

North Tyneside Council Report to Cabinet 26 November 2018

Item 6(b)

2018/19 Financial Management
Report to 30 Sept 2018

Portfolios: Elected Mayor

Finance and Resources

Cabinet Member: Norma Redfearn

**Councillor Ray
Glindon**

Report from: Resources

Responsible Officer: Janice Gillespie, Head of Resources Tel: 643 5701

Wards affected: All

PART 1

1.1 Executive Summary:

This report is the third monitoring report to Cabinet on the 2018/19 financial position. The report brings together financial and relevant performance information with the intention of explaining the current financial position in the context of the policy priorities in the Our North Tyneside Plan. It provides an indication of the potential revenue and capital position of the Authority at 31 March 2019 and reflects known pressures at this time. It is anticipated that the outturn forecast will improve over the course of the financial year as planned remedial actions continue to have an impact.

At this halfway stage in the financial year, a number of sessions have already been held with Cabinet Members and senior management to give early 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 and the Creating a Brighter Future Programme. Cabinet have also had sessions with senior management to discuss the pressures and potential remedial actions. Like most local authorities, North Tyneside Council continues to face financial pressures which were reported in the 2017/18 Outturn Report and continue into 2018/19.

The report covers:

- The forecast outturn of the Authority's General Fund and HRA revenue budget including details of where the Authority continues to manage financial pressures and what management mitigations are in place where issues have been identified;
- An update on the delivery of 2018/19 approved budget savings plans;
- An update on 2018/19 schools budgets;
- An update on delivery of the Capital Investment Plan including details of variations and reprogramming that is recommended for approval;
- An update on the delivery of the Treasury Management Strategy;
- An update on the Prudential Indicators;

- An update on performance of the Collection Fund; and,
- An update and overview of current performance against the policy priorities in the 2018-2020 Our North Tyneside Council Plan as context for the financial position.

1.2 Recommendations:

It is recommended that Cabinet:

- (a) note the forecast budget monitoring position for the General Fund, Housing Revenue Account (HRA) and Schools' Finance as at 30 September 2018 (Annex Sections 1 to 5);
- (b) approves the receipt of £0.019m new revenue grants;
- (c) note the Authority's Investment Plan spend of £28.849m to 30 September 2018 and the financing of the Plan to the end of the year (Annex Section 6);
- (d) approve credit variations of £5.226m and re-programming of £0.740m within the 2018 - 2021 Investment Plan (Annex Section 6);
- (e) note the performance of the Treasury Management Strategy (Annex Section 7);
- (f) note the performance against the Prudential Indicators (Annex Section 8); and
- (g) note the performance of the Collection Fund (Annex Section 9).

1.3 Forward Plan:

Twenty eight days' notice of this report has been given and it first appeared on the Forward Plan that was published on 5 October 2018.

1.4 Authority plan and policy framework:

The budget is a key strand of the Authority's Budget and Policy Framework.

1.5 Information:

1.5.1 Financial Position

This report is the third monitoring report presented to Members on the Authority's 2018/19 financial position. It provides an update on the expected revenue and capital financial position of the Authority as at 31 March 2019.

The report covers:

- The forecast outturn of the Authority's General Fund and HRA revenue budget including management mitigations where issues have been identified.
- The delivery of 2018/19 approved budget savings plans.
- An update on the Capital Investment Plan, including details of variations and re-programming, that are recommended for approval.

General Fund Revenue Account:

The budget for 2018/19 was approved by full Council at its meeting on the 15 February 2018. The net General Fund revenue budget was set at £154.726m including £10.143m of savings to be achieved.

The forecast outturn has significantly improved since the figures reported to Cabinet in May of £5.593m and is now estimated at £3.599m against the approved net budget. The improvement has mainly been achieved through improved CBF savings, reduced interest charges and the backdated refund of rates relating to Segedunum Museum. However there still continues to be pressure in Children's Services of £4.193m and Adult Services of £2.710m, partly mitigated by the contingency balances that were created as part of the 2018/19 Budget setting process.

