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North Tyneside Council

Cabinet

27 November 2020

Monday, 30 November 2020 commencing at 6.00 pm. This meeting will be held via video conferencing technology and streamed live on the Council's YouTube channel. https://youtu.be/UaIHnHA4wlk

Agenda Item		Page(s)
6.	**2021-2025 Financial Planning and Budget Process: Cabinet's Initial Budget Proposals** To consider a report detailing Cabinet's initial budget proposals and associated matters (Interim report). A supplemental (main) report detailing Cabinet's initial Budget proposals will be circulated to all members of Cabinet as soon as possible after the Budget announcement is made.	**3 - 120**

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Circulated to Members of Cabinet: -

N Redfearn (Elected Mayor)
Councillor B Pickard (Deputy Mayor)
Councillor G Bell
Councillor C Burdis
Councillor S Cox
Councillor S Day
Councillor P Earley
Councillor R Glindon
Councillor C Johnson
Councillor M Hall

Young and Older People's Representatives and Partners of North Tyneside Council.

North Tyneside Council
Report to Cabinet
Date: 30 November 2020

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

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

Report from Service Area:	**Senior Leadership Team**	
Responsible Officer:	**Janice Gillespie, Head of Resources (Chief Finance Officer)**	**Tel: (0191) 643 5701**
Wards affected:	**All**	

PART 1

1.1 Executive Summary:

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

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

1.1.3 The 2021/22 Budget is being prepared in exceptional circumstances and there is a significant level of risk and uncertainty in relation to the level of funding that will be available to local government in 2021/22 and beyond. Nationally, the Comprehensive

Spending Review (CSR), which would have set out the Government's spending plans over the next three years, has been delayed and a one-year spending round was announced by the Chancellor on 25 November 2020.

1.1.4 The key features of the Spending Review 2020 include:

- Core spending power for local authorities in 2021/22 is estimated to increase by 4.5% in cash terms. The Government announced one-off grant funding for local authorities and expects to provide over £3bn of additional support for COVID-19 pressures in 2021/22. This will include:

    - an additional £1.55bn of grant funding to meet additional expenditure pressures as a result of COVID-19;
    - £670m of additional grant funding to help local authorities support the more than 4 million households that are least able to afford Council Tax payments;
    - providing an estimated £762m to compensate local authorities for 75% of irrecoverable loss of Council Tax and business rates revenues in 2020/21 that would otherwise need to be funded through local authority budgets in 2021/22 and later years; and
    - extending the existing COVID-19 sales, fees and charges reimbursement scheme for a further 3 months until the end of June 2021.

- The underlying core settlement for local authorities in 2021/22 includes:

    - £300m of new grant funding for adult and children's social care, in addition to the £1bn announced at Spending Review 2019 that is being maintained in 2021/22 in line with the Government's commitment;
    - increasing Revenue Support Grant in line with inflation;
    - maintaining the existing New Homes Bonus scheme for a further year but with no new legacy payments; and
    - providing £16m to support modernisation of local authorities' cyber security systems.

- In addition, local authorities will be able to levy a 3% adult social care precept. In the longer term, the Government advises that in terms of delivering a stainable improvement of the adult social care system proposals will be brought forward next year.

- The referendum threshold for increases in Council Tax will remain at 2% in 2021/22. MHCLG will set out full details of the Council Tax referendum principles and adult social care precept flexibility as part of the consultation on the detailed methodology for the Local Government Finance Settlement for 2021/22. There is no indication currently on how the issue of Council Tax equalisation will be dealt with at this stage.

1.1.5 The Provisional Local Government Finance Settlement is not due until December 2020 and is expected in the week commencing 14 December. In addition, key reforms to local government funding, including the Fair Funding Review, Business Rates Retention and reform of adult social care funding have all been repeatedly delayed.

1.1.6 When the 2020/21 Budget and MTFP were agreed in February, nobody could have predicted the financial impact of the COVID-19 pandemic both nationally and locally. Reports published by both the Office for National Statistics and the Office for Budget Responsibility describe the significant economic impact that COVID-19 has had on public sector finances; this impact has also been felt locally. Whilst the Government has provided some additional funding to cover the financial impact suffered as a result of the pandemic in relation to lost income and additional expenditure, it does not cover all the financial pressures.

1.1.7 Throughout the response to the pandemic, the Authority has provided local leadership and has taken action to maintain the delivery of vital services to residents and businesses across the Borough. Additional support has also been given to the NHS and wider health system through enhanced hospital discharge processes to free up capacity, protect vulnerable people, support businesses, and ensure the safety of all staff delivering this vital work.

1.1.8 The ongoing impact of COVID-19, along with continued uncertainty about future funding, represent a significant challenge for the Authority. This report sets out an approach for Budget-setting that takes account of this. Despite the unprecedented level of risk and uncertainty, the Authority will continue to develop its Budget plans for 2021/22 and beyond on the basis of maintaining continued progress to deliver the Ambition for North Tyneside and the priorities of the Our North Tyneside Plan (the Council Plan).

1.1.9 The Spending Review 2020 announced on 25 November 2020 has confirmed some of the assumptions made in the preparation of these initial budget proposals but there remains a need for ongoing flexibility to respond to changing circumstances particularly in light of the forecast economic impacts. The MTFP will continue to be updated in light of future Government announcements and as the scale of the impact on the Authority becomes clear This will be reported to Cabinet and to Overview, Scrutiny and Policy Development Committee as the Budget-setting process progresses.

1.2 Recommendation(s):

It is recommended that Cabinet:

(a) agree the key principles being adopted in preparing the Medium-Term Financial Strategy for the Authority, subject to an annual review;

(b) note performance against the Our North Tyneside Plan outcomes;

(c) consider and agree the initial Budget proposals in relation to the 2021/22 General Fund Revenue Budget and Dedicated Schools Grant, including the assessment in relation to the current year's Budget monitoring information;

(d) consider and agree the proposed 2021-2026 Investment Plan, including initial prudential indicators for 2021-2026 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Framework and a proposed Minimum Revenue Provision (MRP) policy in line with capital finance regulations;

(e) note the draft Capital Investment Strategy and note that this Strategy will now be subject to consultation as part of the Budget Engagement Strategy;

(f) note that all approved schemes within the 2021-2026 Investment Plan will be kept under corporate review by the Investment Programme Board;

(g) consider and agree the initial proposals in relation to the Treasury Management Statement, Annual Investment Strategy for 2021/22 and Treasury Management Practices (TMPs);

(h) note the formal Reserves and Balances Policy for the Authority, subject to review at least annually;

(i) note the Provisional Statement by the Chief Finance Officer;

(j) consider and agree the 2021/22 rent policy for housing; and consider and agree the initial Budget proposals in relation to the 2021-2025 Housing Revenue Account budget, and associated Business Plan, including an assessment in relation to the current year's budget monitoring information (2020/21);

(k) note the proposed 1.5% rent increase from April 2021 (in line with Government policy), and the initial proposals in relation to housing service charges and garage rents for 2021/22;

(l) authorise the Head of Resources, in consultation with the Head of Commissioning and Asset Management, the Cabinet Member for Children, Young People and Learning and the Cabinet Member for Finance and Resources, to undertake resource allocations to schools for 2021/22 in line with the school funding arrangements set out in the report;

(m) authorise the Elected Mayor, in conjunction with the Cabinet Member for Finance and Resources, Deputy Mayor and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these initial Budget proposals; and

(n) authorise the Chief Executive, in consultation with the Elected Mayor, Cabinet Member for Finance and Resources, Deputy Mayor and the Senior Leadership Team, to manage the Efficiency Programme and note that progress will be reported to Cabinet as part of the regular Budget monitoring process.

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 2 November 2020.

1.4 Council Plan and Policy Framework

1.4.1 The Budget and Policy Framework Procedure Rules are set out in Part 4.7 of the Authority's Constitution. The Budget is guided by paragraph 4.7.3, covering the process for the preparation, consideration and final approval of the Authority's Council Tax requirement and Council Tax level. The statutory and constitutional requirements for preparing, considering and approving these issues drive the timetable for the financial planning and Council Tax-setting process of the Authority.

1.4.2 The Budget proposals will also be presented to the Overview, Scrutiny and Policy Development Committee during the course of the Budget-setting process. The priorities in the 2020-2024 Our North Tyneside Plan provide the strategic framework within which Budget resources are allocated.

1.4.3 The Financial Planning and Budget process is a fundamental part of the overall governance and assurance framework of the Authority. This in turn provides assurance that is considered as part of preparing the Annual Governance Statement each year.

1.5 Information:

1.5.1 Background

1.5.1 On 20 February 2020, full Council approved a Medium-Term Financial Plan for the period 2020/21 to 2024/25, providing a financial framework to support the delivery of the Authority's priorities as set out in the 2020-2024 Our North Tyneside Plan. The Budget set in February for 2020/21 was balanced, based on a robust set of assumptions in relation to the resources available, and prudent estimates of the expenditure that was necessary to deliver the Authority's Services.

1.5.2 Whilst the Authority was aware of COVID-19 at the time of Budget-setting, it would have been impossible to predict the significant escalation of the pandemic which led to the first national lockdown being implemented by the Government on 23 March 2020, and the subsequent financial implications that would follow this.

1.5.3 As Budget-planning activity progresses, Cabinet will be aware that there is a significant amount of uncertainty remaining. Social care continues to be funded by short-term one-off grant allocations and, in the absence of a sustainable funding solution, the Government has continued to allow local authorities to apply an adult social care precept of up to 2%, which leaves the financial burden of supporting our vulnerable adult residents with local taxpayers.

1.5.4 It is without doubt that the need for the Authority to take action and respond to the COVID-19 pandemic has adversely impacted the financial position of the Authority. As Cabinet will be aware, in a normal year it is challenging to deliver a balanced in-year position against the Budget. The financial impact of COVID-19 has compounded this challenge and, as described in the September Financial Management report, the current estimated pressure due to COVID-19 at the end of September is £4.259m for the General Fund and £2.484m for the Housing Revenue Account.

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

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

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

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

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

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

1.5.5 Cabinet will be aware that in challenging circumstances the priorities, as set out in the Our North Tyneside Plan, continue to be met and that the Authority has a good track record of delivering those priorities within the funding resources that are available. This is evidenced by the fact that Cabinet have delivered balanced outturns, without the need to use reserves, in each of the last three financial years.

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

Approach to Managing Uncertainty

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

In 2020/21, a three-year settlement was announced as part of the Local Government Finance Settlement for the Dedicated Schools Grant (DSG) covering the period to 2022/23. The final DSG allocation is not expected to be announced until December 2020, therefore financial planning for High Needs and early years will be based on the indicative DSG grant which was announced in July 2020.

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

1.5.8 The Authority has continued to engage effectively with its NHS partners and has worked collaboratively with partners across the care sector. In June, Cabinet outlined its approach to supporting the care sector and produced an action plan of measures which ensured that care homes across the Borough received financial support to safeguard services for the most vulnerable residents in the Borough. Cabinet will be considering options over the MTFP period, with a particular focus on a stronger approach to commissioning and demand management across the care sector, ensuring that services will meet individuals' needs, maintaining a sustainable care market and that all services offer value for money. This will take account of the changing nature of demand for adult social care services and the challenges facing adult social care nationally.

1.5.9 The latest estimates of the financial impact of the COVID-19 pandemic are set out in the September Budget Monitoring report. Many of the additional costs, lost income and undeliverable savings in the current year will have an extended impact on the 2021/22 Budget. As at September 2020, the total estimated financial impact of COVID-19 including the HRA was £27.323m. This includes estimated additional costs of £20.615m, lost income of £13.274m and estimated savings of £6.566m this has been funded by £21.444m of grants leaving a gap of £5.879mm for the Authority to fund. Further details of this are included in Table 1 below:

Table 1: Estimated Financial Impact of COVID-19

Service	Lost Income	Increased Costs	Savings	Net Impact of COVID-19
	£m	£m	£m	£m
Commissioning & Asset Management	3.545	2.271	(1.986)	3.830
Environment Housing & Leisure	7.399	0.535	(0.063)	7.871
Adult Social Care	0.110	11.937	(4.394)	7.653
Children's Social Care and Public Health	0.760	3.315	(0.003)	4.072
Law and Governance	0.357	0.000	(0.120)	0.237
Central	0.000	0.840	0.000	0.840
Corporate Strategy	0.080	0.013	0.000	0.093
Regeneration & Economic Development	0.055	0.000	0.000	0.055
Resources	0.968	0.084	0.000	1.052
Total	**13.274**	**18.995**	**(6.566)**	**25.703**
HRA	0.000	1.620	0.000	1.620
Grand Total	**13.274**	**20.615**	**(6.566)**	**27.323**
Government Grants				(21.444)
2021/22 Net Impact				**5.879**

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

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

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

1.5.10 The Our North Tyneside Plan 2020-2024 (the Council Plan) sets out the overall vision and policy context within which the Financial Plan and Budget proposals will operate. Since 2015, North Tyneside has worked to a clear set of priorities through the Plan. These priorities have formed the basis of the framework for COVID-19 recovery in North Tyneside.

The Our North Tyneside Plan is structured in three key themes: Our People, Our Places and Our Economy. Through our engagement activity over the summer in the Big Community Conversation with our Residents Panel, it is clear that the priorities in the Plan continue to reflect those of residents. Through the Big Community Conversation, residents were asked for their views on what is important for the Borough in recovering from the pandemic. These priorities are all included in the Our North Tyneside Plan as set in the Annex to this report.

2020-2024 Medium-Term Financial Plan

1.5.11 General Fund

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

Resources have been revised to take account of the potential impact of COVID-19 on Council Tax and Business Rates in line with the risks described in section 1.5.4. The SLT have reviewed the anticipated growth and efficiency assumptions and where necessary these have been revised. Table 3 below shows the high level Medium-Term Financial Plan for 2021-2025; the estimated resources available do not include any assumptions for an increase in Council Tax. Taking all the factors into consideration, the draft Medium-Term Financial Plan for the General Fund indicates a "gap" of £6.370m to be addressed. Without actions over the four-year MTFP period, the cumulative impact is in the region of £56m.

Table 3: 2021-2025 Draft Medium-Term Financial Plan – Revised Gap

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Initial estimate of resources available	**160.122**	**144.431**	**159.185**	**160.903**
Spend assumptions	**166.492**	**159.191**	**175.833**	**179.069**
Gap	**(6.370)**	**(14.760)**	**(16.648)**	**(18.166)**
Cumulative Gap		**(21.130)**	**(37.778)**	**(55.944)**

Housing Revenue Account

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

Table 4: 2021-2025 Draft Medium-Term Financial Plan – Available Resources and Estimated Spend

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Initial Estimate of Resources Available	**69.093**	**70.589**	**72.292**	**73.943**
Spend Assumptions	**71.036**	**70.968**	**72.228**	**73.981**
Net Expenditure	**1.943**	**0.379**	**(0.072)**	**0.038**

2021-2026 Draft Investment Plan

The 2020-2025 Investment Plan totalling £244.320m was approved by Council on 20 February 2020. Delivery of projects within the plan and progress to date has been reported to Cabinet as part of the bi-monthly Financial Management reports. Reprogramming of £8.784m has been identified as part of the process and this spend is now included in the 2021/22 planned spend shown below.

Table 5: Summary of the draft Investment Plan 2021-2026

Spend	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£000's	£000's	£000's	£000's	£000's	£000's
General Fund	35,842	15,852	15,958	16,488	13,935	98,075
Housing	26,362	26,043	27,400	29,949	31,424	141,178
Total	**62,204**	**41,895**	**43,358**	**46,437**	**45,359**	**239,253**

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

Dedicated Schools Grant

Cabinet will be aware that school funding is a matter for the Department for Education; either by direct funding agreements with academy trusts or delegated by local authorities to schools where budget management is the delegated responsibility of each governing body. As in previous years, Cabinet will need to determine the local formula to distribute funding to mainstream schools and academies for the financial year 2021/22. The formula will apply directly to maintained schools for the financial year, and for academies it will form the basis for their funding, distributed by the Education, Skills and Funding Agency (ESFA), for the year starting 1 September 2021. The local formula must comply with statutory guidance, but within these confines the final decision on the formula rests with the Authority after consultation with schools and the Schools Forum.

Table 6: Indicative Dedicated Schools Grant funding allocation 2021/22

	Schools Block £m	CSS Block £m	Early Years Block £m	High Needs Block £m	Total Indicative DSG 2021/22 £m
Indicative DSG Settlement	135.906	1.854	13.734	26.101	177.595

1.5.12 **Mayor and Cabinet Options:**

General Fund

The Medium-Term Financial Plan approved by Members in February 2020 included a 1.99% general increase in Council Tax and a 2% adult social care precept for 2020/21 only. At the time of writing, the Government had not announced details of the referendum threshold for core Council Tax, or any further flexibility to raise the adult social care precept for 2021/22.

Should Cabinet consider increases in Council Tax, in line with previous years, based on current tax base estimates, this would raise approximately £4.006m of additional funding for next year (made up of £1.998m general Council Tax, 1.99% and £2.008m from the adult social care precept, 2%). The precise final level of any change in Council Tax will be confirmed in February 2021 following a decision by full Council.

The 2020-2024 Medium-Term Financial Plan agreed in February 2020 included planned savings for 2021/22 and 2022/23 as shown in Table 7 below:

Table 7: 2021-2024 Efficiency Programme as at February 2020

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

The 2021/22 Efficiency Programme relating to prior years covers the following:
- Contractual changes
- Expenditure reduction
- Income growth
- Service provision – commissioning
- Corporate

In addition to the planned savings, the Elected Mayor and Cabinet are developing options for consideration to balance the General Fund over the next four years of the Medium-Term Financial Plan. The aim is to do this via a range of strategic activity which includes:
- Workforce Planning: changing the workforce over the next four years where the need to change aligns to people's plans and recruitment and skills needs;
- Commissioning Planning: looking specifically at procurement, demand management and testing joint provision with the NHS;
- Digital Strategy: cash and efficiency benefits from investing in our priority projects and delivering the Digital Strategy; and
- Asset Management Planning: investing capital to reduce revenue costs and improve the Minimum Revenue Provision position.

Housing Revenue Account

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

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

2021-2026 Investment Plan Options

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

- Addition of an invest to save project for Streetlighting LED - in July 2019 Council declared a Climate Emergency, setting a target to reduce the carbon footprint of the Authority and the Borough by 50% by 2023 and to become carbon neutral by 2050. A key area identified to help achieve this target is to improve energy efficiency and reduce electricity used in streetlighting by the continuation of installation of LED bulbs. It is estimated that the overall project will produce a reduction in electricity kilowatt hours of over 4.6 million, reduction in CO_2 emissions of 1,281 tonnes, reduced electricity spend of over £0.600m and reduced ongoing maintenance of £0.070m;
- In view of the outcome of a number of building condition surveys an additional £0.500m has been added to the 2021/22 Asset Planned Maintenance budget to reflect identified requirements; and,

- A new year 5 (2025/26) has been added to reflect rolling programme projects such as Asset Planned Maintenance, Additional Highways Maintenance and ICT refresh.

Dedicated Schools Grant

North Tyneside, like many local authorities both regionally and nationally, is experiencing an increase in the numbers of children with Special Education Needs and Disabilities (SEND). The number of children with an Education Health and Care Plan (EHCP) continues to increase and the complexity of the needs of those children and young people continues to grow. There has been a notable increase locally in the numbers of children with Autism Spectrum Disorder (ASD) and/or Social, Emotional and Mental Health difficulties, and profound and multiple learning difficulties. Responding to this increase in needs is creating pressure on the High Needs block of the Dedicated Schools Grant. The pressure within High Needs has continued to increase in 2020/21 with a forecast in-year outturn variance of £3.457m, bringing the estimated cumulative pressure to £7.999m. The indicative funding allocation for High Needs shows that the Authority will receive an additional £2.974m in 2021/22, however, it is not sufficient to address the underlying increase in need.

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

1.5.13 At its meeting on 1 April 2019, Cabinet agreed a report which set out ‘An Ambition for North Shields and the Fish Quay’. This built on the Authority’s wider regeneration objectives that were agreed at the Cabinet meeting held on 26 November 2018 where it agreed a regeneration strategy for the Borough; An Ambition for North Tyneside which identified North Shields Town Centre and Fish Quay as a specific priority. Since receiving an award of funding for £0.200m from the North of Tyne Combined Authority in March 2019, officers have been working with the North Shields Project Group, comprising the Deputy Mayor, Chief Executive and Heads of Service to refine a Draft Masterplan which reflects the Authority’s policy objectives and which contains a series of self-contained projects that can be further developed and delivered as and when funding allows. As agreed by Cabinet, the overall aim for North Shields Town Centre and the Fish Quay is to create a smaller, more vibrant and connected town centre which combines living, working and retail and is a destination in its own right. In turn that will be connected to an increasingly vibrant Fish Quay. Both of which will be supported by better transport flows, stronger infrastructure and a higher quality built environment.

