated delivery risks.

Summary of the Investment Plan 2022-2027

Spend	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s	Total £000s
General Fund	82,567	32,326	20,249	15,687	17,564	168,393
Housing	31,713	28,100	30,651	32,126	34,046	156,636
Total	**114,280**	**60,426**	**50,900**	**47,813**	**51,610**	**325,029**

Summary of Financing 2022-2027

Spend	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s	Total £000s
<u>General Fund</u> **Council contributions:**						
Unsupported borrowing	21,128	13,046	11,776	8,223	10,100	64,273
Capital receipts	317	0	0	0	0	317
Revenue contribution	746	500	0	0	0	1,246
Use of reserves	978	0	0	0	0	978
	23,169	13,546	11,776	8,223	10,100	66,814
Grants and contributions	59,398	18,780	8,473	7,464	7,464	101,579
Total General Fund Resources	**82,567**	**32,326**	**20,249**	**15,687**	**17,564**	**168,393**
<u>Housing – HRA</u>						
Capital receipts	2,104	1,584	1,700	1,851	1,956	9,195
Revenue contribution	10,281	10,185	12,632	13,160	16,092	62,350
Major Repairs Reserve	18,039	15,916	16,189	17,035	15,868	83,047
Grants and contributions	919	0	0	0	0	919
Use of reserves	370	415	130	80	130	1,125
Total HRA Resources	**31,713**	**28,100**	**30,651**	**32,126**	**34,046**	**156,636**
TOTAL RESOURCES	**114,280**	**60,426**	**50,900**	**47,813**	**51,610**	**325,029**

Capital Allocations 2023/24

8.7 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 2023/24 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)

8.8 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 reasonably commensurate with that over which the capital expenditure provides benefits.

The proposed 2023/24 policy is set out in full below:

(a) Supported and Unsupported borrowing: for all assets financed by borrowing, MRP will be charged over the estimated life of the assets using an annuity basis;
(b) 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. This approach also includes PFI arrangements; and
(c) 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

8.9 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 2023-2028 will be prepared using this guidance.

8.10 The Capital Investment Strategy and Investment Plan will be updated as part of the budget-setting process. The update will consider the impact of COVID-19 and how the Authority can help to support the Borough’s economic recovery and shape the delivery of the Authority’s services. In addition, the update will also consider the impact of the extreme volatility in the economy as it continues to place pressure upon both the cost and availability of materials and labour to deliver planned capital works.

9. Reserves

9.1 Local authorities must consider the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Director 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 2021/22 Revenue Outturn position was reported to Cabinet on 27 July 2022, showing the balance of usable reserves of £95.005m. (including ring fenced reserves and un-ringfenced), Grant Reserves of £5.669m and HRA Reserves of £29.529m. Of the above balances only £20.526m was un-ringfenced. A projection of the reserves and balances position over the MTFP is shown below.

Reserves & Balances	Projected Closing Balances				
	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's
Reserves					
General Fund Ringfenced	29.977	28.796	28.223	27.873	21.676
General Fund Unringfenced	15.102	14.389	13.776	13.200	12.700
General Fund Grants	5.611	1.243	0.675	0.523	0.291
Dedicated Schools Grant	(13.244)	(17.919)	(9.500)	(7.000)	(5.500)
HRA	15.011	14.833	14.528	14.444	14.345
Reserves Sub Total	**52.456**	**41.342**	**47.702**	**49.041**	**43.513**
Balances					
General Fund	7.000	7.000	7.000	7.000	7.000
Schools	1.898	0.398	(1.102)	(2.602)	(4.102)
HRA	3.440	3.069	2.837	2.568	2.627
Balances Sub Total	**12.338**	**10.467**	**8.735**	**6.966**	**5.525**
Grand Total Reserves & Balances	**64.795**	**51.810**	**56.438**	**56.007**	**49.038**

9.6 Whilst an initial review of the reserves position for 2022/23 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 2022 can be found in the Authority's draft Statement of Accounts for 2021/22.

