2019-2023 Financial Planning and Budget Process:

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

North Tyneside Council

INDEX

1. Introduction

1.1.1. This Annex sets out North Tyneside Council's proposed General Fund and Housing Revenue Account (HRA) Budget for the financial year 2019/20, together with indicative plans for the next three years 2020/21-2022/23. This follows on from the initial Cabinet Budget proposals of 26 November 2018, which formed the basis on which Cabinet have sought the views of residents, tenants and partners.

1.1.2. The first section of the Annex sets out the engagement approach taken during December and January with the Council's key stakeholder groups. This is an important part of the Budget process and it gives an opportunity for different sectors of the Boroughs population to critically appraise the proposed decisions around the Council's resource allocation. Appendix F to this Annex summarises the outcomes of that engagement.

1.1.3. 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. Section 2 of the Annex summarises the key strategic plans which must be considered when setting the Budget and which must form part of the development of Cabinets Medium-Term Financial Strategy.

1.1.4. 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. The Medium-Term Financial Strategy was approved by Cabinet on 26 November 2018 and is included as a background document to this report. The highlights of the Provisional Local Government Finance Settlement which have been included, where appropriate, in the 2019/20 Budget proposals and are detailed at the end of section 3 of this Annex.

1.1.5. Sections 4 to 7 of the Annex describe in detail the Budget proposals for the General Fund, Housing Revenue Account, Dedicated Schools Grant and 2019-2023 Capital Investment Plan.

1.1.6. Section 8 of the Annex outlines the proposed 2019/20 Treasury Management Strategy and Annual Investment Strategy which needs to be considered and approved by Cabinet.

1.1.7. During December 2018 the Budget Sub-group of the Overview, Scrutiny and Policy Development Committee considered and scrutinised Cabinet'ss approach to budget engagement and Cabinet's initial Budget proposals. Section 9 of this Annex proposes how Cabinet should consider responding to any recommendations made by the group in relation to the 2019/20 General Fund Budget.

1.1.8. The Council is legally required to set a balanced budget for the General Fund for 2019/20 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.

1.1.9. Sections 10 and 11 of the Annex outline the duties and responsibilities imposed on local authorities through the Local Government Act 2003, 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 take into account the Chief Finance Officers report on the robustness of the Budget and the adequacy of the Authority's financial reserves.

2. Engagement Approach

2.1.1 North Tyneside Council is committed to being an organisation that works better for residents, that listens and cares and this commitment includes giving residents and other key stakeholders an opportunity to be involved in helping to shape decision-making in relation to the Financial Planning and Budget process.

2.1.2 The Authority's overall approach to engagement ensures that the public has opportunities to have their say throughout the year, through a series of different methods, including engaging with the Elected Mayor, Cabinet and ward members through the Mayor's Listening Events and Community Conversations. In addition, there are a broad range of both on-line and face to face engagement or consultation exercises on different key issues such as the Resident's Survey.

2.1.3 Between July and September 2018, there has been an extensive programme of engagement across the Borough through the Big Community Conversation. The feedback from this programme and other activity throughout the year, including the State of the Area event, has informed the Cabinet Budget proposals which are set out in this report.

2.1.4 Further engagement on Cabinet's initial Budget proposals has taken place from the 27 November 2018 to 6 January 2019 as set out below.

2.1.5 As with any engagement activity, the Authority is committed to ensuring that residents with protected characteristics, as set out in the 2010 Equality Act, are able to participate. Further information on this aspect of the engagement approach can be found in the Equality Impact Assessment on the Budget Engagement Strategy, which is available on request.

2.2 <u>Target Audiences</u>

2.2.1 The engagement approach aims to reach different sectors of the population through a targeted approach. The approach delivers both universal engagement as well as engagement with particular groups e.g. carers, people who are deaf or hard of hearing.

Specific external audiences are:

- Residents of North Tyneside
- People who use our services
- Children and young people
- Older people
- North Tyneside Strategic Partnership
- Business community
- Schools
- Voluntary and community sector (including faith groups)
- Carers
- Tenants

Internal audiences are:

- Elected Members
- Staff
- Strategic Partners (Kier, Engie and Capita)
- Trade Unions

Approach

2.2.2 The engagement approach aims for maximum reach by offering a range of different opportunities for people to have their say. In line with the Authority's Engagement Strategy principles agreed by Cabinet on 10 September 2018, these opportunities are:

- Inclusive: making sure that everyone is able to engage in the process;
- Clear: being clear on the aims of each engagement activity at the outset and the extent to which residents can be involved;
- Integrated: ensuring that engagement activities are joined up with the relevant decision-making processes;
- Tailored: aiming to better understand our audience and using different methods appropriately to enable and encourage people to be involved;
- Feedback: giving feedback through agreed channels when engagement activity is completed; and
- Timely: aiming to give sufficient notice to make opportunities available to all and taking into account those times when it is more appropriate to engage depending on our target audience.

2.2.3 Information about the Budget proposals was provided on the Authority's website www.northtyneside.gov.uk. This included information to explain the context and set out the proposals. This was accompanied by a questionnaire to provide opportunities for people to give their feedback either via the website, e-mail or through social media.

2.2.4 Members of the Residents Panel were invited to attend three sessions throughout December 2018 which provided them with further context to the budget-setting process, enabled them to listen to the proposals and provided feedback face-to-face. The sessions aimed to give residents a clearer understanding of local authority finance and budget-setting processes that enabled them to critically appraise the initial proposals and then feedback accordingly.

2.2.5 Targeted events were held for key stakeholder groups including: Staff Panel, businesses, schools, young people, community and voluntary sector, Trade Unions, North Tyneside Strategic Partnership, older people and carers.

2.2.6 Engagement with people who use our services, or their representatives, was via existing networks. The engagement programme was advertised via the press and social media and at key outlets and facilities including libraries, Customer First Centres, community centres and leisure centres.

3. Strategic Plans

3.1 Strategic Plan Considerations

3.1.1 This section of the Annex provides an overview of the strategic planning / policy documents that Cabinet must consider and be mindful of when making decisions relating to the allocation of resources. The alignment of resources to the strategic priorities of the Elected Mayor and Cabinet is a fundamental part of the budget-setting process.

3.1.2 The Medium-Term Financial Strategy MTFS is developed in the context of the strategic priorities and policy decisions which are made by Cabinet. This ensures that the Council's strategic plans can be delivered within the financial resources available. In addition, the MTFS ensures the Authority has a clear financial vision and direction for the medium-term and Cabinet understand the financial implications of decisions that are taken.

3.2 Our North Tyneside Plan

3.2.1 The Our North Tyneside Plan 2018-2020 (Council Plan) sets out the overall vision and policy context within which the Financial Plan and Budget proposals are set.

3.2.2 This vision and policy context reflects the updated priorities of the Elected Mayor and Cabinet for the next four years and the work of the North Tyneside Strategic Partnership; which includes all of the organisations and sectors who work together with the Authority to deliver an improved future for the Borough and its residents.

3.2.3 The Council Plan continues to provide a clear framework for the Authority to plan its use of resources. It provides the context for all financial decisions and the operational delivery of services both at Borough level but also increasingly as the Council continues to work alongside other local authorities across the region, statutory partners and with business through the North East Local Enterprise Partnership.

3.2.4 The Council Plan has three key themes – Our People, Our Places and Our Economy. These themes are based on the Elected Mayor's priorities for her second term.

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 completion of the North Tyneside Living project and by North Tyneside Council's housing stock being decent, well managed and its potential use maximised;
- Provide a clean, green, healthy, attractive, safe and sustainable environment. This will involve creating a cycle-friendly Borough, investing in energy-efficiency schemes and by encouraging more recycling;
- Have an effective transport and physical infrastructure - including our roads, pavements, street lighting, drainage and public transport;
- Continue to be regenerated in Wallsend and Whitley Bay, through effective public, private and community partnerships, while ambitious plans will be developed for North Shields, Forest Hall and Killingworth; 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:

- 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; and
- Continue to support investment in our business parks, units and town centres.

3.3 Our North Tyneside Plan Performance

3.3.1 The Our North Tyneside Plan sets out a range of measures for ensuring that Our People are ready for school, ready for work and life and are cared for safeguarded and healthy if required.

Our People

- More people, compared to 2013, are satisfied with the way that the Authority runs things;
- Key Stage 1 pupils reading, writing and maths performance is significantly better than the national standard. They have been supported by the nurseries, playgroups, childminders and after schools clubs in North Tyneside that have all been rated as "Good" or better by Ofsted;
- North Tyneside continues to focus on closing the attainment gap between the most vulnerable young people and their peers. At Key Stage 2,

disadvantaged pupils' performance is significantly higher than similar pupils nationally. At Key Stage 4, the gap has closed compared to last year, but remains of a similar size to the national gap. Closing the gap between vulnerable groups and their peers is a continuing challenge and a Pupil Premium Network has been established to share good practice and drive further improvements;
- A-level results for 2018 were the best ever for North Tyneside in academic subjects. Many schools achieved a pass rate of between 97% and 100%, which represents an outstanding result; and
- Average life expectancy is now 80 years (78 years for men and 82 years for women). Healthy life expectancy at birth is better than the regional average, but below the national figure.

Our Places

- Delivery of a programme to encourage a greater sense of place, particularly in our areas of greatest deprivation;
- Plans to tackle anti-social behaviour and promote community safety;
- Delivery of the affordable homes programme and the Master Plans at Killingworth and Murton;
- Development and delivery of a programme of public art to celebrate our communities and what makes them special;
- North Tyneside has welcomed 5.71 million visitors; and they have contributed £284 million to the local economy and supported almost 3,690 jobs; and
- The Borough's beaches have achieved three Blue Flag Awards. North Tyneside's parks have retained their green flag status and volunteering in our parks has continued to grow.

Our Economy

- Between 2016 and 2017, an estimated additional 3,000 people work in North Tyneside;
- The number of new and registered businesses in North Tyneside continues to grow;
- We have an award-winning business start-up service supporting more new businesses every year;
- North Tyneside's business survival rate is higher than the UK rate; and
- The Borough's unemployment rate continues to fall and is lower than before the global financial crisis in 2008.

Taking all of this into account, the Our North Tyneside Plan has at its core, two fundamental policy aims:

First, whilst there has been success across the Plan over the last four years there is still a need to reduce the inequalities that persist in North Tyneside. Within our Borough, the Council continues to have some of the least deprived neighbourhoods in the country but also some of the most deprived in terms of financial independence, skills, qualifications, health and well-being.