Initial Budget Proposals

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

(a) The Government's 2021/22 Budget;

(b) The Provisional and Final Local Government Finance Settlement announcements for 2021/22, including capital announcements and specific grants, including the Dedicated Schools Grant (DSG);

(c) Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority Precepts (due February 2021);

(d) Levies, including the North of Tyne element of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority Transport Levy (due February 2021);

(e) Tyne and Wear Joint Service Budgets (due January/February 2021); and

(f) Consideration of the impact of the economic climate on the residents of the Borough and Council Tax payers.

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

1.6 Decision options:

1.6.1 <u>Option 1</u>
Cabinet can agree the proposals set out in this report.

<u>Option 2</u>
Cabinet can suggest that further / different options are considered by the Senior Leadership Team and be reported back to Cabinet for further consideration.
Option 1 is the recommended option.

1.6.2 As explained in 1.5.14, there is still a significant amount of external information that has not yet been received by the Authority. On this basis, Cabinet is recommended to authorise the Elected Mayor, in consultation with the Cabinet Member for Finance and Resources, the Deputy Mayor and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these initial proposals. Recommendation 1.2.1 (m) refers.

1.7 Reasons for recommended option:

Due to external information still to be received, Cabinet is not in a position to finalise setting its proposed Council Tax level for 2021/22 in relation to the General Fund. These initial Budget proposals include an assumed general increase to Council Tax of 1.99% and a social care precept of 2% in 2021/22. This report will form the basis of Budget engagement and scrutiny over the next two months, but further work will inevitably be required before final decisions are made on the budgets for next year, hence the authorisation recommendation referred to in paragraph 1.6.2 above.

1.8 Appendices:

Annex 1	2021-2025 Financial Planning and Budget Process – Cabinet's Initial Budget Proposals

Appendix A	2020-2024 Our North Tyneside Plan
Appendix B(i)	2021-2026 Investment Plan Summary
Appendix B(ii)	2021-2026 Housing Investment Plan
Appendix B(iii)	Prudential Indicators 2021-2025
Appendix B(iv)	Capital Investment Strategy
Appendix C	2021/22 Treasury Management Statement, Annual Investment Strategy and Credit Criteria
Appendix D	2021/22 Financial Planning and Budget Timetable of Key Future Decision Milestones
Appendix E	Glossary of Terms
Appendix F	HRA Business Plan 2021-25
Appendix G	HRA Financial Plan, Reserves and Contingency Movement 2021-2025
Appendix H	Treasury Management Practices (TMPs) 2021/22

1.9 Contact officers:

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Tel No 643 5339

1.10 Background information:

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

(1) 2021-2025 Financial Planning and Budget Process, incorporating the Council Plan and associated Budget Engagement Strategy, Cabinet 3 August 2020. The report items are as follows:

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

(2) CIPFA local authority reserves and balances

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

(3) 2020/21 Financial Management Report to 30 September 2020 – Cabinet 30 November 2020.

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

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

- Constitution
- Annual Governance Statement

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

2.1.1 The financial implications arising from this report are appraised as part of the decisions made about what will be included in the Authority's Financial Plan, incorporating the 2021/22 Budget-setting process. Decisions on the Budget in relation to the General Fund, Housing Revenue Account, Dedicated Schools Grant, Investment Plan, Treasury Management Statement and Annual Investment Strategy need to be made within the overall context of the resources available to this Authority and within the legal framework for setting budgets. The Authority will need to closely examine the links with its key funding partners and their proposed financial plans, including an assessment of the impact of any grant fall-out over the proposed four-year resource planning period.

2.1.2 Cabinet and Council need to have due regard to the Chief Finance Officer's advice in relation to the levels of reserves and balances proposed as part of the four-year Medium-Term Financial Plan for 2021-2025, as issued in guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA) in July 2014. A provisional statement to Council by the Chief Finance Officer is included in the Annex to this report.

2.2 Legal

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

2.2.2 In accordance with legislative requirements and the Authority's Budget and Policy Framework decisions as to the Authority's Budget is a matter for full Council.

2.3 Consultation/community engagement

2.3.1 Internal Consultation

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

2.3.2 External Consultation/Engagement

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

2.4 Human rights

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

2.5 Equalities and diversity

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

To achieve this an Equality Impact Assessment (EIA) has been carried out on the Budget Engagement process. The aim is to remove or minimise any disadvantage for people wishing to take part in the engagement programme. Specific proposals on how services will seek to meet budgetary requirements will be subject to EIAs, which will be informed by the findings of the Budget Engagement. A cumulative impact assessment of all of these will also be undertaken prior to Cabinet in January 2021 and will be made available to both Cabinet and Full Council.

2.6 Risk management

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

2.7 Crime and disorder

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

2.8 Environment and sustainability

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

PART 3 - SIGN OFF

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

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2021-2025 Financial Planning and Budget Process:

General Fund Revenue Budget,
Housing Revenue Account Budget,
Dedicated Schools Grant,
Investment Plan and Treasury Management

North Tyneside Council

INDEX

1. Introduction

1.1.1. In setting the Budget for the upcoming and future financial years it is crucial that the resource allocations align with the overall vision and strategic priorities of the Elected Mayor and Cabinet. Medium-term financial planning is fundamental in order to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term.

1.1.2. The Council is legally required to set a balanced Budget for the General Fund for 2021/22 to meet statutory duties and provide services such as social care and environmental services. For the HRA, the Council Tax payer cannot subsidise those living in social housing and the rents and service charges paid by the tenants cannot be used to fund unrelated Council services. It is also illegal for an authority to budget for a deficit in its HRA or use HRA reserves for General Fund expenditure.

1.1.3. The duties and responsibilities imposed on local authorities through the Local Government Act 2003 are covered in sections 7 and 8, which covers the financial risks, risk assessment and actions necessary to mitigate against the risks posed within the Budget proposals. The Act requires Members and officers to consider the Chief Finance Officer's report on the robustness of the Budget and the adequacy of the Authority's financial reserves.

2. Our North Tyneside Plan

The Our North Tyneside Plan 2020-2024 (the Council Plan) sets out the overall vision and policy context within which the Financial Plan and Budget proposals will operate. Since 2015 North Tyneside has worked to a clear set of priorities through the Our North Tyneside Plan. These priorities have formed the basis of the Framework for COVID-19 Recovery in North Tyneside.

The Our North Tyneside Plan is structured in three key themes – Our People, Our Places and Our Economy. Through our engagement activity over the summer in the Big Community Conversation with our Residents Panel, it is clear that the priorities in the Plan continue to reflect those of residents. Through the Big Community Conversation, residents were asked for their views on what is important for the borough in recovering from the pandemic. These priorities are all included in the Our North Tyneside Plan as set out below:

Our People will:

- Be listened to so that their experience helps the council work better for residents;
- Be ready for school – giving our children and their families the best start in life;
- Be ready for work and life – with the right skills and abilities to achieve their full potential, economic independence and meet business needs;
- Be healthy and well – with the information, skills and opportunities to maintain and improve their health, well-being and independence, especially if they are carers;
- Be cared for, protected and supported if they become vulnerable including if they become homeless; and
- Be encouraged and enabled to, whenever possible, be more independent, to volunteer and to do more for themselves and their local communities.

Our Places will:

- Be great places to live by focusing on what is important to local people, such as by tackling the derelict properties that are blighting some of our neighbourhoods;
- Offer a good choice of quality housing appropriate to need, including affordable homes that will be available to buy or rent;
- Benefit from the council’s housing stock being decent and well managed, as well as maximising the potential use of housing such as through extra care schemes;
- Recognise the climate emergency by further reducing the Borough’s overall carbon footprint. This will include reducing the council’s carbon footprint, along with encouraging and enabling everyone to reduce their carbon footprint;
- Provide a clean, green, healthy, attractive and safe environment;
- Have an effective transport and physical infrastructure - including our roads, pavements, street lighting, drainage and public transport;
- Continue to be regenerated as part of our 15 year ‘Ambition for North Tyneside’ plan. This will include the continued development of Killingworth Lake, creation of a Master Plan for North Shields, the delivery of plans for Segedunum and the Swans site in Wallsend, as well as further work to build on the success of the regeneration at the coast; and
- Be a thriving place of choice for visitors through the promotion of our award-winning parks, beaches, festivals and seasonal activities.

Our Economy will:

- Benefit from the delivery of our ambitious vision, which we created with partners in the North of Tyne Combined Authority. We will have a dynamic and more inclusive economy, which will ensure that all residents have a stake in our region's future.
- Grow by supporting new businesses and building on our strengths, including our existing world class companies, and small and growing enterprises.
- Be business friendly, ensuring the right skills and conditions are in place to support investment, and create and sustain new high-quality jobs and apprenticeships for working age people.
- Continue to support investment in our business parks, units and Town Centres.

<u>Performance against the priorities in the Our North Tyneside Plan</u>

Inevitably the pandemic has had an impact on service delivery, particularly during the main national lockdown period from March to July where many services were not able to be delivered in the usual way. There has continued to be an impact during the recent period of local restrictions from September and further into the latest national lockdown from 5 November. An overview of current performance against the key outcome measures for the Our North Tyneside Plan is set out below:

Our People:

- In North Tyneside, 8 in 10 young people attend a school that is ranked as Good or Outstanding.
- At the end of August 2020, 3.58% of 16 to 17-year olds are classed as NEET (Not in education, employment or training), which is in line with previous years and significantly lower than the North East rate at 5.64%;
- Schools were closed during lockdown except for children of keyworkers and vulnerable pupils and reopened at the beginning of the school year. During that period, the School Improvement Service provided extensive home learning resources and led the DFE laptops for school's project during the lockdown period. The Catering Service delivered nearly 16.5k free school meals and 700 food hampers to children.
- The number of children in care remains consistent. 300 in September 2020, compared to 309 in September 2009. Can we say anything about the impact of the pandemic i.e. have we seen an increase in activity re safeguarding concerns etc at Gateway
- Only 56 people were accepted as homeless in 2019/20 compared to 52 in 2018/19. The Homeless Reduction Act placed a greater focus on prevention and triage work in order to prevent an individual becoming homeless. During the pandemic all rough sleepers have been placed in emergency accommodation throughout.
- In March 2020, the Authority set up a Local Support Hub to support residents identified by the NHS and general practitioners as clinically extremely vulnerable and a higher risk of serious complications from Covid 19. There were 9,628 residents identified as clinically extremely vulnerable and the Local Support Hub provided regular support with shopping, prescriptions, welfare calls to over 1.8k residents.
- Continued to serve our customers through customer services in a Covid Secure way – handling on average X queries per month/week (need to say if that is up or down on previous years

Our Places:

- All the council housing stock continues to meet the Decent Homes Standard and 99% of homes are occupied, including the North Tyneside Living schemes;
- Delivery of the council's Affordable Homes Programme remains on track to deliver 3,000 affordable homes across the borough between 2014/15 and 2023/24. 1,570 affordable homes have been completed so far;
- At the end of March 2020, the Authority's carbon footprint has decreased by 46% since 2010/11 and it is likely that the Authority will achieve the 50% reduction target by the 2023 target date. In July 2019 North Tyneside Council declared a Climate Emergency and set the ambitious target to become carbon neutral by 2050. A Climate Emergency Board has been established to oversee a wide range of projects. Projects completed so far include the introduction of Air Source Heat Pumps and Solar PV electricity generation at the Killingworth depot site, expanding the range of recycling materials in kerbside recycling to include plastics, securing funding to retrofit 69 businesses to reduce carbon dioxide and nitrogen oxide and introducing age and emissions standards for taxis and private hire vehicles. As well as securing grant funding to upgrade taxis, so they meet Clean Air Zone compliance standards coming into operation in 2021. the end of March 2020, the amount of waste collected boroughwide reduced by 1.2k tonnes compared to the previous year and the proportion of reuse, recycling and composting increased to 39%. The amount of waste sent to landfill in year was also at its lowest level recorded for any year. This improvement is largely due to the introduction of alternate weekly waste collections and improvements made at the Household Waste Recycling Centre. The introduction of an appointment system at the centre during the pandemic period has not had any detrimental impact and has been received very positively by customers;
- The Ambition for North Tyneside continues to successfully deliver a broad range of regeneration improvements across the borough. Achievements in the last year include public realm improvements to Forest Hall shopping centre; successful opening of the Centre for Innovation; the restoration of Grade 2 listed Georgian terrace on Northumberland Square; replacing derelict and eyesore sites along the coastline with attractive high quality family housing and significant investment in highways and schools across the borough. Plans continue with: North Shields Master Plan; improvement works on the Northern Promenade; investment in Segedunum.
- Three beaches in North Tyneside have been awarded the Blue Flag beach award, the internationally recognised gold standard for beaches. In addition, Longsands Beach, Tynemouth, has been placed in the top 10% of attractions worldwide in the 2020 Trip Advisor Travellers' Choice Awards and has attracted a Seaside Award for excellence
- Successfully reopened all leisure services in a Covid Secure way in line with government guidance including leisure centres, swimming pools and libraries, but the impact re visitor numbers has been significantly impacted of course; and
- Once able to restart services in line with Govt guidance, continued to deliver full range of services re housing repairs, highways and construction schemes.

Our Economy:

- The COVID-19 pandemic has had a significant impact on both businesses and residents from an economic point of view. During the first national lockdown from March this year, 21% of the working age population in North Tyneside were placed on the Job Retention Scheme. The number of Universal Credit claimants living in the borough sharply increased in April from 11k claimants in March 2020 to 18.5k in September. Almost half of Universal Claimants in North Tyneside are searching, planning or preparing for work;

- The number of registered businesses in North Tyneside has grown every year since 2011. There were 5,315 businesses registered in the Borough at the beginning of 2020. However, this year there has been a significant reduction in the number of business start-ups and the number of job vacancies being advertised. The number of business start-ups have reduced sharply by 21% at the end of September 2020 compared to September 2019. Job vacancy advertisements have reduced by 10.5%at the end of September 2020 compared to the same period last year.
- The Authority has supported businesses to recover and grow through access to practical and financial support, advice and information and signposting to local and national grant opportunities. Some of the initiatives include:

    - Securing match funding through the North of Tyne Capacity Fund which enabled the Voluntary and Community Sector to continue to deliver their employability project.
    - Establishing a dedicated helpline for businesses
    - Administering £34m of Govt grant funding to over 3,000 eligible businesses
    - Delivering a joint communications campaign with the North Tyneside Business Forum to inform, support and signpost businesses to relevant help.
    - Introducing a pavement licensing scheme to support the hospitality sector
    - Developing a Town Centre Recovery Plan.
    - Successfully reopening town centres in June in a Covid Secure way
    - Supporting 8 categories of suppliers with supplier relief.
    - Providing free advertising for local businesses in the Our North Tyneside magazine.

3. General Fund

3.1 Council Tax Support

3.1.1 In 2013/14, the national Council Tax Benefit scheme came to an end, and Local Council Tax Support was introduced in its place. At the same time, funding was transferred into the Settlement Funding Assessment (SFA) (comprising Revenue Support Grant and Business Rates) after being cut by over 10%. As this funding is not separately ring-fenced within the SFA, it has effectively been cut at the same rate as the Authority's SFA has been cut for each subsequent year.

This has put significant additional strain onto the General Fund Budget and resulted in the Authority, as well as many other local authorities, seeking to collect some Council Tax from working age people who previously received 100% Council Tax Benefit.

Under national rules pensioners are protected from any capping of maximum awards to ensure they are not subject to a reduction in Local Council Tax Support and may still be awarded reductions of up to 100% of their Council Tax liability.

Council Tax Support under our current scheme for working age claimants is capped at 85% of an individual's Council Tax liability, meaning that working age people are charged 15% of their Council Tax before they receive Council Tax Support. Cabinet is not proposing any changes to Council Tax Support in 2021/22.

It is noted that COVID-19 has led to an increase in the numbers of claimants of Local Council Tax Support. This is a direct cost to the Authority as it ultimately reduces the Council Tax base as Council Tax Support is applied as a discount.

3.2 Business Rates

3.2.1 The level of Business Rates is set by the Government and is based on the rateable value of non-domestic properties across North Tyneside. Prior to April 2013 the Authority had no direct financial interest in the collection of Business Rates and acted purely as an agent of the Government. However, for the financial years 2013/14 through to 2018/19 the Authority has retained 49% of the business rates it collects and paid the other 51% over to the Government (50%) and the Tyne and Wear Fire and Rescue Authority (1%). This was due to the introduction of the Business Rate Retention Scheme. This resulted in a direct financial incentive to maximise the amount of business rates collected in North Tyneside.

For the financial year 2019/20 the Authority, together with Newcastle City Council and Northumberland County Council, submitted a joint bid to the Ministry of Housing, Communities and Local Government and were successful in being granted pilot status for a 75% Business Rate Retention scheme. The reason for submitting a bid is to benefit from the retention of a higher level of Business Rate income over and above the baseline level set by Government. It was agreed that any gains achieved by the 75% pilot scheme would be allocated by the North of Tyne Combined Authority in line with its vision and investment priorities.

The Authority reverted back to 49% Business Rates Retention in 2020/21 and this will continue in 2021/22.

3.2.2 The Authority, like all other authorities, remains exposed to the risk of Business Rate appeals, which are determined by the Valuation Office Agency. The Government introduced a new check, “challenge and appeal process” in April 2017 which appears to have improved the efficiency of the appeals process, as challenges against rateable values have significantly reduced since 2017/18. However, the impact of COVID-19 on demand and occupation of business premises may subsequently see fluctuations in market rental levels As rateable values are directly linked to market rental levels this may lead to a reduction in rateable values and ultimately business rate income.

3.2.3 The Government have continue to announce packages of support for business throughout COVID-19. These include:

- Providing 100% business rate relief for businesses in the retail, hospitality and leisure sectors for the financial year 2020/21.
- 100% business rate relief to nurseries providing childcare for the financial year 2020/21
- Providing business grants of £10,000 to small businesses and grants of up to £25,000 for businesses in the retail, hospitality and leisure sector dependent on their rateable values; and
- Recent announcement of further support during local lockdown tiers in the form of monthly grants to some qualifying businesses. Awaiting further details on this.

This money is fully reimbursed to Local Government through Section 31 grants.

4. Housing Revenue Account (HRA)

4.1.1 The Housing Revenue Account is required to produce a 30-year Business Plan; however, a four-year Medium-Term Financial Plan (MTFP) for revenue has been produced which brings this in line with the same MTFP period as the General Fund. The General Fund and Housing Revenue Account Investment Plan spans a five-year period, in line with the Capital Investment Strategy.

4.1.2 Whilst the current economic situation presents significant challenges, the Authority is still able to produce an MTFP for the HRA, which enables over £288m of revenue spend over the next 4 years to manage and maintain the housing stock and meet the aspirations of Cabinet and tenants.

4.1.3 As well as protecting the significant investment in the service delivered via revenue and the MTFP, the HRA also represents a significant element of the Authority's overall Investment Plan. In line with the key priorities of Cabinet outlined above, over the next 5 years a total of £116.708m has been provided to enable the existing stock to be maintained at the Decent Homes Standard. In addition, in line with the Mayor and Cabinet's Affordable Homes pledges, a total of £24.470m has been identified to fund the new build schemes identified in the Affordable Homes Plan.

4.1.4 The proposals to resource the revised MTFP and 30-year HRA Business Plan will be subject to the full engagement process, and consultation over the choices available to ensure the objectives can be achieved.

4.2 Background and Policy Context

4.2.1 The Authority is responsible for managing just under 14,500 houses. Rents and service charges provide most of the resources available to the HRA, which is then used to fund the management and maintenance of the housing stock. This income and expenditure is accounted for in a ring-fenced account as required by law under the Local Government and Housing Act 1989. Although accounted for separately, the HRA forms an intrinsic part of the Authority's overall vision and Council Plan, and this report sets the context within which the HRA Financial Plan and Budget proposals are set.

4.2.2 The Authority is in unprecedented times due to the coronavirus pandemic. In line with virtually all areas of the economy, the provision of vital public services including housing has seen major disruption to service delivery. Where relevant, this report outlines the impact that Covid-19 has had on the housing service, and if it will have a bearing on the Budget for 2021/22.

4.2.3 The Authority is still facing the impact of the continued roll-out of Universal Credit and other welfare reforms, which brings greater pressure on our tenants in terms of managing their finances, and on the Authority's income collection teams who have a responsibility to try and help sustain tenancies, and help tenants manage their money so that they do not end up in financial hardship or significant arrears, all of which could have a direct impact on the bottom line of the HRA, and the quality of the services that we are then able to provide.