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 2022/23 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

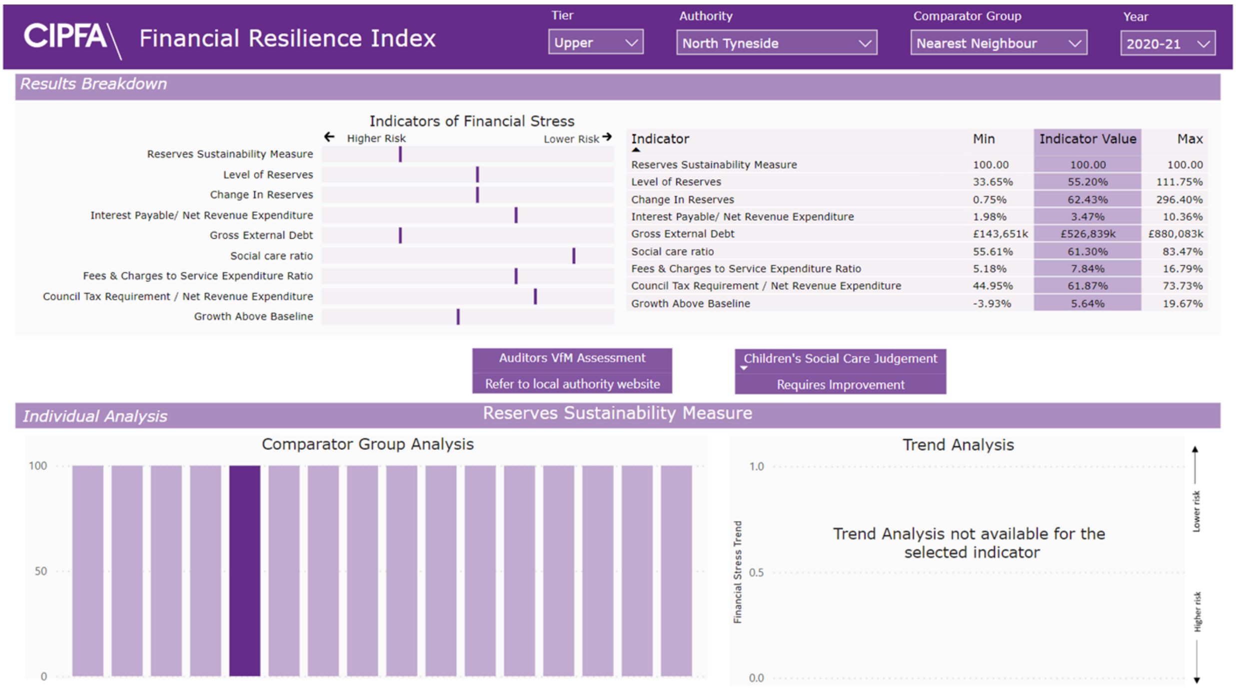
9.7 Each year as part of the annual accounts process the Authority must demonstrate that it is a going concern. This means it must show that it is financially sound in this time of austerity and changing local authority structures. The Authority has an Internal Audit function who continually assess and 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.



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	100.00	100.00	100.00
Level of Reserves	33.65%	55.20%	111.75%
Change In Reserves	0.75%	62.43%	296.40%
Interest Payable/ Net Revenue Expenditure	1.98%	3.47%	10.36%
Gross External Debt	£143,651k	£526,839k	£880,083k
Social care ratio	55.61%	61.30%	83.47%
Fees & Charges to Service Expenditure Ratio	5.18%	7.84%	16.79%
Council Tax Requirement / Net Revenue Expenditure	44.95%	61.87%	73.73%
Growth Above Baseline	-3.93%	5.64%	19.67%

