

North Tyneside Council Report to Cabinet Date: 9 September 2013

ITEM 6(c)

Title: 2014-2018 Financial Planning and Budget Process, incorporating the associated Engagement Strategy

Portfolio(s): Elected Mayor

Finance

Cabinet Member(s): Mrs Norma Redfearn

Councillor Ray Glindon

Report from Directorate: Senior Leadership Team

Report Author: Fiona Rooney, Strategic Director of Finance and Resources (Tel: (0191) 6435724)

Wards affected: All

PART 1

1.1 Purpose:

The purpose of this report is two-fold:

- (a) To seek approval from Cabinet for the proposed 2014-2018 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 2014/15 Budget Engagement Strategy as part of the 2014-2018 Financial Planning and Budget Process

1.2 Recommendation(s):

It is recommended that Cabinet:

- (a) Approve the proposed outline 2014-2018 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 2014/15 Budget Engagement Strategy as part of the 2014-2018 Financial Planning and Budget Process.

1.3 Forward Plan:

This report appears on the Forward Plan for 24 July 2013.

1.4 Council Plan and Policy Framework

- 1.4.1 The Budget and Policy Framework Procedure Rules are set out in Part 4.7 of the Authority Constitution. The Budget is guided by paragraph 4.7.3 covering the process for the preparation, consideration and final approval of the Authority'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 Authority. This in turn provides assurance that is considered as part of preparing the Annual Governance Statement to Council each year.

1.5 Information:

- 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 has 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.
- 1.5.2 The Authority has already made, and has plans in place to make significant efficiency savings. The agreed Authority Budgets for 2011/12, 2012/13 and 2013/14 have included efficiency savings totalling £44m for these three years.
- 1.5.3 The financial year 2013/14 has seen the introduction of a number of significant changes to the system of Local Government Finance through for example the Business Rates Retention Scheme and the Localised Council Tax Support Scheme. The way in which North Tyneside Council dealt with these changes were reported on extensively as part of the 2013-2015 Financial Planning and Budget process. The implications of any changes in relation to 2014/15 for these areas will be reported through specific reports to Cabinet and Council and as part of the 2014-2018 Financial Planning and Budget reports produced between November 2013 and February 2014.
- 1.5.4 Last year we had in place a two year financial planning process, in line with the planning horizon of the current Spending Review due to end in March 2015. For the 2014/15 Financial Planning and Budget process we are proposing a four-year financial planning process covering the years 2014-2018. Provisional information on the 2014/15 Local Government Finance Settlement was issued in late December 2013, and on the 26 June 2013 the Government announced the Spending Round for 2015/16 only. A two-year Local Government Finance Settlement covering 2014-2016 will be issued in November / December 2013. Detailed future funding for Local Government beyond 2015/16 is yet to be confirmed, but it is likely to follow a similar trajectory to the current Spending Review.

2015/16 Spending Round

- 1.5.5 The 2015/16 Spending Round announced that Local Government's contribution to the £11.5bn of savings for 2015/16 would be £2.1bn. This represents a real terms funding reduction of 10% equating to a cash reduction of 8.2%.
- 1.5.6 The other key announcements from the 2015/16 Spending Round included:
- A pooled budget of £3.8bn for health and social care services, shared between the National Health Service (NHS) and local authorities, to deliver better outcomes and greater efficiencies through more integrated services;
 - Funding to further support a council tax freeze for 2014/15 and 2015/16, which will be the equivalent of approximately a 1% council tax increase, adjusted for the localisation of council tax support scheme;
 - School funding and the pupil premium will be protected in real terms, though the Education Services grant will see a national reduction of £200m. The Department of Education will consult in Autumn 2013 on the details of how these reductions will be implemented. There will also be a consultation on how best to introduce a fair national funding formula for schools in 2015/16;
 - A further £200m will be invested into the Troubled Families scheme in 2015/16. This additional funding will be subject to match funding from local authorities as with the existing programme; and,
 - The Government announced that £2bn would be allocated to the creation of a Single Local Growth Fund, in response to Lord Heseltine's recommendation for growth-related funds to be devolved to the Local Enterprise Partnerships (LEPs) through a single pot.