4.2.4 Following the removal of the HRA debt cap in 2018, it is now up to the Authority to determine the level of any unsupported borrowing it wishes to undertake to fund new build or decent homes work, in line with the Prudential Code, which means applying the key tests to ensure that any debt taken on is “prudent, affordable and sustainable”. The approach to debt management is reviewed yearly and is discussed in more detail below.

4.2.5 April 2019 saw the Housing Property and Construction Service established within Environment, Housing and Leisure. The first year of operation was highly successful and saw circa £40m of works delivered across a range of areas across all the Authority’s housing stock and public buildings portfolio. The benefits identified from the benefits realisation process were baked into the HRA Business Plan last year and continue to support core services and adding value by funding initiatives such as the new tenant priorities budget within Housing Repairs.

4.2.6 Of course, nobody could have predicted that 12 months into this new service we would be facing a global pandemic. Plans to deliver an even more ambitious programme of works in 2020/21 than last year had to be redrawn as the country entered the initial 3-month lockdown period. As services started to return new COVID-secure ways of working have had to be introduced to keep everybody safe, and certain types of works had to be deferred because of social distancing. In financial terms, every scheme is looked at individually to see what safety and social-distancing measures are required. These issues have been considered in the sums provided to fund the Council’s Housing Asset Management Plan. As well as COVID-19 considerations, a full review of the Asset Management Plan has been undertaken, and further work is ongoing to continue to improve, and create a service that best meets the ongoing needs of our tenants and residents whilst delivering greater efficiency and improved value for money.

4.2.7 These challenges continue to be considered as part of the updating of the 30-year plan which aims to ensure the long-term viability of the HRA in line with the policy direction of the Mayor and Cabinet and the needs of our tenants. For the purposes of the current Financial Planning and Budget process, a four-year revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that projections beyond 2021/22 are indicative at this stage. A five-year timeframe is being proposed for the Housing Capital Investment Plan once again in line with the 2021-26 General Fund Investment Plan.

4.2.8 HRA tenants will be consulted on these initial proposals, and the final HRA Budget will be presented to Cabinet in February 2021. At that meeting in February, Cabinet will be asked to approve the HRA Business Plan and Budget for 2021/22, including the housing rent, garage rent and service charge changes along with the Housing Capital Investment Plan.

4.3 Key Objectives and headline assumptions for the Housing Service

4.3.1 The over-riding objectives for the housing service are in line with the agreed Housing Strategy and, as far as possible within financial constraints, are to;

1. Ensure the application of the principles of economy, efficiency and effectiveness;
2. Continue to invest in the existing stock to maintain the Decent Homes Standard;

3. Maintain and develop effective engagement with tenants;
4. Continually monitor the impact of changes such as Universal Credit and other welfare reform on our tenants and ensure they have the appropriate support;
5. Work with private landlords to refurbish stock where appropriate;
6. Undertake environmental improvements to estates to ensure that they are clean and safe;
7. Support the delivery of Affordable Homes across the Borough;
8. Specifically increase the delivery of new-build homes where practicable; and
9. Create sustainable tenancies and maximise rental income collection.

4.3.2 The key headlines for the HRA Budget for 2021/22 are as follows:

1. <u>Rent and Service Charges</u>

A) Rent Policy - April 2020 saw the re-introduction of rent increases based on the Consumer Prices Index (CPI) plus 1% for at least the next 5 years. The baseline for 2021/22 is the CPI rate as of September 2020 which was 0.5%. Hence, the rent increase proposed for 2021/22, to be in line with Government policy, is 1.5%. The base HRA Business Plan assumes a 3% rent increase per annum as 2% is the Government target for CPI. The CPI rate has been steadily falling since the start of the pandemic, and hit a low in August 2020 of 0.2%, this was believed to have been heavily impacted by the introduction by the Chancellor of nearly £0.500bn of funding for the “Eat Out to Help Out” scheme which dampened the inflation rate. Once the funding for that scheme was pulled the inflation rate has started to increase again albeit only to 0.5% in September. The impact of this on the HRA Business Plan is to reduce the forecast rental income over 30 years by just under £45.000m. As part of this budget report we have looked at putting together a package of measures to fill the gap. The key drivers were to ensure support to the Housing Investment Plan to maintain the existing stock to a decent standard, and to protect resources identified to fund the HRA elements of the Affordable Homes programme.

Because of the 4-year imposed rent reduction we had already taken nearly £0.500bn out of the 30-year plan previously, and the vast majority of that had been identified by making some difficult choices within the Housing Investment Plan. Hence the proposal that these savings needed to balance the 2021-51 Plan will be achieved from a package of revenue savings, namely:

- A review of bad debt provision;
- A review of levels of in-year contingency provided within both the Management and repairs budgets;
- Tweaking the approach to debt management within the Treasury Management Strategy for the HRA, to slow down the rate at which we repay debt over the life of the Plan, as the strategy was always to repay debt where prudent, and if we were able to afford to do so;
- A review and rebasing of rental income streams to iron out any obvious variances; and
- Commence a fundamental review of the structure of the Housing Property and Construction service, which should deliver savings in both operational and management and support costs, which will be necessary as the volume of work delivered across the entire service may well drop as a

result of the impact of COVID-19 on the Authority's overall financial position.

This package of measures would be sufficient to deliver the efficiencies needed to balance the plan whilst protecting the key Cabinet and Mayoral priorities of:

- a commitment to deliver more affordable housing by increasing the resources available for the HRA element of the Affordable Homes strategy;
- Maintaining the tenants' priorities budget within repairs to focus on key areas of need, those initial areas of focus being pest control, empty homes standard and property health checks;
- Strengthening the resources available to support our tenants in coping with the changes arising from welfare reform and the continued roll-out of Universal Credit; and
- Ensuring that our existing housing stock is maintained to the Decent Homes Standard.

B) It is proposed to increase service charges for 2021/22 in line with the rent increase at CPI + 1%. For most service charges for 2021/22 the increase will be 1.5%.

C) A review of the garage letting process was concluded and implemented in 2019/20 which resulted in a phased approach over two years to harmonise garage rents. This exercise was completed this year, so for 2021/22 it is recommended that garage rents will increase in line with rent and service charges being based on CPI + 1% which will see a 1.5% increase.

D) The Authority will continue to move to target rent when properties become empty.

E) An initial review of service charges attached to North Tyneside Living schemes has been undertaken, and service charges attached to those schemes will be increased in line with rents at CPI + 1% i.e. 1.5%. However, as the schemes continue to become established and fully operational, we are endeavouring to gather more accurate trend data, and ensure that service charges reflect actual costs as closely as possible.

F) The Authority also continues to monitor the impact of welfare reform changes. Service charges on affordable rent properties are not exempt, as the 80% of market rent calculation includes any service charges. The importance of ensuring that our tenants are kept fully informed of the requirements of the new scheme is fully recognised and ensuring that they are supported in managing the impact of change. In North Tyneside Universal Credit numbers continue to increase, at the end of September 2020 around 3,000 tenants were on Universal Credit and in arrears totalling £2.525m. The Authority had already allocated additional resources to support those tenants affected by the changes in last year's Budget. Due to issues caused by the pandemic, there were delays in recruitment but most posts have now been filled, and tenants should now be getting the support they need. Members will continue to be updated of any significant further welfare reform changes as they become clear.

G) It is assumed that the policy agreed by Cabinet in January 2014 to protect the tenants in situ at the point the PFI scheme commenced from excessive increases in North Tyneside Living rents will continue. Also, as previously all new tenancies commence at the newly calculated rents which are higher because of the increased value of the properties, a proportion of which is used to calculate the rent. It is estimated that this protection will cost in the region of £0.050m in 2021/22 and is steadily reducing year on year.

H) From April 2018 Cabinet agreed that the Authority would move from a 50 to a 52-week rent year to align with the continued roll-out of Universal Credit. This sees tenants' weekly rent spread over 52 weeks, although for those residents that wish to continue paying over 50 weeks this option is available. This policy will continue as agreed by Cabinet and 2021/22 will continue to align to UC as it is a 52-week year unlike 2019/20 which as a 53-week year will have caused issues for some tenants.

2. <u>The Housing Capital Investment Plan 2021-2026</u>

The Housing Capital Investment Plan has been refreshed based on the revised Asset Management Strategy, along with revised sums identified to fund new build proposals. The key assumptions that have been made in developing the Housing Capital Investment Plan for 2021-2026 are as follows:

A) Acknowledging the impact of the COVID-19 pandemic, recognising that there will need to be additional consideration given to ensure all COVID-secure measures are followed in the workplace and out on site, which may require different welfare arrangements depending on the site, additional PPE, sanitisers etc;

B) Review of Housing Investment Plan spend based on maintaining Decent Homes, continuation of a fencing programme and other core items included in the refreshed Asset Management Plan, would see core spend of £116.708m over the next 5 years 2021-26, plus new build spend of £24.470m based on continuing the existing approach to HRA new build within Cabinet's overall Affordable Homes Strategy; and

C) Spend for 2021/22 of £26.362m including £2.500m for the continuation of a new build / conversion / acquisition council house programme (including re-programming from 2020/21).

These figures are based on maintaining the key principles of Cabinet's existing approach to debt management and self-financing.

3. <u>Housing Repairs Budget 2021/22</u>

Cabinet was presented last year with a proposal to create a Tenant Priorities budget from some of the savings realised from the creation of the Housing Property and Construction Service. A significant amount of work was undertaken to look at tenant priorities, and a list of options for prioritising resource allocation was put forward, and for 2019/20 the following were given priority, namely:

- Improving the Empty Homes standard;
- Free pest control service for tenants; and
- Property health checks i.e. scheduled maintenance visits as opposed to reactive ones to properties identified as high maintenance.

In the light of the delays caused by the pandemic in starting these initiatives, it is recommended that these areas remain the focus of the tenant priorities budget for 2021/22, as the objectives remain key to meeting tenants' aspirations.

4. ICT Systems Review

There is a need for a fundamental review of all the Housing ICT systems currently in use across the service. Northgate has never been fully reviewed to assess its ongoing suitability and whether it needs to be replaced or upgraded. We are also nearly 2 years into the contract for the Accuserv system used to support HPC's activity, and so this will shortly be under review to decide the future path for that system. A key part of any review would be to assess the benefits and market test whether there is a suitable "unified" system available that could meet most of the service's needs. This project will be a major exercise needing dedicated resources and a proper governance process put in place. Indicative revenue and capital resources have been identified within the plan over the next 4 years to enable this work to be carried out. The figures will be revised and confirmed as project plans and reviews commence, and we have a clearer picture of what needs to change.

5. HRA Unallocated Working Balances

Sustain unallocated working HRA balances at a minimum of £2.5m at this stage.

6. Right to Buy (RTB) Sales

RTB sales have increased significantly since the start of self-financing at the end of 2011/12.

Table 1: Right to Buy Sales 2011/12 to date

2011/12	30
2012/13	85
2013/14	122
2014/15	100
2015/16	135
2016/17	136
2017/18	158
2018/19	135
2019/20	120
2020/21 to-date (Sept)	52

As part of changes the Government introduced in 2012/13, the Authority signed an agreement that allows RTB receipts above the levels assumed as part of self-financing to be retained if they are used to fund new build homes at a 30% contribution rate within 3 years. This has seen an additional £6.285m of Capital Receipts retained to the end of 2019/20, which has helped deliver £18.842m of new build schemes. The trend in RTB sales is reflected in the 2021/22 Business Plan profile for stock numbers with circa 115 RTB sales and other disposals assumed.

7. Treasury Management Strategy (TMS) and the HRA Borrowing "Cap"

The HRA is an integral part of the Authority's TMS. When self-financing was introduced in 2012/13 all stock-retaining authorities had to decide on their approach to debt. Each had to either take on additional debt or have debt paid off, based on the assessed ability of the level of debt that their business plans could be expected to manage. For North Tyneside this meant borrowing £128m of loans from the Public Works Loan Board to pay our allocated share of debt to the Treasury. Each Authority was allocated a "cap" representing the maximum amount of debt that could be held by the HRA. This Authority was one of only a handful nationally where the debt held was above the "cap". Actual debt was £290.825m compared to the calculated cap of £270.585m but the Government "flexed" the cap to match the actual position.

All authorities were in different positions regarding actual debt held and the cap, most were below but many were at or near the cap which restricted their options. Each had to decide what debt and risk approach they would take to both fund investment in existing stock and potentially any new build opportunities. Cabinet agreed at this point to set aside money where possible to repay debt each year, to bring our overall debt holdings down below the cap. The recommended strategy was not to seek to repay all debt held over the initial 30 years. This approach enabled revenue surpluses to be created, which have been utilised to fund a programme of HRA new build spend totalling £23.864m to the end of 2019/20. By the end of March 2020, the Authority's actual HRA debt stood at £264.877m compared to the £290.825m "cap", and by March 2021 it is anticipated that the debt will drop further to £249.673m. Hence, the Authority has already created some headroom through the prudent approach agreed to its Treasury Management strategy.

These 2021/22 draft budget proposals are based on the existing Cabinet agreed policy approach to debt. As mentioned in the cover report the only real change proposed to the current plan for 2021-51 is to slow down the rate at which debt is repaid, in order to help fund a package of savings that will counter the loss of an estimated £45m of rental income due to the current low rate of CPI. It is estimated that this change in the Treasury Management approach would provide £35m of the estimated £45m of savings required. If this approach is taken over the life of the plan it is estimated that just under a further £75m of debt will be repaid over the next 30 years, compared to £105m in the base model based on a target 3% rent increase per annum.

The Table below shows the reduction in HRA debt included in the current proposals.

Table 2 – Impact on HRA Debt 2021-2051 of Revised Business Plan

Description	Debt Movement
	£m
Opening Self-Financing Debt	290.825
Opening HRA Debt 01/04/2021	249.677
Closing HRA Debt after 30 Years	174.677
Debt Repaid over 30 years	75.000
Debt Repaid from start of SF	116.148

8. Self-Financing and Depreciation

From 2017/18 the Government has required that all local authorities calculate a true depreciation charge as a true bottom line cost to the HRA. The approach developed by this Authority calculates a simple depreciation charge based on splitting investment works across several component elements of a building, and linking that to the way the Authority's properties are valued using several "beacon properties" i.e. a sample of properties which represent the different standard types of properties held by the Authority. The level of depreciation calculated using this method will be able to be contained within the amounts currently budgeted in the 30-year HRA Business Plan, and these sums are allocated directly to fund the Housing Capital Investment Plan.

4.4 HRA Summary Financial Plans

4.4.1 In summary, the HRA Business Plan modelled to create these draft proposals has the following key assumptions, most of which are based upon continuing with current Mayoral and Cabinet policy priorities:

- Additional rental income of CPI plus 1%, with a proposed rent increase for 2021/22 of 1.5%, with a longer-term assumption based on CPI target that equates to 3% per annum;
- Garage rent and service charges will increase in line with rental income increases of 1.5% for 2021/22;
- The Tenant Priorities budget created last year will be maintained, particularly as much of the agreed work has been halted by the pandemic, albeit a lot of work is being undertaken to try and make some meaningful progress in each area before the end of 2020/21;
- Resources identified over the next 4 years to undertake full review of current ICT systems and produce an options appraisal of future needs for the service, and then procure and implement the agreed best solution; and
- The base Capital Investment Plan has been refreshed based on an update of the Asset Management Plan and includes continuation of a new build programme in line with Mayoral priorities and the Affordable Homes Plan.

4.4.2 The updated HRA Business Plan for 2021-2026 contains over £24m to support the HRA new build programme over the next 5 years, whilst continuing to repay some debt. The impact that Brexit could have on interest rates and borrowing rates and therefore the impact on the HRA debt position remains unknown. It is prudent that Cabinet maintains its borrowing policy at this stage, until more surety can be gained over future economic trends.

4.4.3 Appendix F shows the revised four-year HRA Business Plan 2021-2025, and Appendix G splits those changes between Pressures and Growth, Efficiencies and Reserves and Contingencies. The HRA Business Plan for 2021-51 (available as a background paper) starts with an assessment of the budget monitoring position as of 30 September 2020, and the impact on HRA balances for this year. At that point, as is being reported to this meeting of Cabinet, the HRA is predicting an overspend of £0.261m against Budget for 2020/21, mainly due to the impact of the COVID-19 pandemic on service delivery in the first three months of the year. Some of the impact is mitigated by existing budgets, and some by an improving rent position, and some vacancy savings from delays in filling posts again due to the pandemic. This means that the opening balances feeding into the Business Plan as at 31 March 2021 are forecast to be £4.954m as shown in Appendix F.

The five-year Housing Investment Plan 2021-2026 is included within Appendix B (ii).

Appendix G also shows a further breakdown of the movement on Reserves and Contingencies which includes a contribution from reserves of £1.943m for 2021/22. It is proposed to reduce contingency budgets by £0.180m in 2021/22 following a review of the levels held, with separate provision made for inflation and pay awards of £0.442m for 2021/22.

5. Dedicated Schools Grant (DSG)

<u>Background</u>

5.1.1 The Dedicated Schools Grant (DSG) can only be used for the purposes of the Schools Budget as defined in the School and Early Years Finance Regulations 2018. The DSG funds those delegated budgets allocated to individual schools, nurseries (and other early years settings) and, high needs provision including special schools and alternative provision.

5.1.2 In September 2017, the Department for Education (DfE) published the response to the stage 2 National Funding Formula (NFF) consultation and confirmed the details of the NFF for the Schools block. In 2020/21, the DSG will continue to be comprised of four blocks covering: Schools, High Needs, Early Years and the Central School Services. Each of the four blocks has their own funding formula.

The DfE initially proposed a two-year transition period (2018/19 and 2019/20) where local authorities would continue to set a local formula to distribute funding to individual schools. However, in July 2018, as a result of the significant movement witnessed towards the NFF, the Government confirmed that these transitional arrangements would continue into at least 2020/21. In 2019, the DfE confirmed that the transitional arrangements will continue into 2020/21 and probably 2021/22, with the expected move to “hard” NFF being likely in 2022/23.

5.1.3 In 2021/22, as in 2019/20 and 2020/21, the Authority will receive its DSG funding based on the DfE National Funding Formula. In August 2020, the DfE published indicative allocations under the NFF at school level using October 2019 census data. This shows the funding level for each mainstream school based on the NFF using the 2021/22 Primary Unit of Funding (PUF) and Secondary Unit of Funding (SUF) with October 2019 pupil numbers.

This information is for planning purposes only as local formulae used by each local authority can still vary from the NFF within the guidance issued by the DfE. The DSG allocation to the Authority for 2021/22 will be published in December 2020 using the October 2020 census results.

5.1.4 The Schools NFF for 2021/22 will continue to have the same factors as at present. The Government announced its intention to implement the formula to address historic underfunding and move to a system where funding is based on need. The key aspects of the formula for 2021/22 are:

- The minimum per pupil funding levels will be set at Primary £4,180, Key Stage 3 £5,215 and Key Stage 4 £5,715;
- The funding floor will be set at 2% per pupil, in line with forecast inflation to protect per pupil allocations for all schools in real terms. This minimum increase in 2021/22 allocations will be based on the individual school’s NFF allocation in 2020/21;
- Schools that are attracting their core NFF allocations will benefit from an increase of 3% to the formula’s core factors; and
- Growth funding will be based on the same methodology as in 2020/21, with the same transitional protection ensuring that no authority whose growth

funding is unwinding will lose more than 0.5% of its 2020/21 Schools block allocation.

In addition, two important restrictions will continue:

- Local authorities will continue to set a Minimum Funding Guarantee in local formulae, which in 2021/22 must be between +0.5% and +2.00%. This allows them to mirror the real terms protection in the NFF, which is the Government's expectation; and
- Local authorities can only transfer up to 0.5% of their Schools block to other blocks of the DSG, with their Schools Forum approval. To transfer more than this, or any amount without their Schools Forum approval, they will have to make a request to the DfE, even if the same amount was agreed in the past two years.

5.1.5 The North Tyneside illustrative allocation for the Schools block, Central Schools Services block and High Needs block in 2021/22 (using census 2019 i.e. static pupil numbers) is shown below. The Authority has yet to receive confirmation of the Early Years block allocation; therefore, this has not been adjusted and remains at the same funding level as received in 2020/21 until further information is received from the DfE:

Table 3: Indicative Dedicated Schools Grant funding allocation 2021/22

	2021/22 Schools block units of funding (£'s)	Schools Block	CSS Block	Early Years Block	High Needs Block	Total Indicative DSG 2021/22
		£m	£m	£m	£m	£m
Primary per pupil rate (£)	4,425					
Secondary per pupil rate (£)	5,841					
Indicative DSG Settlement		**135.906**	**1.854**	**13.734**	**26.101**	**177.595**

5.2 Schools Block

5.2.1 Officers from the Authority have been working with the Schools Finance Sub-group for several months to review the Authority's Local Funding Formula (LFF) for schools and what the potential impact would be if the LFF was moved towards the National Funding Formula (NFF). The outcome of that work was presented to Schools Forum on 1 October 2020 and two funding models were proposed:

- Model 1 – 50% movement towards the NFF
- Model 2 – 75% movement towards the NFF

Each of the models put forward were presented with three scenarios which considered different levels of Minimum Funding Guarantee (MFG) which limits the impact of changes on individual schools' funding. At its meeting on 12 September

2020, Schools Forum agreed to consult with all schools on the option of moving factor rates 50% towards the NFF.

