

**North Tyneside Council  
Report to Cabinet  
Date: 10 September 2012**

**ITEM 6(b)**

**Title: 2013-2015 Financial Planning and Budget Process, incorporating the associated Engagement Strategy**

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<b>Portfolio(s):</b> Elected Mayor Finance	<b>Cabinet Member(s):</b> Mrs Linda Arkley Cllr Judith Wallace
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**Report from Directorate:** Senior Leadership Team

**Report Author:** Fiona Rooney, Strategic Director of Finance and Resources      **Tel:** 643 5724

**Wards affected:** All

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**PART 1**

**1.1 Purpose:**

The purpose of this report is two-fold:

- (a) To seek approval from Cabinet for the proposed 2013-2015 Financial Planning and Budget Process, which incorporates the key decision milestones and dates as set out at Appendix A to this report; and,
- (b) To approve the 2013/14 Budget Engagement Strategy as part of the 2013-2015 Financial Planning and Budget Process.

**2 Recommendation(s):**

Cabinet is recommended to:

- (a) Approve the proposed outline 2013-2015 Financial Planning and Budget Process, which incorporates the key decision milestones and dates as set out at Appendix A to this report; and,
- (b) Approve the 2013/14 Budget Engagement Strategy as part of the 2013-2015 Financial Planning and Budget Process.

**1.3 Forward plan:**

This report was included in the Forward Plan for the period from 1 September 2012 to 31 December 2012.

#### **1.4 Council plan and policy framework:**

- 1.4.1 The Budget and Policy Framework Procedure Rules are set out in Part 4.7 of the Council's Constitution. The Budget is guided by paragraph 4.7.3 covering the process for the preparation, consideration and final approval of the Council's budget. The constitutional requirements for preparing, considering and approving the Budget drive the timetable for the Financial Planning and Budget Process.
- 1.4.2 The development of the Budget will follow the same timetable as in previous years. The timetable is set out at Appendix A to this report. The Financial Planning and Budget process is a fundamental part of the overall governance and assurance framework of the Council. This in turn provides assurance that is considered as part of preparing the Annual Governance Statement to Council each year.

#### **1.5 Information**

##### **Section 1 – Financial Planning and Budget Process for 2013-2015**

- 1.5.1 In order to meet the significant and challenging levels of savings introduced by the four year Spending Review, North Tyneside Council introduced its new Service and Spending Review Process for 2011/12. This process enabled the Council to continue to deliver effective and efficient services to the residents of North Tyneside, while at the same time achieving the required levels of savings.
- 1.5.2 The Council has already made, and has plans in place to make significant efficiency savings. The agreed Council Budgets for 2011/12 and 2012/13 have included savings equivalent to 10% of the North Tyneside Council net budget for each of these two years.
- 1.5.3 At this stage we are looking at a two year financial planning process, in line with the planning horizon of the current Spending Review. A new, and what is expected to be, a 2 year Local Government Finance Settlement will be in place from 2013/14 onwards. This will be based on a revised needs-based Formula Grant system, the details and funding for which have yet to be confirmed. Combined with this, the 1 April 2013 sees fundamental local government finance changes in relation to Business Rates and Council Tax, as a result of 3 main developments:
- Local Retention of Business Rates;
  - Localisation of Council Tax Benefit; and,
  - Technical changes to Council Tax.
- 1.5.4 The scale of these changes, and the fact that a substantial amount of detail has yet to be released, makes the accurate forward projection of financial resources inherently difficult at the present time.

1.5.5 In addition, there are other major challenges which need to be managed including:

- Local Government Pension Scheme reforms;
- Transfer of public health responsibilities; and,
- School Funding reforms.

1.5.6 The potential scale of the future financial and service challenges facing Local Government have already been indicated through the current Spending Review, with further information contained within the 2011 Autumn Statement and Budget 2012. The 2011 Autumn Statement outlined that the public sector will continue to see significant reductions in spending until at least 2017, as the Government moved back its deadline to remove the structural Budget deficit from 2015 to 2017. Budget 2012 forecasts showed a worsening of the position on public sector spending for 2015-2017 since the Autumn Statement.