Included in this projection is £3.249m of pressures in Corporate Parenting and Placements, £2.771m in Wellbeing and Assessment and £0.835m in Disability & Mental Health. These areas are being reported across England as pressure points with people living longer with more complex needs and the number of children being assessed for entry to the care system increasing dramatically. Within the Authority the drivers for these pressures continue from 2017/18 and arise from:

- Continued pressure in Adult and Children's Social Care Services due to increased life expectancy meaning people with learning and physical disabilities are living longer and often with multiple complex issues. Although the service manages demand as effectively as possible to ensure that the most intensive services are targeted at those with the 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;
- Progress has been made with the Clinical Commissioning Group (CCG) in terms of securing contributions for clients with health needs and to support social care. We will continue to work with the CCG to achieve agreed service delivery within the available budget envelope;
- Negotiations with care providers to assess the impact of the National Living Wage and the consequential impact on our commissioning costs are at an early stage for 2018/19; and
- The timing of delivery of some aspects of the Creating a Brighter Future Programme to the extent that achievement of some savings may not yet be achieved. We are currently seeing £7.065m of the savings (63%) targets being delivered and this continues to improve.

Service areas have continued to develop further actions to mitigate identified financial pressures. It is anticipated that the outturn forecast will continue to improve over the course of the financial year as planned remedial actions impact on both expenditure and income.

A new grant of £1.031m announced in October 2018 to address NHS winter pressures is not yet shown within the position pending discussion with Cabinet members and the Authority's NHS partners regarding its use.

Housing Revenue Account (HRA):

The HRA continues to perform extremely well against original plans and is forecast to have year-end balances at 31 March 2019 of £5.944m, which are £3.274m higher than the budget which was set at £2.670m. The higher than forecast balances are partly as a result of higher opening balances due to the impact of the previous year's financial performance (£1.443m) but there is also an in-year estimated underspend of (£1.831m), against an in-year budget of £1.970m, due to additional income of (£0.693m) and a reduction in forecast expenditure of £1.138m, mainly due to the progress of the Construction Options Project (£0.758m).

Universal Credit was fully implemented across North Tyneside on 2 May 2018. As of September 2018, 1,062 North Tyneside Homes tenants have moved on to Universal Credit and a team is working proactively with tenants to minimise arrears. This position will be closely monitored as the year progresses to identify any adverse impacts on the budget position.

In the October spending review, the Government decided to remove the HRA borrowing cap. It will now 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 already applies to the rest of the Authority's borrowing strategy. This will need to be assessed against the levels of rental income that can be raised to support such borrowing and against a background of no guaranteed additional grants to support the build, the availability of suitable sites, and no proposed cessation of the RTB scheme or changes to the levels of discounts available to tenants.

School Funding:

The Annex to this report includes an update in respect of work in progress with regard to school funding (Section 4). Beacon Hill school is no longer requesting deficit approval and the remaining nine schools that sought it have been given approval for 2018/19 (ten schools in 2017/18). The first financial monitoring figures have been prepared for those schools with deficit budgets. This initial position indicates that all of those schools already expect a small improvement on the initial deficit funding approval figures.

Investment Plan:

To the end of September 2018 spend of £28.87m had been incurred which represents 35.6% of the revised plan. This is the highest percentage and the highest actual spend reported in September Budget Monitoring reports for the last 5 years and reflects continued improvement in delivery against the phased plan

The 2018-2021 Investment Plan, as adjusted for proposed reprogramming, totals £173.281m (£82.630m 2018/19) and is detailed in the Annex report, table 6.7.1. The Annex to this report also sets out in Section 6 delivery progress to date, planned delivery for 2018/19, reprofiling of £0.740m spend from 2018/19 into 2019/20 & 2020/21 and credit variations of £5.226m (£0.974m in 2018/19). The revised Investment plan stands at £82.630m for 2018/19

New Revenue Grants:

£0.019m of new revenue grants have been received during August and September 2018, further details are set out below:-

Service	Grant Provider	Grant	Purpose	2018/19 value £m
Commissioning and Investment	Department for Education	Local Service Support Grant	Extended Rights for Free Home to School Travel (increase in funding allocation from £13,000 to £16,300)	0.003
Housing Revenue Account	Police and Crime Commissioner for Northumbria	Supporting Victims Fund	To support and strengthen the overall offer of victim services in Northumbria	0.005
Health, Education, Care and Safeguarding	Education and Skills Funding Agency	Key Stage 2 Moderation and Key Stage 1 Phonics Funding	Statutory duties for KS2 Teacher Assessment and monitoring of the phonics screening check.	0.011
Total				0.019

1.5.2 Performance against Council Plan

The 2018-2020 Our North Tyneside Plan (Council Plan) sets out the overall vision and policy context within which the Financial Plan and Budget are set. The 2018-2020 Our North Tyneside Plan has three key themes – Our People, Our Places and Our Economy. For each one there is a set of policy outcomes that the Authority is seeking to deliver as set out below.