5.2.2 At the time of writing this report a consultation on changes to the LFF is underway with all schools and will be concluded on 20 November 2020. The outcome of the consultation will be presented to Schools Forum at its meeting on 26 November 2020. The consultation results will be shared reviewed by the Cabinet Member for Finance, Cabinet Member for Children Young People and Learning, the Head of Commissioning and the Head of Resources as per recommendation 1.2.1 (l) which is included within the cover report to this Annex.

5.3 <u>High Needs Block</u>

5.3.1 In common with most authorities, North Tyneside is continuing to see rising pressures within provision for children with special educational needs. This is due to the increasing complexity of the needs of children and young people in addition to general rising cost levels mainly as a result of pay inflation.

The number of children with an Education Health and Care Plan (EHCP) continues to increase and there are a rising number of pupils with Autism Spectrum Disorder (ASD) as their primary need. The forecast outturn for high needs as at September 2020 is estimated at £7.999m.

A High Needs Strategic Plan was agreed by Schools Forum in May 2018, outlining a work plan to review the Authority's current special educational needs offer to ensure it meets needs appropriately at a sustainable cost.

5.4 <u>Early Years Block</u>

5.4.1 The DfE has not yet published the expected value of the Early Years block funding. To provide illustrative values, the newly published rates have been applied to the DfE early years factors presented in 2018, giving a potential funding amount of £13.734m in 2020/21.

5.4.2 Local authorities are required to use a locally determined, transparent formula to set the funding rates for the Government-funded childcare entitlements for all types of provider. This is known as the Local Early Years Funding Formula (LFF). Local authorities are required to consult providers and Schools Forum on annual changes to their LFF.

5.5 <u>Central Schools Services Block</u>

5.5.1 The Central Schools Services block (CSSB) provides funding for local authorities to carry out the statutory duties they hold for both maintained schools and academies in England. Schools Forum is required to approve the proposals for expenditure from the CSSB. Schools Forum will consider certain elements of funding that are held centrally within the funding allocations (known as centrally retained and de-delegated items) which are applied to benefit pupils across the Borough.

5.6 Timetable for Agreeing 2021/22 Distributions

5.6.1 The key dates which must be met in setting 2021/22 school budgets are shown in Table 4 below. This report is requesting authorisation for the Head of Resources, in consultation with the Head of Commissioning and Asset Management, the Cabinet Member for Children, Young People and Learning and the Cabinet Member for Finance and Resources, to undertake resource allocations to schools to meet these deadlines.

Table 4: Key dates for 2021/22 School Budget-setting

Date	Activity
July 2020	Department for Education (DfE) guidance issued for 2021/22
October / November 2020	Local consultation documents issued to stakeholders
20 November 2020	Consultation returns received and reviewed
26 November 2020	Schools Forum considers consultation response and agrees proposals for local funding allocation formula to individual schools, de-delegated and centrally retained budgets and any transfers between funding blocks
December 2020 / January 2021	Local Government Finance Settlement announced including school funding amounts
January 2021	Additional Schools Forum meeting (if required)
21 January 2021	Deadline for submission of final local School Allocations to DfE (the Authority Proforma Tool)
28 February 2021	Deadline for confirmation of schools' budget shares to maintained schools (in North Tyneside the intention is to issue in advance of this deadline)

6. Cabinet's initial Budget proposals for the 2021-2026 Capital Investment Plan

6.1.1 Capital investment generally relates to spending on physical assets that have a useful life of more than one year. This can be new assets, improvements to existing assets, or loans to third parties for a capital purpose.

Investment of this nature plays an important role in ensuring the Authority meets its health and safety responsibilities, it also plays an important role in improving economic opportunities across all parts of the Borough. Whilst some investment directly contributes to economic development, all has an indirect impact by providing stimulus to the economy, creating employment opportunities, supporting skills and development or contributing to confidence.

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

The 2020-2025 Investment Plan totalling £244.320m was approved by Council on 20 February 2020. Delivery of projects within the plan and progress to date has been reported to Cabinet as part of the bi-monthly Financial Management reports. Reprogramming of £8.784m has been identified as part of the process and this spend is now included in the 2021/22 planned spend shown below.

The following adjustments are included in the draft plan:

- Addition of an invest to save project for Streetlighting LED - in July 2019, Council declared a Climate Emergency, setting a target to reduce the carbon footprint of the Authority and the Borough by 50% by 2023 and to become carbon neutral by 2050. A key area identified to help achieve this target is to improve energy efficiency and reduce electricity used in streetlighting by the continuation of installation of LED bulbs. It is estimated that the overall project will produce a reduction in electricity kilowatt hours of over 4.6 million, reduction in CO_2 emissions of 1,281 tonnes, reduced electricity spend of over £0.600m and reduced ongoing maintenance of £0.070m;
- In view of the outcome of a number of building condition surveys, an additional £0.500m has been added to the 2021/22 Asset Planned Maintenance budget to reflect identified requirements; and,
- A new year 5 (2025/26) has been added to reflect rolling programme projects such as Asset Planned Maintenance, Additional Highways Maintenance, and ICT refresh.

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

The Investment Programme Board (IPB) meets on a monthly basis and, as part of its monthly meetings, receives an update on all on-going projects included in the approved Investment Plan (currently 2020-2025).

Table 5 below shows a summary of the initial draft 2021-2026 Capital Investment Plan.

Table 5: Summary of the draft Capital Investment Plan 2021-2026

Spend	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£000's	£000's	£000's	£000's	£000's	£000's
General Fund	35,842	15,352	15,458	15,988	13,435	96,075
Housing	26,362	26,043	27,400	29,949	31,424	141,178
Total	**62,204**	**41,395**	**42,858**	**45,937**	**44,859**	**237,253**

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

The estimated revenue implications of these schemes have been included in the revenue budget.

Table 6: Summary of Financing 2021-2026

Spend	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£000's	£000's	£000's	£000's	£000's	£000's
General Fund						
Council Contribution:						
Unsupported Borrowing	15,603	7,025	7,660	8,776	6,223	45,287
Capital Receipts	423	254	0	0	0	677
Revenue contribution	577	746	500	0	0	1,823
Use of reserves	0	0	0	0	0	0
	16,603	8,025	8,160	8,776	6,223	47,787
Grants & Contributions	19,239	7,327	7,298	7,212	7,212	48,288
Total General Fund Resources	**35,842**	**15,352**	**15,458**	**15,988**	**13,435**	**96,075**
Housing – HRA						
Capital Receipts	750	1,886	2,871	2,689	2,984	11,180
Revenue Contribution	10,759	9,831	9,485	11,932	12,760	54,767
Major Repairs Reserve	14,853	14,326	15,044	15,328	15,680	75,231
Total Housing HRA Resources	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**
TOTAL RESOURCES	**62,204**	**41,395**	**42,858**	**45,937**	**44,859**	**237,253**

6.1.3 The initial draft 2021-2026 Investment Plan for the General Fund includes expenditure of £35.842m in 2021/22. Of this expenditure, £19.239m (54%) is funded through grants and other external contributions.

General Fund receipts (£0.677m), already received, and Housing capital receipts of £11.180m have been assumed in the financing of housing projects within the draft Plan.

Across the life of the draft Plan, unsupported borrowing totals £45.287m, with £15.603m planned for 2021/22. Of this, £6.701m relates to invest to save projects and projects that cover the cost of borrowing through recharges: namely, Streetlighting LED, Investment in North Tyneside Trading Company and Vehicle Replacement. The cost of borrowing is included within the General Fund Revenue Budget and Financial Plan.

Work is ongoing to finalise these draft proposals. There are currently a number of projects progressing through the investment gateway process where bids have been made for external funding. It is planned that these projects will be added to the Plan once funding is secured; no spend will be committed until funding is secured.

6.2 <u>Flexible Use of Capital Receipts</u>

6.2.1 Guidelines issued by the Secretary of State allow for the flexible use of capital receipts, subject to certain criteria being met. These guidelines cover the period up to 31 March 2022. This flexibility allows Local Authorities to use capital receipts to fund revenue expenditure incurred to generate on-going savings. In order to use this flexibility Authorities are required to disclose those projects they intend to fund using capital receipts. This can be done as part of the Budget-setting process.

6.3 <u>Capital Allocations 2021/22</u>

6.3.1 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 2021/22 have not yet been announced and therefore indicative figures, based on previous allocations, have been included in the draft Plan. As soon as actual allocations are announced, these figures will be updated and included in subsequent reports.

6.4 <u>Annual Minimum Revenue Provision (MRP)</u>

6.4.1 The Capital Finance Regulations require full Council to agree an annual policy for the Minimum Revenue Provision (MRP), the amount that is set aside to provide for the prepayment of debt (principal repayment). The Regulations require the Authority to determine an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.

There are no changes proposed to the existing policy. The 2021/22 policy is set out in full below:

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

6.5 Prudential Indicators

6.5.1 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 the Code. The proposed indicators for 2021-2025 have been prepared using this new guidance and are attached as Appendix B(iii).

7. 2021/22 Treasury Management

Background

7.1.1 The Authority is required to operate a balanced Budget, which broadly means that cash raised during the year will meet cash expenditure. A key part of the treasury management operation is to ensure that the cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Authority's low risk policy, providing adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Authority's (investment) plans. These capital plans provide a guide to the borrowing needs of the Authority, essentially the longer-term cash flow planning to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or on larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available Budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of any sums invested, as a loss of principal will in effect result in a loss to the General Fund balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from the day-to-day treasury management activities.

7.1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that an organisation's treasury management policy statement adopts the following form of words to define the policies and objectives of its treasury management activities:

1 This organisation defines its treasury management activities as:
The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2 This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3 This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement. Non-Treasury Investments are reported as part of this update. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure in an asset.

7.1.3 There are no policy changes to the Treasury Management Strategy Statement or Annual Investment Strategy which was last approved at Council on 20 February 2020; the latest Treasury Management Strategy Statement and Annual Investment Strategy have been included as Appendix C. The details in this report update the current Treasury position in the light of the updated economic position and budgetary changes already approved.

7.1.4 Since 1 April 2020 there has been one instance of a material exposure in excess of credit limits as per the Treasury Management Strategy Statement and Annual Investment Statement Credit Criteria: Barclays' close of business balance was £0.8m over the £5m limit due to a late and unnotified receipt of cash.

7.2 Treasury Management Reporting

7.2.1 In line with best practice, the Treasury Strategy including an Investment Strategy is considered as part of the Budget-setting process.

The Treasury Management Strategy (how investments and borrowings are to be organised), including treasury indicators; and an investment strategy.

Prudential indicators are covered earlier in this report, with detailed indicators within Appendix B(iii).

There are two other main reports each year, which incorporate a variety of policies, estimates and actuals which are approved by Cabinet. These reports are:

- **A Mid-Year Treasury Management Report**
  This will update Members with the progress of the capital position, amending prudential indicators as necessary, and indicate whether the Authority is meeting the strategy or whether any policies require revision; and

- **An Annual Treasury Report**
  This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the Strategy.

7.3 Current Treasury Portfolio Position

7.3.1 The Authority's debt and investment position as at 30 September 2020 is set out in Table 7 below:

Table 7: Current Treasury Portfolio Position as at 30 September 2020

	Principal Outstanding	**Average Rate**
	£m	**%**
Fixed Rate Funding		
PWLB*	250.250	3.59
PWLB – (HRA Self-Financing)	128.193	3.49
Market Loans	20.000	4.35
Temp Loans**	45.300	1.03
Total External Debt	**443.743**	
Less **Investments**		
(UK) DMO***	20.000	-0.02
Other Local Authorities	40.500	0.59
Bank Deposits	5.000	0.05
Total Investments	**65.500**	
Net Position	**378.243**	

* Public Works Loan Board
** Loans from other local authorities
*** Debt Management Office

7.4 Prospects for Interest Rates

7.4.1 The Authority has appointed Link Asset Services as its external treasury advisor;part of their service is to assist the Authority to formulate a view on interest rates. Table 8 below sets out Link Asset Services' professional view of interest rates:

Table 8: Link Asset Services' forecast interest rates – October 2020

	Bank Rate %	**5-year PWLB %**	**10-year PWLB %**	**25-year PWLB %**	**50-year PWLB %**
Dec-20	0.10	1.90	2.10	2.50	2.30
Mar-21	0.10	2.00	2.10	2.50	2.30
Jun-21	0.10	2.00	2.10	2.50	2.30
Sep-21	0.10	2.00	2.10	2.60	2.40
Dec-21	0.10	2.00	2.20	2.60	2.40
Mar-22	0.10	2.00	2.20	2.60	2.40
Jun-22	0.10	2.10	2.20	2.70	2.50
Sep-22	0.10	2.10	2.30	2.70	2.50
Dec-22	0.10	2.10	2.30	2.70	2.50
Mar-23	0.10	2.10	2.30	2.70	2.50

7.4.2 Link Asset services currently forecast that the Bank of England base rate will remain unchanged for the foreseeable future. The coronavirus outbreak has had a huge economic impact to the UK and economies around the world. After the Bank of England took emergency action in March to cut the Bank Rate to 0.25%, and then to 0.10%, it left the Bank Rate unchanged at its meeting on 6 August 2020 and the subsequent September meeting, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in the Bank Rate is expected within the forecast horizon ending on 31 March 2023, as economic recovery is expected to be only gradual andprolonged.

7.5 Economic Update (Provided by Link)

7.5.1 Economic performance has been driven by COVID-19 and the continued fallout for this worldwide pandemic. The Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10% and has remained at this level since. The Bank of England has committed to quantitative easing (QE) of £745bn. The fall in GDP in the first half of 2020 was revised from 28% to 23% and then subsequently to -21.8%, one of the largest falls in output in any developed nation. Peak unemployment has been revised down from 9% in Q2 to 7.5% by Q4 2020. It is currently forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022.

7.5.2 Any possibility of negative rates has been reduced in at the least the next six months or so; negative interest rates will be less effective when other methods are available. Whilst QE is the main method of economic stimulus, the £300bn announced between March and June meetings will continue into next year, suggesting a slow of purchases are to be expected to about £4bn a week. This allows the Bank of England to allow the economy to progress and be ready to dip in as necessary.

The potential of second wave remains a downside risk, however as seen of late the use of 'localised' lockdowns are likely to be the preferred method over a national lockdown. Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery.

7.5.3 Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

Some longer-term adjustments to account for such as office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

7.6 COVID-19 Impact on Cash

7.6.1 The impact of COVID-19 on cashflow for the Authority has resulted in several large grants being front-loaded to the Authority. In March 2020, the Authority drew down £25.000m of PWLB to bolster the Authority's cash position, de-risk our borrowing requirement and take advantage of historically low levels in PWLB, and by doing so has contributed to the surplus cash balance. Whilst a proportion of this is currently invested out for a fixed term, the Authority is currently carrying a cash surplus balance. However, it is anticipated this surplus will unwind as COVID-19 restrictions are reduced. Projected reduced revenue streams, increased costs and repayment of outstanding debt is forecast to utilise cash balances within the year. It is therefore prudent to assume that the Authority will be in a deficit cash position to the amount of the projected budget pressure.

7.6.2 The Authority is under-borrowed to the value of £57.655m as at 31 March 2020 and, whilst the Authority cannot borrow to fund this revenue pressure, it can look to utilise reserves, unwind its under-borrowed position and externalise borrowing.

7.7 Municipal Bonds Agency (MBA)

7.7.1 The MBA has, since the last mid-year update, undertaken two bond issuances with Lancashire County Council (LCC). The first bond issuance was undertaken in February 2020. A £350m inaugural five-year floating rate bond which is linked to SONIA was successfully issued. The second issuance was a £250m ultralong maturity (40-year) fixed rate bond. As noted by the bond denominations, bond issuances are particularly useful for raising large amounts of capital, and whilst the return of bond issuances is a favourable development for local authorities, the application to North Tyneside Council is limited. Nonetheless, the development of UK local authority bond market will be watched closely.

7.8 Development of Derivatives in the Local Authority Space

7.8.1 A recent development in the Local Authority Treasury space has been Plymouth City Council who have undertaken the first interest swap deal since a High Court ruling in 1991 banned local authorities from undertaking such transactions. That ruling declared that local authorities had no power to engage in interest rate swap agreements because they were beyond their borrowing powers.

7.8.2 Plymouth Council undertook a £75m swap stating that the Localism Act 2011 gave local authorities in England a "general power of competence". Section 1 of the Act says: "A local authority has power to do anything that individuals generally may do." The legislation has enabled Plymouth to go through with the swap transaction. CIPFA and Link Asset Services, advisors to North Tyneside Council, are of the view that the derivative is ultra vires i.e. outside its legal powers.

7.9 Negative investment rates

7.9.1 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grant funding to local authorities to help deal with the COVID-19 crisis; this has caused some local authorities to have sudden large increases in cash balances to be invested, some of which was only very short term until those sums were able to be invested.

7.9.2 As for money market funds (MMFs), yields have continued to reduce. Some fund managers have suggested that they might resort to reducing fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market. This has seen a number of market operators, now including the Debt Management Account Deposit Facility, offer nil or negative rates for very short-term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions.

7.9.3 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

7.10 Non-Treasury Investments

7.10.1 The definition of an investment covers all the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations. The definition of an investment also covers loans made by a local authority to one of its wholly owned companies or associates, to a joint venture, or to a third party.

7.10.2 The Authority recognises that investments in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios. It is recognised that the risk appetite for these activities may differ from that for treasury management. The Authority maintains records of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation’s risk exposure.

7.10.3 At 31 March 2020, the Authority held the following investments on its balance sheet:

- Equity:

Newcastle Airport Holding Company Ltd £7.272m (£10.886m 31/3/19)
North Tyneside Trading Company £7.568m (£5.159m 31/3/19)
LIFT Co £0m

The shares in Newcastle Airport are held primarily for economic regeneration. The cost of the original investment was £0.235m and the shares in North Tyneside Trading Company relate to two subsidiaries. The first, amounting to £5.568m, relates to investment in affordable homes in line with the Cabinet's priorities using section 106 funding. The second, amounting to £2.000m, relates to investment in Aurora Properties (Sale) Ltd for the provision of housing for sale on the open market.

- Loans

High Point View £1.329m (£2.650m 31/3/19)
Aurora Properties (Sale) Ltd £4.000m (£2.059m 31/3/19)
Sub ordinated debt – Dudley and Shiremoor JSC £0.160m ((£0.160m 31/3/19)
Sub ordinated debt – Whitley Bay JSC £0.110m ((£0.110m 31/3/19)

High Point View: It is anticipated that this amount will be repaid over the next few months as the properties are sold and Aurora Properties (Sale) Ltd. The loans are expected to be repaid over the next 3 years upon completion of the property developments.

7.10.4 The current 2020/21 and proposed 2021-2025 Capital Investment Plan includes further planned investment in the Trading Company of £8.005m (which includes £3.997m in section 106 funding). There are currently no losses expected on any of the Authority's non-treasury investments or any indications that a loss may arise. However, this position is kept under constant review as market conditions are expected to remain very volatile. Over the period of the Financial Plan (2020-2025), income from these investments is expected to be over £2.000m from staff recharges, interest and dividends.

8. Provisional Statement to Council by the Chief Finance Officer

8.1.1 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, Elected 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.

The Government has a back-up power to impose a minimum level of reserves on any authority that it considers is making inadequate provisions.

In making the Statement, the Chief Finance Officer necessarily places reliance on information provided to her by other officers of the Authority as part of the Financial Planning and Budget process. Due cognisance to guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) in relation to the adequacy of reserves and balances will also be taken into account.

The intention would be to make a full Statement as part of the report to the Council meeting on 20 February 2021, when all outstanding information should be available.

8.1.2 The 2021/22 Budget needs to be prepared with reference to the Financial Management Code (the FM Code) published by CIPFA. The FM Code provides guidance about the principles of good and sustainable financial management and requires authorities to demonstrate that processes are in place which satisfy these principles. It identifies risks to financial sustainability and sets out details of a framework of assurance which reflects existing successful practices across the sector. In addition, the Code establishes explicit standards of financial management and highlights that compliance with these is the collective responsibility of Elected Members, the Chief Finance Officer and the wider Senior Leadership Team. Full compliance with the FM Code is required from the 2021/22 Budget and further details of how this has been achieved will be set out in the February Cabinet report as appropriate.