1.5.7 The exact implications for local authorities will be dependent on the extent to which local government will be required to contribute to the overall public sector spending reductions for the period from 2015-2017. In large part this depends on the choice made between welfare spending and public service spending. Budget 2012 suggested a welfare cut of £8 billion (in current terms) which would leave the same balance between welfare and public services as over this Spending Review period. Using this assumption, Local Government could expect to see spending reductions equivalent to the current Spending Review. With no welfare reductions and Health spending still protected, then the rest of public service spending would need to fall even faster.

1.5.8 The scale of the challenges up to 2020 has also recently been highlighted by the Local Government Association (LGA). They have made an attempt to forecast the future funding position for Local Government and on the 26 June 2012 issued a publication "Funding outlook for Councils from 2010/11 to 2019/20: Preliminary Modelling". This examined the potential council funding up to 2020 based on a number of key assumptions and then sought to model this against Councils' spending between 2010/11 and 2019/20 in nine major service blocks, which are:

- Education (excluding the Dedicated Schools Grant);
- Children's social care;
- Adult social care;
- Highways, roads and transport;
- Housing (not including housing revenue account (HRA) or housing benefit);
- Culture, recreation and sport;
- Environment including waste;
- Planning and development; and,
- Central services.

1.5.9 The LGA analysis outlined their view of the overall position for each of these areas up to 2020, starting with the current baseline position, projected forward using the major cost drivers for each service and then modelled against projected efficiency savings. A key conclusion reached in relation to funding is that increasing additional social care and waste spending are likely to absorb a rising proportion of the resources available to councils. By 2020 the annual funding gap calculated by

the LGA is a 29% funding shortfall across all services, but is calculated to rise to 66% if social care and waste collection are fully funded. Furthermore, social care is predicted to account for almost half of all spending by the end of the decade.

- 1.5.10 A key point to note is that the work done by the LGA is based on their assessment of an “average” position for Local Government, and as such, the impact of the parameters on each individual council will be different to the national position.

## **Strategic Planning**

- 1.5.11 The North Tyneside Strategic Partnership’s Sustainable Community Strategy continues to provide the overarching policy direction, vision and delivery priorities for the Council. There is no intention to refresh the Council Strategic Plan this year, and Cabinet will have due regard where appropriate for the Council Strategic Plan 2012-2015 agreed at Council on 1 March 2012 which covers the period for the 2013/14 Budget.

- 1.5.12 The priorities of the Sustainable Community Strategy are:

- Regeneration;
- Quality of life;
- Best start in life; and,
- Sense of place.

- 1.5.13 The Council’s Performance Framework includes a fifth theme “21st Century Council” which relates to how we shape ourselves as an organisation and operate as a local authority.

- 1.5.14 The Council’s Performance Framework outlines progress against the Sustainable Community Strategy, the Council Strategic Plan and Budget 2012/13. The performance reporting framework includes quarterly progress reports and performance summaries relating to each of our priorities.

## **Financial Strategy**

- 1.5.15 A Financial Strategy is critical in order to ensure that the Council makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term. This financial strategy needs to link to the Sustainable Community Strategy which ultimately drives our resources. Our Budget Setting process helps the Council respond appropriately to responsibilities and duties placed upon Local Government through legislative requirements and the Government’s drive for a deliverable programme of efficiency savings.

- 1.5.16 Financial planning is of critical importance during the period of the Government’s own Spending Review and beyond, given the potential scale of future challenges noted previously. This planning is supported by the continuing need to integrate revenue, capital, asset and treasury planning, driven further by the Prudential Code requirements in relation to longer-term capital investment. In formulating the financial plan, the impact of priorities, objectives and preferred options needs to be fully evaluated.

- 1.5.17 Whilst decisions around budget-setting are approved on an annual basis, the Council must demonstrate medium-term financial and resource planning. Annual budget decisions should be taken in the context of the overall financial plan that looks at all Council services and takes into account the Government's Local Government Finance agenda.

