

## **Extraordinary Cabinet**

**26 November 2012**

**Present:** Mrs L Arkley (Elected Mayor) (in the Chair),  
Councillors EFJ Hodson, D Lilly, P Mason, L Miller,  
Mrs JA Wallace and GC Westwater

### **CAB134/11/12 Apologies**

There were no apologies received.

### **CAB135/11/12 Declarations of Interest**

There were no Declarations of Interest.

### **CAB136/11/12 2013-2015 Council Strategic Plan and Budget Setting Process: Cabinet's Initial Budget Proposals (All Wards)**

Cabinet considered a report which detailed the initial outcomes of the process for the preparation of the 2013/14 revenue budgets in respect of the General Fund, Dedicated Schools Grant (DSG) and Housing Revenue Account (HRA), and the 2013-2023 Capital Plan, as part of the overall Financial Planning and Budget process for 2013-2015. The report contained the initial outcomes of the process so far and included Cabinet's initial budget proposals, in accordance with the time-scales set down in the Council's Constitution and Budget and Policy Framework Procedure Rules. The development of the Budget proposals was following broadly the same timetable as in previous years. The priorities in the Sustainable Community Strategy provided the strategic framework within which budget resources were allocated. The timetable was detailed in the report. The Senior Leadership Team had been fully involved in the financial planning and budget process to date.

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

The proposals detailed in Section 5.0 of the Annex, covered a two-year planning period from 2013-2015 to align with the remainder of the Government's Spending Review period, except the Capital Plan which was set within a 10-year planning horizon. The 2013/14 financial year represented the third year of the Government's original Spending Review. The current Local Government Finance Settlement ('Settlement') covered 2011/12 and 2012/13. The draft budget proposals for the General Fund was predicated on a financial planning assumption of accepting the Government's recently announced Council Tax Freeze Grant and so proposing no increase in Council Tax for the third year in succession.

A new Settlement for the remaining two years of the Spending Review was due to be announced no sooner than 20 December 2012. Taking account of this and other fundamental finance changes, setting out a detailed financial assessment for North Tyneside was extremely difficult. It was expected that the Chancellor's Autumn Statement, due on 5 December 2012, would give some broad indications of the areas of growth, investment and savings within the public sector as a whole and the Authority would be able to derive core figures from that, but it was the announcement of the Provisional 2013/14 Settlement that would set out the exact implications for Local Government as a whole and for North Tyneside Council.

It was very important to recognise that the draft budget and proposals were subject to change and review and would only become clear in time for the budget report to Cabinet on 28 January 2013.

The 2012-2022 Capital Plan had been approved by full Council on 1 March 2012. This plan was reviewed by the Major Projects Group (MPG). The MPG was responsible for the governance of the Capital Plan including the provision of guidance, support and challenge to the Senior Leadership Team in respect of capital proposals and delivery of the Capital Plan. The MPG had met to review the 2012-2022 base Capital Plan alongside new capital bids received and the current 2012/13 Reserve List. No changes to schemes in the base plan were currently recommended although there were a number of reviews ongoing.

In relation to the Housing Revenue Account (HRA), 2012 was a year which saw the introduction of self-financing Housing Revenue Accounts and the abolition of the HRA Subsidy system. These were the biggest changes to housing finance in decades, and were introduced under powers enacted by the Localism Act 2011 from 1 April 2012. The essence of the change was that in future this authority would keep all rents raised locally and would no longer have to pay over any sums to Government. In addition there was an assumed average increase in the amount of money estimated to be spent on major repairs, management and maintenance costs. The “price” of this increased local determination was a one-off national debt adjustment, which redistributed over £20 billion of council housing debt held nationally, of which this authority’s share was finally determined to be £128.193m. This sum was borrowed from the Public Works Loan Board (PWLB) on 28 March 2012 and paid over to the Treasury. In addition the Authority would also be exposed to future inflationary and interest rate risks, which it was protected from to a large extent by the subsidy system. This made future efficient use of resources and Treasury Management decisions in relation to the HRA of paramount importance.

The key principles of the new self-financing proposals were explained in the Cabinet Report “Housing Revenue Account Self-Financing” (28 November 2011). The report and last year’s budget report set out the implications of the major decision areas recommended in that report, and the implications for the budget-setting process for 2012/13 and beyond, in particular the assumptions made in relation to the Government’s policy on rent restructuring, the treatment of new and existing debt portfolios, and the future investment needs of the stock in capital terms. These issues were included to analyse the continued implications of self-financing as the Council moved into the second year of the new system.