8.2 <u>Robustness of Estimates</u>

8.2.1 In assessing the robustness of estimates, the Chief Finance Officer has considered the following issues:

- The general financial standing of the Authority;
- The underlying Budget assumptions from the Financial Strategy;
- Future Budget pressures and growth proposals, including the impact of prudential borrowing for the 2021-2025 Capital Investment Plan;
- The adequacy of the budget monitoring and financial reporting arrangements in place;
- The adequacy of the Authority's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2019/20 Statement of Accounts, presented to the Audit Committee on 18 November 2020; and
- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority.

The level of contingencies currently remains at £4.636m as these are initial Budget proposals which will be finalised by Cabinet once consultation is concluded and the final Local Government Finance Settlement is known.

Reserves, whilst relatively low, are adequate for the risks the Authority faces and can support the Efficiency Plan that is being set out.

8.2.2 The Cabinet is aware it must keep under review its Medium-Term Financial Strategy and four-year Financial Plan, in the context of the 2020-2024 Our North Tyneside Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2021/22 in isolation to future years' needs and pressures. Each year's Budget must continue to be considered within the context of the four-year Financial Plan, the four-year Investment Plan, the Financial Strategy and the global economic position prevailing at the time.

To ensure that the Authority continues to keep within its approved Budget and the financial integrity of the Authority is maintained, it is essential that Budget holder responsibility and accountability continues to be recognized as set down in the Authority's Financial Regulations and in the roles and responsibilities section of the Authority's Budget Management Handbook.

8.3 <u>Capital Investment Strategy</u>

8.3.1 In line with the 2017 'Consultation on Proposed Changes to the Prudential Code's' new requirement that the Chief Finance Officer of an Authority should report explicitly on the 'deliverability, affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions', the Authority has ensured that that all projects within the 2021-2026 Investment Plan follow the full gateway and governance procedure prior to inclusion on the Plan which ensures the deliverability, affordability and risk associated with each decision is fully understood prior to any decisions being made.

In terms of the overall investment position of the Authority, as set out above, a draft 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 Council Plan outcomes.

8.4 <u>Adequacy of Financial Reserves</u>

8.4.1 <u>General Fund</u>

The 2021-2025 Financial Plan currently assumes no use of reserves to support the Budget. My view is that the current Financial Plan should aim to maintain the Strategic Reserve at a minimum planned level of £10.000m over the life of the Financial Plan. Any unplanned use of the Strategic Reserve over the 2021-2025 Financial Plan may take the level outside of this boundary and corrective action would be needed to demonstrate how the £10.000m agreed level would be restored. Table 9 below shows the reserves as at the 31 March 2020 and the projected reserve levels over the period of the Financial Plan:

Table 9: Reserves and Balances as at 31 March 2020 and from 2021/22-2024/25

Reserves and balances	Projected Opening Balances					
	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s
Reserves						
General Fund ringfenced	22.492	21.981	21.805	21.191	20.626	19.300
General Fund unringfenced	19.181	18.990	17.990	17.490	17.490	17.490
General Fund grants	9.435	2.781	2.255	1.956	1.687	1.582
Dedicated Schools Grant	(3.262)	(7.999)	(7.999)	(7.999)	(7.999)	(7.999)
HRA	19.102	18.752	19.048	19.522	19.934	20.282
Reserves Sub Total	**66.948**	**54.505**	**53.099**	**52.160**	**51.737**	**50.654**
Balances						
General Fund Balances	7.000	7.000	7.000	7.000	7.000	7.000
School Balances	0.165	(2.201)	(4.201)	(6.201)	(8.201)	(10.201)
Housing Revenue Account Balances	7.803	4.954	3.011	2.632	2.704	2.666
Balances Sub Total	**14.969**	**9.753**	**5.810**	**3.431**	**1.503**	**(0.535)**
Grand Total Reserves and Balances	**81.917**	**64.258**	**58.909**	**55.591**	**53.240**	**50.119**

8.5 Housing Revenue Account (HRA)

8.5.1 Table 10 below sets out the movement in reserves of the HRA. The Budget proposals ensure that a minimum of £2.500m is retained in HRA revenue balances each financial year covering the two years of the Financial Plan to ensure some measure of contingency and financial stability. The proposals, as they currently stand, also balance the Plan over the longer 30-year period, which is what the Government requires authorities to demonstrate as part of the self-financing proposals.

Table 10: 2021–2025 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Opening Reserve Balance	(7.803)	(4.954)	(3.011)	(2.632)	(2.704)
Contributions (to)/from balances	2.850	1.943	0.379	(0.072)	(0.038)
Predicted Reserve Balance Carried Forward	**(4.954)**	**(3.011)**	**(2.632)**	**(2.704)**	**(2.666)**

8.5.2 Guidance on local authority reserves and balances is given in CIPFA's Local Authority Accounting Panel (LAAP) Bulletin 99. This states that *"Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option"*, and so the proposed 2020/21 Budget does not contradict the issued guidance. The Bulletin does then go on to say *that "It is not normally prudent for reserves to be deployed to finance current expenditure"*. The 2021-2025 Financial

Plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long-term reliance on reserves.

9. Overall Financial Risk Assessment

9.1.1 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.

9.2 <u>Key Financial Risks</u>

9.2.1 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:

Table 11: Key Financial Risks and mitigating actions

Potential Risk	Initial Response
There is a risk that the levels of savings and income the Authority has included in the Budget proposals are not fully deliverable.	A robust challenge process has taken place to align proposals to the Efficiency Statement and how this enables the Authority to deliver its Efficiency Programme. This programme will then 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 on the Authority's 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 SLT 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 2020/21and into 2021/22.
There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2023/24 may be wrong, resulting in changes to the current targeted savings by 2023/24, for the General fund and for the HRA, which will be considered by Cabinet in January 2020. This includes any assumptions with regards to the ongoing impacts of the COVID 19 Pandemic.	The authority has demonstrated robust response to financial management actions if the assumptions that have been made prove to be incorrect. The Authority continues to work closely with national, regional and sub-regional financial networks to help ensure that it 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. The announcement of the Spending Review 2020 clearly gives more information regarding spending plans and financial support to Local Government for 2021/22. More detail will be set out in the Provisional Settlement expected late December 2020.
There is a risk that, because of financial pressures within the Clinical Commissioning Group (CCG), the Authority does not receive a full transfer of funding from health to social care and the continuation of funding for existing services funded through the Better Care Fund (BCF) and S256 agreements. This would have a significant financial impact to the Council.	The Policy and Framework and Guidance for the BCF specifically requires that funding transferred for social care should, as a minimum, be at the equivalent level as that of 2016/17 plus inflation. Following escalation to a national panel, the BCF contribution from the CCG has been agreed and 2020/21 and a Section 75 legal agreement is being drawn up on this basis.
There is a risk that not all growth pressures have been identified in the 2020/21 proposed Budget.	Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand-led pressures exceed Budget provision.	Demand-led pressures continue in areas such as Adults and Children's Social Care and the impact of the Living Wage on our care providers (and the price for services the Authority then has to pay) have been taken into consideration as part of these initial Budget proposals and continue to be closely monitored.
There is a risk that specific factors arising during 2020/21 have not been fully taken into account when preparing the 2022/22 Budget.	The 2020/21 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures that factors arising during the year are highlighted.
There is a risk that the in-year pressures being reported through the 2020/21 financial management process impact on the deliverability of the 2021/22 Budget.	As at 30 September 2020, a pressure of £5.142mm was reported against the 2020/21 Budget this included the impact of COVID 19. Core Business as usual had a pressure of £0.883m, which is expected to improve as we progress to year end. Unfunded Covid pressures

	currently stand at £4.129m at the end of September. As assessment of the ongoing impact and risk of those covid cost pressures and income losses may continue into 2021/22 has been undertaken and considered in light of the levels of reserves.
There is a risk that the contingency provision included in the Financial Plan for 2021/22 is insufficient.	The review of the base Budget and the reflection of the 2020/21 pressures into 2021/22 have been considered as part of the Financial planning process
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 process and planning process.
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 Housing Revenue Account. 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. Further welfare reform changes, including the implementation of Universal Credit and its revised payment period, and changes proposed in the new Welfare Reform and Work Act 2016.	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 Capital 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 Authority has representation on the MHCLG and CIPFA HRA working groups. This enables specific NTC 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 and headteachers and governing bodies. A programme of work has been identified, working with schools to improve the schools deficit position. This will highlight the work that is required and through working with the schools a number of initiatives will be identified and progressed.
There is a risk that North Tyneside may be placed at a disadvantage following the decision to leave the European Union in both financial and economic growth terms. The full extent of the impact will not be clear until the Authority know the precise trade terms which will apply once Britain formally leaves the EU. This has a potentially significant financial impact due	The potential impact from leaving the EU has been included in the Authority's Financial Strategy. This is helping to ensure that potential areas of impact following the EU exit are highlighted and included (where relevant) in budget planning. The Authority is a member of various regional groups which will help it keep up to speed on progress and have

to loss of revenue grant and a potential loss of opportunities, i.e. capital grant and other revenue sources.	the opportunity to exert any influence that it can. It is inevitable that there will be some impact from the decision to leave the EU, the challenge is to manage the impact where possible.

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Our North Tyneside Plan 2020-2024 **Appendix A**

The Our North Tyneside Plan 2020-2024 (the Council Plan) sets out the overall vision and policy context within which the Financial Plan and Budget proposals will operate. Since 2015 North Tyneside has worked to a clear set of priorities through the Our North Tyneside Plan. These priorities have formed the basis of the Framework for COVID-19 Recovery in North Tyneside.

The Our North Tyneside Plan is structured in three key themes – Our People, Our Places and Our Economy. Through our engagement activity over the summer in the Big Community Conversation with our Residents Panel, it is clear that the priorities in the Plan continue to reflect those of residents. Through the Big Community Conversation, residents were asked for their views on what is important for the borough in recovering from the pandemic. These priorities are all included in the Our North Tyneside Plan as set out below:

Our People will:

- Be listened to so that their experience helps the council work better for residents;
- Be ready for school – giving our children and their families the best start in life;
- Be ready for work and life – with the right skills and abilities to achieve their full potential, economic independence and meet business needs;
- Be healthy and well – with the information, skills and opportunities to maintain and improve their health, well-being and independence, especially if they are carers;
- Be cared for, protected and supported if they become vulnerable including if they become homeless; and
- Be encouraged and enabled to, whenever possible, be more independent, to volunteer and to do more for themselves and their local communities.

Our Places will:

- Be great places to live by focusing on what is important to local people, such as by tackling the derelict properties that are blighting some of our neighbourhoods;
- Offer a good choice of quality housing appropriate to need, including affordable homes that will be available to buy or rent;
- Benefit from the council's housing stock being decent and well managed, as well as maximising the potential use of housing such as through extra care schemes;
- Recognise the climate emergency by further reducing the Borough's overall carbon footprint. This will include reducing the council's carbon footprint, along with encouraging and enabling everyone to reduce their carbon footprint;
- Provide a clean, green, healthy, attractive and safe environment;
- Have an effective transport and physical infrastructure - including our roads, pavements, street lighting, drainage and public transport;
- Continue to be regenerated as part of our 15 year 'Ambition for North Tyneside' plan. This will include the continued development of Killingworth Lake, creation of a Master Plan for North Shields, the delivery of plans for Segedunum and the Swans site in Wallsend, as well as further work to build on the success of the regeneration at the coast; and
- Be a thriving place of choice for visitors through the promotion of our award-winning parks, beaches, festivals and seasonal activities.

Our Economy will:

- Benefit from the delivery of our ambitious vision, which we created with partners in the North of Tyne Combined Authority. We will have a dynamic and more inclusive economy, which will ensure that all residents have a stake in our region's future.
- Grow by supporting new businesses and building on our strengths, including our existing world class companies, and small and growing enterprises.
- Be business friendly, ensuring the right skills and conditions are in place to support investment, and create and sustain new high-quality jobs and apprenticeships for working age people.
- Continue to support investment in our business parks, units and Town Centres.

2021-2026 Draft Investment Plan

Project	2021/22 £000	2022/23 £000	2023/24 £000
General Fund			
BS026 Asset Planned Maintenance	2,000	1,500	1,500
CO083 Whitley Bay Crematoria	1,175	0	0
DV064 Council Property Investment	60	0	0
DV066 Investment in North Tyneside Trading Company	3,611	0	0
DV073 Ambition for North Tyneside	3,228	1,885	1,898
ED075 Devolved Formula Capital	1,079	579	579
ED120 Basic Need	2,014	113	113
ED132 School Capital Allocation	5,171	3,534	3,534
EV034 Local Transport Plan	3,076	2,986	2,986
EV056 Additional Highways Maintenance	2,000	2000	2,000
EV069 Vehicle Replacement	1,274	762	1,248
EV076 Operational Depot Accommodation Review	1,102	0	0
EV083 Streetlighting LED	4,353	0	0
EV091 Other Initiatives Climate Change	74	0	0
GEN03 Contingencies (see note)	1,851	500	500

GEN12 Local Infrastructure	100	100	100
HS004 Disabled Facilities Grant	2,281	0	0
HS051 Private Sector Empty Homes	393	393	0
IT020 ICT Strategy	1,000	1,000	1,000
Total General Fund	**35,842**	**15,352**	**15,458**
HRA			
HS015 Refurbishment / Decent Homes Improvements	22,443	20,433	21,248
HS017 Disabled Adaptations	1,212	1,072	1,083
HS039 ICT Infrastructure Works	207	608	1,109
HS044 HRA New Build	2,500	3,930	3,960
Total HRA	**26,362**	**26,043**	**27,400**
TOTAL	**62,204**	**41,395**	**42,858**

Financing

	2021/22 £000	2022/23 £000	2023/24 £000
General Fund			
Council Contribution	15,603	7,025	7,660
Council Contribution - Capital Receipts	423	254	0
Grants & Contributions	19,239	7,327	7,298
Revenue Contribution	577	746	500
General Fund Total	**35,842**	**15,352**	**15,458**
HRA			
HRA Capital Receipts	750	1,886	2,871
HRA Revenue Contribution	10,759	9,831	9,485
HRA Major Repairs Reserve	14,853	14,326	15,044
HRA Financing Total	**26,362**	**26,043**	**27,400**
TOTAL	**62,204**	**41,395**	**42,858**

Note
This includes match funding set aside for additional highways projects currently being progressed through th
an external funding bid.

2024/25 £000	2025/26 £000	Total £000	Financing type	£000
1,500	1,500	8,000	Council Contribution	8,000
0	0	1,175	Council Contribution	1,175
0	0	60	Council Contribution	60
0	0	3,611	Council Contribution	1,074
			Section 106	2,537
2,000	0	9,011	Council Contribution	5,631
			Capital Receipts	677
			Revenue Contribution	1,823
			Historic England - Heritage Action Zone	880
579	579	3,395	Education Funding Agency	3,395
113	113	2,466	Education Funding Agency	2,466
3,534	3,534	19,307	Education Funding Agency	19,307
2,986	2,986	15,020	Dept for Transport LTP ITA	4,790
			Dept for Transport LTP Maint	10,000
			Section 106	90
			Public Transport Funding	140
2,000	2,000	10,000	Council Contribution	8,149
			Dept for Transport grant	1,851
1,676	1,123	6,083	Council Contribution	6,083
0	0	1,102	Council Contribution	551
			ERDF	551
0	0	4,353	Council Contribution	4,353
0	0	74	Council Contribution	74
500	500	3,851	Council Contribution	3,851

100	100	500	Council Contribution	500
0	0	2,281	Better Care Fund	2,281
0	0	786	Council Contribution	786
1,000	1,000	5,000	Council Contribution	5,000
15,988	**13,435**	**96,075**		**96,075**
21,745	22,877	108,746	Capital Receipts	11,180
			Revenue Contribution	54,767
1,094	1,105	5,566	Major Repairs Reserve	75,231
360	112	2,396		
6,750	7,330	24,470		
29,949	**31,424**	**141,178**		**141,178**
45,937	**44,859**	**237,253**		**237,253**

2024/25 £000	**2025/26 £000**	**Total £000**
8,776	6,223	45,287
0	0	677
7,212	7,212	48,288
0	0	1,823
15,988	**13,435**	**96,075**
2,689	2,984	11,180
11,932	12,760	54,767
15,328	15,680	75,231
29,949	**31,424**	**141,178**
45,937	**44,859**	**237,253**

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APPENDIX B (ii) - HOUSING INVESTMENT PLAN 2021-2026

Project Ref	Project Title	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000
	Housing						
HS002	HRA Schemes	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**
	Made up of:-						
	Decency Refurbishments(incl.re-programming)	17,113	15,710	16,386	16,805	17,855	**83,869**
	Disabled Adaptations (incl.re-programming)	1,212	1,072	1,083	1,094	1,105	**5,566**
	Capitalisation of Major Repairs	1,257	1,270	1,283	1,296	1,308	**6,414**
	Furniture Pack Scheme	511	516	521	526	531	**2,605**
	Asbestos Works	309	312	315	318	322	**1,576**
	Energy Efficiency & Environmental Improvements	210	211	213	214	216	**1,064**
	Fencing / Walling / Offstreet parking / Landscaping	1,195	1,377	1,464	1,491	1,519	**7,046**
	ICT Strategy (incorporating Unified Systems Review)	207	608	1,109	360	112	**2,396**
	Garages (Renovation/Demolition)	127	131	135	139	143	**675**
	Water Pipe Renewals/Fire Damage Reinstatement	133	134	135	137	139	**678**
	Apprentice Costs (split with Repairs)	210	216	223	229	236	**1,114**
	Footpaths & Communal Fire Doors	938	103	106	109	113	**1,369**
	Project Management Fee	440	453	467	481	495	**2,336**
	Potential New Build (incl. re-programming)	2,500	3,930	3,960	6,750	7,330	**24,470**
	Total: Housing	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**
	TOTAL	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**

FINANCING

HOUSING

Council Contribution						
Capital Receipts	750	1,886	2,871	2,689	2,984	**11,180**
Revenue Contributions / House-building Fund	10,759	9,831	9,485	11,932	12,760	**54,767**
Total Council Contribution	11,509	11,717	12,356	14,621	15,744	**65,947**
Depreciation / Major Repairs Reserve	14,853	14,326	15,044	15,328	15,680	**75,231**
TOTAL HOUSING	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**
TOTAL	**26,362**	**26,043**	**27,400**	**29,949**	**31,424**	**141,178**

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Appendix B (iii)

2021-2025 Prudential Indicators

Introduction

1.0 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and produce prudential indicators. The framework established by the Prudential Code is designed to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation. In exceptional cases the Prudential Code should provide a framework which will demonstrate that there is a danger of not ensuring this, so that the local authority concerned can take timely remedial action.

1.1 The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the authority. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt. The Capital Investment Strategy Is included as Appendix B (iii) to this report.

1.2 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Prudential Code does not include suggested indicative limits or ratios. These will be for the local authority to set itself. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Authority's underlying investment appraisal systems.

1.3 Within this overall prudential framework there is an impact on the Authority's treasury management activity as it will directly impact on borrowing and investment activity. The draft Treasury Management Strategy for 2019/20 is included within the annex to this report.

1.4 The Prudential Code requires the following matters to be taken into account when setting or revising the prudential indicators:

a) Service Objectives – e.g. strategic planning for the Authority
b) Stewardship of assets – e.g. asset management strategy
c) Value for money – e.g. options appraisal
d) Prudence and sustainability – e.g. implications of external borrowing
e) Affordability – e.g. impact on Housing rents
f) Practicality – e.g. achievability of the forward plan

1.5 Matters of affordability and prudence are primary roles for the Prudential Code.

1.6 The revenue consequences of capital expenditure relating to the HRA must to be paid for from HRA resources.

1.7 Capital expenditure can be paid for through capital receipts, grants etc, but if these resources are insufficient then any residual capital expenditure will add to the HRA's borrowing need.

1.8 The key risks to the plans are that the level of funding, such as capital receipt levels or revenue contributions may change as capital receipts are reliant on an active property market.

1.9 The indicators cover:

- Affordability;
- Prudence;
- Capital expenditure;
- External debt; and
- Treasury management.

1.10 Prudential indicators are required to be set as part of the Financial Planning and Budget process. Any revisions must be reported through the financial management process.

1.11 The prudential indicators for the forthcoming and future years must be set before the beginning of the forthcoming year. They may be revised at any time, following due processes and must be reviewed, and revised if necessary, for the current year when the prudential indicators are set for the following year.

1.12 The following sets down the draft Prudential Indicators as calculated and proposed for North Tyneside Council for 2020–2024. The indicators include those for the Housing Revenue Account.

Prudential Indicators for Affordability

1.13 The fundamental objective in considering affordability of the Authority's Investment Plan is to ensure that the total capital investment of the Authority remains within sustainable limits, and in particular to consider the impact on the "bottom line" and hence Council Tax and Housing rents. Affordability is ultimately determined by a judgement on acceptable Council Tax or housing rent levels.