2014/15 and 2015/16 Local Government Finance Settlement

- 1.5.7 On 25 July 2013, the Department of Communities and Local Government (DCLG) issued a Technical consultation on the Local Government Finance Settlement for 2014/15 and 2015/16, with a closing date for responses of 2 October 2013.

2014/15 Settlement

- 1.5.8 Budget 2013 announced a further 1% reduction to Local Government Funding in addition to those reductions announced as part of the 2014/15 Local Government Finance Settlement. This equates to a national reduction of around £219m. This consultation outlines that this funding reduction will come to Local Government from reductions to one of our main funding streams – the Revenue Support Grant, which will as a result reduce by approximately 1.73% for 2014/15.
- 1.5.9 In addition the Business Rates Retention Scheme which came into effect on 1 April 2013, provided a safety net, set at 7.5% of baseline funding, to protect local authorities from significant negative shocks to their business rates income. This safety net is being funded by a levy on the disproportionate gains in income some authorities will achieve in their business rates income. There was always a risk that the amount paid out by the safety net would be greater than the amount paid out through the levy, so £25m was held back as central funding to ensure the safety net could be paid. However, the Consultation paper sets out that based on the estimates from local authority returns, that the £25m will prove to be insufficient and this amount will have to increase to £120m in

2014/15. The result of this is that another £95m nationally will need to be cut from Revenue Support Grant in 2014/15 to fund this increase.

2015/16 Settlement

- 1.5.10 The 2015/16 Spending Round of 26 June 2013 announced a 10% real terms reductions for Local Government from the Department of Communities and Local Government (DCLG) for 2015/16. The national Local Government Departmental Expenditure Limit (DEL) falls from £25.6bn in 2014/15 to £23.5bn in 2015/16. The 2014/15 and 2015/16 Local Government Finance Technical Consultation confirms these figures and also sets out that the overall reduction to funding is 2.3% in real terms when the resources from other budgets are taken into account, though this includes a number of existing funding streams.
- 1.5.11 The Consultation does however set out a worsening of the overall funding position for Local Government since the 2015/16 Spending Round, with an additional cut to Local Government of another £800m, bringing the overall reduction for 2015/16 to £2.9bn. The core area of Revenue Support Grant funding will see very significant reductions in funding for 2015/16. The national total will reduce from £12.537bn in 2014/15 to £9.124bn in 2015/16, a reduction of 27.2% in one year.
- 1.5.12 Taking the above factors together, the overall funding through the Settlement Funding Assessment will see an average 13% cash reduction, for England, which translates into a 15% real terms reduction between 2014/15 and 2015/16.
- 1.5.13 The detailed financial implications of this Technical consultation paper for the Authority are currently being assessed. The implications will be detailed in the reports produced throughout the 2014-2018 Financial Planning and Budget process as more detailed financial information becomes available.

Strategic Planning

The Council Plan 2014-2018 Our North Tyneside

- 1.5.14 In May 2013 the Borough of North Tyneside elected a new Mayor. The Our North Tyneside Plan is currently being developed to reflect the priorities of the new administration and will be submitted to Council on 26 September 2013 for approval. Once agreed the Our North Tyneside Plan will provide the policy direction for the Authority's Financial Planning and Budget process for 2014/15 and the following three years.
- 1.5.15 It is accepted that the Our North Tyneside Plan can not be delivered just by the Authority working on its own. It will need to be a partnership with local people, communities, businesses and other local public sector and voluntary organisations. The Authority and North Tyneside Strategic Partnership have agreed that the Our North Tyneside Plan will replace the Sustainable Community Strategy in the future.
- 1.5.16 A separate report to this 9 September 2013 Cabinet meeting provides further information on the development of the "Our North Tyneside Plan".