The report also analysed the potential implications for the HRA of further significant changes which had occurred and were still in the process of occurring.

Table 25 of Annex 1 summarised the 2013-2023 Housing Capital Plan and financing, including potential resources available to fund new builds.

The 2013-2015 Provisional Local Government Finance Settlement, which would include details of the new Business Rates Retention Scheme, was not anticipated to be received until mid December 2012. The budget proposals were necessarily draft at this stage. Until further information on the financial position of the Authority was known from Central Government, it was not possible to quantify with reasonable certainty the level of further savings that were required to be achieved in 2013-2015 through the Change, Efficiency and Improvement (CEI) Programme.

It was therefore proposed that the timetable agreed by Cabinet on the 10 September 2012 (Minute CAB81/09/12 refers) was amended to allow further time for the details of the Provisional Local Government Finance Settlement to be fully analysed and the implications for North Tyneside Council to be assessed, during which time, further CEI savings that may be required would be more fully developed before updated proposals were brought before Cabinet in January 2013. In addition, it was proposed that the Budget Engagement Strategy was also amended in line with the proposed updated timetable, which was detailed at Section 1.6 of the Annex.

The contents of Annex 1 covered:

- The 2013-2015 Financial Planning and Budget Process;
- Strategic Planning;
- Local Government Finance;
- The Financial Strategy 2013-2015;
- Cabinet's initial budget proposals for the 2013/14 General Fund Revenue Budget and 2013-2015 Financial Plan, including the Dedicated Schools Grant;
- Cabinet's initial budget proposals for the 2013-2023 Capital Plan and Prudential Indicators;
- Cabinet's initial budget proposals for the Treasury Management Statement and Annual Investment Strategy 2013/14; and
- Cabinet's initial budget proposals for the 2013-2015 Housing Revenue Account and associated Business Plan.

This year the Voice your Choice programme had informed the Council's budget engagement. The first phase ran from 8 October 2012 to 28 October 2012 and had fed into Cabinet's initial budget proposals. There would be a further phase of engagement on Cabinet's initial proposals. A report would be placed on the Council website in advance of the final Budget and Council Tax setting meeting for 2013/14 on the outcomes of the whole budget engagement exercise.

Cabinet's initial budget proposals were presented based upon available information and judgements at the time of writing. There were a number of assumptions and judgements built into the figures presented here that lay mainly outside the control of the Authority and needed to be finalised. The initial budget proposals would therefore need to be subject to further review before they could be confirmed. The information to be assessed and finalised was:

- (a) Northumbria Police Authority and Tyne and Wear Fire and Rescue Authority Precepts (due 6 February 2013 and 18 February 2013 respectively);
- (b) Levies, including the Tyne and Wear Integrated Transport Authority (ITA) (due January / February 2013);
- (c) Tyne and Wear Joint Service Budgets (due January / February 2013);
- (d) The Final Local Government Finance Settlement announcements for 2013/14, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG), Council Tax Freeze Grant and Council Tax Support funding) final detailed information (due late January 2013/ February 2013); and
- (e) Consideration of the impact of the economic climate on the residents of the borough and council tax payers.

In order to meet the significant and challenging levels of savings introduced by the four year Spending Review, the Council had introduced its new Service and Spending Review Process for 2011/12.

This process enabled the Authority 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. The required changes had been developed and managed through the Change, Efficiency and Improvement Programme (CEIP).

The Authority had already made, and had plans in place to make significant efficiency savings. The agreed Authority Budgets for 2011/12 and 2012/13 had included savings equivalent to 10% of the North Tyneside Council net budget for each of these two years.

For this year, the Council was looking at a two year financial planning process, in line with the planning horizon of the current Spending Review. A new and what was expected to be, a 2 year Local Government Finance Settlement would be in place from 2013/14 onwards. This would be based on a revised needs-based Formula Grant system, the details and funding for which had yet to be confirmed. Combined with this, the 1 April 2013 saw fundamental local government finance changes in relation to Business Rates and Council Tax, as a result of 3 main developments, i.e.:

- Business Rates Retention Scheme;
- Localised Council Tax Support Scheme; and,
- Technical reforms of Council Tax.

The scale of the changes, and the fact that a substantial amount of detail had yet to be released, made the accurate forward projection of financial resources inherently difficult at the present time.