1.14 In considering the affordability of its Investment Plan, the Authority is required to consider all the resources that are currently available and estimated for the future, together with the totality of the Investment Plan, revenue income and revenue expenditure forecasts for the forthcoming year and following two years (as a minimum). The Authority is also required to consider known significant variations beyond this timeframe. This requires the development of rolling revenue forecasts as well as capital expenditure plans. In line with the Financial Plan and the Investment Plan, four-year forecasts have been provided for the prudential indicators.

1.15 When considering affordability, risk is an important factor to be considered. Risk analysis and management strategies should be taken into account.

1.16 Looking ahead for a four year period, the following is a key prudential indicator of affordability:

- the ratio of financing costs to net revenue stream for both the Housing Revenue Account (HRA) and non-HRA services.

<u>Ratio of financing costs to net revenue stream</u>

1.17 This indicator identifies the trend in the cost of capital (predominately external interest and MRP) as a proportion of the net revenue budget for the General Fund and housing income for the HRA and is shown in Table 1 below:

Table 1: Ratio of Financing Costs to Net Revenue Stream

	2020/21 Est.	**2021/22 Est.**	**2022/23 Est.**	**2023/24 Est.**	**2024/25 Est.**
General Fund	17.09%	17.90%	16.42%	16.36%	16.32%
HRA	28.91%	27.90%	27.33%	26.49%	23.68%

1.18 The above indicator shows costs for all borrowing, both supported and unsupported. It also includes the financing costs of PFI schemes and leases. A new accounting standard for leasing (IFRS16) was due to come into force for Local Authorities from 1 April 2020 due to the Covid-19 pandemic this has been delayed until 1 April 2021. Under this new standard leases that have previously been treated as operating leases and expensed to the revenue account on an annual basis, will now be required to be added to the authority's balance sheet. An initial estimate of the impact of this change (£4m pa) to the cost of capital has been added to the above calculation. Work is ongoing to calculate the actual impact of this change on the cost of borrowing. This will be reported through the Financial Management reports to Cabinet. It should be noted that there is not expected to be a bottom line impact to the revenue budget.

To enhance the information available for decision-making we have also provided a local indicator to show the proportion of the budget that is spent on unsupported borrowing. This is shown in Table 2 below:

Table 2: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream

	2020/21 Est.	**2021/22 Est.**	**2022/23 Est.**	**2023/24 Est.**	**2024/25 Est.**
General Fund	11.60%	12.34%	11.38%	11.18%	11.08%
HRA	6.88%	5.85%	5.23%	4.85%	0.38%

1.19 The cost of capital related to past and current capital programmes has been estimated in accordance with proper practices. Actual costs will depend on the phasing of capital expenditure and prevailing interest rates, and will be closely managed and monitored on an ongoing basis. Any reprogramming in the Investment Plan, whether planned or unplanned, may delay the impacts of debt financing costs to future years.

Prudential Indicators for Prudence

1.20 A key indicator of prudence is that, over the medium term, gross debt will only be used for a capital purpose. Under the Code the underlying need to borrow for a capital purpose is measured by the Capital Financing Requirement (CFR). Gross debt includes external borrowing and also other liabilities including PFI schemes and Finance Leases.

Gross debt and Capital Financing Requirement (CFR)

1.21 This key indicator shows that gross debt is not expected to exceed the total CFR including additional capital requirements for 2017/18 to 2022/23.

Table 3: Gross external debt compared to CFR

	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s	2024/25 Est. £000s
External Borrowing	460,901	464,332	458,721	453,270	450,731
Other Liabilities (including PFI and Finance Leases)	113,527	185,175	181,711	180,738	176,957
Total Gross debt	574,428	649,507	640,432	634,008	627,688
Capital Financing requirement	**635,184**	**704,355**	**690,036**	**678,831**	**660,647**

Prudential Indicators for Capital Expenditure

Estimate of capital expenditure

1.22 This indicator requires reasonable estimates of the total capital expenditure to be incurred during the current financial year and at least the following three financial years.

1.23 The Investment Plan for 2020-2026 is included in the annex to the report and the figures below are based on that report. A full breakdown of individual projects is shown in Appendix B (i).

Table 4: Capital Expenditure

	2019/20 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s	2024/25 Est. £000s
General Fund	49,648	35,842	15,352	15,458	15,988
HRA	25,227	26,362	26,043	27,400	29,949
Total	**74,875**	**62,204**	**41,395**	**42,858**	**45,937**

1.24 There is a risk of cost variations to planned expenditure against the Investment Plan, arising for a variety of reasons, including tenders coming in over/under budget, changes to specifications, slowdown/acceleration of project phasing. There is also the possibility of needing to bring urgent and unplanned capital works into the Investment Plan. These risks are managed by project officers on an ongoing basis, by means of active financial and project monitoring, they will be overseen by the Investment Programme Board and any changes will be made in accordance with Financial Regulations.

1.25 The availability of financing from capital receipts, grants and external contributions also carry significant risks. These risks are particularly relevant to capital receipts, where market conditions are a key driver to the flow of funds, causing problems in depressed or fluctuating market conditions. There is a much reduced reliance on capital receipts in the proposed plan.

Estimate of Capital Financing Requirement (CFR)

1.26 The CFR can be understood as the Authority's underlying need to borrow money long term for a capital purpose. The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The CFR will increase annually by the amount of capital expenditure which is not immediately paid for by grants, contributions, direct revenue funding or capital receipts. The General Fund CFR will also be reduced each year by the amount of Minimum Revenue Provision (MRP) that is set aside in the revenue budget. In addition, the CFR may be reduced by additional voluntary contributions in the form of capital receipts or revenue contributions. The HRA business plan includes provision to reduce the HRA CFR in this way.

1.27 The CFR also includes any other long term liabilities eg PFI schemes and finance leases. As outlined in paragraph 1.18 above the new accounting standard for leasing (IFRS16) now comes into force for Local Authorities from 1 April 2021. This means that leases that have previously been treated as operating leases and expensed to the revenue account on an annual basis, are now required to be added to the authority's balance sheet. An initial estimate of the impact of this change (£75m) has been added to the CFR. Work is ongoing to calculate the actual impact of this change on the CFR. This will be reported through the Financial Management reports to Cabinet.

1.28 In accordance with best professional practice the Authority does not associate borrowing with particular items or types of expenditure. The Authority has a number of daily cash flows, both positive and negative, and manages its treasury position in terms of its borrowing and investments in accordance with the approved Treasury Management Strategy. In day to day cash management no distinction can be made between revenue cash and capital cash. Over the long term external borrowing may only be incurred for capital purposes.

Table 5: Capital Financing Requirement

	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s	2024/25 Est. £000s
General Fund	319,454	394,011	384,862	378,844	364,477
HRA	315,730	310,343	305,174	299,987	296,170
Total	**635,184**	**704,355**	**690,036**	**678,831**	**660,647**

1.29 The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 6 below:

Table 6: Capital Financing Requirement for Unsupported Borrowing

	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s	2024/25 Est. £000s
General Fund	184,285	188,805	184,048	179,814	176,545
HRA	11,002	7,171	3,671	274	0
Total	207,261	195,976	187,719	180,088	176,545

<u>Prudential Indicators for External Debt</u>

<u>Authorised limit for total external debt</u>

1.30 For the purposes of this indicator the authorised limit for external debt is defined as the authorised limit for borrowing plus the authorised limit for other long term liabilities.

1.31 This indicator requires the Authority to set, for the forthcoming financial year and following years, an authorised limit for total external debt, separately identifying borrowing from other long term liabilities such as PFI and Finance Leases.

1.32 The authorised limit represents the maximum amount the Authority may borrow at any point in time in the year. It has to be set at a level the Authority considers is “prudent” and has to be consistent with the plans for capital expenditure and financing.

1.33 This limit is based on the estimate of the most likely, but not worse case, scenario with additional headroom to allow for operational management, for example unusual cash movements.

1.34 As outlined in paragraphs 1.18 and 1.27 above the new accounting standard for leasing (IFRS16) comes into force for Local Authorities from 1 April 2020. An uplift has been applied to the external and operational boundaries to allow for this change. Work is ongoing to calculate the actual impact of the change. This will be reported through the Financial Management reports to Cabinet.

1.35 Full Council will be requested to approve these limits and to delegate authority to the Chief Finance Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities, in accordance with option appraisal and best value for money for the Authority.

1.36 Any such changes made will be reported to the Cabinet at its next meeting following the change.

Table 7: Authorised Limit for External Debt

	2019/20 Est. £000s	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s
Borrowing	1,100,000	1,070,000	1,050,000	1,030,000	1,020,000
Other Long Term Liabilities	150,000	270,000	270,000	270,000	270,000
Total	**1,250,000**	**1,340,000**	**1,320,000**	**1,300,000**	**1,290,000**

1.37 The Chief Finance Officer reports that these Authorised Limits are consistent with the Authority's current commitments, existing plans and the proposals in this 2019/20 budget report for capital expenditure and financing, and in accordance with its approved Treasury Management Policy Statement and Practices.

<u>Operational Boundary for total external debt</u>

1.38 The proposed operational boundary is based on the same estimates as the authorised limit. However, it excludes the additional headroom which allows for unusual cash movements.

1.39 The operational boundary represents a key management tool for in year monitoring by the Chief Finance Officer. Within the operational boundary, figures for borrowing and other long term liabilities are identified separately. Full Council will be requested to delegate authority to the Chief Finance Officer, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the Authorised Limit.

1.40 Any such changes will be reported to the Cabinet at its next meeting following the change.

Table 8: Operational Boundary for External Debt

	2019/20 Est. £000s	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s
Borrowing	550,000	535,000	525,000	515,000	510,000
Other Long Term Liabilities	130,000	220,000	220,000	22,000	220,000
Total	**680,000**	**755,000**	**745,000**	**735,000**	**730,000**

Prudential Indicators for Treasury Management

Adoption of the CIPFA Code of Practice for Treasury Management

1.41 The Authority has an integrated Treasury Management Strategy and has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. North Tyneside Council has, at any point in time, a number of cash flows, both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved Treasury Management Strategy and Practices.

Upper limits on interest rate exposure 2021-2025

1.42 Full Council will be requested to set an upper limit on its fixed interest rate exposures for 2021/22 through to 2024/25 of 100% of its net outstanding principal sums.

1.43 Full Council will be requested to set an upper limit on its variable interest rate exposures for 2021/22 through to 2024/25 of 50% of its net outstanding principal sums.

1.44 The proposals to set upper and lower limits for the maturity structure of the Authority's borrowings are as follows:

Table 9: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate

	Upper Limit	Lower Limit
Under 12 months	50%	0%
12 months to 2 years	50%	0%
2 years to 5 years	50%	0%
5 years to 10 years	75%	0%
10 years to 20 years	100%	25%
20 years to 30 years	100%	25%
30 years to 40 years	100%	25%
40 years to 50 years	100%	25%

NORTH TYNESIDE COUNCIL

CAPITAL INVESTMENT STRATEGY

2021-2026

CONTENTS

1. <u>Introduction</u>

The Investment Strategy is the policy framework document that sets out the principles to be used to guide the 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 that support the delivery of Our North Tyneside Plan (Appendix 1) and "Our Ambition for North Tyneside" strategy.

Principles for Capital Investment:

1. Investment must be strategically aligned to deliver the Our North Tyneside plan priorities (see below);
2. The Authority will work within a borrowing ceiling in terms of both value and revenue cost, reviewed annually;
3. Whole life costs are considered as part of a capital investment appraisal; including provision to ensure the asset is maintained;
4. For every potential scheme the Authority will explore all possible funding and delivery options; and,
5. Unsupported (prudential) borrowing is funding of the last resort.

Our Investment Plan priorities are as follows:

- Policy priorities;
- Maintaining existing assets;
- Income generating projects;
- Invest to save projects; and,
- Regeneration and key infrastructure enhancements.

Capital investment is technically described as "Expenditure on the acquisition, creation, or enhancement of 'non-current assets". This is items of land, property and plant which have a useful life of more than one year. A fuller definition is attached at Appendix 2. Expenditure outside this definition will be revenue expenditure.

Most non-current assets are properties that are used in service delivery. As at 31 March 2019 the Authority's land, buildings and infrastructure asset base of over 450 properties has a current use Balance Sheet value of approximately £251 million, approximately 945 kilometres of highways and 235 bridges, subways, culverts and other structures with a historic value of £168 million, council housing stock comprising nearly 15,000 properties with a balance sheet value of £654 million and ICT and other equipment with a balance sheet value of £16m. In addition the Authority has an interest in assets of companies in which the Authority has a financial interest in terms of equity and loans.

Although this Strategy focuses on the Authority's management of its own investment in assets, a wider view of capital investment throughout the Borough by both the public and private sectors will have a major influence on meeting the Authority's aims and objectives. The Authority works in close partnership with its partners including the NHS, Schools, Highways England, the Environment Agency, NEXUS and Northumbrian Water.

The Investment Strategy is presented to Council as a Policy Framework document, and links with both the Treasury Management Strategy and the Corporate Asset Management Plan. Links to both documents are shown in Appendix 1.

In considering the principles, the Authority needs a balance between guidance and prescription to allow a flexible approach to be taken. This Strategy focuses on the key policies for the allocation of capital resources to schemes in line with Authority's priorities and statutory responsibilities.

The management of the Investment Plan is supported by the Authority's approved Financial Regulations and capital governance process through the Investment Programme Board (see Appendix 4) and the Strategic Property Group.

2. Guiding Principles

2.1 Prioritisation and Approval

Delivery of the "Our North Tyneside Plan" sets the challenge of meeting competing priorities against limited financial resources.

A 'scoring matrix' has been developed to help inform priority schemes and evaluate competing projects for inclusion in the Investment Plan.

The matrix is an aid to evaluate priorities between often very disparate schemes; the overall value of council contribution to capital is ultimately a full Council decision.

All schemes bidding for inclusion on the Investment Plan must follow the approved Investment Plan Gateway process (attached as Appendix 4) and will be subject to a process of prioritisation using the capital scoring matrix (attached as Appendix 3). This process will take place as a minimum on an annual basis. Any bids outside this timescale should be by exception only and will follow the same process.

All schemes will be required to develop a robust business case detailing full capital costs and full life revenue costs, including provision for ensuring that assets are maintained. This will be provided as part of the Gateway 2 submission to the Investment Programme Board for approval prior to commencement of the scheme.

Where funding has been allocated to a programme without individual schemes being identified at the time of approval, (such as a general allocation to a regeneration project, Local Transport Plan, schools for capital maintenance projects), individual schemes within that allocation are subject to each individual scheme being approved by the Investment Programme Board.

2.2 Alternative Funding and Delivery Opportunities

For every potential scheme the Authority will explore all funding options. As capital funding is reduced the Authority will continue to consider alternative methods of supporting capital expenditure within the Authority, using alternative funding, such as social investment, private sector finance and third sector funding or by other bodies delivering capital schemes instead of the Authority.

The Authority can use its assets to support schemes or aim to maximise funding from any source possible, such as Heritage Lottery or Local Enterprise Partnership funding.
The Authority will continue to bid for additional external funding and/or work with other bodies to secure capital investment or consider use of its own assets in a development, but restricts schemes to those which support corporate priorities or statutory service objectives.

Investments on projects should demonstrate sustainability and any requirements for match-funding and future revenue consequences have been considered and approved along with an assessment of the opportunity costs of alternative options. All bids are to be agreed by the Investment Programme Board prior to submission.

The Authority receives capital grant funding from government and is able to bid for grant funding direct to particular government departments or from other grant awarding bodies.

Any un-ring fenced capital grants received, even where these are allocated with service intentions of the identified government body awarding the grant, will be required to be approved by the Authority. Consequently once capital grants have been allocated to a specific service by the Authority, individual schemes within that allocation are subject to each individual scheme being approved by the Investment Programme Board.

2.3 Capital Receipts and Capital Contributions

The Authority receives capital receipts and capital contributions from:

- Asset disposals
- Right to Buy Clawback
- Section 106 and Community Infrastructure Levy (CIL)
- Section 278
- Repayment of loans for a capital purpose

Asset disposals

The proposed disposal of land and buildings is reported to Cabinet for approval and receipts from the sale of all assets sold are used to support the Investment Plan in line with funding the Authority's priorities. An asset disposal will be deemed to occur when the Authority transfers the freehold or a long lease (usually over 40 years).

The Authority will aim to ensure best value when disposing of assets, by enhancing the land prior to disposal, where appropriate; e.g. by obtaining planning permission or providing a development plan. As appropriate the Authority may dispose of assets by tender or by public auction.

The Authority will consider exceptions to this policy where rationalisation of assets used for service delivery is undertaken and in respect of school sites where the Secretary of State has approved the disposal – such exceptions will require a Cabinet decision.

Asset disposals at nil consideration or below market value

The disposal of an asset at below Market Value requires Cabinet approval.

In considering asset disposals, the Authority also needs to take into account the policy on Community Asset Transfers where the Authority will consider, on a case by case basis, the potential transfer of assets to an alternative provider after a full assessment of the long term (full life) risks and rewards of the transfer, including the achievement of best value including potential market value, linked to the Authority's aims and objectives.

The Localism Act 2011 introduced the "Community Right to Bid" and placed a duty upon local authorities in England to maintain a list of assets of community value. Once an asset is "Listed" any disposal will be under the Community Asset Transfer policy or for market value by tender/auction.

Where the Authority proposes to dispose of, or grant a long lease, at nil consideration or at a value below market value this is required to be approved by Cabinet. This will also apply where the disposal is for a community or service benefit.

There may be circumstances, such as the transfer of community school assets under the Academies Act, where assets will also be disposed of at nil consideration.

Right-to-Buy Clawback

In line with statutory regulations, 100% of these receipts are currently used to support the provision of the housing function.

Section 106 contributions and Community Infrastructure Levy (CIL)

Section 106 (S106) monies come from developer contributions through the planning system. There are specific conditions attached to the use of the S106 and the monies are used accordingly to support the Authority's priorities.

Any monies received from the Community Infrastructure Levy (CIL) will be allocated under the CIL arrangements ("the Regulation 123 List") in line with the Authority's investment priorities including any specific funding requirements.

Section 278 Contributions

Funding can be made available under Section 278 (S278) of the Highways Act 1980 whereby a developer may be required to contribute to the provision, alteration or improvement to highways in order to facilitate development.

Repayment of loans for a capital purpose

Where the Authority provides a loan for a capital purpose this will be approved and accounted for as capital expenditure. The repayment of a loan by the borrower will be treated as a capital receipt; however any receipts of this nature will be specifically applied to reduce the value of the outstanding loan.

2.4 Flexible use of Capital Receipts

In December 2015 the Secretary of State published guidelines confirming the criteria for the Flexible Use of Capital Receipts. The initial guidance covered the period 1 April 2016 to 31 March 2019. This was subsequently extended in December 2017 to cover the period up to 31 March 2022. This flexibility allows Local Authorities to use capital receipts to fund revenue expenditure incurred to generate ongoing savings. This flexibility is subject to a Strategy for the use of capital receipts being approved by full Council. By approving this document Council will be approving this flexibility to be used as appropriate with any use reported to Cabinet.

Potential uses for capital receipts, (subject to the capital receipts being received and Cabinet approval of the use of receipts), would be to support any implementation costs for the Authority's efficiency programme including redundancy costs.

2.5 Revenue and Reserves

The Authority is able to use revenue funding and reserves for capital schemes. However, as a result of competing revenue budget pressures and the continued reduction in government support for revenue expenditure the Authority' does not generally budget to use revenue or reserve funds to directly fund capital projects, within the General Fund, after the feasibility stage. This policy is reviewed on an annual basis.

The Housing Revenue Account business plan recognises revenue contributions to the HRA investment plan through the Major Repairs Reserve and other general revenue contributions.

2.6 Approach to Borrowing

In line with the Treasury Management Strategy, the Authority is able to borrow money on the money market or from the Public Works Loans Board to fund capital schemes or, use its own internal resources (i.e. cash flow). However for all schemes funded from borrowing, the Authority must fund the repayment and interest costs as since 2011 any central government "supported borrowing" allocations and related revenue support ceased. There is an intention that a cap is placed on the overall level of borrowing and that over a 10 year cycle the level of borrowing should reduce. The policy governing the repayment of this borrowing for the General Fund, the Minimum Revenue Provision (MRP) policy, is approved annually by full Council. Repayment of Housing Revenue Account borrowing is laid out in the 30 year Business Plan.