This will mean working in a very different way to ensure that resources can be more effectively targeted at the people who need them most. To ensure that all residents have a successful, healthy and safe future, no matter where they live in the Borough; and

The second is to continue to invest in the Borough's future and to create a prosperous economy that will generate income and provide the jobs and training opportunities that will be essential to successfully tackling these inequalities, the key areas of investment being:

- coastal regeneration;
- Swans/the North Bank of the Tyne;
- town centres;
- new and improved schools;
- road and other transport improvements in line with the agreed Transport Strategy;
- housing (particularly affordable homes) in line with agreed Housing Strategy;
- support for businesses; and
- marketing the Borough to secure more inward investment and generate more visitors as a tourist destination

3.4 Local Plan

3.4.1 The Local Plan is the second key strategic element that drives the direction of resources in the Borough and was adopted by the Authority on 20 July 2017. The Local Plan, the first spatial strategy for 15 years, sets a vision for the Borough for the next 15 years. It sets out in detail how the Borough can be a thriving, prosperous and attractive place to live and work. It details how the Borough will require around 9,800 homes (in addition to about 4,700 that already have planning permission) and employment land for at least 12,700 new jobs.

The latest population projections from the Office of National Statistics estimate an increase of 15,800 people between 2014 and 2032. The population of North Tyneside in 2032 is expected to be 218,500.

3.5 Ambition for North Tyneside

3.5.1 At its meeting on the 26 November 2018, Cabinet considered and agreed the Ambition for North Tyneside. The report, which articulates the Elected Mayor and Cabinet's ambition for North Tyneside, explains in more detail the Elected Mayor and Cabinet's future ambitions for each part of the Borough. The Ambition for North Tyneside plan aligns with the Local Plan and aims to match the ambition for the Borough with the plans set out for the Borough.

3.6 The Efficiency Statement

3.6.1 The revised Efficiency Statement, also considered by Cabinet at its meeting on the 26 November, reflects how the Authority is planning to address the reduction in resources alongside additional cost pressures and new burdens to ensure the

Authority can meet the anticipated savings that will be needed over the medium-term of the financial plan.

3.7 Medium-Term Financial Strategy

3.7.1 A Medium-Term Financial Strategy (MTFS) is critical to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium-term. This MTFS needs to support delivery of the Our North Tyneside Plan 2018-2020, as set out above, which is the key driver of our resources allocation. The Budget setting process helps the Authority respond appropriately to responsibilities and duties placed upon local government through legislative requirements, increasing demand, complexity of need and cost for Adults and Children's Services and the Government's drive to deliver savings.

Whilst decisions around Budget setting are approved on an annual basis, the Authority must demonstrate medium-term financial and resource planning. Annual Budget decisions should be taken in the context of the overall Medium-Term Financial Strategy that looks to all Authority services and takes into account the Government's local government finance agenda.

The MTFS was approved by Cabinet on 26 November 2018 and is included as a background paper as part of this report.

3.8 Provisional Local Government Finance Settlement

3.8.1 The Provisional Local Government Finance Settlement is a key part of annual Budget setting. It provides the annual determination of funding to local government.

3.8.2 The Provisional Local Government Finance Settlement was announced on 13 December 2018 by the Secretary of State for Housing, Communities and Local Government. The major new funding announcements were made in the Autumn Budget with the provisional settlement confirming the allocations of the additional Social Care funding. The highlights of the Settlement are detailed below and have been included in the 2019/20 Budget proposals where appropriate:

Four-year Settlement

- This is the last year of the four-year Settlement. There have only been minor changes to reflect the provisional business rate multiplier for 2019/20; and
- The multiplier is based on the September CPI and it will increase from 48.8p to 49.1p in 2019/20, an increase of 2.29%.

Council tax thresholds

No changes have been made to the maximum Council Tax increases that were published in the Government's technical consultation in July 2018, with the exception of the police precept:

- Core principle of a maximum increase of 3.0% in Band D. This applies to unitaries, county councils, London boroughs, GLA precept, and fire and rescue authorities;
- Continuation of the adult social care precept. Maximum flexibility of 2% of Band D in 2019/20, subject to a 6% increase in the period 2017/18 to 2019/20;
- Shire district councils will be able to increase Band D by the higher of 3% or £5; and
- Police and Crime Commissioners will be allowed to increase their precept by up to £24 (maximum increase was £12 in 2018/19). Police and Crime Commissioners will have discretion to decide on the most appropriate increase for their area.

New Homes Bonus

- The national baseline for New Homes Bonus (NHB) will stay at 0.4% for 2019/20. Prior to the Settlement announcement there was an indication that there would be a change to the national baseline. Therefore, in the report to Cabinet on 26 November 2018 no assumption was made to NHB growth. The Provisional Settlement announcement has allowed clear consideration of the NHB in 2019/20.

Adult social care grants

New adult social care grants of £650m were announced as part of the Autumn Budget. There were two elements to the funding:

- Winter Pressures Funding: £240m of additional funding in 2019/20 for councils to spend on adult social care services to help councils alleviate winter pressures on the NHS. North Tyneside will receive £1.031m in 2019/20; and
- Social Care Support Grant: £410m in 2019/20 for adults and children's social care. Local authorities can use this additional funding to alleviate demand on the NHS for adult social care. However, the grant can also be used to fund social care services for older people, people with disabilities and children.

Both grants will be distributed using the Adult Social Care Relative Needs Formulae (RNF). This has been used for all the new social care grants announced in the current four-year period.

Rural Services Delivery Grant

- Will reduce as previously expected to £65m in 2019/20 (no impact for NTC).

Negative RSG

- Following a consultation on negative Revenue Support Grant the Government has gone ahead with its preferred option to "Directly "eliminate" Negative RSG via forgone business rates receipts" (no impact for NTC).

75% Business Rate Pilots

- Proposals for new Business Rates Pilots in 2019/20 have been approved for 15 areas. The expression of interest submitted by the North of Tyne

Combined Authority was successful and North Tyneside will be part of the pooling arrangements for the North of the Tyne in 2019/20. A key feature of becoming a 75% business rates pilot is that Business Rate income above the current 49%/50% retention arrangements will be pooled across the pilot, and the three local authorities would be regarded as one entity in Business Rates terms.

It should be noted that the benefit of retaining the additional 25% business rates will not have a direct impact on setting the Budget for North Tyneside in 2019/20. The funding will be received into the North of Tyne Combined Authority as part of the pooling arrangements.

4. General Fund

4.1 Medium-Term General Fund Position

4.1.1 Medium-term financial planning remains difficult and is prepared against sustained funding cuts for local government coupled with increased demand for social care and managing the impacts of Welfare Reform. The Autumn 2018 Budget reported an improvement in the public finances with medium-term forecasts now suggesting that the deficit will level-out at about £20bn in 2022/23 and 2023/24. This is an improvement on the forecasts in the last two fiscal announcements (Autumn Budget 2017 and Spring Statement 2018). Much of the improvement has been the result of better-than-expected taxation receipts.

Uncertainty remains in respect of the impact of the Government's devolution agenda as well as the future impact of Brexit. In terms of managing the increasing demands and complexity of need for both Adult and Children's Social Care, there are also indications that many authorities are overspending against budgets for both Adults and Children's Services in order to meet increasing demand, need and cost. These pressures are evident in North Tyneside and Cabinet continue to explore new financial and organisational initiatives to meet this significant challenge.

4.1.2 It has already been highlighted that, at a local level, there are changes in North Tyneside's demography with an increasing population and a growing number of our most vulnerable residents requiring complex health and social care support. The Authority, wherever possible, aims to manage demand as effectively as possible targeting services at those residents with greatest need. This can only contain, or at best slightly reduce, the overall size of the population in receipt of the services. However, the average cost of these services has risen due to the increased average complexity of the needs of those clients.

4.1.3 Whilst the Borough has seen some economic growth, the Business Rates Retention scheme is such that significant appeals led to a reduction in rateable value when compared to the scheme that was introduced in 2013/14.

4.1.4 The likely continuing requirement and scale of budget savings, over and above the £120m already taken from budgets since 2011/12, presents an increasing challenge for the Authority. The Government's approach to "continue the work of bringing the public finances under control and reducing the deficit, so Britain lives within its means" will result in further significant funding challenges and the requirement to address cost pressures for local government.

4.1.5 Cabinet has worked to consider options to meet the financial challenges and considered proposals that would begin to meet an estimated funding gap in the region of £27.181m over the next four financial years. Sustained cuts in Government funding and unfunded pressures together with unfunded new burdens mean that since 2011/12 the Authority, along with other local authorities, has already made substantial efficiency savings. These sustained cuts come at a time when demand for some of the Authority's most costly services such as support to vulnerable adults and children's social care is increasing.

4.2 Funding Social Care pressures

4.2.1 Since the 2016 Spending Review an Improved Better Care Fund (IBCF) offer has been included to begin to address the pressures being felt in Adult Social Care. These draft Budget proposals include the final additional 2019/20 IBCF allocation of £1.493m announced in the Spring 18 Budget. An assumption has been made that this funding will stay with the Authority when delivering services associated with the Better Care fund beyond 2019/20. However, currently there is no assumption made to include any additional IBCF allocations post 2019/20.

In addition, whilst retaining the Council Tax referendum limit at 3% for 2019/20 as part of the 2017 Local Government Financial Settlement, an Adult Social Care precept was proposed with a limit of no more than 6% over the period 2017/18 to 2019/20. The full Adult Social Care Precept of 6% was applied in 2017/18 and 2018/19. No further Adult Social Care Precept has been anticipated or included within these draft proposals.

Prior to the 2018 Autumn Budget Statement a new Adult Social Care (ASC) Grant of £240m was announced for 2018/19 which is intended to help local authorities reduce pressures within the NHS over the coming winter period. The conditions of the grant require close working with our NHS partners. North Tyneside will receive £1.031m of the total grant allocation.

Whilst this new ASC grant announced in October was initially identified as a one-off grant for 2018/19, the 2018 Autumn Budget Statement announcement confirmed that this grant would continue into 2019/20. In addition, a further £410m grant was announced that could be used by local authorities in relation to adults and children's services. North Tyneside will receive £1.761m of the £410m grant allocation in 2019/20 and this has been included in the funding assumptions.

4.2.2 The additional funding and resources go some way to addressing the pressure being felt in the delivery of Social Care Services across the Authority. However, like many other authorities the Council continue to see pressure in respect of Children Social Care. In terms of a sustained level of children and young people requiring appropriate support, the costly nature of that work and the scarcity of children's social workers is creating workforce retention issues across the region.

4.3 Council Tax Support

4.3.1 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 (comprising Revenue Support Grant and Business Rates) after being cut by over 10%. As this funding is not separately ring-fenced within the settlement funding assessment, it has effectively been cut at the same rate as our settlement funding assessment has been cut for each subsequent year.

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

Council Tax Support under the Council's current scheme 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.

Pensioners are not subject to the cap referred to above and may still be awarded reductions of up to 100% of their Council Tax liability.

Cabinet are not proposing any changes to Council Tax Support in 2019/20. This was set out in the report to Cabinet on 10 September 2018.

4.4 Business Rates

4.4.1 The level of business rates is set by the Government and is based on the rateable value of non-domestic properties across North Tyneside. The Council previously had no direct financial interest in the collection of business rates and acted purely as an agent of the Government. However, since 2013/14 the Council has retained 49% of the business rates collected and paid the other 51% over to the Government (50%) and the Tyne and Wear Fire and Rescue Authority (1%). As a result, the Council now has a direct financial incentive to maximise the amount of business rates collected in North Tyneside.