### CEI Programme

- 1.5.18 An important element of our overall Financial Strategy is the Council's Change Efficiency and Improvement (CEI) Programme which is now, as far as possible, protecting staff jobs and service delivery by giving services opportunities to grow and explore other means of investment and job opportunities. The only way this can be achieved is to look at how services can be delivered in a different way in the future. It is structured in three themes and each theme has been allocated a savings target which has been weighted in line with the Council's priorities. The three themes are:

- Theme A – Education, Skills and Adults - Supporting adults and children to have a quality of life and achieve their ambitions.
- Theme B – Business – Changing Council Services and the way it operates to meet challenges and deliver improvements.
- Theme C – Environment – Delivering essentials for Communities and the Environment.

### **Defining our Financial Strategy**

- 1.5.19 Best practice highlights the need for medium-term planning horizons. The Council's three-year planning timeframe will assist in ensuring there is a clear demonstration of sustainability in its plans for the future. The key drivers for change and the improvement focus in resource planning continue to include the need for:

- (a) Medium term planning horizons – for workforce, assets, finance;
- (b) Financial flexibility;
- (c) Driving value for money and efficiency gains;
- (d) Joined-up performance management;
- (e) Strong financial awareness and budget holder responsibility;
- (f) Effective risk management;
- (g) More rapid accounts closure;
- (h) Continuous forecasting and in-year reporting; and,

(i) Effective use of technology.

1.5.20 The approach to resource planning for 2013-2015 will continue to concentrate on ensuring that all of the above drivers are embedded into the decision-making process for the allocation and re-direction of the Council's finite resources, financial and otherwise. In addition, there will be the annual detailed review of the current financial plan forecasts and commitments for revenue, capital investment and housing finance. The Financial Strategy will be subject to an annual review.

1.5.21 Leading on from this, the key components and principles adopted for our 2013-2015 Financial Strategy have been fully reviewed as part of this year's process and are summarised in Table 1 below:

**Table 1: Principles adopted for the 2013-2015 Financial Strategy**

Financial Themes	Principles Adopted
Council Tax	<ul style="list-style-type: none"> <li>• Provide value for money for the people of North Tyneside</li> <li>• Council tax levels that demonstrate prudence and retain stability in the Council's finances</li> <li>• Manage the 'fallout' of the 2012/13 Council Tax Freeze Grant in 2013/14</li> <li>• Council tax collection managed to secure recurrent efficiencies in the Council's collection fund</li> <li>• Ensure that the Financial implications of the Localisation of Council Tax Benefit scheme have been fully considered</li> <li>• Implications of future Welfare Reform changes on the Council are fully understood.</li> </ul>
Income Generation	<ul style="list-style-type: none"> <li>• Development of new opportunities in relation to the trading and charging powers available to local authorities including the opportunity to establish a Trading company to extend the Council's trading opportunities</li> <li>• Continue to manage income and debts to reduce the need to make provision for bad debts</li> <li>• Develop a charging policy for the Council.</li> </ul>
Revenue Expenditure & Budget Strategy	<ul style="list-style-type: none"> <li>• Annual budget resources aligned and prioritised to meet Sustainable Community Strategy objectives</li> <li>• A Reserves and Balances Policy in line with best practice that is reviewed on at least an annual basis</li> <li>• General unearmarked reserves (general balances) retained at least at a level of £6m at the end of</li> </ul>