The Authority is only able to borrow for "unsupported borrowing" (also known as Prudential Borrowing) under the guidance contained in the CIPFA Prudential Code whereby, in summary, the Authority is required to ensure that all borrowing is both prudent, sustainable and affordable. Under the Prudential Code a number of indicators showing ratios of costs and levels of borrowing, are required to be considered and approved by full Council. All schemes funded from prudential borrowing are approved by full Council or Cabinet and are in line with Financial Regulations.

The Authority's Treasury Management Strategy recognises the need to take borrowing to support a number of capital projects, included within the Investment Plan approved by full Council, and reduce the level of internal borrowing. Based on current projected Public Works Board Lending rates, the cost of 1.5-3.5% should be assumed for new borrowing in 2020/21.

The Authority takes a prudent approach to new borrowing, paying particular regard to the robustness of the business case to include forward predictions of affordability, with the aim that projects should be self-funding (i.e. create a revenue stream so that the cost of borrowing is cost neutral on Council Tax). It is essential that any new proposals for a self-funding or invest to save scheme supported by borrowing has a robust business case that is presented to the Investment Programme Board prior to approval by Council or Cabinet.

To support its revenue budget the Authority will continue to evaluate any capital investment projects either acting alone or with partners that will produce an on-going revenue income stream for the Authority. This is one of the scoring criteria now adopted by the Authority when assessing competing capital projects.

There may be the need for borrowing that has no identifiable future revenue stream, for example, to repair or construct key infrastructure assets. Here a broader view can be taken of the value of repairing the asset to the overall economy of the Authority. The cost of such borrowing falls on the tax payer through payments of debt interest on the Authority's General Fund revenue account and repayment of debt over a specified period of time. There may still be a need for such borrowing but each proposal should be reviewed on a case by case basis, using the Gateway and prioritisation process, with the project evaluation clearly stating how the borrowing is to be afforded.

2.7 Investment Opportunities (including capital loans)

The Authority will consider, if the opportunities arise, the purchase of land and property as an investment – to both generate an on-going income stream or to realise an increased capital value in the future. This could include the purchase of land or property or the purchase of "shares" in a property fund. Depending on the capital funding proposed the appropriate approvals will be requested at that time. Loans for a capital purpose can also be approved subject to a business case and due diligence on the borrower including, as appropriate, guarantees and bonds to secure the repayment of the loan. Any such opportunities would be considered in the first instance by the Investment Programme Board and Cabinet for approval in accordance with Financial Regulations.

Appendix 1 – Key Strategies and Plans linked to the Investment Strategy

Our North Tyneside Plan

People	Place	Economy	Partners	Organisation
Joint Strategic Needs Assessment	Local Plan and Master Plans • Community Infrastructure Levy Schedule (Regulation 123 List)	Strategic Economic Plan	Plans appropriate to each theme	ICT- Digital Strategy
Health and Wellbeing Strategy	Transport Strategy • Highways Asset Management Plan (HAMP) • Parking Strategy • Cycling Strategy • Network Management Plan	Employment and Skills Strategy		Human Resources- Workforce Strategy
Community Safety Strategy	Housing Strategy • Strategic Housing Market Assessment (SHMA) • Strategic Housing Land Availability Assessment (SHLAA) • HRA business plan • HRA Asset Management Plan			Financial Strategy
	Climate Emergency • Climate Emergency Action Plan • Low Carbon Plan 2016-2027	Estates Strategy		Asset Management Plan
	Flood Alleviation • Flood Risk Management Strategy • Coastal Strategy	Our Ambition for North Tyneside		Treasury Management Strategy Statement
	North Shields Master Plan	North Shields Master Plan		Minimum Revenue Provision Policy
	10 Year Plan for Waste			Prudential Indicators

Appendix 2 – Definition of Capital Expenditure

Capital investment is simply described as:

> ***Expenditure on the acquisition, creation or enhancement of "non-current assets"***
>
> ***(non-current assets are items of land and property which have a useful life of more than 1 year)***

This definition of capital expenditure that the Authority has to comply with for the classification and, therefore, the funding of capital expenditure in linked to International Financial Reporting Standards. "Qualifying Capital Expenditure" under s25 of Local Government Act 2003 is defined when:

> "The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with "proper practices""

"Proper Practice" (from 1 April 2010) is under International Financial Reporting Standards (IFRS) rules. The relevant standard is IAS16 which has the following definition of capital expenditure:

> "Expenses that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management".

"Directly attributable" means that, for example, if building a school, it is the costs linked to the actual construction of the building, not temporary accommodation, moving people around etc.

Subsequent Capital Expenditure on an asset is defined as:

> "Expenses that make it probable that future economic benefits will flow to the authority and whose cost can be measured reliably" subject to "if the expenditure is to replace a component, the old component must be written out of the balance sheet".

Future economic benefits means that it is not necessary for the expenditure to improve the condition of the asset beyond its previously assessed standard of performance. The measurement is against the actual standard of performance at the date of expenditure; e.g. if service potential or asset life is increased.

Appendix 3 – Capital Scoring Matrix

Capital Projects Assessment Criteria

Possible Weightings

1. Council Plan Priorities

	Specifically identified in Council Plan		PASS/FAIL
	Identified as a key Project/Activity in the Council Plan or directly supports a number of specific outcomes		
	Generally supports specific Actions or outcomes		
	Will not deliver any identified outcomes		

2. Potential to generate future revenue savings and/or investment return

3 points	Considerable additional net revenue saving and/or income stream meets both £100k pa and > 25% of project cost)	factor = x	**5**
2 points	Moderate additional net revenue saving and/or income stream (meets both £50k - £100k pa and 10-25% of project cost)	Max score	**15**
1 point	Small additional net revenue saving and/or income stream (meets both <£50k pa and < 10% of project cost)		
0 points	No potential net revenue income		
-2 points	Additional on-going resources required over existing budgets		

3. Specific External resources to support scheme (including Regional funding)

3 points	Specific (ring fenced) funding requires no additional Council funds (capital or revenue)	factor = x	**4**
2 points	Specific (ring fenced) funding and requires Council funds of both 10% match funding or up to £250k (capital or revenue)	Max score	**12**
1 point	Specific (ring fenced) funding and requires Council funds of both 50% match funding or between £250-500k (capital or revenue)		
0 points	Specific (ring fenced) funding but requires Council funds of both 75% match funding or > £500k (capital or revenue)		

4. Statutory Status: includes support of a statutory service requirement

3 points	Meets a specific immediate or forthcoming statutory requirement	factor = x	**4**
2 points	Meets an underlying statutory duty	Max score	**12**
1 point	Meets a discretionary requirement		
0 points	no indication of status		

5. Risk to Community of NOT doing (i.e. identified in Risk Register)

3 points	High risk (9-16)	factor = x	**2**
2 points	Medium risk (5-8)	Max score	**6**
1 point	Low risk (1-4)		
0 points	no risk identified		

6. Risk of doing (can project be delivered?) - achievability, timescale, resources required

3 points	Low risk (1-4)	factor = x	**2**
2 points	Medium risk (5-8)	Max score	**6**
1 point	High risk (9-16) with mitigation		
0 points	High risk (9-16) with no mitigation		

7. Condition, health and safety risk and strategic importance of asset issues

3 points	Expenditure on asset will reduce impact of 3 issues	factor = x	**1**
2 points	Expenditure on asset will reduce impact of at least 1 issue	Max score	**3**
1 point	Expenditure will have a possibility of reduced impact in at least 1 issue		
0 points	No demonstrated impact on any issues		

8. Outcomes, added value, cross-service benefit

3 points	Good - Large number of beneficiaries / target groups (>25,000)	factor = x	**1**
2 points	Satisfactory - Significant number of beneficiaries / target groups (10,000-25,000)	Max score	**3**
1 point	Fair - Reasonable number of beneficiaries / target groups (1,000-10,000)		
0 points	Poor - Few beneficiaries / target groups (<1,000)		

Max score	**57**

Appendix 4 – Investment Plan Gateway Process

Investment Programme Board
Governance arrangements for Capital Projects

The purpose of the Gateway process is to ensure that all necessary approvals are secured at all key stages of any Capital project.
Project Officers are responsible for the completion and submission of all Gateway Forms to the Strategic Investment and Property Team (FAO Iain Betham / Fiona Lucas). The team will then ensure that all Gateway Forms are presented to IPB as required.

Regional Projects

All regional projects come through the IPB Governance arrangements, even if they have already passed regional Gateways. North Tyneside Council to sign off and govern its involvement. All proposals come through Gateway 0—go out to the regional processes—the outputs from that and all necessary information then come back into Gateway 1.

Gateway 0 Strategic Fit

Purpose: Information contained in this submission should be brief but sufficient to demonstrate that a mandate exists, the project or programme has been prioritised and an outline business case has been developed. There is also a requirement to convey how far the idea has been developed in terms of feasibility.
Role: The submission will be scrutinised by the IPB in terms of strategic fit, corporate priorities, available capital resources and estimated revenue implications. This allows the Project Officer to commence the feasibility stage.
Available options: Approve or advise / refer back / reject
Associated Form—Gateway 0

Gateway 1 Feasibility

Purpose: This document constitutes a formal bid for capital investment including inclusion in the Investment Plan. It should provide sufficient information to enable effective financial and technical scrutiny ahead of further review at strategic and member level. Figures on cost and funding should be as accurate as possible. At Gateway 1 there is a focus on viability, affordability, procurement and delivery. The initial submission of the Gateway 1 form will be considered by a sub group of IPB as part of the new scoring matrix. This will ensure that all projects are aligned to the Council's Our North Tyneside Plan and that any financial or other implications are addressed prior to consideration by the full IPB Board
Role: The IPB will scrutinise the bid in terms of its financial and technical viability and management of risk. The IPB will be briefed on outcomes and recommended actions and may wish to prioritise, amend or modify the submission in light of these comments. The IPB provide recommendations to Cabinet to form part of the budget setting and financial management processes, if required.
Available options: Approve or advise / refer back / reject
Associated Form—Gateway 1

Gateway 2 Approval and Delivery

Purpose: Spending approval at Gateway 2 must be secured before any capital expenditure is incurred on a programme / project. This template brings together all the information needed for an appraisal and approval to be given. If the request varies from the budget either in terms of expenditure, funding or both you must explain this variance in Section A8. **In addition this Gateway Form MUST provide information on the spend profile which will be monitored as part of the overall investment plan.** Part A is normally completed by the Programme / Project Manager in consultation with the Finance Link Officer. Part B should be completed by the Programme / Project Manager
Role: Officers in both the Strategic Investment & Property Team and the Client Finance Team will complete final checks to confirm that relevant information has been submitted correctly in Part A & relevant sections of Part C.
Available options: Approve or advise / refer back / reject
Associated Form—Gateway 2

Gateway 3 Exception Report

Purpose: Information contained in this submission should provide the IPB with information on the project & the specific issues as to why the matter has been escalated to the IPB. This could cover project delays, financial concerns or new information that may now have an impact on the project. **In addition this Gateway Form MUST provide information on the spend profile which will be monitored as part of the overall investment plan.** A Gateway 3 submission may be required on more than 1 occasion subject to the issues / matters that may / may not be raised regarding a particular project. **The relevant Project Officer responsible for the project will be expected to attend the IPB to present the Gateway 3 submission.**
Role: The submission will be scrutinised by the IPB in terms of the wider strategic fit, corporate priorities together with the associated implications for capital resources and revenue budgets, prior to submission to Cabinet or Council as required.
Available options: Approve or advise / refer back / reject
Associated Form – Gateway 3

Gateway 4 Project Close

Purpose of Document: The purpose of this document is to confirm financial completion, transfer or the abandonment of a project and to report on the status of associated records. Responsibility for completion of this template should be identified in the follow-on actions and handover plan. Completion of all relevant sections is mandatory to enable consolidated reporting on the Investment Plan.
Scrutiny and Review: The Investment Programme Board will review this submission including for capital accounting and financial closure purposes.
Available options: Approve or request additional information
Associated Form – Gateway 4

APPENDIX C

2021/22 Treasury Management Statement and Annual Investment Strategy

1.1 <u>Treasury Management Strategy for 2021/22</u>

1.1.1 The proposed Strategy for 2021/22 in respect of the following aspects of the treasury management function is based upon treasury management officers' view on interest rates, supplemented with market forecasts provided by the Authority's treasury advisor, Link Asset Services. This strategy covers:

- Training;
- Use of External Advisors;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness; and
- Non-Treasury Investments

1.2 <u>Training</u>

1.2.1 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

A training session will be provided by Link Asset Services to all members involved in the investment decision-making process.

1.3 <u>Treasury management Consultants</u>

1.3.1 The Authority uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

Whilst the Authority has external treasury management advisors it recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of its external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, its treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

1.4 <u>Investment and Borrowing Rates</u>

Investment returns are likely to remain low for the next few years. Increments in investment levels will be slow and steady.

The Debt Management Office is currently at negative rates with many banks offering less than base rate for anything up to 6 months. Highly liquid Money Market Funds are also at all time lows with some suspending investments due to the low yields being generated.

HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July.

It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).
The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be reviewed, investment returns remain exceptionally low as does in borrowing rates, which means it’s a good time to refinance any borrowing at these historically low levels.

1.5 <u>Borrowing Strategy</u>

1.5.1 The Authority’s capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Authority’s reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns have remained low and counterparty risk is relatively high.

The Authority’s borrowing strategy will give consideration to new loans in the following order of priority:

- The cheapest borrowing and lowest risk approach is internal borrowing. By continuing to maintain a relatively low level of cash balances the risk of investment is reduced. However, in view of the overall forecast for long-term borrowing rates to remain stagnant over the next few years, consideration will be given to weighing the short-term advantage of internal borrowing against potential long-term costs if the opportunity is missed for taking loans at long-term rates which may be higher in future years;
- Temporary borrowing from money markets or other local authorities;
- Long-term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintain an appropriate balance between PWLB and market debt in the debt portfolio;
- PWLB borrowing for periods under ten years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt; and
- PWLB borrowing for periods of longer than ten years may be explored.

1.5.2 The principal risks that impact on the Strategy are the security of the Authority's investments and the potential for sharp changes to long and short-term interest rates. Officers, in conjunction with the Authority's treasury advisor, will continue to monitor the financial standing of banks and building societies, and the level of interest rates, both those prevailing and forecast.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Head of Resources will monitor the interest rates in financial markets and adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet or full Council, as appropriate, at the next available opportunity. Such circumstances include a situation where:

- If it were felt that there was a significant risk of a sharp fall in long and short-term interest rates, then long-term borrowings will be postponed, and potential rescheduling from fixed rate funding into short-term funding will be considered; or
- If it were felt there was a significant risk of a much sharper rise in long and short-term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

1.6 Policy on borrowing in advance of need

1.6.1 The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

1.7 Debt Rescheduling

1.7.1 As short-term borrowing rates will be considerably cheaper than longer-term interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). Any position taken via rescheduling will be in accordance with the strategy position outlined above.

In order to generate the most attractive debt rescheduling opportunities, it is proposed that the strategy for 2021/22 should remain flexible. The reason for any rescheduling to take place may include:

- the generation of cash savings and / or discounted cash flow savings at minimum risk;
- to help fulfil the strategy outlined above; and
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to Cabinet as part of the next financial management report at the meeting following its action.

2.1 Annual Investment Strategy

2.1.1 Investment policy – management of risk

The Ministry for Housing Communities and Local Government (MHCLS) and Chartered Institute of Public Finance and Accountancy (CIPFA) have extended the meaning of ‘investments’ to include both financial and non-financial investments. This section of the report deals solely with financial investments. Non-financial investments, essentially the purchase of income yielding assets, are covered later in the report.

The Authority’s investment policy has regard to the following:

- MHCLG’s Guidance on Local Government Investments;
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017;
- CIPFA Treasury Management Guidance Notes 2018.

The Authority’s investment priorities are:

a) the security of capital;
b) the liquidity of its investments; and,
c) Yield (return).

2.1.2 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are their short-term and long-term ratings;

2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings;

3. Other information sources used will include the financial press, share prices and other such information pertaining to the banking sector in order to establish a robust scrutiny process on the suitability of potential investment counterparties;

4. This Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in within

the Investments and Credit Criteria under the categories of 'specified' and 'non-specified' investments:

- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year; and
- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. The Authority has determined that it will limit the maximum total exposure to non-specified investments as being 25%;

6. Lending limits for each counterparty will be set through applying the matrix table within the Investments and Credit Criteria table;

7. Transaction limits are set for each type of investment in within the Investments and Credit Criteria table;

8. This Authority will set a limit for its investments which are invested for longer than 365 days;

9. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating;

10. This Authority has engaged external consultants to provide advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year;

11. All investments will be denominated in sterling; and

12. Following the introduction of IFRS 9 as a result of the type of type of investments the Authority holds, there has been no material impact on the Authority's financial statements.

The Authority will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

There have been no changes in risk management policy from last year, and the above criteria are unchanged.

2.3 Investment Strategy

2.3.1 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. Greater returns are usually obtainable by investing for longer periods. While most cash flow balances are required in order to manage day to day cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed:

- If it is thought that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as short-term or variable; or

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectation

A prudent approach will be taken with all investments being made on a short-term basis; in the current economic climate. This will primarily be achieved through investing with selected banks and funds which meet the Authority's credit rating criteria, as set out in Appendix E.

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

2.4 Creditworthiness Policy

2.4.1 The Authority applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit default swaps (CDS) spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

The modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration of investments.

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system; it does not give undue preponderance to one agency's ratings.

The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service:

- If a downgrade results in the counterparty no longer meeting the Authority's minimum criteria, its further uses as a new investment will be withdrawn immediately; and
- In addition to the use of credit ratings the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website. Extreme market movements may result in downgrade of an institution or

removal from the Authority’s lending list. Sole reliance will not be placed on the use of this external service. In addition, this Authority will also use market data and market information on any external support for banks to help support its decision-making process.

Investment Instruments and Credit Criteria

Investment instruments used for the prudent investment of the Authority’s cash balances are listed below under the ‘Specified’ and ‘Non-Specified’ Investment categories.

Specified Investments – are those investments offering high security and liquidity. All such investments will be in sterling, with a maximum maturity of one year, meeting the minimum ‘high’ rating criteria where applicable. Table 1 below shows the credit rating criteria used to select with whom the Authority will place funds:

Table 1: Specified Investments and Credit Criteria

The minimum credit ratings criteria the Authority use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available or other market information, to support their use.

	Credit Criteria	**Maximum Deposit**	**Maximum Period**
UK Government Debt Management Office (DMADF)	N/A	£75m	6 months
UK Local Authorities	N/A	£10m each	1 year
UK Government Treasury Bills	UK Sovereign Rating	£10m	1 year
Term deposits with individual bank or building society entity	Blue /Orange Red Green No Colour	£5m each	12 months 6 months 100 days Not for use
Certificate of Deposits with banks and building societies	Blue /Orange Red Green No Colour	£5m each	12 months 6 months 100 days Not for use
Money Market Funds *(CNAV, LVNAV,VNAV)	AAA	£5m each	Liquid

*CNAV- Constant Net Asset Value
LVNAV- Low Volatility Net Asset Value
VNAV- Variable net Asset Value

Group Limit – A group limit is the maximum exposure that can be held in total across a group of entities which fall within a single parent. For example, Bank of Scotland PLC falls within the group of Lloyds Bank PLC, therefore no more than £10m can be invested across the group.
A Group limit of £10m will not be exceeded.

Non-specified Investments - are all sterling denominated, with maturities in excess of one year. A maximum of 25% may be held in aggregate in non-specified investments. Table 2 below shows the counterparties with whom the Authority will place funds:

Table 2: Non-Specified Investments

	Credit Criteria	**Maximum Deposit**	**Maximum Period**
UK Local Authorities	N/A	£5m each	3 years

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Appendix D

2021-2025 Financial Planning and Budget Process

Timetable of Key Milestones for 2021/22

Date / Meeting	Detail
21 September 2020 **Cabinet**	Cabinet approves the 2021-2025 Financial Planning and Budget process, incorporating the associated Engagement Strategy.
21 September 2020 **Cabinet**	Cabinet agrees the 2021/22 Council Tax Support Scheme for consultation.
12 September 2019 to 16 November 2020	Public consultation period on the 2021/22 Local Council Tax Support Scheme.
30 November 2020 **Cabinet**	Cabinet considers its 2021-2025 initial Budget proposals in relation to General Fund, Schools, Housing Revenue Account & Investment Plan for 2021-2025.
30 November 2020 **Cabinet**	Cabinet considers the outcomes of the consultation on the 2021/22 Council Tax Support Scheme and proposes a scheme for Council to consider on 21 January 2021.
1 December 2020	Notice of Objection process for the 2021/22 Budget commences.
1 December 2020	Budget and Council Plan engagement process begins. Ends in January 2021.
December 2020 **Scrutiny Process**	Scrutiny of the 2021-2025 Financial Planning and Budget process.
Mid-late December 2020	Estimated timing of the 2021/22 Provisional Local Government Finance Settlement.