The 2017 national revaluation of Business Rates resulted in a slight reduction in total rateable value in North Tyneside, as was also experienced across the North East region. The Government adjusted the Councils top-up grant to ensure that the Authority suffers no detriment as a result of the revaluation.

4.4.2 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 in both 2017/18 and 2018/19. Due to the impact of appeals in previous years, it has been assumed that Business Rates income remains at the current budgeted level until confidence in the new system is assured.

4.4.3 The Government's Budget in October 2018 announced a number of changes to offer additional support to businesses in reducing their business rate liability, including:

- Providing upfront support to the business rates system through reducing bills by one-third for retail properties with a rateable value below £51,000, for 2 years from April 2019, subject to state aid limits;
- The introduction of 100% business rate relief for all public lavatories with the aim of helping keep these amenities open; and
- Continuing with the £1,500 business rates discount for office space occupied by local newspapers in 2019/20.

Initial analysis shows that 440 properties in North Tyneside will benefit from the reduction in business rates by one-third with an overall cash value of £976,604. This money is fully reimbursed to local government through S31 grant.

4.4.4 The North of Tyne Combined Authority submitted an application to the Ministry of Housing, Communities and Local Government to be considered for a Business Rates Pilot Scheme in 2019/20.

In the provisional Settlement it was confirmed that the North of the Tyne expression of interest to become a 75% Business Rate Retention Pilot was successful for 2019/20. North Tyneside will be part of the pooling arrangements for the North of the Tyne. A key feature of becoming a 75% business rates pilot is that Business Rate income above the current 49%/50% retention arrangements will be pooled across the pilot, and the three local authorities would be regarded as one entity in Business Rates terms.

It should be noted that the benefit of retaining the additional 25% business rates will not have a direct impact on setting the budget for North Tyneside in 2019/20. The additional funding will be received into the North of Tyne Combined Authority as part of the pooling arrangements.

4.5 <u>General Fund Financial Plan</u>

4.5.1 As set out in the report to Cabinet on 26 November 2018, Cabinet's approach to developing the 2019/20 budget has been to take, as far as possible, a balanced approach to developing the budget in order to maintain those services most residents wish to access as well as investing in those services for our more vulnerable residents.

As part of the 2016 Spending Review the Government included in its assumptions annual increases in Council Tax. These draft proposals include an increase in Council Tax of 2.99% in 2019/20. The medium-term financial strategy includes increases of 1.99% for the subsequent financial years 2020/21 to 2022/23.

It is important for Cabinet to note that this is in line with the general increase in Council Tax recommended by the Government. Although the increases have been assumed for medium-term planning purposes, any increase in Council Tax in future years will need to be considered by Cabinet and agreed by full Council in line with current constitutional arrangements.

Table 1 below sets out the assumed level of resources available to fund the General Fund net budget, developed using the following assumptions:

- Increase in Council Tax for 2019/20 of 2.99%, no assumed Council Tax increase for years 2020/21 – 2022/23;
- New arrangements following the successful application by the North of Tyne Combined Authority to become a Business Rate Retention Pilot;
- Inflation increase in Business Rates of CPI of 2.29%;
- Council Tax Base growth has been considered as at the end of October 2018 with assumptions for further growth based on indications from the Local Plan, with prudent consideration taken of the timing of expected

delivery and potential risks of economic impacts on a slowdown of housing growth; and

- An estimated 2018/19 Council Tax surplus of £1.365m based on the year end forecast position of the Collection fund at 30 November 2018.
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Table 1: 2019-2023 General Fund Financial Plan Resources Assumptions, no Council Tax increase assumed in 2020/21 to 2022/23

	2018/19 £m		2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Council Tax	89.902		91.624	92.005	92.386	92.766
Estimated Council Tax Surplus	0.400		1.365	0.000	0.000	0.000
Revenue Support Grant	16.915		0.000	11.198	11.198	11.198
Business Rates	27.825		43.110	29.170	29.695	30.447
Business Rates top up	19.684		17.419	19.400	19.191	18.375
Total Resources Available	**154.726**		**153.518**	**151.773**	**152.470**	**152.786**

4.6 <u>Cost pressures</u>

4.6.1 The need to find savings in 2019/20 and future years is driven by significant unfunded cost pressures arising from a number of sources as well as the stagnation in resources from the Government. The Authority is experiencing the same service pressures as many other Metropolitan authorities. These cost pressures arise for a number of reasons including:

- Legislative / regulatory changes mainly relating to external funding changes: cuts in specific grants (for example Housing Benefit Subsidy Administration Grant and Public Health Grant);
- Pay and price inflationary increases: increases in pay based on an assumed 2% pay increase;
- Increasing demand for services: increased demand for social care services coupled with the complexity of individuals' needs (for example increased numbers of adults with complex learning disabilities);
- The impact of the improved Better Care Fund grant announced after the 2018/19 Budget had been agreed including the additional impact for 2019/20; and
- Corporate pressures include the impact of the current joint venture arrangements with our partners and the planned reversal of the use of the Minimum Revenue Provision (MRP) reserve in 2018/19.

Further details of the cost pressures are included in Appendix B.

4.6.2 In the context of setting the budget for 2019/20, it is also important to consider the in-year budget monitoring position. The first report to Cabinet which detailed the forecast outturn as at May 2018 identified an in-year pressure of £5.593m. Budget monitoring has now been completed to month 8 and this position has improved significantly. The forecast outturn pressure is now estimated to be £2.169m as at 30 November 2018.

Cabinet should note that the forecast outturn as at November 2018 includes North Tynesides allocation of the Levy account surplus which was announced at the same time as the Provisional Local Government Finance Settlement. The Council will receive £0.729m in 2018/19. By statute, the surplus on the 2018/19 Levy account must be paid back to authorities in 2018/19 and therefore will benefit the in-year forecast outturn position.

As described in section 4.2.1 the Council will also receive £1.031m in new Adult Social Care grant in 2018/19 which is intended to help local authorities reduce pressures within the NHS over the winter period. At the time of writing this report officers within the Council are working with NHS colleagues to agree how this funding could be used to support work that the Authority already undertakes to reduce Delayed Transfers of Care from hospital.

A number of sessions have already been held with Cabinet Members and senior management to give consideration as to the actions required to manage the financial risk identified for 2018/19, including what additional actions can be taken in line with the Authority's Efficiency Statement. Service areas have continued to develop plans to mitigate identified financial pressures. It is anticipated that the forecast outturn will continue to improve over the course of the remaining financial year as planned remedial actions impact on both expenditure and income. Therefore there is no anticipated use of reserves required to balance the 2018/19 General Fund outturn position.

Taking the available baseline resources into account and the growth pressures identified the gap/efficiency requirement for 2019/20 is currently estimated at £3.325m with a total of circa £27.181m to the end of 2022/23 as set out in Table 2 below. Cabinet should note that for 2020/21 to 2022/23 the resources available (identified in Table 2) include the Government's recommended general Council Tax increase of 1.99%. This is a summary of the draft financial plan.

Aside from the demand led pressures in Adults and Childrens services, some of the in-year pressure has arisen due to the timing of delivery of efficiency savings, in particular the Management and Procurement savings. As set out in the budget monitoring report to Cabinet, which is also being considered at this meeting. Whilst £1.287m of the Management saving has been achieved, work will continue into 2019/20 to deliver the remaining balance.

In terms of the Procurement savings target, £1.592m will be carried forward into 2019/20 for delivery.

Table 2: 2019-2023 General Fund Financial Plan cumulative funding gap

	2018/19 £m		2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
A: Base Budget Brought forward	152.360		154.726	156.258	156.410	159.056
B: Estimated Growth	12.976		11.255	14.534	8.525	9.370
C: Spend Requirement (A + B)	165.336		165.981	170.792	164.935	168.426
D: Resources Available	(154.726)		(156.258)	(156.410)	(159.056)	(161.378)
Resources Gap (C + D)	10.610		9.723	14.382	5.879	7.048
2018/19 Full year effect business cases in future years			(3.550)	(0.122)	(0.762)	(0.482)
Revised Resources Gap			6.173	14.260	5.117	6.566
Autumn Budget Social Care Grants			(2.148)	2.792	0.000	0.000
New Homes Bonus			(0.630)	0.000	0.000	0.000
Reduction to Transport Levy			(0.070)	0.000	0.000	0.000
Gap before efficiencies			**3.325**	**17.052**	**5.117**	**6.566**
2019/20 Savings Proposals			**(3.325)**	**(0.554)**	**(0.500)**	**(0.500)**
Annual Funding Gap			**0.000**	**16.498**	**4.617**	**6.066**
Cumulative funding gap			**0.000**	**16.498**	**21.115**	**27.181**

4.7 Efficiency Savings

4.7.1 The Authority's approach for 2019-2023 is to achieve savings early where possible to mitigate against future financial risks whilst working in a very different way. In 2019/20, the Authority is seeing the benefit of actions and proposals implemented during 2017/18 and 2018/19 and this work will continue over the medium-term.

4.7.2 Expensive services will continue to be more effectively targeted only at the people who need them, ensuring that our most vulnerable residents have a successful, healthy and safe future no matter where they live in the Borough. Cabinet has protected where possible those universal services accessed by all e.g. Libraries, Customer Service Centres and Sport and Leisure.

4.7.3 Work continues to improve understanding and management of demand, concentrating wherever possible on enabling people to help themselves. Intelligence is being used to target scarce resources to best effect, income is maximised and long-term cost reduced, work continues in partnership to improve outcomes, with an innovative use of technology to improve outcomes.

4.7.4 In terms of delivering the overall Budget, the Efficiency Programme will necessarily continue to be a cross-cutting programme to transform every part of the Authority and the relationship with the residents of North Tyneside as set out in the Our North Tyneside Plan.

4.7.5 The Efficiency Statement which was first agreed under a delegation to the Elected Mayor on 10 October 2016 and has been revised for 2019/20. The Statement sets out a number of proposals to be delivered that are designed to support the Authority in managing the change required to meet the significant financial challenge it faces. The proposals consider how service delivery can be reshaped in order that the Authority is able to meet the demands it faces, consider how residents are supported to help themselves, and continue to develop the Borough in terms of a place to live, being attractive to businesses and have effective transport and physical infrastructure.