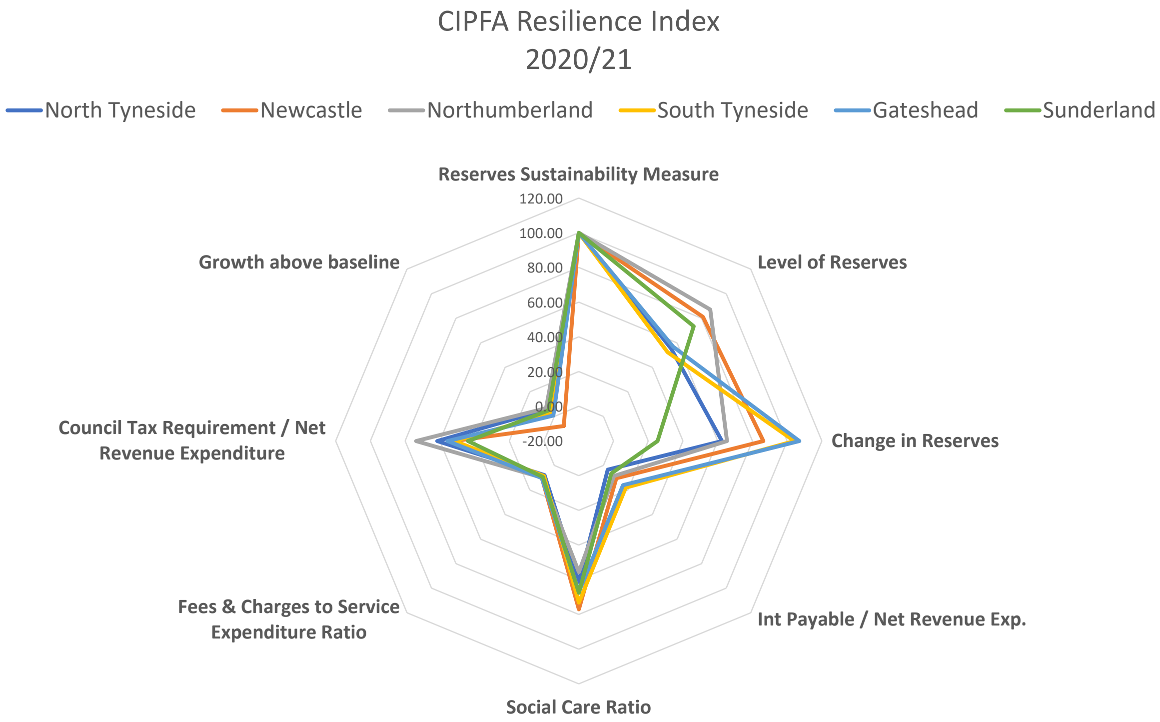
CIPFA has identified four key pillars of financial resilience:

- 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.

9.9 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 2020/21 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

9.10 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. The Authority has carried out a self-assessment against the principles of the FM Code and these have been reported to the Senior Leadership Team. The Authority continues to demonstrate good practice in financial management.

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
Long Term Financial Impact of COVID: 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.
There is a risk of being unable to set a balanced budget for 2023/24 and over the period of the MTFP.	Managed during the budget setting for 2023/24 and robust budget challenge.
The significant impacts of the "cost of living" crisis, exceptional inflationary pressures and the wider impact of the Russian invasion of Ukraine on the economy have the potential to drive additional cost pressures and may lead to reductions in overall income due to the wider economic impacts. The current MTFP approved by Full Council did not provide for the current extreme levels of inflation which are expected to persist throughout the remainder of the financial year and beyond.	Close monitoring of this position during 2022/23 will be required to ensure the MTFP reflects any ongoing pressure and the impact assessment of the current economic situation.
Ongoing uncertainty around local government and wider public sector finances	The Authority will continue to take part in consultations on any funding reforms and will continue to lobby the Government for additional funding where necessary.
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 will take 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 2023/24.
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 2026/27, for the General fund and for the HRA, which will be considered by Cabinet in January 2023.	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 2023/24 proposed Budget.	Detailed proposals have been put forward by each Director 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 2022/23 will not been fully taken into account when preparing the 2023/24 Budget.	The 2022/23 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 2022/23 financial management process impact on the deliverability of the 2023/24 budget.	As at 31 July 2022, a pressure of £19.511m (unmitigated) was reported against the 2022/23 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 2022/23 is insufficient.	The review of the base Budget and the reflection of the 2022/23 pressures into 2023/24 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 DLUHC 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 the Authority may be unsuccessful in securing additional support from the ESFA to mitigate the pressures and current deficit position within the DSG	Internal Governance processes are being developed to ensure a robust plan is submitted and ongoing discussions are taking place with the ESFA. Schools Forum are being kept up to date with all plans that are included within the DSG Management Plan, and this will form part of budget setting for the DSG for 2023/24.
There is a risk that the DSG Deficit Statutory override will come to an end in 2022/23 leaving the Authority with a significant risk to its reserves if the level of deficit needs to be covered by General Fund Reserves	The Authority will continue to submit responses to consultations with the DfE to ensure the DfE are aware that if the Statutory override was to come to an end the Authority would be at significant risk of financial sustainability.

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 exceptional inflationary pressures and the wider impact of the Russian invasion of Ukraine on the world economy whilst also managing the ongoing implications of the COVID-19 pandemic. At this stage in the Budget-setting process it is impossible to predict with any accuracy the financial impact the current economic situation or of the impact of the pandemic which will continue to be felt in the current financial year and 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 2022.

11.2 The initial review of the MTFS identifies a potential financial gap of between £30m and £50m for the next four years from 2023/24 to 2026/27. 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.

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:
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

Appendix A

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.