	<p>each financial year, subject to a risk assessment as part of budget setting in each of the three years of the financial planning period</p> <ul style="list-style-type: none"> <li>• Earmarked reserves established appropriately for known and quantifiable (future) liabilities and financial risks</li> <li>• Pay and price inflation forecasts and full payroll costs built into projections <u>or</u> used as a way to target general efficiency savings across service areas</li> <li>• Continuous challenge of the base budget to secure service efficiency savings</li> <li>• Implementation of Service Plans to demonstrate how our services can achieve value for money in terms of customer satisfaction, quality of services and costs. This is driven through the CEI Programme.</li> <li>• Specific annual review of those services supported by specific grant in readiness for any further detailed Government announcement(s) in relation to grant changes, and as a direct result of the Finance Settlement</li> <li>• Where external funding is secured for a limited time period, any operational arrangements put in place must not assume that the fall-out of grant will be replaced by mainstream funding automatically</li> <li>• Reduce reliance on reserves supporting the revenue budget in the medium term</li> <li>• The Financial Strategy needs to be flexible enough to manage the changes to the Local Government finance system which will be brought about through the localisation of business rates from 1 April 2013.</li> </ul>
<p>Capital Financing and Expenditure</p>	<ul style="list-style-type: none"> <li>• Capital Strategy reflects Sustainable Community Strategy priorities and recognises available resources</li> <li>• A ten-year Capital Plan (including Public Private Partnerships / Private Finance Initiative (PPP/PFI) arrangements) in place that enhances financial and delivery certainty in relation to infrastructure investment in the borough</li> <li>• Strategic assets reviewed at least annually to maximise the potential to release value into the business for strategic re-investment</li> <li>• Prudential borrowing to support local capital investment priorities or invest to gain schemes that will secure greater revenue efficiencies, in accordance with the Council's approved Local</li> </ul>

	<p>Prudential Code</p> <ul style="list-style-type: none"> <li>• Asset management plans updated on at least an annual basis and acknowledging available budget resources</li> <li>• Continuous review of prudential borrowing and its impact on the revenue budgets.</li> </ul>
Treasury Management	<ul style="list-style-type: none"> <li>• Treasury Management Strategy to focus on delivering safe stewardship</li> <li>• Strategic options devised for managing the overall level of borrowing over the medium term.</li> </ul>
Risk Management	<ul style="list-style-type: none"> <li>• Business risk embedded in all decision-making processes of the Council</li> <li>• Budget resources aligned to reduce any material financial risks to the Council.</li> </ul>

### **Equality and Diversity Considerations**

- 1.5.22 Recent judicial reviews have highlighted the importance of ensuring that the Council pays due regard to its obligations under the Equality Act 2010 and ensures that the effects of decisions on people with protected characteristics are considered prior to any decision that may have an impact on them. In North Tyneside this means that we will continually monitor our budget setting process by using impact assessments.
- 1.5.23 Full impact assessments will be included in all proposals going forward by the end of December 2012 in order to be available to Cabinet when it further considers the Financial Plan and Budget proposals on 16 January 2013.

### **2013/14 Financial Planning and Budget Process Timetable of Key Decision Milestones**

- 1.5.24 Key aspects of the 2013/14 Financial Planning and Budget process timetable are set out at Appendix A to this report. This highlights key decision milestones in the process. This information has been supplemented by a detailed operational timetable for 2013/14.

### Governance and Assurance Framework (incorporating the Monitoring and Reporting Cycle)

- 1.5.25 The Elected Mayor and Cabinet are responsible for formulating the Council's Budget. The Cabinet Member for Finance, in close consultation with the Elected Mayor, has been nominated as the lead Cabinet Member for the overarching 2013-2015 Financial Planning and Budget Process. The Strategic Director of Finance and Resources will be the project sponsor.



## Scrutiny of the 2012-2015 Council Strategic Plan and Budget Setting process

- 1.5.26 As part of last year's process, on 9 January 2012 the Overview and Scrutiny Committee considered the report of the Budget and Council Plan Study Group on Cabinet's 2012-2015 Council Strategic Plan and Budget Setting process. On 31 January 2012, a report from the Elected Mayor was sent to all Members and Co-opted Members of the Council setting down the response to the Overview and Scrutiny Committee's recommendations. These recommendations have been considered as part of setting the framework for the 2013-2015 Financial Planning and Budget Process and will be considered further as part of the reporting later in the process.