Appendix C sets out in more detail the efficiency savings for 2019-2023, which are summarised in Table 3 below:

Table 3: Efficiency Savings 2019-2023

Efficiency Statement	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
A Focus on Customer Experience	(0.225)	(0.225)	(0.100)	(0.100)
Continue to Redesign 0-19 Services	(0.265)	0.265	0.000	0.000
Deliver Our Fees and Charges Policy	(0.062)	0.000	0.000	0.000
Delivering Whole System Support to Children with Additional Needs	(0.100)	(0.100)	(0.100)	(0.100)
Develop A 10 year plan for Waste	(0.100)	0.000	0.000	0.000
Protect our Leisure and Culture Offer	(0.625)	0.000	0.000	0.000
How We Are Organised	(0.439)	(0.200)	(0.200)	(0.200)
Leading Sector-led Improvement	(0.100)	(0.100)	(0.100)	(0.100)
Post-2019 Construction Delivery	(0.500)	0.000	0.000	0.000
Regenerating the Borough and Building Up Business	(0.103)	0.000	0.000	0.000
Responding to Rising Complex Needs	(0.300)	(0.500)	0.000	0.000
Effective Treasury and Debt Management	(0.506)	0.306	0.000	0.000
Total 2019/20 Proposals	**(3.325)**	**(0.554)**	**(0.500)**	**(0.500)**
Management Savings 2018/19	(1.287)	0.000	0.000	0.000
Procurement Savings 2018/19	(1.592)	0.000	0.000	0.000
Total Savings Target 2019/20	**(6.204)**	**0.000**	**0.000**	**0.000**

5. Housing Revenue Account

5.1 Introduction

5.1.1 This meeting of Cabinet is being asked to approve the Housing Revenue Account (HRA) Business Plan and Budget for the financial year 2019/20, including the housing rent, garage rent and service charge changes, and the HRA elements of the Capital Investment Plan. In addition, Cabinet have developed indicative plans for the next three years in line with the planning process for the General Fund, as well as a 30-year balanced HRA Business Plan in line with the requirements of self-financing. Cabinet have sought views of residents, tenants and partners on these plans on this basis.

5.2 Background and Government Policy Context

5.2.1 North Tyneside Council is responsible for the management of just under 14,700 council houses. Council Housing Rents and Service Charges form the majority of income to the HRA and this income 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 Council's overall vision and Council Plan, and these documents very much set the context within which the HRA financial plan and Budget proposals are set. The financial challenges the HRA now faces to deliver the desired outcomes within the Council Plan are just as challenging as those for the General Fund.

5.3 Housing Green Paper

5.3.1 Despite a natural focus from Government on Brexit, Housing policy has been one of the domestic issues that have seen some significant movement during the past few months. The Government has pushed Housing to the forefront of the policy agenda and recognised that local authorities have a key role to play if the Government are to achieve their ambitions to increase housing supply. Firstly, there was the publication of the Green Paper "A New Deal for Social Housing" in August 2018, which arose from a desire to consult on change post-Grenfell. This paper seeks to redress the balance between residents and landlords, tackle the stigma attached to social housing and to ensure that social housing can provide a stable base to both support people when they need it but also enable social mobility. Consultation on this paper closed on 6 November 2018 and Cabinet await the Government's response to the outcomes of that consultation, and any resulting impact on housing policy.

5.4 Right to Buy Consultation

5.4.1 Alongside the Green Paper the Government has also issued a consultation paper regarding the process that dictates how local authorities can use Right to Buy (RTB) receipts to deliver new homes. This includes considering the potential for local authorities to hold on to the additional receipts for longer than the current 3-year agreement, and to allow a higher proportion of RTB receipts to be used to fund new build, albeit these concessions would only be available in areas of high affordability pressure. The consultation on this closed on 9 October 2018, and again, as with the Green Paper above, Cabinet await any results of those consultations, and to see if it leads to any greater flexibility for housing authorities around the use of receipts.

5.5 Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016

5.5.1 The Authority has faced significant challenges in housing terms from legislation linked to the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016. The Authority continues with its implementation of Government policy to reduce rent by 1% for 4 years as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI sheltered accommodation homes. However, 2019/20 represents the last year of that rent reduction, and from 2020/21 Government has announced that social rents will return to the previous policy of being based on Consumer Prices Index (CPI) plus 1% for at least five years to give some greater surety to allow longer-term business planning. Again, the Government consulted on the future of social housing rents between September 2018 and early November, the outcome of which is still awaited, but it is assumed that it will at least confirm the CPI + 1% approach. In addition, the Authority is also facing the impact of the continued roll-out of Universal Credit and other welfare reforms.

5.5.2 In relation to the Housing and Planning Act 2016, the Government had already announced the removal of the Pay to Stay policy last year for those on higher incomes and have now announced their intention not to bring the Higher Value Assets provisions of that Act into effect, repealing this legislation when Parliamentary time allows. This removes the threat of authorities having to sell off a portion of their stock and return a significant proportion of the proceeds of those sales in the form of a "levy" to the Government. Government remain committed to the principle of councils using their assets effectively including consideration of the sale of higher value homes but have decided that this should be a local decision to avoid the creation of any barrier to building new homes.

5.6 Removal of the HRA Borrowing Cap

5.6.1 At the Conservative Party conference in Manchester in September 2018 the Prime Minister announced the Government's intention to scrap the HRA borrowing "cap", a proposal which was subsequently confirmed by the Chancellor in the October spending review. This will be enacted by the removal of what is known as the Council's "Limit on Indebtedness" which is an HRA determination issued by the Government. In future it will be for the Authority to determine the level of unsupported borrowing it wishes to undertake to fund new build, in line with the Prudential Code, which means applying the key tests to ensure that any debt taken on is "Prudent, Affordable and Sustainable". This assessment has to be made based on the levels of rental income that can be raised to support such borrowing and against a background of no guaranteed grants to support that build and Government's continued desire to encourage people to own their own home. At this stage, therefore there is no proposed cessation of Right to Buy (RTB) or the discounts available under that policy.

5.7 Insourcing of the Kier North Tyneside Joint Venture

5.7.1 At an Extraordinary Cabinet meeting on 27 September 2017, Cabinet agreed, following a thorough review process of almost a year, that the Authority would not be exercising its contractual option to extend the 10-year Joint Venture partnership with Kier North Tyneside beyond 31 March 2019.

At that same meeting Cabinet agreed the creation of a Steering Group made up of the Cabinet Members for Finance and Resources, Housing and the Deputy Mayor along with a number of Heads of Service to support the governance of the project to bring these services back in house. A project brief and project team were created to manage the work required across eight work streams that make up this project. The Steering Group meet monthly and consider reports from the Project Manager against the agreed project plan covering the 8 work streams.

In addition, a Risk Register was created and this continues to be updated monthly and a Risk Report considered at every meeting. These measures should ensure that all resources are in place to establish ‘business as usual’ as soon as possible after 1 April 2019. The project includes a Benefits Realisation plan that will identify the key benefits and savings that will arise from the project. These will be fed into the HRA Business Plan as they are crystallised, it should be noted that a significant proportion of benefits will accrue against capital schemes.

It is envisaged that such savings will create opportunities to either accelerate planned investment in the existing stock, or to invest in new stock as appropriate.

The first year of operation in 2019/20 will be one of significant review and change, as the Authority manages the transfer of nearly 400 staff back to the Council, and establish business as usual from day one, with the intention of reviewing the entire repair and construction service over the following 12-18 months. This will put the Authority in a position to establish the longer-term benefits and savings from the project and achieve the ultimate aim of creating a service that best meets the ongoing needs of our tenants and residents whilst delivering greater efficiency and value for money.

5.8 Summary

5.8.1 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 Elected Mayor and Cabinet and the needs of 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 2019/20 are only indicative at this stage. A four-year timeframe is also proposed for the Housing Capital Investment Plan in line with the 2019-2023 General Fund Capital Investment Plan.

5.9 Key Objectives and headline assumptions for the Housing Service

5.9.1 The over-riding objectives for the Housing Service are in line with the agreed Housing Strategy and, as far as possible within financial constraints, to:

1. Ensure the application of the principles of the Target Operating Model;
2. Continue to invest in the existing stock to maintain the Decent Homes Standard;
3. Maintain and develop effective engagement with tenants;
4. Work with Private Landlords to refurbish stock where appropriate;
5. Undertake environmental improvements to estates to ensure that they are clean and safe;
6. Support the delivery of Affordable Homes across the Borough; and
7. Create sustainable tenancies and maximise rental income collection.

5.9.2 The key headlines for the HRA budget for 2019/20 are as follows:

1. Continue implementation of Government policy to reduce rent by 1% for 2019/20 (final year of 4 years) as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI sheltered accommodation homes;
2. Freeze service charges for 2019/20 except where reviews of services have taken place to reflect changes in actual costs;
3. A review of charges for guest rooms and commercial space (e.g. hairdresser facilities) within sheltered schemes to be finalised;
4. There has been an ongoing review of the garage letting process which will result in a phased approach over two years to harmonise garage rents. For 2019/20 it is recommended that garage rents will have no indexation applied whilst the new charging structure is put into place; and
5. Sustain working HRA balances at a minimum of £2.5m.

5.10 HRA Capital Investment Plan – assumptions

1. Overall Housing Capital Investment Plan spend of £99.898m over the next 4 years 2019-2023; and
2. Spend for 2019/20 of £25.814m including £3.433m for the continuation of a new build / conversion / acquisition council house programme.

It should be noted that these figures make no assumptions at this stage around the Government's removal of the HRA borrowing cap. The reasoning for this is explained further below.

5.11 Medium-Term HRA Position

5.11.1 There are a number of key drivers which underpin the HRA Business Planning Process, which are discussed briefly below, namely:

- Government Rent policy;
- Future funding for Supported and Sheltered Housing;
- The Asset Management Strategy and New Build projects as part of Cabinet's Affordable Housing ambitions;

- Right to Buy Sales;
- Treasury Management Strategy and the removal of the HRA borrowing cap;
- Self-Financing and Depreciation;
- North Tyneside Living; and
- Insourcing of the Kier North Tyneside Joint Venture project from April 2019.

5.12 Rent

5.12.1 2018/19 was the third year of the Government's 4-year 1% per annum rent reduction policy, introduced by the Welfare Reform and Work Act 2016. The Prime Minister has given the first indications of the Government's intention for social housing rents at the end of this 4-year reduction period. She recently announced that, in order to enable housing landlords to have more robust future plans, the rent policy would return to being based on the Consumer Prices Index (CPI) + 1% for at least the five years starting April 2020. This confirms what most HRA Business Plans had assumed and gives some clarity in the medium-term. Cabinet should also be aware of the following assumptions reflected in the HRA Budget and Financial Plan:

1. The Authority will continue to move to target rent when properties become empty;
2. A review of the service charges attached to the North Tyneside Living schemes is ongoing now that the schemes have become fully operational to ensure that service charges more closely reflect actual costs;
3. Cabinet agreed to exempt service charges from the 1% annual reduction and to freeze them until 2019/20 based on an assumption of low CPI rates. If the upward inflationary trend continues Cabinet may wish to revisit this approach in future. Charges for furniture packs were revised in 2017/18 to reflect the newly procured service and these service charges will continue to be reviewed to ensure that the income collected adequately covers costs. The Authority continues to monitor the impact of welfare reform changes. Members will be kept informed of any further announcements that clarify the position as soon as possible. Service charges on affordable rent properties are not exempt as the 80% of market rent calculation includes any service charges;
4. Garage rents are linked purely to an assessment of demand for the asset with no link to rent policy; The plan proposes to continue the target of 2% increases per annum based on long-term Government CPI projections as being reasonable. However, there has been an ongoing review of the overall letting policy on garages which will lead to a phased increase to harmonise charges across all garages. It is recommended that there is no indexation applied for 2019/20, with a return to the CPI based increases the following year;
5. It is assumed that the policy previously agreed by Cabinet to protect existing North Tyneside Living tenants from rent increases will continue. All new tenancies commence at the newly calculated rents. It is estimated that this protection will cost in the region of £0.070m in 2019/20 and will continue to steadily reduce from this point; and

6. From April 2018 Cabinet agreed that the Authority would move from a 50 to a 52-week rent year to enable better synchronisation with welfare reform changes and the introduction of Universal Credit. The impact of this change saw tenants' weekly rent spread over 52 weeks, although for those residents that wish to continue paying over 50 weeks this option was made available.