Date / Meeting	Detail
21 January 2021 **Council**	Council considers the proposed 2021/22 Local Council Tax Support Scheme from Cabinet and agrees or amends the scheme for 2021/22.
25 January 2021 **Cabinet**	2021/22 Council Tax Base agreed by Cabinet.
11 January 2021 **Overview, Scrutiny and Policy Development Committee**	Overview, Scrutiny and Policy Development Committee/Budget Study Group as appropriate considers Cabinet's final Budget proposals.
1 February 2021 **Cabinet**	Cabinet approves the final proposals in relation to the 2021/22 Housing Revenue Account budget and associated Business Plan, including an assessment in relation to the current year's budget monitoring information (2020/21). In addition, Cabinet will agree the Annual Housing Rent policy for 2021/22.
1 February 2021 **Cabinet**	Cabinet considers its Budget proposals for 2021-2025 in relation to General Fund Revenue, Schools and Investment Plan, taking into account feedback received as part of Budget Engagement.
2 February 2021 **Overview, Scrutiny and Policy Development Committee**	Overview, Scrutiny and Policy Development Committee considers the results of its review of the 2021-2025 Financial Planning and Budget and Council Plan process.
8 February 2021 **Cabinet**	Cabinet meeting to consider any recommendations of the Overview and Scrutiny Budget Study Group following its review of the Cabinets 2021/22 Budget and Council Tax proposals.
16 February 2021	4pm deadline for responses to the Authority's Notice of Objection
18 February 2021 **Council**	Reconvened Council meeting to consider Cabinet's estimates of amounts for the 2021-2025 Financial Planning and Budget process and Council Tax levels. Consideration of any responses to the Notice of Objection.
22 February 2021 (if required) **Cabinet**	Cabinet Meeting to consider any objections to Cabinet's Budget and Council Plan proposals.

	The Cabinet meeting on 22 February 2021 is now a scheduled meeting with other items of business and will proceed even where no objections are approved.
4 March 2021 (if required) **Council**	Council meeting to agree the Budget for 2021/22, the Council Tax level for 2021/22 and the Investment Plan for 2021-2025

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Glossary of Terms

Asset Management Strategy	Asset Management Strategy is a high-level document that guides the overall investment in existing and new assets within an organisation. Being a strategy it explores long term issues and ensures that the overall plan is linked to the key "strategic" priorities of the organisation.
Authorised Limit	Borrowing is prohibited beyond this limit. This limit reflects the level of borrowing that, while not desired or sustainable, could be required with some headroom for unexpected cash flow movements. It includes both temporary borrowing for cash flow purposes and long-term borrowing to finance capital expenditure.
Balances	The reserves of the Authority, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.
Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short-term interest rates in the money markets.
Better Care Fund (BCF)	A pooled Budget arrangement between the Authority and the local Clinical Commissioning Group, which aims to bring greater integration between health and social care.
B/Fwd	The balance in the Statement of Accounts that has been brought forward from the previous period, normally the previous financial year.
Borrowing	Refers to external borrowing.
Brexit	The potential departure of the United Kingdom from the European Union.
Budget	A plan of expected expenditure and income over a set period of time for example the Authority's revenue Budget covers a financial year.
Budget Holder	A nominated officer in a Service area who has responsibility for the control and monitoring of a particular Budget.
Budget Manager	A nominated officer in a Service area who has responsibility for the control and monitoring of the budgets within a service area.
Budget Monitoring	The analysis and reporting of expenditure/ income against budget. Budget monitoring is carried out by Service area alongside the Finance Service on a monthly basis.
Budgetary Control	The use of budget monitoring information to manage the Budget and bring spend in on target for the year.
Business Rates	Business Rates also known as Non Domestic Rates (NDR) is a charge levied upon all non-domestic properties. The rateable value of non-domestic premises is determined by the Valuation Office Agency (part of the Inland Revenue). This rateable value is multiplied by a national multiplier (set each year by central Government) to arrive at the gross annual amount each business must pay. This can be reduced by reliefs, dependent on the size and circumstances of the business, to arrive at the net amount payable. Business Rate Retention Regulations were introduced in April 2013. These determine the proportion of Business Rates retained by Local Authorities and its preceptors, or transferred to Central Government.
Capital Financing	The resources required to fund capital payments e.g. • borrowing • the application of useable capital receipts

	• a direct charge to revenue • the application of a capital grant or contribution.
Capital Financing Requirement (CFR)	This measures the Authority's underlying need to borrow for a capital purpose. It is a calculation of capital costs less funding from capital receipts, grants and contributions to give the balance to be funded by borrowing. The Authority needs to ensure that over the medium term net borrowing does not exceed the CFR. The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code.
Capital Investment / Expenditure	The total amount spent on capital including all those items capitalised under statute e.g. equal pay and grants to third parties.
C/Fwd	The balance in the Statement of Accounts that is "carried forward" to a future period, normally the next financial year.
CIPFA	Chartered Institute of Public Finance and Accountancy, which is the leading accountancy body for public services.
CCG	Clinical Commissioning Group – an NHS body which commissions community and hospital based healthcare for a local area.
Consumer Price Index (CPI)	The index has been designed as a macro-economic measure of consumer price inflation. The official measure is calculated each month by taking a sample of goods and services that a typical household might buy, including food, heating, household goods and travel costs. It forms the basis for the Government's inflation target, which the Bank of England's Monetary Policy Committee is required to achieve.
Contingencies	Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.
Cost Centre	A code created in General Ledger to record expenditure and income for a particular activity. For example a library or a school.
Council Tax	The main source of local taxation for local authorities. It is a banded property tax (using 1 April 1991 property values), which is levied on households within its area by the billing authority and is set annually for the properties in its area. Council Tax income is paid into the billing authority's Collection Fund for distribution to precepting authorities and for use by the billing authority's own General Fund.
Counterparty	The organisations responsible for repaying the Authority's investment upon maturity and for making interest payments.
Credit Default Swap (CDS)	These contracts reflect the market perception of an institution's credit quality unlike credit ratings, which often focus on a longer-term view. CDS contracts can be compared with insurance, as a buyer of a CDS pays a premium insuring against a debt default.
Credit Rating	This is a scoring system that lenders use and publish to determine how credit worthy individuals and businesses are.
DCLG	Department for Communities and Local Government.
Debt	The sum of borrowing and other long-term liabilities.
Debt Management Office (DMO)	Debt Management Office (DMO) is the executive agency responsible for carrying out UK Government's debt management.
Depreciation	The gradual conversion of the cost of an asset into an operational expense over the asset's estimated useful life. Depreciation reflects a reduction in the book value of the asset due to obsolescence or wear

	and tear and it spreads the purchase cost proportionately over a fixed period to match the income generated by the asset.
DfE	Department for Education.
DWP	Department for Work and Pensions.
External debt	All borrowing, whether for capital or revenue purposes.
Fees and Charges	Income arising from the provision of a service.
Financial Regulations	Rules that set out the financial policies of the Authority and help to ensure that the assets of the Authority are protected and properly deployed.
Financial Year	1 April to 31 March.
Forecast Out-turn	A prediction of the final income and expenditure based at the year-end.
General Ledger (GL)	The prime financial record for the Authority. The General Ledger records all the expenditure incurred and all the income generated by the Authority.
Gilts	The UK Government issues gilts in order to finance public expenditure. They are generally issued for a set period and pay a fixed rate of interest for this period.
Holding Accounts	These are accounts within the General Ledger relating to a specific building or service (internal to the Authority) where costs are collected then shared out to the users of the building or service.
Housing Revenue Account (HRA)	Those authorities with a council-owned housing stock have a duty to maintain an additional account called the Housing Revenue Account (HRA).The HRA specifically accounts for spending and income relating to the management and maintenance of the council-owned housing stock. By law it must be kept separate from other Authority accounts.
IFRS	International Financial Reporting Standards – the basis on which the Authority's accounts are prepared from 2010/11 onwards.
IBCF	Improved Better Care Fund is a Grant paid directly to Local Authorities to support Adult Social Care in ways, which also benefit Health. This was paid for the first time in 2017/18 and continues into 2020/21.
Journal Transfer	A journal transfer is used to correct miscoded transactions or to allocate costs/income within or across Service areas in the General Ledger.
Lenders Option Borrowers Option (LOBOs)	A form of long-term borrowing where loans run at a fixed rate of interest for a fixed period, after which the Lender has the option to ask for repayment or change the interest rate on pre-determined dates. If the Lender decides to exercise the option to change the interest rate, the borrower can then decide whether to accept the new terms or repay the loan.
LGPS	Local Government Pension Scheme.
Local Government Finance Settlement	The Local Government Finance Settlement is the annual distribution of funding determined by the Government and debated by Parliament. It has two key elements: 1. A Provisional Local Government Finance settlement, which is normally received in December. This is then subject to a specific Government Consultation.

	2. A Final Local Government Finance settlement that is normally received in late January / early February after the government has had time to consider the representations made to the Provisional Local Government Finance Settlement.
Long Stop Control	The Secretary of State may, by direction, set limits in relation to the level of borrowing of money by a particular local authority to ensure that the authority does not borrow more than it can afford.
Long term	A period of one year or more.
Major Repair Allowance (MRA)	Before Self Financing was introduced in April 2012, the rent payable across to Central Government as part of subsidy was calculated taking into account several factors including a major repairs allowance, which was intended to ensure that councils retained sufficient money to be able to maintain their housing assets.
Maturity	The date when an investment or loan is repaid or the period covered by a fixed term investment or loan.
MHCLG	Ministry of Housing, Communities and Local Government
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation within plus or minus 1% of a central target of 2% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Money Market	This is where financial instruments are traded. Participants use it as a means for borrowing and lending in the short term, with maturities that usually range from overnight to just under a year.
Minimum Revenue Provision (MRP)	Minimum Revenue Provision (MRP) is statutory requirement to make a charge to the Council's General Fund to make provision for the repayment of the Council's past capital debt and other credit liabilities
National Living Wage	The National Living Wage is an obligatory minimum wage payable to workers in the United Kingdom aged over 25, which came into effect on 1 April 2016.
Net Revenue Stream	This is the net revenue Budget.
Operational Boundary	This is the most likely, prudent view of the level of gross external indebtedness. External debt includes both borrowing and long-term liabilities (e.g. finance leases and PFI), with separate boundaries having to be identified for each of these. It encompasses all borrowing, whether for capital or revenue purposes.
Other Long Term Liabilities	The sum of the amounts on the face of the Balance Sheet that are classified as liabilities and are for periods in excess of 12 months, other than borrowing repayable within a period in excess of 12 months e.g. finance leases, PFI and Longbenton transferred debt.
"Pay to stay"	Pay to Stay was the name of a government policy in the United Kingdom whereby council tenants earning £30,000 (£40,000 in London) would have to pay "market or near market rents".
PFI	The private finance initiative is a way of creating "public–private partnerships" by funding public infrastructure projects with private capital.

Precept	The levy determined by precepting authorities on billing authorities. It requires the billing authority to collect income from council taxpayers on their behalf. In the case of North Tyneside Council, the precepting authorities are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.
Profiling	A method by which budgets are spread across the year to reflect patterns of spend.
Projections	A forecast of expenditure and income to the year-end based on known commitments and trends.
Prudential Borrowing	See Unsupported borrowing.
Prudential Code	The current system of financial controls for capital financing introduced on 1 April 2004 that local authorities are required to operate within.
Public Works Loan Board (PWLB)	Part of the Government's Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions.
Quantitative Easing	The printing of money by the country's central bank in order to increase the supply of money.
Reprogramming	Refers to changes to the timing of projects in the Investment Plan between years.
Reserves	Amounts which are set aside in the accounts to meet expenditure which the Authority may decide to incur in a future period, but which are not allocated to specific liabilities that are certain or very likely to occur. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves are often described as 'balances', and usually arise as unplanned surpluses of income over expenditure. This will include the House Building Fund, Strategic Reserve, Insurance Reserve and the Support Change Fund Programme.
Revenue Expenditure	Expenditure on the day-to-day running costs of a service for example employees and transport.
Revenue Support Grant (RSG)	A central government grant paid to each local authority to help to finance its general expenditure, as opposed to specific grants.
Right to Buy	The Right to Buy scheme is a policy in the United Kingdom (with the exception of Scotland since August 1st 2016) which gives secure tenants of councils and some housing associations the legal right to buy, at a large discount, the council house they are living in
RPI – Retail Price Index	The Retail Price Index (RPI) is published on a monthly basis and it shows the changes in the cost of living. It reflects the movement of prices in a representative sample of goods and services used regularly, such as food, housing, clothing, household goods and transport. Items considered the most important are given a higher weighting in the overall index.
S256 agreements	Legal agreements that allow Health to transfer money to Local authorities using powers listed under Section 256 (s256) of the Health & Social Care Act
Self Financing	Housing Revenue Account (HRA) self-financing commenced in April 2012. Local housing authorities from this date were able to fully retain the money they received in rent in order to plan and provide services to their current and future tenants and in return took on a level of historical debt.

SEN	The term 'special educational needs' has a legal definition, referring to children who have learning problems or disabilities that make it harder for them to learn than most children of the same age.
Service Area	Groups of related cost centres.
Settlement Funding Assessment	For individual local authorities, this comprises of the Revenue Support Grant for the year in question and the Baseline Funding Level.
Short-term	A period of less than one year.
SLT	Senior Leadership Team – this includes the Chief and Deputy Chief Executive and all Heads of Service.
Subjective	A subjective is a code within the General Ledger that indicates the type of expenditure incurred, for example basic pay. A subjective can also be used to record the type of income generated, for example rents and fees.
Supported Borrowing	This is borrowing to fund expenditure in the Investment Plan where the annual financing costs of such borrowing are supported by government through formula grant. No new supported borrowing has been awarded since 2010/11.
Trading Account	These accounts within the General Ledger hold the values of both the cost and income of a traded or recharged service e.g. cleaning or transport. Customers can be internal or external to the Authority.
Transitional Protection	North Tyneside agreed that for those tenants who were already residents of an NTC sheltered property at the point of the Sheltered Housing PFI works would have their rent held at the level they paid before the investment.
Treasury Management	The management of the Authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
Unitary charge	A PFI contract bundles the payment to the private sector as a single ('unitary') charge for both the initial capital spend and the ongoing maintenance and operation costs.
Universal Credit	Universal Credit is a social security benefit in the United Kingdom introduced in 2013 to replace six means-tested benefits and tax credits: income based Jobseeker's Allowance, Housing Benefit, Working Tax Credit, Child Tax Credit, income based Employment and Support Allowance and Income Support.
Unsupported Borrowing	This relates to borrowing to fund expenditure where the annual financing costs have to be met from the Authority's own revenue resources. This is also known as prudential borrowing.
Variance	The difference between net budgeted expenditure and income compared to net actual expenditure and income i.e. the actual or predicted overspend or underspend against Budget.
Virement	A transfer of budgets from one area of the Budget to another.
Yield	Return on an investor's capital investment.
Yield Curve	Graph plotting the yield of all bonds of the same credit quality with maturities ranging from the shortest to the longest available. If the resulting curve shows that short-term yields are lower than longer-term yields then it is called a positive yield curve. If short-term yields are higher than longer-term yields it is called an inverted yield curve. If there

	is little difference between short and long-term yields then it is a flat yield curve.

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HOUSING REVENUE ACCOUNT – REVISED HRA BUSINESS PLAN 2021-25 **APPENDIX F**

	2020/21 Forecast Outturn	2021/22 Draft Budget	2022/23 Draft Budget	2023/24 Draft Budget	2024/25 Draft Budget
	£m	£m	£m	£m	£m
Rent, Garages and Service Charge Income	(60.524)	(60.995)	(62.491)	(64.194)	(65.838)
PFI Credits - North Tyneside Living	(7.693)	(7.693)	(7.693)	(7.693)	(7.693)
Rent from Shops, Offices etc.	(0.330)	(0.355)	(0.355)	(0.355)	(0.362)
Interest on Balances	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)
Contribution from Balances	(2.850)	(1.943)	(0.379)	0.000	(0.038)
Total Income	**(71.447)**	**(71.036)**	**(70.968)**	**(72.292)**	**(73.981)**
Capital Financing Charges	13.832	12.999	12.574	12.332	10.698
Management Costs	10.097	10.875	11.179	11.397	11.533
Repair and Maintenance	12.942	12.350	12.538	12.753	12.974
PFI Contract Costs – North Tyneside Living	9.940	9.736	9.786	9.836	9.887
Revenue Support to Strategic Investment	10.470	10.521	9.831	9.485	11.932
Depreciation / Major Repairs Account (MRA)	12.826	13.275	13.740	14.220	14.719
Bad Debt Provision	0.980	1.030	1.080	1.112	1.146
Transitional Protection	0.060	0.050	0.040	0.030	0.020
Management Contingency	0.300	0.200	0.200	0.200	0.200
Pension Fund Deficit Funding	0.000	0.000	0.000	0.855	0.872
Contribution to Balances	0.000	0.000	0.000	0.072	0.000
Total Expenditure	**71.447**	**71.036**	**70.968**	**72.292**	**73.981**

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
HRA Balances	**£m**	**£m**	**£m**	**£m**	**£m**
Estimated HRA Balances B/Fwd	**(7.803)**	**(4.954)**	**(3.011)**	**(2.632)**	**(2.704)**
Contribution to/from HRA	**2.850**	**1.943**	**0.379**	**(0.072)**	**0.038**
Estimated HRA Balances C/Fwd	**(4.954)**	**(3.011)**	**(2.632)**	**(2.704)**	**(2.666)**

APPENDIX G – HRA FINANCIAL PLAN AND RESERVES AND CONTINGENCY MOVEMENT 2021-25

HRA Forecast Expenditure Plan	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Original Base Budget	2.589	1.943	0.379	(0.072)
Add:				
Pressures and Growth				
North Tyneside Living (NTL) – Unitary charge	0.106	0.109	0.111	0.114
Depreciation (formerly MRA)	0.449	0.465	0.481	0.498
Housing Investment Plan-revenue support	0.051	(0.690)	(0.346)	2.447
Pension Fund Deficit Funding	0.000	0.000	0.855	0.017
Revenue Repairs – Inflation/Pay Award	0.243	0.246	0.251	0.254
General Management Pay Award & Superannuation rate increase	0.199	0.204	0.218	0.236
Strategic Management – rebasing from HPC to HRA General Management	0.200	0.000	0.000	0.000
ICT Strategy – Unified Systems Review Project Costs	0.250	0.100	0.000	(0.100)
Bad Debt Provision	0.050	0.050	0.032	0.033
Total - Pressures and Growth	**1.548**	**0.484**	**1.602**	**3.499**
Efficiency Savings				
Council Dwellings – Rebasing and Rent Increase	(0.708)	(1.416)	(1.621)	(1.560)
Temporary and Dispersed Accommodation – Rebasing & Rent Increase	(0.105)	(0.009)	(0.010)	(0.010)
Garage & Other Rents – Rebasing & Rent Increase	(0.087)	(0.009)	(0.009)	(0.016)
NTL – Transitional Rent Protection	(0.010)	(0.010)	(0.010)	(0.010)
Service Charges – Furniture Packs – Rebasing & Rent Increase	0.079	(0.022)	(0.022)	(0.022)
Service Charges – Sheltered and Communal Areas – Rebasing & Rent Increase	(0.230)	(0.040)	(0.041)	(0.042)
Treasury Management – Existing Debt & DME	(0.024)	(0.104)	(0.149)	(0.153)
Treasury Management – New and Temporary Debt	(0.048)	0.010	0.010	0.000
Treasury Management – Debt Set Aside (MRP Equivalent)	(0.761)	(0.331)	(0.103)	(1.480)
North Tyneside Living – contribution to/from Reserve Monitoring Costs	(0.060)	(0.059)	(0.061)	(0.063)
Repairs Budget–impact of stock reductions	(0.060)	(0.058)	(0.037)	(0.033)
Total – Efficiency Savings	**(2.014)**	**(2.048)**	**(2.053)**	**(3.389)**
Reserves & Contingencies				
General Management Contingency - Review	(0.100)	0.000	0.000	0.000
Repairs Contingency - Review	(0.080)	0.000	0.000	0.000
Total – Reserves & Contingencies	**(0.180)**	**0.000**	**0.000**	**0.000**
Revised Base Budget	**1.943**	**0.379**	**(0.072)**	**0.038**

APPENDIX B (ii) – HRA FINANCIAL PLAN AND RESERVES AND CONTINGENCY MOVEMENT 2021-25 (Contd)

HRA Revenue Balances	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Changes in Contingencies	(0.180)	0.000	0.000	0.000
Contribution to/(from) Balances	(0.645)	(1.564)	(0.452)	0.110
TOTAL	**(0.825)**	**(1.564)**	**(0.452)**	**0.110**