## **Section 2 - The North Tyneside Council Budget Engagement Strategy for 2013/14**

- 1.5.27 North Tyneside Council is committed to being a resident-focused Council. Engagement with residents takes place throughout the year and information gathered during the year will be used to inform this year's budget proposals for 2013/14.
- 1.5.28 Following the approval of the Council Strategic Plan and Budget 2012/13 on 1 March 2012 reports on specific items within the Council Strategic Plan and budget have been considered at Council or Cabinet, as appropriate. Where relevant or appropriate, these reports include details of engagement. Ensuring residents' views are gathered and considered during the annual Budget Setting process is part of this ongoing programme, as we want to continue to increase the involvement of local people in decisions about the level of council tax and budget issues. The Budget Engagement Strategy sets out the approach for 2013/14.
- 1.5.29 It is proposed to have a different approach this year, to broaden the approach to get more people involved and to have a clear brand and campaign to promote the opportunity. There will still be two phases of engagement. The first phase in October will use a themed approach and all events in a specific week will focus on a theme. We will also publicise the opportunities to engage via social media to raise awareness of the consultation events and use a simple web based exercise to capture residents' views, and there will be opportunities in, for example libraries, customer service centres, shopping centres to get involved. The second phase in December will focus on providing information on Cabinet's proposals, using web based methods and other forms of engagement.
- 1.5.30 Details of the ways in which engagement will be carried out and how feedback will be provided, is set out at Appendix B to this report, and information on the themes for engagement is provided in Appendix C.

## **1.6 Decision options:**

- 1.6.1 The Council's Constitution and Budget and Policy Framework Procedure Rules set down the stages to be completed in relation to agreeing the Budget of the Council.

There are no other options available in relation to this. The Budget Engagement Strategy forms part of the 2013-2015 Financial Planning and Budget Process.

1.6.2 Cabinet is referred to the legal requirements as stated in paragraph 2.2 of this report.

**1.7 Reasons for recommended option:**

The reasons for the recommendations are mainly legal in nature, as stated in paragraphs 2.1 and 2.2 of this report.

**1.8 Appendices:**

Appendix A - Timetable of Key Milestones.

Appendix B – 2013/14 Budget Engagement Strategy.

Appendix C - 2013/14 Budget Engagement Strategy - Summary of Themed Approach

**1.9 Contact officers:**

Jon Ritchie, Head of Finance  
Tel No 643 5800

Jacqueline Laughton, Chief Executive's Office  
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Vicki Dixon, Finance Service  
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**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) Council's Constitution and Budget and Policy Framework Procedure Rules (P).
- (b) Sustainable Community Strategy 2010-2013 (P).

**PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING**

**2.1 Finance and other resources**

- 2.1.1 The financial implications arising from the outcomes of this report will be appraised as part of the decisions made about what will be included in the Council's Financial Plan, incorporating the 2013/14 budget setting process. Decisions on the budget in relation to the general fund, housing revenue account, schools' funding and the Capital Plan need to be made within the overall context of the resources available to the Council and within the legal framework for setting budgets. The Council will need to examine closely the links with key funding partners and their proposed financial plans, including an assessment of the impact of any grant fall-out over the proposed three-year resource planning period.
- 2.1.2 Cabinet and Council need to have due regard to the Chief Finance Officer's advice in relation to the levels of reserves and balances proposed as part of the three-year financial plan for 2013-2015 in accordance with the Council's Reserves and Balances Policy most recently agreed by Council on 1 March 2012.
- 2.1.3 The only direct financial implications arising from this report will be any residual costs arising from support for area based engagement, Residents' Panel and any other specific engagement events and the possible use of an "on-line" model. These costs will be met from existing budgets.
- 2.1.4 The Budget Engagement Strategy for 2013/14 will in part help to inform decisions about what will be included in the three-year Financial Plan for 2013-2015. Decisions on the budget for general fund, capital plan, housing revenue account and schools' funding will need to be made within the overall context of the resources available to the Council and within the legal framework for setting budgets.

