

North Tyneside Council Report to Cabinet 10 August 2015

ITEM 6(a)

Medium Term Financial Plan
Update -following Summer
Budget 2015

Portfolio(s): Elected Mayor
Finance and Resources

Cabinet Member(s): Norma Redfearn
Cllr Ray Glindon

Report from: Finance

Responsible Officer: Janice Gillespie, Strategic Manager
Finance **Tel:** (0191) 643 5701

Wards affected: All

PART 1

1.1 Purpose:

The purpose of this report is to provide an update on the Authority's Medium Term Financial Plan position following two recent developments:

1. The Government's National Summer Budget of 8 July 2015.
2. The Government announcements of 21 July 2015, which set out:
 - (a) The date of the forthcoming Spending Review.
 - (b) That the Chief Secretary to the Treasury would write to government departments asking them to draw up plans to deliver the remaining required fiscal consolidation of £20 billion required by 2019/20.

1.2 Recommendation(s):

It is recommended that Cabinet:

- (1) Note the contents of this report for information;
- (2) Agree to receive further reports as part of the 2016-2019 Financial Planning and Budget Process as more detailed information becomes available.

1.3 Forward Plan:

It has not been practicable to give twenty eight days notice of this report because the latest Government announcement on the date of the Spending Review and Departmental Spending Reductions was only made on 21 July 2015.

1.4 Council Plan and Policy Framework

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

1.5 Information:

Background

- 1.5.1 Since the Coalition Governments four year Spending Review of 2010, and as a result of the one year Spending Review for 2015/16, North Tyneside Council have had to make a significant level of efficiency savings each financial year. The savings that have been required over this period are a combination of Government funding reductions and unavoidable spending pressures. Since the financial year 2013/14, we have so far had to make efficiency savings of approximately £43 million, which are set out in Table 1 below.

Table 1: North Tyneside Efficiency Savings 2013-2016

Financial Year	North Tyneside Council Annual Efficiency savings
2013/14	£12 million
2014/15	£17 million
2015/16	£14 million
Total for 2013-2016	£43 million

- 1.5.2 Table 1 above demonstrates that the Authority has consistently delivered substantial efficiency savings driven by the continued reduction in core funding and increasing demand for services. This financial climate continues into the current planning process for 2016-2019 with the continuing need for improved services to be delivered within a more challenging environment of reduced funding and the consequent requirement for further efficiency savings.
- 1.5.3 North Tyneside Council is currently developing a 3 year Financial Plan covering 2016-2019. Whilst there is still considerable uncertainty around the detailed financial implications of the forthcoming Spending Review, our 3 year planning assumption prior to the Summer Budget and subsequent announcements is that the estimated savings required to be found for 2016-2019 are in the region of £44 million.

Summer Budget 2015

- 1.5.4 Following Budget 2015 of 18 March 2015, a second National Budget “Summer Budget 2015” took place on 8 July 2015. This Budget included a number of detailed announcements with implications for the financial position of North Tyneside Council.

Housing

- 1.5.5 The Governments Summer Budget 2015 set out a number of Housing related changes, which are also part of the Welfare Reform and Work Bill. The key aspects are:

Reduction in Social Housing Rents 2016-2020

- 1.5.6 Section 19 of the Welfare Reform and Work Bill sets out that Registered Providers (RPs) of social housing “must secure that the amount of rent payable in a relevant year by a tenant of their social housing in England is 1% less than the amount payable by the tenant in the preceding 12 months”. This applies to four years from April 2016. Section 21 of this Bill refers to possible exceptions where the Secretary of State will have the power to issue a direction if the “Secretary of State considers that the local authority would be unable to avoid serious financial difficulties if it were to comply with section 19”.

Financial Implications for North Tyneside

- 1.5.7 At this stage, there is no detail on what “serious financial difficulties” means or what a local authority would have to do / prove to gain a direction. Our planning assumption at this stage is that after the four years covered by the Bill that the rent policy returns to the Consumer Price Index (CPI) + 1%. At this stage, it is estimated that applying the Bill will have a financial impact of over £400 million lost income from the Housing Revenue Account (HRA) Business Plan over 30 years.

Extension of Right To Buy and Sale of “High Value” Council Housing

- 1.5.8 The Government is intending to require authorities to sell off “high value” Council Housing in order to pay for the costs of the intended extension of Right to Buy to Housing Associations.

Financial Implications for North Tyneside

- 1.5.9 This policy is likely to have significant implications for the Housing Revenue Account (HRA) Business Plan. However, as the details on how exactly the scheme will operate have not yet been determined, then the financial impact cannot be fully assessed at this stage.

Pay to Stay Policy

- 1.5.10 Social Housing Tenants with household incomes of £40,000 and above in London and £30,000 and above in the rest of England, will be required to “Pay to Stay” by paying a market or near market rent for their accommodation. This policy is intended to be introduced from April 2017. The additional money collected by local authorities will have to be paid over to the Treasury to help with deficit reduction. Housing Associations will be allowed to keep the money they raise for new housing.
- 1.5.11 The indications are that this policy is likely to be “tapered” i.e. those earning just above will not jump straight to market rent. This is likely to increase the administration burden.