Financial Strategy

- 1.5.17 A Financial Strategy is critical 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. This financial strategy needs to link to the Our North Tyneside Council Plan which ultimately drives our resources. Our Budget Setting process helps the Authority 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.

1.5.18 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.

1.5.19 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 financial plan that looks at all Authority services and takes into account the Government's Local Government Finance agenda.

CEI Programme

1.5.20 An important element of our overall Financial Strategy is the Authority'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 Authority'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

1.5.21 Best practice highlights the need for medium-term planning horizons. The Authority's four-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

1.5.22 The approach to resource planning for 2014-2018 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 Authority'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 its usual annual review.

1.5.23 Leading on from this, the key components and principles adopted for our 2014-2018 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 2014-2018 Financial Strategy

Financial Themes	Principles Adopted
Council Tax	<ul style="list-style-type: none"> • Provide value for money for the people of North Tyneside • Council tax levels that demonstrate prudence and retain stability in the Authority's finances • Determine a policy for the future take-up of the council tax freeze grant • Council tax collection managed to secure recurrent efficiencies in the Authority's collection fund • Ensure that the financial implications of the Localisation of Council Tax Benefit scheme have been fully considered • Welfare Reform changes are reviewed to ensure that the full implications are taken account of
Revenue Income Generation	<ul style="list-style-type: none"> • Encourage a climate / approach where trading and charging powers of the authority are maximised • Continue to manage income and debts to reduce the need to make provision for bad debts • Apply a charging policy consistently across all Authority services
Revenue Expenditure & Budget Strategy	<ul style="list-style-type: none"> • Annual budget resources aligned and prioritised to meet the Our North Tyneside Plan • A Reserves and Balances Policy in line with best practice that is reviewed on at least an

	<p>annual basis</p> <ul style="list-style-type: none"> • General unearmarked reserves (general balances) retained at least at a level of £6m at the end of each financial year, subject to a risk assessment as part of budget setting in each of the four years of the financial planning period • Earmarked reserves established appropriately for known and quantifiable (future) liabilities and financial risks • Pay and price inflation forecasts and full payroll costs built into projections and then used as a way to target general efficiency savings across service areas • Continuous challenge of the base budget to secure service efficiency savings • 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. • 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 • 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 • Reduce reliance on reserves supporting the revenue budget in the medium term • The Financial Strategy needs to be flexible enough to manage the changes to the Local Government finance system. • Recognise the implications of a move to a Business Rates Retention Scheme and the resulting consequences for future finances
<p>Capital Financing and Expenditure</p>	<ul style="list-style-type: none"> • Ten year Capital Plan (including Private Partnerships / Private Finance initiative (PPP/PFI arrangements) ensures financial certainty in relation to infrastructure investment in the borough • Strategic assets reviewed at least annually to maximise the potential to release value into the business for strategic re-investment • Prudential borrowing to support local capital investment priorities or invest to gain schemes that will secure greater revenue efficiencies, in accordance with the Authority's approved Local

	<p>Prudential Code</p> <ul style="list-style-type: none"> • Asset management plans updated on at least an annual basis and acknowledging available budget resources • Continuous review of prudential borrowing and its impact on the revenue budgets • No further additional reliance on land and building capital receipts •
Treasury Management	<ul style="list-style-type: none"> • Treasury Management Strategy to focus on delivering safe stewardship • Strategic options devised, where the market allows, for managing the overall level of borrowing over the medium term.
Risk Management	<ul style="list-style-type: none"> • Business risk embedded in all decision-making processes of the Authority • Budget resources aligned to reduce any material financial risks to the Authority.

Equality and Diversity Considerations

- 1.5.24 The Authority has specific responsibilities under the Equality Act 2010 and public sector equality duty. Part of this is to ensure that the potential effects of decisions on people with protected characteristics are considered prior to any decision being made. Previous judicial reviews involving other local authorities have highlighted the importance of ensuring that these responsibilities are met. In North Tyneside we will continually monitor our budget setting process by using impact assessments.
- 1.5.25 Full impact assessments will be included in all proposals going forward by the end of December 2014 in order to be available to Cabinet when it further considers the Financial Plan and Budget proposals on 15 January 2014.