5.12.2 The implications of any changes arising from benefit changes including Universal Credit (UC) continue to be monitored. UC started to be rolled out for all new claimants in North Tyneside from February 2018 for both single claimants and families. It is important to ensure that tenants continue to be kept fully informed of the requirements of the new scheme, and to maintain the two-way communication process to ensure they are supported in managing the change, and to avoid people falling into arrears, which has been a significant factor in most of the pilot schemes to date. It is not now anticipated that the UC scheme will be fully rolled-out across all areas of the country until at least 2023. Members will continue to be updated of any significant further changes as they become clear.

5.13 <u>Future Funding for Supported and Sheltered Housing</u>

5.13.1 In 2016, the Government originally announced their intention to fundamentally change the method of funding provided for supported housing from April 2019 based on a two-tier system linking the amount provided to cover rent and service charges through the existing welfare system to Local Housing Allowance caps. In addition, there was to be a separate top-up grant for each area to be administered by the top tier local authorities to cover "support", very likely to be much along the lines of the old Supporting People Programme, which would have had significant resource implications for the authority. These proposals led to a significant concern among the housing sector that this could have signalled the cancellation or delay of any future significant development of supported housing schemes in a sector which has seen ever-increasing need. Following a full consultation process, the Government subsequently announced that funding for supported housing would remain within the housing benefit system. This helps ensure at least in the short-term that sheltered accommodation remains an affordable and viable alternative for our ageing population.

5.14 <u>Asset Management Strategy (AMS) and New Build Project Funding</u>

5.14.1 The AMS is regularly updated and refreshed to make the stock data current, to fully identify the maintenance needs of the stock over the lives of the assets and to build these into the HRA Capital Investment Plan. Because all of the Authority's stock is now at or above Decent Homes Standard, this year's plan is mainly a refresh of key elements around stock numbers to roll the Plan forward. The Plan identifies £88.560m of works to maintain Decent Homes over the next 4 years (£22.381m for 2019/20), with an estimated £11.338m available for New Build over the same period (£3.433m for 2019/20). In addition, a further £0.200m has been provided in the Capital Investment Plan for 2019/20 to meet the costs related to the implementation of a fit-for-purpose maintenance and construction operation, as a result of the decision to insource the Kier JV contract (£1.450m in 2018/19). Again, at this stage these figures are based on Cabinet's existing approach to debt management and self-financing, which is discussed in more detail below.

5.15 Right to Buy (RTB) Sales

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

Table 4: 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 to Nov	93

5.15.2 As part of changes the Government introduced back in 2012/13, the Authority signed an agreement that allows RTB receipts above the levels assumed as part of self-financing to be retained as long as they are used to fund new build homes at a 30% contribution rate within 3 years. This has seen an additional £4.491m of Capital Receipts retained to the end of 2017/18, which has helped deliver £14.308m of new build schemes.

The trend in RTB sales is reflected in the 2019/20 Business Plan profile for stock numbers with circa 140 RTB sales and other disposals assumed. Legislative change may impact on these projections as the Plan moves forward, particularly if Cabinet decides on a different course of action around its approach to Treasury Management following the Government's announcement on the removal of the HRA borrowing cap discussed in the section below.

5.16 Treasury Management Strategy (TMS) and the HRA Borrowing "Cap" removal

5.16.1 The HRA is an integral part of the TMS for the Council, and decisions were taken at the point of the introduction of Self Financing in 2012 as to the approach to be taken to HRA debt. When self-financing was introduced, all stock retaining authorities were either given an additional allocation of debt or had some of their debt paid off, depending on an assessment of the value of their 30-year Business Plans and the amount of debt they could be expected to manage.

For North Tyneside this meant raising £128m of additional loans through borrowing via the Public Works Loan Board to pay the Authority's allocated share of debt to the HM Treasury. Each Authority at that point was allocated a cap which represented the maximum amount of debt that could be held by the HRA.

At that time, the Authority was one of only a handful nationally where the actual debt held was above the cap. The Authority's debt was £290.825m against a calculated cap of £270.585m but the Government "flexed" this cap to match the Authority's actual debt position to enable self-financing to happen.

5.16.2 At that point, every one of the 160 stock-retaining authorities was at a different point relative to their cap. Most were under, but a significant proportion of those were very close to or at their cap, which meant any unsupported borrowing strategy was restricted. Each authority had to decide what debt and risk approach they wanted to take to fund both investment in existing stock and potentially any new-build opportunities.

Cabinet agreed at this point to steer a middle course around risk, setting aside money where possible to repay debt each year to bring our overall debt holdings down below the cap. It was and is not the intention to repay all debt held over the initial 30 years. This debt repayment approach has created some revenue surpluses which have been utilised to fund a programme of HRA new build with HRA new-build spend totalling £19.779m to the end of 2017/18. In addition, by the end of March 2018 the Authority's actual HRA debt stood at £261.900m compared to the £290.825m cap. The Authority has already created some headroom through the agreed Treasury Management Strategy.

It is against this background that consideration needs to be given to the Government's proposals to remove the HRA borrowing cap. The proposals move from utilising revenue sums to guarantee affordability of schemes to a policy of increasing borrowing to fund more new build spend and this brings with it the need to consider the following factors and risks:

- No proposed change to the RTB policy at this stage;
- No guaranteed grant-funding to support new-build spend;
- Potential additional flexibility around the use of additional RTB receipts;
- Availability of suitable land assembly for social housing new-build schemes and all related planning considerations; and
- Pace at which schemes would need to be delivered to support additional borrowing costs.

5.16.3 An additional consideration in this context is the impending transfer back to the Authority of around 380 Kier staff in April 2019, which represents a huge change for the Authority. These staff will need to be assimilated into the Authority's structures to create a fit-for-purpose organisation for the future.

It is against these factors that it is recommended that Cabinet takes the time to properly assess all the potential implications and wait for full details of the Government-proposed changes to emerge before making any fundamental changes of policy. It is recommended that a fundamental review of the 30-year HRA Business Plan be undertaken over the next 12 months.

5.16.4 For the 2019/20 budget setting process, it is recommended that the HRA budget be based on the existing Cabinet-agreed policy approach, acknowledging that the figures beyond 2019/20 are purely indicative at this stage and are likely to change significantly not just as a result of the proposed review but also as a result of other factors such as the Benefits Realisation Plan for the Construction Project starting to bear fruit once the transfer has taken place.

Assuming that the existing approach to Treasury Management will continue for 2019/20, the HRA debt pool will have the following elements:

1) Self-financing debt – £128.193m of debt taken on to fund payment to Government to exit the subsidy system, made up of 26 loans with maturity

periods of 24 to 50 years. These loans were at “special” interest rates offered by PWLB purely for self-financing. Average interest rate is 3.49% which produced savings of £0.652m in 2012/13. These savings were transferred to the House-building Reserve annually to fund HRA new build and conversions as agreed by the Council. Contributions to that fund ceased from 2017/18 as part of previous Budget proposals following the Government’s introduction of rent decreases from 2016/17;

2) Existing Debt – The HRA share of the Authority’s pre-self-financing debt was valued at £162.631m as at 31 March 2012. As loans mature there is a separate consideration for the General Fund and HRA as to how those loans are treated. Opportunities to make savings from short-term borrowing have enabled some additional savings to be made which have helped the HRA Business Plan. For 2019/20 estimated debt interest due will total £4.101m, saving £0.363m on current year’s budgeted charges, with a debt set aside of £2.602m; and

3) Replacement of existing HRA Debt - replacement loans directly attributed to the HRA. 2019/20 will see re-financing of £0.600m from £3.202m of long-term maturities, once assumed debt repayments have been accounted for and temporary borrowing of £20.488m. These loans will have estimated interest charges of £0.900m in 2019/20, an increase of £0.217m from the £0.683m budgeted in 2018/19.

Overall actual HRA debt will be around £254.800m by 31 March 2019. The Authority continually monitors the position on the HRA as part of the overall TMS to ensure the most efficient use of resources for the HRA and our tenants and to maximise flexibility around future investment needs and potential additions to the stock.

5.17 Self-Financing and Depreciation

5.17.1 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 the Authority calculates a simple depreciation for buildings, and linking that to the way the Council’s properties are valued using a number of “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.

5.18 Construction Project 2019

5.18.1 As noted above, on 27 September 2017 Cabinet agreed not to extend the Kier Joint Venture contract for a further five years. The Authority is now working to create a fit-for-purpose construction and maintenance operation to be in place from April 2019. The operation will meet the needs of the Authority and our tenants and residents, whilst ensuring greater efficiency and value for money. The resources necessary to achieve a successful transfer and fund the transformation project up to completion and sign-off in October 2019 have been built into the

Business Plan projections, both within the Housing Revenue Account and Capital Investment Plans.

5.19 Summary Plans

5.19.1 The impact of all of the above issues on the four-year 2019-2023 Revenue Plan for the HRA are summarised in Table 5 below. In addition, Table 6 splits those changes between “Pressures and Growth”, “Efficiencies and Reserves” and “Contingencies”.

The initial Budget proposal figures in the 26 November 2018 Cabinet report start from the HRA budget monitoring position reported to the same meeting for the period to the end of September 2018, which showed projected year-end balances of £5.945m. For this report, the figures have been updated to reflect the budget monitoring position to 30 November 2018, which are being reported to this meeting of Cabinet on 21 January 2019, which show estimated balances improving further to £6.203m as at 31 March 2019, with a net contribution to balances in-year of £0.120m.

The four-year Housing Capital Investment Plan is included within Appendix D(i) and D(iii).

5.19.2 A further breakdown of the movement on “Reserves and Contingencies” is shown in Table 7 below; this includes a contribution from reserves of £2.331m. It is proposed to create additional contingency budgets of £0.301m for 2019/20 to recognise issues including any inflationary increases and a pay award.

