

North Tyneside Council Report to Cabinet Date: 28 November 2022

Title: 2023-2027 Financial Planning and Budget Process: Cabinet's Initial Budget proposals

Portfolio(s):	Elected Mayor	Cabinet Member(s):	Mrs Norma Redfearn
	Deputy Mayor		Councillor C Johnson
	Finance and Resources		Councillor M Rankin
	Housing		Councillor J Harrison
Report from Service Area:	Senior Leadership Team		
Responsible Officer:	Jon Ritchie, Director of Resources (Chief Finance Officer)	Tel: (0191) 643 5701	
Wards affected:	All		

PART 1

1.1 Executive Summary:

- 1.1.1 On 19 September 2022, Cabinet agreed its 2023-2027 Financial Planning and Budget Process incorporating the associated Engagement Strategy. This report represents a key milestone in the development of the 2023/24 Budget and 2023-2027 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 Budget is driven by the Authority's key priorities that make up the Our North Tyneside plan – A thriving, secure, family friendly, caring and green North Tyneside. North Tyneside Council has a very clear and ambitious plan to ensure anyone who needs support can access it, to help the most vulnerable members of the community and to continue investment in all parts of the Borough.
- 1.1.3 The Authority's Budget was already stretched following years of Government cuts and uncertainty, with the long-term impact of the covid pandemic, rising energy costs, inflation and the long-term impact of the war in the Ukraine exacerbating this. However, the Authority has a robust and fair approach to budget setting meaning that wherever possible, these challenges had been foreseen and provided for as the Authority headed into the current financial year.

- h) note the formal Reserves and Balances Policy for the Authority, subject to review at least annually (Appendix I);
- i) note the Provisional Statement by the Chief Finance Officer (Annex Section 8);
- j) consider and agree the 2023/24 rent policy for housing; and consider and agree the initial Budget proposals in relation to the 2023-2027 Housing Revenue Account budget, and associated Business Plan, including an assessment in relation to the current year's budget monitoring information (2022/23) (Annex Section 4);
- k) note the proposed 5.0% rent increase from April 2023 (subject to results of Government consultation and imminent issuing of new Direction on Social Housing Rent Policy to the Social Housing Regulator), and the initial proposals in relation to housing service charges and garage rents for 2023/24;
- l) authorise the Director of Resources, in consultation with the Director 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 2023/24 in line with the school funding arrangements set out in the report; and
- 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.

1.3 Forward Plan:

- 1.3.1 Twenty-eight days' notice of this report has been given and it first appeared on the Forward Plan that was published on 7 October 2022.

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 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.
- 1.4.3 The Budget proposals will also be presented to the Overview, Scrutiny and Policy Development Committee during the Budget-setting process. The priorities in the 2021-2025 Our North Tyneside Plan provide the strategic framework within which Budget resources are allocated.

on a reasonable and prudent set of assumptions. Despite the unknowns, this will give the residents and businesses in the Borough as much certainty as possible that the Authority continues to deliver services that meet their needs and that their money is being spent well.

1.6 General Fund MTFP

- 1.6.1 At the Council meeting in February 2022, the MTFP for 2023/24 to 2025/26 set out a gap of £21.534m over the 4-year period, with a gap of £10.655m for 2023/24. The gap in the February Council report for 2023/24 was calculated prior to the increase in council tax (1.99%) and adult social care precept (1%), which was agreed at that meeting. The additional resources agreed (£3.184m) reduces the revised gap for 2023/24 to £7.471m, which will be the base line position for the remainder of this report.
- 1.6.2 Before looking at the new and emerging pressures since the Budget was set, Cabinet should note that the robust approach to financial planning in North Tyneside served its intended purpose. Had new pressures not arisen, a review of changes to Government funding assumptions and reductions to growth pressures from management action, would have reduced the residual MTFP gap for 2023/24 from £7.471m to £1.059m. This would have been a manageable gap to address in the current budget round.
- 1.6.3 However, since the development of the 2022/23 Budget and MTFP in February 2022, a number of further significant risks have emerged that are impacting on the 2022/23 budget outturn position, as well as increasing the £7.471m gap identified for 2023/24. These risks are anticipated to add £15.635m to the gap and are summarised in Table 1.