## **2.2 Legal**

- 2.2.1 The Local Government Finance Act 1992 requires the Council to set a balanced budget in the context of the resources available, including central government grants, business rates and council tax income.
- 2.2.2 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 an authority that it considers to be making inadequate provisions.
- 2.2.3 The 2013-2015 Financial Planning and Budget process has been prepared to comply with the time-scales required within the Budget and Policy Framework Procedure Rules contained in the Council's Constitution.
- 2.2.4 Legal advice recently obtained has confirmed that functions relating to the Housing Revenue Account are the sole responsibility of the executive (Cabinet). This is because those functions are not specified in the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 as being either functions which are not the responsibility of the executive; or as functions which may, but need not be,

the responsibility of the executive; or as functions which are not to be the sole responsibility of the executive (in accordance with the categories of responsibility for functions set out in the Regulations). As a result, decision making in relation to the Housing Revenue Account is the responsibility of the Cabinet, under the Cabinet's residuary powers in section 9D of the Local Government Act 2000 (as amended).

## **2.3 Community engagement**

### **2.3.1 Internal consultation**

Consultation has been carried out with the Elected Mayor, the Cabinet Member for Finance, the Chief Executive and the Senior Leadership Team. These proposals will be scrutinised as set down in the Council's Constitution and Budget and Policy Framework Procedure Rules.

### **2.3.2 External consultation/ engagement**

The Budget Engagement Strategy for 2013/14 as outlined in this report sets out the process by which the public, key partners and other stakeholders will be involved in the consultation on the 2013/14 Budget as part of the 2013-2015 Financial Planning and Budget Process.

## **2.4 Human rights**

All actions and spending contained within the Budget are fully compliant with national and international Human Rights Law. This will be detailed as part of the Financial Plan and Budget at the appropriate stage in the process. For example, Article 10 of the European Convention on Human Rights guarantees freedom of expression, including the freedom to 'hold opinions and to receive and impart information and ideas'. Article 8 of the Convention guarantees the right to respect for private and family life.

## **2.5 Equalities and diversity**

In undertaking the process for the Budget the Council's aim will at all times be to secure compliance with its responsibilities under the Equality Act 2010 and in particular the public sector equality duty under that Act.

To achieve this we will be taking a phased approach:

- An equality impact assessment has been carried out on the Budget Engagement Strategy process. The aim is to remove or minimize any disadvantage for people wishing to take part in the engagement programme. We are making direct contact with groups representing persons with identified protected characteristics under the Equality Act 2010 to encourage participation and provide engagement in a manner that will meet their needs. Appendix B provides the approach we are taking.

- The outcome of any decisions made following the community engagement on the budget process will be subject to further equality impact assessment.

## 2.6 Risk management

Individual projects within the Budget are subject to full risk reviews. For larger projects, individual project risk registers are / will be established as part of the Council's agreed approach to project management. Risks will be entered into the appropriate Directorate or Corporate / Strategic Risk Register(s) and will be subject to ongoing management to reduce the likelihood and impact of each risk.

## 2.7 Crime and disorder

2.7.1 Individual proposals within this report do not themselves have direct implications for crime and disorder. However, ultimately decisions may be made and considered as part of the overall Financial Planning and Budget process, as set down in this report. These will be detailed as part of reporting the Budget at the appropriate stage in the process.

2.7.2 Under the 1998 Crime and Disorder Act, local authorities have a statutory duty to work with partners on the reduction of crime and disorder. The Partners' representation at Cabinet and North Tyneside Together projects will ensure we work closely with our partners when taking decisions.

## 2.8 Environment and sustainability

The proposals within this report do not themselves have direct implications in relation to the environment and sustainability. However, ultimately decisions may be made and considered as part of the overall Financial Planning and Budget process of the Council, as set down in this report. These will be detailed as part of the Budget at the appropriate stage in the process.

## PART 3 - SIGN OFF

- Strategic Director(s)  X
- Mayor/Cabinet Member(s)  X
- Chief Finance Officer  X
- Monitoring Officer  X

- Strategic Manager for Policy and Partnerships

- Chief Executive