Table 5 – Housing Revenue Account (HRA) 2019-2023

	2018/19 Forecast Outturn	2019/20 Draft Budget	2020/21 Draft Budget	2021/22 Draft Budget	2022/23 Draft Budget
	£m	£m	£m	£m	£m
Rent, Garages and Service Charge Income	(59.867)	(58.697)	(60.017)	(61.422)	(62.926)
PFI Credits - North Tyneside Living	(7.693)	(7.693)	(7.693)	(7.693)	(7.693)
Rent from Shops, Offices etc.	(0.283)	(0.275)	(0.275)	(0.281)	(0.281)
Interest on Balances	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)
Contribution from Balances	0	(2.331)	(1.142)	0	(0.128)
Total Income	**(67.893)**	**(69.046)**	**(69.177)**	**(69.446)**	**(71.078)**
Capital Financing Charges	12.080	12.110	13.958	13.620	13.458
Management Costs	11.316	12.013	10.815	10.918	11.022
Repair and Maintenance	11.468	11.981	12.016	12.061	12.118
PFI Contract Costs – North Tyneside Living	9.597	9.642	9.690	9.736	9.786
Revenue Support to Strategic Investment	9.570	9.053	7.995	7.617	8.928
Depreciation / Major Repairs Account (MRA)	11.972	12.392	12.825	13.275	13.739
Bad Debt Provision	0.730	0.780	0.780	0.803	0.828
Transitional Protection	0.065	0.070	0.060	0.050	0.040
Management Contingency	0.120	0.150	0.150	0.200	0.200
Pension Fund Deficit Funding	0.855	0.855	0.888	0.923	0.959
Contribution to Balances	0.120	0	0	0.243	0
Total Expenditure	**67.893**	**69.046**	**69.177**	**69.446**	**71.078**

	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**
HRA Balances	**£m**	**£m**	**£m**	**£m**	**£m**
Estimated HRA Balances B/Fwd	**(6.083)**	**(6.203)**	**(3.872)**	**(2.730)**	**(2.973)**
Contribution to/from HRA	**(0.120)**	**2.331**	**1.142**	**(0.243)**	**0.128**
Estimated HRA Balances C/Fwd	**(6.203)**	**(3.872)**	**(2.730)**	**(2.973)**	**(2.845)**

Table 6: 2019–2023 Housing Revenue Account Financial Plan

HRA Forecast Expenditure Plan	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
Original Base Budget	1.969	2.331	1.142	(0.243)
Add:				
Pressures and Growth				
Council Dwellings-Rent reduction, stock reduction & empty homes assumptions	0.574	0.000	0.000	0.000
Rental Income – temporary & dispersed accommodation	0.002	0.000	0.000	0.000
HRA Debt set aside – MRP equivalent	0.187	1.990	(0.292)	0.000
HRA – New Debt	0.217	0.072	(0.023)	(0.058)
North Tyneside Living (NTL) – Unitary charge	0.101	0.104	0.106	0.109
NTL – Contributions to / from PFI Reserve & contract monitoring	(0.056)	(0.056)	(0.060)	(0.059)
Depreciation (formerly MRA)	0.419	0.434	0.449	0.465
Housing Capital Investment Plan-revenue support	(0.517)	(1.058)	(0.378)	1.311
Pension Fund Deficit Funding	0.000	0.033	0.035	0.036
Review of Central Support Recharges	0.500	0.000	0.000	0.000
Repairs and Maintenance – Employer Pension Contributions	0.500	0.000	0.000	0.000
Bad Debt Provision	0.000	0.000	0.023	0.024
Total - Pressures and Growth	**1.927**	**1.519**	**(0.140)**	**1.828**
Efficiency Savings				
Council Dwellings – Rent Increases	0.000	(1.246)	(1.330)	(1.429)
Rental Income – Temporary and Dispersed Accommodation	0.000	(0.006)	(0.006)	(0.006)
Garage & Other Rents	(0.015)	(0.009)	(0.015)	(0.009)
NTL – Transitional Rent Protection	(0.010)	(0.010)	(0.010)	(0.010)
Interest on Balances	(0.020)	0.000	0.000	0.000
Service Charges – Furniture Packs	(0.040)	(0.023)	(0.023)	(0.024)
Service Charges – Sheltered and Communal Areas	(0.272)	(0.035)	(0.036)	(0.036)
Repairs – Construction Project	(0.810)	(1.300)	0.000	0.000
Treasury Management – Existing Debt & DME	(0.388)	(0.214)	(0.024)	(0.104)
Water Rates Commission	(0.200)	0.000	0.000	0.000
Repairs Budget– incl. impact of 1% rent reduction	(0.111)	(0.085)	(0.074)	(0.063)
Total – Efficiency Savings	**(1.866)**	**(2.928)**	**(1.518)**	**(1.681)**
Reserves & Contingencies				
Revenue Repairs – Inflation	0.114	0.118	0.119	0.120
General Management Contingency	0.000	0.000	0.050	0.000
Pay Award	0.162	0.081	0.081	0.081
Price Increases	0.025	0.021	0.023	0.023
Total – Reserves & Contingencies	**0.301**	**0.220**	**0.273**	**0.224**
Revised Base Budget	**2.331**	**1.142**	**(0.243)**	**0.128**

Table 7: 2019–2023 Housing Revenue Account Reserves and Contingencies

HRA Revenue Balances	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
Increase in Contingencies	0.301	0.220	0.273	0.224
Contribution to/(from) Balances	(0.362)	1.189	1.385	(0.371)
TOTAL	**0.061**	**1.409**	**1.658**	**(0.147)**

6. Dedicated Schools Grant (DSG)

6.1 Background

6.1.1 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 delegated budgets which are allocated to individual schools, nurseries and other early years settings; high needs provision including special schools and alternative provision.

From 2018/19 the DSG consists of 4 blocks of funding; Schools block, Central schools services block (CSSB), Early years block and High needs block.

6.1.2 In September 2017 the Department for Education (DfE) published the new National Funding Formula (NFF) for the Schools Block. From 2018/19, the Government has allocated the total amount of funding for the Schools Block to each Local Authority based on the NFF. A new funding allocation method for the High Needs Block was also introduced in 2018/19 partially based on each Local Authority's historic spending pattern and partially based on a new formula.

The Government initially proposed that local authorities will continue to set a local allocation formula for distribution of funding to schools in 2018/19 and 2019/20 with a direct allocation to schools based on the NFF starting in 2020/21.

However, in July 2018 the Government announced that local authorities will continue to distribute on a local formula for a further year and that the NFF will not be used to directly allocate funding to schools until at 2021/22 at the earliest.

The final DSG allocation was published in December 2018 on the basis of the latest October 2018 pupil census data. The Education and Skills Funding Agency (ESFA) is not expected to confirm 2019/20 High Needs Block allocations to authorities until March 2019 at the earliest.

6.1.3 Cabinet should note that the DfE have yet to confirm the deduction for direct funding of high needs places by the ESFA. The published value has been adjusted by assuming the same level of retention as 2018/19. DfE are expected to provide confirmation by the end of March 2019. Cabinet will be advised of the final allocation once this has been received.

6.1.4 In July 2017, the DfE announced an additional £1.3 billion funding for schools to be allocated in 2018/19 and 2019/20. In addition, grant funding was announced in July 2018 for 2018/19 and 2019/20 to support additional costs of the national teachers' pay award agreed for those years above the 1% originally planned.

The total DSG funding allocation for 2019/20 is £157.086m Table 8 below shows the funding allocated to each of the funding blocks.

Table 8: Dedicated Schools Grant funding allocation 2019/20

	2019/20 schools block units of funding (£'s)	Schools Block	CSS Block	Early Years Block	High Needs Block	Total DSG 2019/20
		£m	£m	£m	£m	£m
Primary per pupil rate (£)	3,860.44					
Secondary per pupil rate (£)	5,304.68					
Block Value		**120.926**	**2.343**	**13.555**	**20.262**	**157.086**
Deduction for direct finding of high needs places by the ESFA					(0.734)	(0.734)
Total Settlement		**120.926**	**2.343**	**13.555**	**19.528**	**156.652**

6.2 <u>Schools Block</u>

6.2.1 The Authority undertook a comprehensive consultation exercise with all schools and with Schools Forum in November/December 2018 for the 2019/20 year; the outcome of this was reported to Schools Forum on the 19 December 2018. The overwhelming response from schools was a desire to maintain stability and retain the existing local funding formula with any additional funding distributed through the basic entitlement element so that all pupils would benefit. Schools Forum accepted the prevailing view of maintaining stability of funding within the local formula for 2019/20 with a gradual move to the NFF to start from 2020/21.

6.3 <u>High Needs Block</u>

6.3.1 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 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 October 2018 is estimated at £0.857m. This pressure is currently retained within the DSG but after 2020/21 this may reside within the General Fund.

A High Needs Strategic Plan was agreed by Schools Forum in May 2018 and this outlined a work plan to review the Authority's current Special Educational Needs offer to ensure it meets needs appropriately at a sustainable cost. At the Schools Forum meeting on 19 December 2018, the Authority requested a funding transfer from the Schools block to the High needs block in 2019/20. National guidance allows a transfer of 0.5% of the Schools Block value with the approval of Schools Forum (approximately £0.605m); a larger transfer would require approval of the

Secretary of State. The decision to grant the transfer was deferred due to additional information requests by Schools Forum. This will now be considered for a decision on the 14 January 2019.

On 17 December 2018, the Secretary of State for Education announced an additional £250m of funding for high needs, across the two financial years 2018/19, and 2019/20. North Tyneside's allocation of this funding in 2019/20 is £0.426m which will be received into the High needs block.

6.4 Early Years Block

6.4.1 The Authority will continue to distribute the Early Years block based on the funding rates announced on 17 November 2017, and comprising:

- funding for the universal 15-hour entitlement for all three and four-year-olds;
- funding for the additional 15 hours for three and four-year old children of eligible working parents;
- funding for the 15-hour entitlement for disadvantaged two-year-olds;
- funding for the early years pupil premium (EYPP);
- funding for the disability access fund (DAF); and
- supplementary funding for maintained nursery schools.

6.5 Central Schools Services Block

6.5.1 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.

6.6 Timetable for Agreeing 2019/20 Distributions

6.6.1 The key dates which must be met in setting 2019/20 school budgets are shown in table 9 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.

Members will be kept informed of progress through the bi-monthly financial Management reports to Cabinet.

Table 9: Key dates for 2019/20 school budget setting

Date	Activity
July 2018	Department for Education (DfE) guidance issued for 2019/20
5 November 2018	Local consultation documents issued to stakeholders
30 November 2018	Consultation returns received and reviewed
19 December 2018	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
13 December 2018	Local Government Finance settlement announced including school funding amounts
14 January 2019	Additional Schools Forum meeting (if required)
21 January 2019	Deadline for submission of final local School Allocations to DfE (the Authority Proforma Tool)
28 February 2019	Deadline for confirmation of schools budget shares to maintained schools (in North Tyneside the intention is to issue in advance of this deadline)

7. Cabinet’s draft Budget proposals for the 2019-2023 Capital Investment Plan

7.1.1 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 investment in shares or loans to third parties for a capital purpose.