The North Tyneside Strategic Partnership's Sustainable Community Strategy 2010 - 2013 provided the overarching policy direction, vision and delivery priorities for the Authority. Cabinet would also have due regard for the Council Strategic Plan 2012/15 agreed at full Council on 1 March 2012 (Minute CAB136/02/12 refers) which covered the period for the 2013/14 Financial Plan and Budget. The Council's Performance Framework identified the key actions being taken under the themes in the Sustainable Community Strategy, which were:

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

The Performance Framework included an additional theme "21st Century Council" which related to how the Authority operated to deliver services and how it involves residents and others in its decision making process.

Best practice highlighted the need for medium-term planning horizons. The Council's two-year planning timeframe would assist in ensuring there was a clear demonstration of sustainability in its plans for the future. The key drivers for change and the improvement focus in resource planning continued 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.

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

Schools revenue funding was mainly directed through the Dedicated Schools Grant (DSG), however, the Authority had ensured appropriate consultation and inclusion of schools and young people within the Financial Planning and Budget process.

The Mayor thanked everyone involved in developing the draft Council Plan and Initial 2012/13 Budget proposals.

Cabinet considered the following decision options: either to agree the recommendations as set out in section 1.2 of the report, or alternatively to disagree with the proposals and suggest alternative options for consideration by Senior Leadership Team.

**Resolved** that (1) the progress made in relation to this year's Financial Planning and Budget process, be noted;

(2) the changes to the 2013-2015 Financial Planning and Budget Process timetable and 2013/14 Budget Engagement Strategy from that agreed by Cabinet on the 10 September 2012, be approved;

(3) the Performance Framework for 2012/13 be continued into 2013/14;

(4) the key aspects of the recent consultations on the Business Rates Retention Scheme, be noted;

(5) the key principles being adopted in preparing the Financial Strategy for the Authority, subject to an annual review, be approved;

(6) the medium-term financial challenges and financial risks facing the Authority, be noted and these issues be addressed as part of the Change, Efficiency and Improvement Programme for the Authority, to deliver continued financial stability and prudent management of the Council's financial resources;

(7) the approach being taken in relation to the Change, Efficiency and Improvement Programme for the next two years, starting in 2013/14, be approved;

(8) the initial budget proposals in relation to the 2013-2015 General Fund Revenue Budget and Dedicated Schools Grant, including the assessment in relation to the current year's budget (2012-2013) monitoring information, be approved;

(9) the initial proposals in relation to the 2013-2023 Capital Plan, including initial prudential indicators for 2013-2016 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Framework and a proposed Minimum Revenue Provision (MRP) policy in line with capital finance regulations, be approved;

(10) the proposed Reserve List of Schemes that will be considered should additional funding become available, council or otherwise, be approved;

(11) it be noted that all approved schemes within the 2013-2023 Capital Plan will be kept under corporate review by the Major Projects Group, to ensure that necessary information has been supplied prior to any expenditure taking place;

(12) the initial proposals in relation to the Treasury Management Statement and Annual Investment Strategy 2013/14, be approved;

(13) the initial budget proposals in relation to the 2013-2015 housing revenue account budget, and associated business plan, including an assessment in relation to the current year's budget monitoring information, be approved;

(14) the proposed April 2013 rent increase (calculated in line with the Government's revised rent restructure formula) and the initial proposals in relation to housing service charges and garage rents for 2013/14, be noted;

(15) the Elected Mayor, in conjunction with the Cabinet Member for Finance and other Cabinet Members, be authorised to work with the Senior Leadership Team to continue their joint review of these initial proposals;

(16) the Chief Executive, in consultation with the Elected Mayor, Cabinet Member for Finance and the Senior Leadership Team, be authorised to manage the overall Change, Efficiency and Improvement Programme and it be noted that the progress in achieving the Programme will be reported to Cabinet as part of the regular budget monitoring information; and,

(17) the Elected Mayor, in consultation with the Major Projects Group, be authorised to keep under review the Reserve list of Schemes within the 2013-2023 Capital Plan.

(Reason for Decision – Due to outstanding external information, Cabinet is not in a position to set its proposed council tax level for 2013/14 in relation to the general fund. Thus, whilst this report can form the basis of Budget Engagement and Scrutiny over the next two months, further work will inevitably be required before final decisions are made on the budgets for next year)

**CAB137/11/12      Date and Time of Next Meeting**

6.00 pm on Monday 10 December 2012.

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