Our People will:

- Be listened to so that their experience helps the Council work better for residents.
- Be ready for school – giving our children and their families the best start in life.
- Be ready for work and life – with the skills and abilities to achieve their full potential, economic independence and meet the needs of local businesses.
- Be healthy and well – with the information, skills and opportunities to maintain and improve their health, well-being and independence.
- Be cared for, protected and supported if they become vulnerable.
- 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.
- Be a thriving place for choice of visitors through the promotion of our award winning parks, beaches, festivals and seasonal activities.

- Offer a good choice of quality housing appropriate to need, including affordable homes.
- 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 and safe environment.
- Have an effective transport and physical infrastructure - including our roads, cycle ways, pavements, street lighting, drainage and public transport.
- Continue to regenerate Wallsend and Whitley Bay while ambitious plans will be developed for North Shields, Forest Hall and Killingworth.

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 by ensuring the right skills and conditions are in place to support investment, and create and sustain and sustain new high quality jobs and apprenticeships for working age people.
- Continue to support investment in our business parks, units and Town Centres.

The Authority has plans in place to deliver all elements of the Council Plan and performance against these plans is carefully monitored. The area under most financial pressure is Health Education Care and Safeguarding.

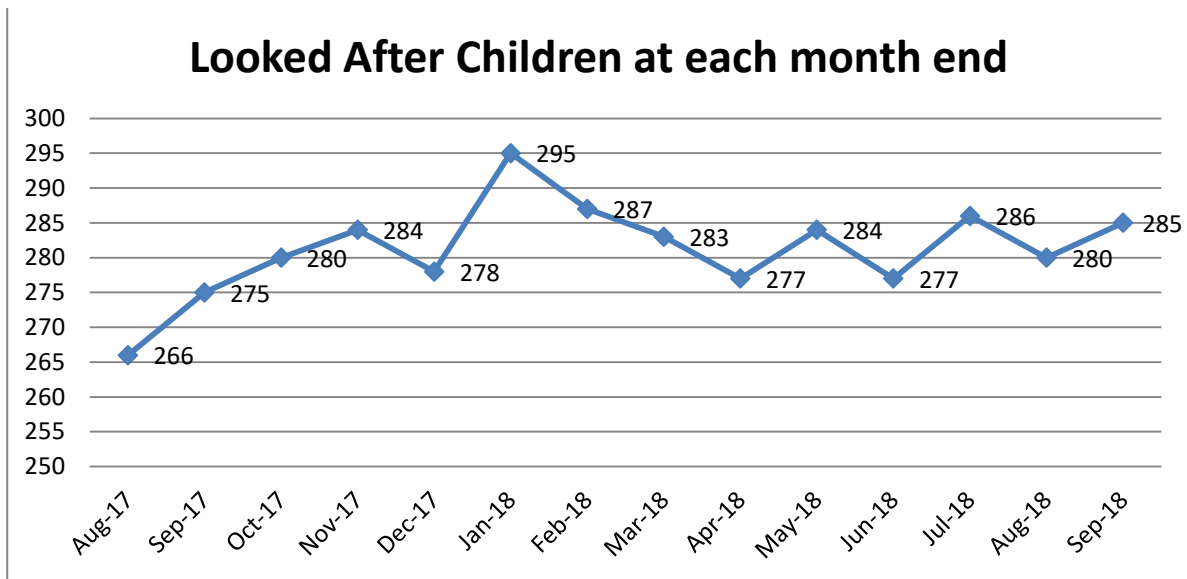
In Adult Social Care, the focus remains on providing support which allows people to live independent lives by providing preventative services and keeping people living at home for as long as possible. There is an increase in short term placements to residential care and Reablement in-house provision as a result of a lack of capacity in the local domiciliary care market and this is driving some of the cost pressure within Adult Social Care.