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

A Capital Investment Strategy has been developed to help support the delivery of capital investment and ensure that the Capital Investment Programme builds on previous success, with a strong focus on delivery of the Our North Tyneside Council Plan outcomes and linking to the ‘Our Ambition for North Tyneside’ report of 26 November 2018 Cabinet. 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 D(iii).

7.1.2 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 Council Plan and the revised Efficiency Statement.

The Investment Programme Board (IPB) meets on a monthly basis and, as part of its monthly meetings, receives an update on all ongoing projects included in the approved Capital Investment Plan (currently 2018-2020).

Table 10 below shows a summary of the initial draft 2019-2023 Capital Investment Plan.

Table 10: Summary of Capital Investment Plan 2019-2023

Spend	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	Total £000s
General Fund	35,730	17,591	12,284	12,284	77,889
Housing	25,814	24,589	24,724	24,771	99,898
Total	**61,544**	**42,180**	**37,008**	**37,055**	**177,787**

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

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

Table 11: Summary of Financing 2019-2023

Spend	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	Total £000s
General Fund					
Council Contribution:					
Unsupported Borrowing	19,869	9,953	5,100	5,100	40,022
Capital Receipts	0	0	0	0	0
Revenue contribution	59	0	0	0	59
	19,928	9,953	5,100	5,100	40,081
Grants & Contributions	15,802	7,638	7,184	7,184	37,808
Total General Fund Resources	**35,730**	**17,591**	**12,284**	**12,284**	**77,889**
Housing – HRA					
Capital Receipts	4,287	3,685	3,748	2,019	13,739
Revenue Contribution	9,136	8,079	7,702	9,014	33,931
Major Repairs Reserve	12,391	12,825	13,274	13,738	52,228
Total Housing HRA Resources	**25,814**	**24,589**	**24,724**	**24,771**	**99,898**
Total Resources	**61,544**	**42,180**	**37,008**	**37,055**	**177,787**

7.1.3 The draft 2019-2023 Capital Investment Plan for the General Fund includes expenditure of £35.730m in 2019/20. Of this expenditure £15.802m (44%) is funded through grants and other external funding contributions.

There is currently no proposal to use General Fund receipts to finance the Capital Investment Plan. Housing capital receipts of £13.739m have been assumed in the financing of housing projects within the draft plan.

Across the life of the draft plan, unsupported borrowing totals £40.022m. The costs of borrowing are 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. These projects include Killingworth Moor Infrastructure, Murton Gap Infrastructure and Killingworth 3G pitch. It is planned that these projects will be added to the Plan once funding is secured.

7.2 Flexible Use of Capital Receipts

7.2.1 In December 2015 the Secretary of State for Housing, Communities and Local Government published guidelines confirming the criteria for the Flexible Use of Capital Receipts. The initial guidance covered the period from 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. In order to use this flexibility authorities are required to disclose any projects that will be funded using capital receipts. This can be done as part of the budget-setting process.

Consideration is being given to the use of capital receipts for redundancies and other costs arising from the restructure of services.

7.3 Capital Allocations 2019/20

7.3.1 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) from the Department for Education and Disabled Facilities Grants (through the Better Care Fund). Figures for 2019/20 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.

7.4 Annual Minimum Revenue Provision (MRP)

7.4.1 The Capital Finance Regulations require the Council to agree an annual policyfor its Minimum Revenue Provision (MRP).

MRP is the amount that is set aside to provide for the repayment of debt(principal repayment). The regulations require that the Authority to determine the amount of MRP that 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 proposed 2019/20 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 costs (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.

7.5 Prudential Indicators

7.5.1 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 this Code. The proposed indicators for 2019-2023 are attached as Appendix D (ii).

8. 2019/20 Treasury Management Statement and Annual Investment Strategy

8.1 Background

8.1.1 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 this 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.

8.1.2 Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as:

"The management of the local authority's investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Revised reporting is required for the 2019/20 reporting cycle due to revisions by the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The Capital Strategy is included as Appendix D (iii) to this report.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement Non-Treasury Investments will also be reported separately through the Investment Strategy. 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.

8.2 Treasury Management Reporting

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

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.

8.3 Treasury Management Strategy for 2019/20

8.3.1 The proposed Strategy for 2019/20 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:

- The current treasury portfolio position;
- Prospects for interest rates;
- Economic Outlook;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness; and
- Policy for the use of external service providers.

8.4 Training

8.4.1 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.

8.5 Treasury management Consultants

8.5.1 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.

8.6 Current Treasury Portfolio Position

8.6.1 The Authority's debt and investment position as at 6 December 2018 is set down in Table 12 below.

Table 12: Current Treasury Portfolio Position as at 6 December 2018

	Principal Outstanding	**Average Rate**
	£m	**%**
Fixed Rate Funding		
PWLB*	190.250	4.43
PWLB – (HRA Self Financing)	128.193	3.49
Market Loans	20.000	4.35
Temp Loans	92.712	0.80
Total External Debt	**431.155**	
Less **Investments**		
(UK) DMO**	14.350	0.50
Total Investments	**14.350**	
Net Position	**416.155**	

*Public Works Loan Board
**Debt Management Office

8.7 Prospects for Interest Rates

8.7.1 The Authority has appointed Link Asset Services as its external treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 13 below sets out Link Asset Services professional view of interest rates.

Table 13: Link Asset Services forecast interest rates – (6 December 2018)

	Bank Rate %	5 year PWLB %	10 year PWLB %	25 year PWLB %	50 year PWLB %
Dec 2018	0.75	2.00	2.50	2.90	2.70
Mar 2019	0.75	2.10	2.50	2.90	2.70
Jun 2019	1.00	2.20	2.60	3.00	2.80
Sep 2019	1.00	2.20	2.60	3.10	2.90
Dec 2019	1.00	2.30	2.70	3.10	2.90
Mar 2020	1.25	2.30	2.80	3.20	3.00
Jun 2020	1.25	2.40	2.90	3.30	3.10
Sep 2020	1.25	2.50	2.90	3.30	3.10
Dec 2020	1.50	2.50	3.00	3.40	3.20
Mar 2021	1.50	2.60	3.10	3.40	3.20

8.7.2 Economic statistics after the quarter ended 30 June 2018 meant that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.50% since the financial crash, from 0.50% to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate than before the crash; indeed, they gave a figure for this of around 2.50% in ten years' time but the MPC declined to give a medium-term forecast. It is unlikely that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Similarly, the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.50%. However, the cautious pace of even these limited increases is dependent on a reasonable orderly Brexit.

8.7.3 From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crises, emerging market developments and sharp changes in investor sentiments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, and MPC decisions, will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geographical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be dependent on economic and political developments.

8.8 Investment and Borrowing Rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years;

- Borrowing interest rates have been volatile so far in 2018/19 and have increased modestly since the summer. 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 to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and / or the refinancing of maturing debt; and

- There will remain a cost to carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

8.9 Borrowing Strategy

8.9.1 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 increase over the next few years, consideration will also 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.

8.9.2 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 2019/20 treasury operations. The Head of Finance 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.

8.10 Policy on borrowing in advance of need

8.10.1 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.

8.11 Debt Rescheduling

8.11.1 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 2019/20 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.

8.12 Municipal Bonds Agency

8.12.1 It is possible that the Municipal Bonds Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Authority may make use of this new source of borrowing as and when appropriate.

8.13 Annual Investment Strategy

8.13.1 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).

8.13.2 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 appendix E 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 in Appendix E;

7 Transaction limits are set for each type of investment in Appendix E;

8 This Authority will set a limit for the amount of 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 As a result in the change in accounting standards for 2018/19 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. MHCLG recently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments. The consultation closed in September and MHCLG released an update on 8 November 2018 saying that the proposed initial three-year override would be extended to five years. The Statutory Instrument was laid before Parliament on 23 November 2018 and comes into force on 19 December 2018.

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.

8.14 Investment Strategy

8.14.1 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.

<u>Investment returns expectation</u>

Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

Table 14: Bank Rate Forecast for Financial Year Ends

Year End (March)	Bank Rate Forecast (%)
2018/19	0.75
2019/20	1.00
2020/21	1.50
2021/22	2.00

The suggested budgeted investment earnings rate for returns on investments placed for periods up to about three months during each financial year are as follows:

Table 15: Budgeted Investment earnings rate

Year	Rate (%)
2018/19	0.75
2019/20	1.00
2020/21	1.50
2021/22	1.75
2022/23	1.75
2023/24	2.00

- The overall balance of risks to economic growth in the UK is probably neutral.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

The Strategy for 2018/19 agreed on 15 February 2018 was set against a background of uncertainty, and a prudent approach was taken with nearly all investments being made on a short-term basis; in the current economic climate, it is essential that a prudent approach is maintained. 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.

8.15 Creditworthiness Policy

8.15.1 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.

8.16 UK Banks – ring fencing

8.16.1 The largest UK banks are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1 January 2019. This is known as ring-fencing. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and small and medium-sized enterprise (SME) deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day to day core transactions, whilst more complex and riskier activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure than an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Authority will continue to assess the new formed entities in the same way that it does others and those with sufficiently high ratings, will be considered for investment purposes.

8.17 Non-Treasury Investments

8.17.1 In February 2018 MHCLG published revised "Statutory guidance on Local Government Investments". The definition of an investment covers all of 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.

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.

The Authority will ensure that its investments are covered in the investment strategy and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The Authority will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

At 31 March 2018 the Authority held the following investments on its balance sheet:

Equity
Newcastle Airport Holding Company Ltd £10.728m
North Tyneside Trading Company £2.980m
Kier North Tyneside Limited £0m (£200)
LIFT Co £0m (£11)

<u>Loans</u>
High Point View £1.873m
Aurora Properties (Sale) Ltd £0.978m
Sub ordinated debt – Dudley and Shiremoor JSC £0.160m
Sub ordinated debt – Whitley Bay JSC £0.110m

In terms of the equity investments:

- 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 £2.474m, relating to investment in affordable homes in line with the Cabinet's priorities using section 106 funding. The second, amounting to £0.506m, relating investment in Aurora Properties (Sale) Ltd for the provision of housing for sale on the open market.

In terms of the loans:

- High Point View – the total value of the loan agreed for the development of housing on the site was £2.800m. 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.

The current 2018/19 and proposed 2019-2023 Capital Investment Plan includes further planned investment in the Trading Company of £13.091m (which includes £3.242m section 106).

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 (2019-2023), income from these investments is expected to be in the region of £1.000m from staff recharges, interest and dividends.

A training session will be provided by Link Asset Services, in February 2019, to all members involved in the investment decision-making process.

9. Response to the Overview, Scrutiny and Policy Development Committee Recommendations

9.1 Summary

9.1.1 This section of the document proposes how to consider responding to any recommendations made by the Overview, Scrutiny and Policy Development Committee following its scrutiny and challenge of the 2019-2023 Financial Planning and Budget process.