Table 1: Estimated Financial Impact on 2023/24

	£m
Social care fees – 2022/23 increase impact into 2023/24	1.200
Pay Award	4.000
Energy Inflation	4.772
Contractual inflation 2023/24	5.663
Total Emerging Impact of Risks	15.635

- 1.6.4 Social care fees – following the 2022/23 budget being set, the in-year home care negotiations resulted in a further uplift in fees, reflecting the current market pressures facing the sector. As such, an additional amount has been added into 2023/24 estimates to ensure the base budget reflects these contract values.
- 1.6.5 Pay award – the current year pay award is based on the pay offer made by Local Government Employers, being a flat rate of £1,925 per full time equivalent employee. At the time of writing, 2 Trade Unions have accepted the offer, with one 1 rejecting it – it is expected to be formally agreed in November and paid to staff in December. For both in-year monitoring and future budgeting purposes, this rate, which equates to an average increase across the Authority of between 5-6%, has been used. The impact on the 2022/23 financial position is included in the Budget monitoring report elsewhere on this agenda, but for 2023/24 the base budget would need to increase by a further £4.000m to ensure the base budget is sufficient moving forwards.

1.6.10 There remains significant uncertainty about the Fair Funding Review or successor approach. A consultation on the Fair Funding Review had been expected earlier this year, following several years of being repeatedly delayed. Once again, no consultation has been brought forward and any future approach will be dependent on the new Government's priorities and the current macro-economic picture. Given the restrictions of the parliamentary timetable, Spending Review timescales and the significant impacts that implementing Fair Funding could have across the local government sector, it is possible that reforms will not be brought forward until 2026/27.

1.6.11 As well as uncertainty around progress on Fair Funding over the medium term, it is unlikely that there will be any certainty about the 2023/24 Provisional Settlement until mid-December at the earliest, with some commentators suggesting that this could be delayed into the new calendar year. For the remainder of the report, the starting point for the approach to bring the 2023/24 General Fund budget into balance will be £23.106m as set out in Table 2.

Options to reduce the General Fund gap for 2023/24 – review of assumptions

1.6.12 Using the starting point of a £23.106m revised gap for the General Fund, officers have reviewed the current assumptions included in the MTFP, including revising assumptions around the level of Government funding that will be provided. There are inherent uncertainties within this exercise for the reasons set out earlier, but this reflects the latest information gleaned from a variety of sources. It is summarised in Table 3 below, with a commentary included on each section.

Table 3: adjusted MTFP assumptions

	£m
Starting position/revised gap	23.106
Review of growth items already included in MTFP	
Low risk	
Reversal of pensions deficit	(2.747)
Medium risk	
Continuation of New Homes Bonus	(0.500)
Fall out of service grant reversed	(1.665)
Higher risk	
Revenue Support Grant – additional inflationary uplift	(0.367)
Business rates multiplier – additional inflationary uplift	(1.500)
Improved Better Care Fund – additional inflationary uplift	(0.287)
Reversal of national insurance contribution increases	(1.250)
2023/24 revised gap	14.790

1.6.13 Pensions deficit – the MTFP included an estimated figure of £2.747m that would be required in the base budget to address the forecast deficit on the pension fund. In October 2022, the updated position of the Tyne and Wear Pension Fund was provided, which confirmed that the fund was in surplus so this amount will not be required.

1.6.14 New Homes Bonus (NHB) – the schedule of NHB payments was expected to reduce from next financial year due to the winding down of the scheme. However, industry commentators have highlighted that due to the delay in the Fair Funding Review,

funding for next year (made up of £2.192m general Council Tax (1.99%) and £1.102m from the Adult Social Care Precept (1%)). The precise final level of any change in Council Tax will be confirmed in February 2023 following a decision by full Council.

- 1.6.22 Strategic Reserve – the MTFP assumed that a contribution would be made to the strategic reserve each year to take account of usage in previous years. Given the current financial position, it is proposed to defer the 2023/24 contribution, but future years' contributions are left in the MTFP for planning purposes.
- 1.6.23 Minimum Revenue Provision (MRP) – Cabinet will be aware that a change was made to the way in which MRP is calculated towards the end of 2021/22. This has now been subject to external audit and no concerns were raised. As well as the savings made to date, it is estimated that this will lead to an underspend on the debt charges budget in 2023/24 in the region of £4.000m. Given the residual gap, as well as the inherent uncertainty, it is considered prudent at this stage to put this forward as a saving for illustrative purposes.
- 1.6.24 Table 4 below summarises the impact of these options:

Table 4: Revised General Fund gap following illustrative options

	£m
Revised gap from Table 3	14.790
1.99% council tax	(2.192)
1.00% adult social care precept	(1.102)
Defer replenishment of the strategic reserve	(1.500)
MRP saving	(4.000)
2023/24 revised gap	5.996

- 1.6.25 For completeness, the Mayor and Cabinet have already made decisions in previous years which result in savings during the MTFP period, which are already included in the MTFP gap calculations used in this report. These are summarised in Table 5 below for ease of reference.