Need increases with age. According to National Audit Office using data from Health Survey England 2016, people aged 80 were twice as likely to need help with activities of daily living as those aged between 65 and 69. According to the Office for National statistics in 1997, around one in every six people (15.9%) were aged 65 years and over, increasing to one in every five people (18.2%) in 2017 and is projected to reach around one in every four people (24%) by 2037.

In Children's Services, good progress continues to be made on engaging with children in the early years of life to ensure that they are ready for school. Safeguarding vulnerable children and maximising their educational attainment remain key priorities. Department for Education figures show that the number of children in care nationally is rising at its fastest rate in five years. Nationally there were 72,670 children in care in the 12 months to the end of March 2017, compared with 70,440 the year before and 69,480 in 2015. In addition, the proportion of children in care had at that point risen to the highest level on record.

The Authority is forecasting a pressure of £3.249m in Corporate Parenting and Placements (2017/18, £3.817m). The new model for children has been designed in part to address these financial pressures and more details are set out in sections 2 and 3 of the Annex to this report.

North Tyneside Looked After Children comparators at each month end

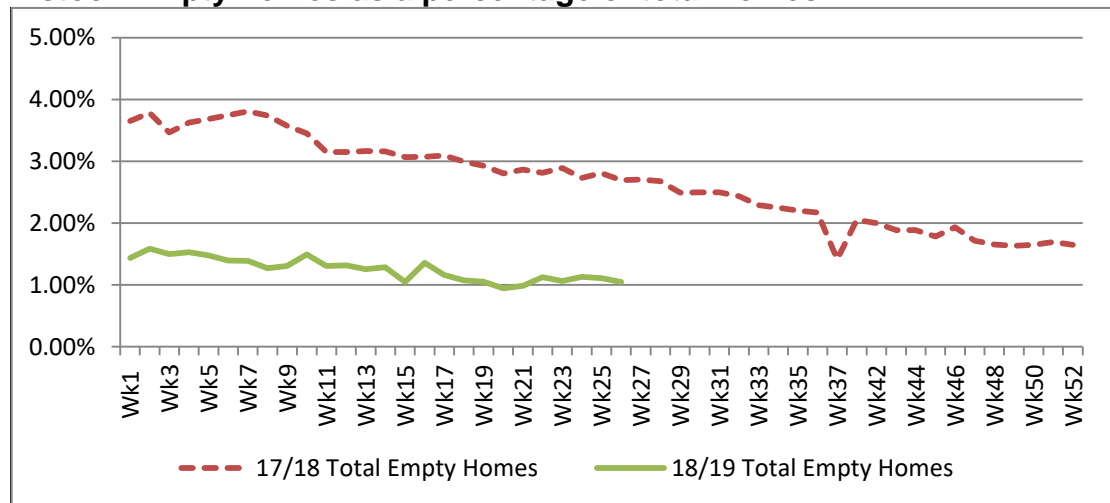


Although the number of children’s placements has not increased relative to 2017/18, the placement mix continues to change with more children receiving more costly bespoke individual placements, as it is often not suitable to place young people with complex needs in group environments. The main pressure results from residential placements where 6% of the bed nights provided account for one third of the overall placement cost (35%). The average cost of a residential care placement has increased to £0.226m per annum compared to £0.207m per annum at the same point in 2017/18, an increase of 9.2% reflecting the increasing complexity of needs of the young people in our care.

1.5.3 HRA

In terms of the impact of empty homes on the financial picture to date, rates are below 2017/18 levels overall so far this year and this continues the trend over the last couple of years for empty home rates following the completion of the North Tyneside Living Schemes. Numbers of empty homes have stabilised at circa one per cent of all stock following substantial improvements in both in sheltered and General Needs stock.

All stock Empty homes as a percentage of total homes



1.5.4 Implications for 2018/19 and Following Years

The Hudson Report

A review was commissioned in April by the former Secretary of State, in response to issues in relation to the Department's operation of the business rates retention system. A wide range of recommendations have been made in the Hudson report and the Government have confirmed that they will be accepting all of the recommendations made.

The recommendation that has received most publicity has been that in future the Provisional Local Government Settlement should be published on or around the 5th of December each year and that the Final Settlement should be announced no later than the end of January. In responding to this recommendation, the government confirmed it is aiming for the Provisional Settlement for 2019/20 to be published on 6th December 2018.