2014/15 Financial Planning and Budget Process Timetable of Key Decision Milestones

- 1.5.26 Key aspects of the 2014/15 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 2014/15.

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

- 1.5.27 The Elected Mayor and Cabinet are responsible for formulating the Authority'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 2014-2018 Financial Planning and Budget Process. The Section 151 officer will be the project sponsor.

Section 2 - The North Tyneside Council Budget Engagement Strategy for 2014/15

- 1.5.28 North Tyneside Council is committed to being a resident-focused Authority. 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 2014/15. 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.
- 1.5.29 This year the Authority spent time over the summer seeking the views of residents on a new the Our North Tyneside Plan. This will be agreed in September 2013. The Our North Tyneside Plan will influence the budget proposals to be set out by the Elected Mayor and her Cabinet end of November 2013. Information on the budget proposals will be made available to residents on the Authority's website and some targeted community engagement will take place giving their views. Comments and suggestions from residents will be collated by Strategic Services and will form part of reports to Cabinet and Council in January and February 2014. The Budget Engagement Strategy sets out the approach for 2014/15.
- 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.

1.6 Decision options:

- 1.6.1 The Authority's Constitution and Budget and Policy Framework Procedure Rules set down the stages to be completed in relation to agreeing the Budget of the Authority. There are no other options available in relation to this. The Budget Engagement Strategy forms part of the 2014-2018 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 – 2014/15 Financial Planning and Budget Process: Timetable of Key Milestones
Appendix B – 2014/15 Budget Engagement Strategy.

1.9 Contact officers:

Janice Gillespie, Finance Service
Tel No 643 5701

Geoff Huzzard, Finance Service
Tel No 643 5716

Jacqueline Laughton, Chief Executive's Office
Tel No 643 7070

Felicity Shoesmith, Chief Executive's Office
Tel No 643 7071

Craig Anderson, Chief Executive's Office
Tel No 643 5621

1.10 Background information:

1.10.1 The following background papers/information have been used in the compilation of this report and are available at the office of the author:

- (a) Authority's Constitution and Budget and Policy Framework Procedure Rules (P).
http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=516840
- (b) Consideration of any Objections to the Cabinet's proposals, Council, 5 March 2013 (P).
http://www.northtyneside.gov.uk/browse-display.shtml?p_ID=542876&p_subjectCategory=40

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 Authority's 2014-2018 Financial Plan, incorporating the 2014/15 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 Authority and within the legal framework for setting budgets. The Authority 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 four-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 four-year financial plan for 2014-2018 in accordance with the Authority's Reserves and Balances Policy most recently agreed by Council on 5 March 2013.
- 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 2014/15 will in part help to inform decisions about what will be included in the four-year Financial Plan for 2014-2018. 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 Authority and within the legal framework for setting budgets.

2.2 Legal

- 2.2.1 The Local Government Finance Act 1992 requires the Authority 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 2014-2018 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 Authority's Constitution.
- 2.2.4 Last year legal advice confirmed that functions relating to the Housing Revenue Account are the sole responsibility of the executive (Cabinet). As a result, decision making in relation to the Housing Revenue Account is the responsibility of the Cabinet, in accordance with section 9D of the Local Government Act 2000 (as amended).

2.3 Consultation/community engagement

2.3.1 Internal consultation

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

2.3.2 External consultation/ engagement

The Budget Engagement Strategy for 2014/15 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 2014/15 Budget as part of the 2014-2018 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 Authority'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 Authority'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 Authority, 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

- Chief Executive X
- Strategic Director(s) X
- Mayor/Cabinet Member(s) X
- Chief Finance Officer X
- Monitoring Officer X
- Strategic Manager, Policy, Partnership, Performance and Communication X