Table 5: 2023-2026 Efficiency Programme as at February 2022

Efficiency Programme	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
2020/21 Full Year Effect of Budget Proposals	(1.035)	0.000	0.000	0.000
2022/23 Full Year Effect of Budget Proposals	(0.639)	(0.208)	(0.185)	0.000
Total Prior Year Budget Proposals	(1.674)	(0.208)	(0.185)	0.000

- 1.6.26 In addition to these planned savings, the Elected Mayor and Cabinet are developing further options for consideration to balance the General Fund over the next four years of the MTFP, with updates to be brought to the January 2023 Cabinet meeting. The aim is to do this via a range of strategic activity which includes:

- a) 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;

to circa £0.500m in the other years) reflects the end of the COVID-19 accounting arrangements, which saw the deficit arising during the pandemic being spread over 3 years. After this one-off reset, the position on the Collection Fund is expected to return to normal levels.

Review of General Fund Reserves

- 1.6.33 The Authority maintains a level of reserves to plan for and manage financial risk. As Cabinet will already be aware, it is important to remember that reserves can only be used once, and that they are maintained to provide a degree of financial resilience and flexibility for the Borough.
- 1.6.34 Reserves balances have fallen from 2021/22 primarily due to the planned use of balances relating to COVID grants, which were partially received in advance of the intended spend. By the end of 2022/23, grants relating to COVID will either be utilised or repaid in line with the grant condition which were attached, with the Authority maximising the benefit to the Borough's business and residents.
- 1.6.35 The Authority bought forward reserves' balances of £80.298m into 2022/23, based on the latest forecast of planned usage, it is anticipated £17.050m will be drawn down in 2022/23 to support service delivery. This would result in a 2023/24 balance bought forward for reserves of £63.249m. The planned usage does not incorporate the potential requirement of the strategic reserves to support the 2023/24 revenue budget pressure being forecast of £5.996m for 2023/24. Neither does it take into account any use of the strategic reserves to support the 2022/23 in-year pressures, as reported in the Financial Management report elsewhere on this agenda.
- 1.6.36 Reserves balances are forecast to fall to £54.369m by the end of the financial year 2026/27. This assumes no utilisation of the strategic reserves to underwrite revenue budget pressures over the MTFP. Should the Authority utilise the strategic reserve to underwrite the revenue budget pressures, this could lead to the Authority being in breach of the internal requirement to maintain a level of strategic reserves no less than £10m as per the Reserves and Balances Policy.
- 1.6.38 Whilst there is still a significant level of uncertainty, the Authority will continue to deliver best practice as would be expected. That means there is a refreshed 4-year MTFP for both the General Fund and HRA, alongside a 5-year Capital Investment Programme. Those financial plans have been based on a benchmarked set of assumptions which have included information from HM Treasury, the Office of National 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. The prudent use of reserves forms a vital part of this financial planning.

1.7 Housing Revenue Account

- 1.7.1 Financial Planning for the Housing Revenue Account (HRA), like the General Fund, is driven by the Council Plan vision and priorities. The HRA will set a Budget and updated four-year MTFP, supported by the updated 30-year Business Plan.
- 1.7.2 The Authority, in line with most Local Authority Registered Providers, follows the Government's social housing rent policy, which for the last two years has seen rent increases based on the Consumer Prices Index (CPI) rate, as of September, plus 1%. The CPI rate for September 2021 was 3.1% which led to a rent increase for

Table 7: Housing Revenue Account 2023-2053 – Potential Impact of Different 2023/24 Rent Increase scenarios on 30-year Business Plan

Rent Increase	Available Resource – Revenue & Capital £bn	Required Resource – Revenue & Capital £bn	Current Funding Gap – Revenue & Capital £bn
0%	4.653	4.888	0.235
3%	4.732	4.888	0.156
5%	4.790	4.888	0.098
7%	4.790	4.888	0.041
11.1%	4.962	4.888	(0.074)

- 1.7.6 As is consistent with the General Fund, the HRA continues to face financial pressures, some of which have been significantly increased by the current economic climate. The continued roll out of Universal Credit and other welfare reforms brings greater pressure on tenants in terms of managing their finances in a time of rising inflation. The Authority continues to focus on supporting residents to sustain tenancies, and help tenants manage their money so that they do not end up in financial hardship or significant arrears.
- 1.7.7 During the current financial year there is clear evidence of continued shortages of certain key materials such as steel and wood, accompanied by increasing prices as a result along with the current upwards pressure on inflation, effecting both the capital programme and the day-to-day repairs.
- 1.7.8 The 2023/24 budget and 4-year Financial Plan for the HRA are based on the above assumptions, balanced with small, planned contributions from reserves over the next two years and then smaller adjustments to balances in the remaining two years of the MTFP as set out in Table 5 below.