1.5.5 Local position on future years planning

This is an important report not only because it gives the financial position of the mid-point of this financial year, but also it informs the starting point for the financial planning process which is underway for 2019/20 and following years. As such Cabinet need to be aware of the main implications of the report for those future years' budgets. The main issues identified in 2018/19 that will need to be considered in forward planning are as follows:

- Living Wage: we continue to see significant pressure with regard to Social Care budgets arising from additional costs that contracted providers are seeking from the authority;
- CBF programme; consideration needs to be given to the impact of any CBF savings not being achieved;
- Demand led pressures in areas such as Looked After Children and Adult Social Care; and,
- Whilst currently there is no planned use of reserves, consideration needs to be given to the potential impact of a call on the Strategic Reserve should there be no improvement in the General Fund revenue position for this financial year. There is also a significant risk and uncertainty in balancing future budgets whilst we await the Settlement figures.

1.6 Decision options:

The following decision options are available for consideration by Cabinet:

Option 1

Cabinet may approve the recommendations at paragraph 1.2 of this report.

Options 2

Cabinet may decide not to approve to recommendations at paragraph 1.2 of this report.

1.7 Reasons for recommended option:

Option 1 is recommended for the following reasons:

Cabinet is recommended to agree the proposals set out in section 1.2 of this report as it is important that Cabinet continues to monitor performance against the Budget, especially given the current level of financial pressures faced by the public sector.

1.8 Appendices:

Annex : Financial Management Report to 30 Sept 2018
Appendix 1: 2018-2021 Investment Plan

1.9 Contact officers:

Janice Gillespie – Corporate Finance matters – Tel. (0191) 643 5701
Claire Emmerson – Corporate Finance matters – Tel. (0191) 643 8109
Alison Campbell – Senior Business Partner – Tel. (0191) 643 7038
David Dunford – Business Partner – Tel. (0191) 643 7027
Cathy Davison – Investment Plan matters- Tel. (0191) 643 5727
Margaret Keith –Treasury Management matters – Tel. (0191) 643 5747
Darrell Campbell – Housing Revenue Account matters – Tel. (0191) 643 7052

1.10 Background information:

The following background papers and research reports have been used in the compilation of this report and are available at the offices of the author:

- (a) Revenue budget 2018/19
<https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/NTC%20Revenue%20Budget%20201819.pdf>
- (b) Investment Plan 2018-21
<https://my.northtyneside.gov.uk/sites/default/files/meeting/related-documents/1a.%20Copy%20of%20Appendix%20A%28i%29%20Strategic%20Investment%20Plan.pdf>
- (c) Reserves and Balances Policy (Appendix G)
<https://my.northtyneside.gov.uk/sites/default/files/meeting/related-documents/cab%20report%20for%2024%2001%202018%20%20item%204.pdf>

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

As this is a financial report, implications are covered in the body of the report. This report will also be presented to the Authority's Finance Sub-Committee at its meeting on 27 November 2018.

2.2 Legal

The Authority has a duty to ensure it can deliver a balanced budget. The Local Government Act 2003 imposes a duty on an authority to monitor its budgets during the year and consider what action to take if a potential deterioration is identified.

2.3 Consultation/community engagement

2.3.1 Internal Consultation

Internal consultation has taken place with the Cabinet Member for Finance and Resources, the Elected Mayor, Cabinet Members, the Senior Leadership Team and Senior Finance Officers.

2.3.2 External Consultation / Engagement

The 2018/19 budget was completed after widespread consultation and community engagement in line with the Authority's approved Budget Engagement Strategy.

2.4 Human rights

The proposals within this report do not have direct implications in respect of the Human Rights Act 1998.

2.5 Equalities and diversity

There are no direct equalities and diversity implications arising from this report.

2.6 Risk management

Potential future financial pressures against the Authority are covered in this report and registered through the Authority's risk management process.

2.7 Crime and disorder

There are no direct crime and disorder implications arising from this report.

2.8 Environment and sustainability

There are no direct environmental and sustainability implications arising from this report.

PART 3 - SIGN OFF

- Acting Chief Executive X
- Head of Service X
- Mayor/Cabinet Member(s) X
- Chief Finance Officer X
- Monitoring Officer X
- Head of Corporate Strategy
And Customer Service X