9.1.2 The Budget Sub-group of Overview, Scrutiny and Policy Development Committee has received 2 presentations and updates to allow consideration of Cabinets initial Budget proposals. This is in line with the statutory and constitutional requirements for preparing the annual Budget.

9.1.3 The Cabinet must formally respond to any recommendations made by the Overview, Scrutiny and Policy Development Committee in considering its final Budget proposals. It is therefore proposed that Cabinet consider any recommendations in relation to the General Fund Budget, the 2019-2023 Capital Investment Plan and the Treasury Management Statement and Annual Investment Strategy for 2019/20 at this meeting of 21 January 2019 prior to approving this report.

9.1.4 The meeting of the Overview, Scrutiny and Policy Committee on the 14 January 2019 considered a report by the Budget sub-group in relation to the initial Budget proposals for 2019/20. The Budget sub-group met on 13 December 2018, where the Head of Resources and Senior Officers presented the 2019/20 Business Cases for:

a. Ready for School;
b. Ready for Working Life;
c. Cared For;
d. Great Place
e. Maximising Resources
f. Fit for Purpose
g. HRA
h. Budget Engagement
i. Capital Investment Plan

9.1.5 The following Cabinet Members were in also in attendance to provide further insight if/when required.

Councillor B Pickard
Councillor Ray Glindon

9.2 Budget Sub Group Considerations

9.2.1 The group stated that following recent years where it had raised its concerns to the late provision of budget information to conduct proper scrutiny. It was pleased and acknowledged that its concerns had been acted upon this year and Budget information and Business Cases had been supplied within more reasonable time frame. It also acknowledges the efforts of staff to provide the most up to date information available to very tight deadlines.

9.2.2 The group was however disappointed that the Local Government Finance Settlement that had been expected to be provided to the Authority on the 6 December 2018 had not been received due to delays with Central Government.

9.2.3 The group was encouraged that it had been confirmed that the North of Tyne Combined Authority's (NoTCA) expression of interest to become a 75% Business Rate Retention pilot had been successful for 2019/20.

9.2.4 This means that North Tyneside will be part of the pooling arrangements for the North of Tyne, where the key feature of becoming a 75% Business Rate pilot was that business rates income above 49% retention arrangements would be pooled across the pilot NTCA area. Although retaining the additional 25% business rate would not have a direct impact on the setting of the budget for 2019/20 it could potentially benefit North Tyneside through NoTCA agreed projects.

9.2.5 The group recognised that the delivery of the proposals and financial savings have some impact on the size and shape of the workforce. The group acknowledged that there had been hard decisions taken in the past that had made this year's budget setting although with some job losses, less than previous years due to prudent management.

9.2.6 The group was reassured that the Council's Restructure and Redundancy Procedure would be used to try to prevent any compulsory job losses and the Authority had continued to seek expressions of interest for voluntary redundancy.

9.2.7 The group was encouraged that the Authority was seen as a deliverer of exemplar services and was using its expertise to both generate more income from other Local Authorities and possibly more importantly aid other authorities to provide quality of services for local people. It would encourage the Authority to investigate further where mutual beneficial cross Authority work can be undertaken.

9.2.8 The group also recognised and acknowledged that making recommendations to use reserves to maintain the budget could question the financial sustainability of the Authority. It acknowledged that full Council was given information at its November 2018 meeting where the Cabinet Member for Finance provided information to explain the Authority's Strategic Reserve and Change Reserve, explaining that the Strategic Reserve is there to manage risks identified by the Authority in delivering its budget and not available to supplement the budget.

9.2.9 There were no recommendations raised by the group in respect of General Fund Budget at its meeting held on 14 January 2019.

9.2.10 A further meeting of the Overview, Scrutiny and Policy Development Committee is scheduled to take place on 22 January 2019 where implications of this report will be considered. Any recommendations made at this meeting that may have an impact on the Final Budget proposals will be considered by Cabinet on 28 January 2019.

10. Provisional Statement to Council by the Chief Finance Officer

10.1.1 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, 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 CIPFA's guidance 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 21 February 2019, when all outstanding information should be available.

Robustness of Estimates

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 2019-2023 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 2017/18 Statement of Accounts, presented to Council on 26 July 2018;
- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority; and
- The outcome of the 2016-2020 Local Government Finance Settlement and the Autumn Statement 2018, which was published on 29 October 2018, and the implications for North Tyneside Council.

The level of contingencies currently remains at £4.616m as pressure, as these are initial proposals which will be finalised by Cabinet once consultation is concluded and the final Settlement known.

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

The Cabinet is aware it must keep under review its Medium-Term Financial Strategy and four-year Financial Plan, in the context of the 2018-2020 ‘Our North Tyneside’ Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2019/20 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.

10.2.1 Capital Strategy

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 2019-2023 Capital 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 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.

10.3.1 Adequacy of Financial Reserves

General Fund

The 2019-2023 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. This represents a revision to the current Reserves and Balances Policy due to increased risks associated with managing increasing cost and demand pressures. Any unplanned use of the Strategic Reserve over the 2019-2023 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 16 below shows the reserves as at the 31 March 2018 and the projected reserve levels over the period of the Financial Plan:

Table 16: Reserves and Balances as at 31 March 2018 and from 2019/20-2022/23

Reserves & Balances	Projected Opening Balances				
	2018/19 £000s	**2019/20 £000s**	**2020/21 £000s**	**2021/22 £000s**	**2022/23 £000s**
Reserves					
General Fund Ringfenced	26.617	21.061	22.453	23.894	24.629
General Fund Unringfenced	18.492	17.460	16.960	16.460	15.960
General Fund Grants	2.765	1.268	1.188	1.108	1.028
HRA	22.821	15.965	16.757	17.601	18.395
Reserves Sub Total	**70.695**	**55.754**	**57.358**	**59.063**	**60.012**
Balances					
General Fund	6.804	6.804	6.804	6.804	6.804
Schools	3.357	3.357	3.357	3.357	3.357
HRA	6.083	6.203	3.872	2.730	2.973
Balances Sub Total	**16.244**	**16.364**	**14.033**	**12.891**	**13.134**
Grand Total Reserves & Balances	**86.939**	**72.118**	**71.391**	**71.954**	**73.146**

<u>Housing Revenue Account</u>

Table 17 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 17: 2019–2023 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
Opening Reserve Balance	(6.083)	(6.203)	(3.872)	(2.730)	(2.973)
<u>Add</u>:					
Original Contributions (to) / from balances	1.969	1.969	2.331	1.142	(0.243)
Change in contributions (to) / from Balances	(2.089)	0.362	(1.189)	(1.385)	0.371
Predicted Reserve Balance Carried Forward	**(6.203)**	**(3.872)**	**(2.730)**	**(2.973)**	**(2.845)**

Guidance on Local Authority Reserves and Balances is given in Accounting Bulletin LAAP (Local Authority Accounting Practice) 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 2019/20 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 2019-2023 Financial Plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long-term reliance on reserves.

11. Overall Financial Risk Assessment

11.1.1 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.

Key Financial Risks

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 18: 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 Council 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 Efficiency Programme projects which are in varying stages of delivery. This spans all service redesign projects (Ready for School, Ready for Work and Life; Cared For, Safeguarded and Healthy; and a Great Place to Live, Work and Visit) plus the Maximising Resources and Fit For Purpose projects. Heads of Service have ownership for delivering the projects. Monthly Programme Board meetings via SLT take place which help ensure that there is visibility and accountability. It also enables reporting of progress against the plans. The agreed Efficiency Statement secures the Revenue Support Grant (RSG) (subject to Central Government Change) and giving a degree of certainty for the next year.
There is a risk that the assumptions that have been made based on the indicative	There is flexibility within the Efficiency Programme which will allow the

settlement up to and including 2022/23 may be wrong, resulting in changes to the current targeted savings by 2022/23, for the General fund and for the HRA, which will be considered by Cabinet in January 2019.	Authority to reconfigure if the assumptions that have been made prove to be incorrect. The Authority work closely with national, regional and sub-regional financial networks to help ensure that the Authority is informed and aware of any national developments. Being involved in the consultation process enables any issues or concerns specific to NTC to be highlighted before final decisions are made. Development and acceptance of the Efficiency Plan has secured the Revenue Support Grant (RSG) (subject to Central Government Change) which gives a degree of certainty for the next year.
There is a risk that, because of financial pressures within the Clinical Commissioning Group (CCG), the Council 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 2019/20 and a Section 75 legal agreement is being drawn up on this basis. The Authority remains in dialogue with the CCG over its proposed reduction in mental health funding.
There is a risk that not all growth pressures have been identified in the 2019/20 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.
There is a risk that specific factors arising during 2018/19 have not been fully taken into account when preparing the 2019/20 Budget.	The 2018/19 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures factors arising during the year are highlighted.
There is a risk that the in-year pressures being reported through the 2018/19	As at 30 November 2018, a pressure of £2.169m was reported against the

financial management process impact on the deliverability of the 2019/20 budget.	2018/19 budget. All services continue to develop and deliver actions to mitigate these financial pressures and expect the out-turn forecast to improve through the year. In addition, non-essential spend continues to be minimised along with a detailed review of demand led projections in order to reduce the over-commitment. Progress will be monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team.
There is a risk that the contingency provision included in the Financial Plan for 2019/20 is insufficient.	The review of the base budget and the reflection of the 2018/19 pressures into 2019/20 are considered to be such that no further specific contingency is required.
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 level of capital receipts included in the Budget proposals are not deliverable.	Capital receipts of £4.287m Housing are included in the financing of the 2019/20 Capital Investment Plan. There are a number of actions being progressed that are expected to realise this requirement.
There is a risk that the Council 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; reducing social housing rents by 1% each year for the 4 years from April 2016. This has the potential financial impact of reducing rental income by over £440m over a 30-year period.	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 Council and its partners will support its residents to better manage their finances and maximise their income. North Tyneside Council 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 are financial risks attached to the insourcing of the Kier North Tyneside Joint Venture project both in terms of ensuring efficient and effective mobilisation plans are put in place, that all the requisite assets and support systems are secured to achieve the desired outcomes, and that monitoring takes place to ensure performance improvements and value for money are adequately captured moving forward.	Dedicated project resources have been identified to ensure a full project plan is developed and implemented, and a governance process created to wrap around the project and ensure all target timescales and milestones are being achieved. This will include developing a Benefits Realisation framework to capture the efficiencies identified within the project.
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 Head Teachers 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 to loss of revenue grant and a potential loss of opportunities, i.e. capital grant and other revenue sources.	The potential impact from leaving the EU has been included in the Council'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 Council is a member of various regional groups which will help it keep up to speed on progress and have the opportunity to exert any influence that the Council can. It is inevitable that there will be some impact from the decision to leave to EU, the challenge is to manage the impact where possible.