2023-2028 Investment Plan Options

1.8.3 In addition to the agreed 2022-2027 Investment Plan, proposals for the 2023-2028 Investment Plan for consideration as part of Budget-setting are set out below:

- Projected investment of £1.000m pa to reflect the initial work underway in relation to Carbon reduction targets and enable progress to be made on this key priority; and
- A new year 5 (2026/27) has been added to reflect rolling programme projects such as Asset Planned Maintenance, ICT infrastructure refresh and sustained investment of £2m/annum on additional Highways Maintenance.

1.9 Dedicated Schools Grant

1.9.1 Cabinet will be aware that school funding is a matter for the Department for Education (DfE); 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 2023/24. 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 2023. 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 2023/24

	Schools Block £m	CSS Block £m	Early Years Block £m	High Needs Block £m	Total Indicative DSG 2023/24 £m
Indicative DSG Settlement	146.813	1.620	14.673	31.987	195.093

Dedicated Schools Budget - High Needs Block

1.9.2 North Tyneside, like many local authorities both regionally and nationally, is experiencing an increase in the numbers of children with 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. Responding to this increase in needs is creating pressure on the High Needs block of the Dedicated Schools Grant (DSG). The indicative funding allocation for High Needs shows that the Authority will receive an additional £2.203m in 2023/24, however, it is not sufficient to address the underlying increase in need.

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

- Levies, including the North of Tyne element of the Newcastle upon Tyne, North Tyneside, and Northumberland Combined Authority Transport Levy (due February 2023);
- Tyne and Wear Joint Service Budgets (due January/February 2023); and
- Consideration of the impact of the economic climate on the residents of the Borough and Council Taxpayers.

1.10.3 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.

1.11 Decision options:

Option 1

1.11.1 Cabinet can agree the initial proposals set out in this report.

Option 2

1.11.2 Cabinet can suggest that further / different options are considered by the Senior Leadership Team and be reported back to Cabinet for further consideration.

1.11.3 Option 1 is the recommended option.

1.12 Reasons for recommended option:

1.12.1 Due to external information still to be received, Cabinet is not able to finalise setting its proposed Council Tax level for 2023/24 in relation to the General Fund. 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 section 1.10 above.

1.13 Appendices:

Annex 1	2023-2027 Financial Planning and Budget Process – Cabinet's Initial Budget Proposals
Appendix A	2021-2025 Our North Tyneside Plan
Appendix B(i)	2023-2028 Investment Plan Summary
Appendix B(ii)	2023-2028 Housing Investment Plan
Appendix B(iii)	Prudential Indicators 2023-2028
Appendix B(iv)	Draft Capital Investment Strategy
Appendix C	2023/24 Treasury Management Statement, Annual Investment Strategy and Credit Criteria

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

- 2022/23 Financial Management Report to 30 September 2022 – Cabinet 28 November 2022;

Link to published report

- Autumn Budget and Spending Review 2021;

<https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents>

1.14.2 The report also refers to other documents which are available at the office of the author:

- 2022/23 Efficiency Business Cases;
- Constitution; and
- 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 2023/24 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 The report highlights that at this stage a further £5.996m of savings are required to balance the 2023/24 Budget, and over MTFP period savings of £23.532m are required. The assumptions leading to these forecasts are likely to change when the provisional Local Government Financial Settlement is announced. It is currently unclear if a 1-year or 3-year settlement is to be expected.
- 2.1.3 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 2023-2027, 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

2.5.1 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 the Public Sector Equality Duty under that Act.

2.5.2 To achieve this an Equality Impact Assessment (EIA) has been carried out on the Budget Engagement process. The aim is to remove or minimize 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 (Equality Impact Assessment), 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 2023 and will be made available to both Cabinet and full Council.

2.6 Risk management

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

The Authority has in place a range of services that promote the reduction of crime and disorder within the Borough and are funded through the annual Budget and are included in the Medium-Term Financial Plan. 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

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 to ensure these support the Authority's targets under the Carbon Net-Zero 2030 Action Plan.