Financial Implications for North Tyneside

- 1.5.12 The direct impact here on the Housing Revenue Account (HRA) Business Plan is likely to be in the form of an increase in the number of Right to Buys, as anyone earning over £30,000 per annum may determine they would like to buy their property rather than pay significantly higher rents. Other than that the main cost to the Authority will be an increase in the administration required to collect the additional money and account for it to Government. Currently the Authority doesn't have the statutory power to collect earnings-related data from tenants, and accounting for additional rental payments separately may require more or a re-allocation of existing resources. The exact financial implications are still to be determined.

Welfare Related Changes

1.5.13 Summer Budget 2015 announced a number of significant changes with regard to certain Welfare Benefits. The details behind these changes have yet to be provided but the main changes announced are as follows:

Changes from April 2016

- 1) The annual 'up-rating' of working age benefits will be frozen for four years. This includes job seekers allowance; income support; child benefit; and the applicable amounts and other elements of housing benefit, including the Local Housing Allowance rate. This also includes Employment and Support Allowance with the exception of the support group component and tax credits with the exception of the disability elements.

Financial Implications for North Tyneside

- Annual up rating of benefits are often small, for example, Job Seekers Allowance (JSA) for a single person increased by only 70p in April 2015.
 - The Authority has around 11,250 working age claimants in receipt of Council Tax Support (CTS) that may be impacted if we chose to 'freeze up' ratings within the CTS scheme.
- 2) Reduction to Tax Credits earnings disregards (annual income threshold) reduced from £6,420 to £3,850 and the taper at which tax credits are reduced as earnings rise will be increased from 41% to 48%.

Financial Implications for North Tyneside

- There are around 2,900 current claims for CTS in receipt of Working Tax Credit.
- 3) In Universal Credit (UC) the earnings disregards (work allowances) will be reduced to £192 per month for those with housing costs and £397 for those without housing costs (those with children). Currently these rates vary from £263 to £222 for those with housing costs and £734 to £536 for those without housing costs.

Financial Implications for North Tyneside

- The Authority is not live yet with UC claims and it is difficult to estimate numbers impacted by this change at this stage.
- 4) With respect to Universal Credit, work allowances for non disabled, childless claimants are removed. Currently £25.62 is disregarded before earned income starts to reduce the maximum UC entitlement.
 - 5) With respect to Housing Benefit, the family element will be removed for children born or new claims made after April 2016.

Financial Implications for North Tyneside

- It is likely that around 400 HB claims would be impacted by this change (based on 2014/15 data on number of claims where a new born child was added to a claim.)
- 6) In Housing Benefit, backdating will be limited to 4 weeks. Currently this is 6 months for working age and 3 months for pensionable age.

- 7) Those in receipt of the Work related activity group (WRAG) of Employment Support Allowance (ESA) (those considered closer to the labour market) will have their entitlement reduced to the same level as those in receipt of JSA. The additional benefit received for WRAG claimants is £29.05. This will only apply to new claims received after April 2016.

Financial Implications for North Tyneside

- It is likely that around 135 claimants will be impacted (based on new claims for CTS made in 2014/15 that were in the WRAG group)
- 8) The Overall Benefit cap is reduced from £26,000 to £20,000 outside London (£23,000 in London).

Changes from April 2017

- 1) In respect of Tax Credits, Housing Benefits and Universal Credit, no child allowance for the third and subsequent children born after April 2017 (unless as a result of a multiple birth)

Financial Implications for North Tyneside

- It is estimated around 85 claimants will be impacted by this change (based on 2014/15 figures)
- 2) In respect of Tax Credits and Universal Credit, the family element is removed from claims made or where a child is born after April 2017.
 - 3) In respect of Universal Credit and Housing Benefit, 18-21 year olds will not be entitled automatically and instead there will be a new 'Youth Obligation' to 'earn to learn' this will be an intensive regime of support from day one of their benefit claim and after 6 months they will be expected to apply for an apprenticeship or traineeship, gain work based skills or go on a mandatory work placement.
- 1.5.14 To help mitigate the impacts of these changes, the government will provide £800 million of national funding to local authorities for discretionary housing payments (DHP) over the next 5 years, as follows:

Table 2: Discretionary Housing Payment (DHP) National funding 2016-2021

Financial Year	£ million
2016/17	150
2017/18	185
2018/19	170
2019/20	155
2020/21	140
Total	800

Financial Implications for North Tyneside

- 1.5.15 Many of the welfare related changes will not only impact on the state benefit itself but the Authority needs to consider how welfare changes interact with our Council Tax Support Scheme and potential impacts on other policies such as Discretionary Housing Payments and the Local Taxation Discretion.

1.5.16 At the present time, the Authority is currently still gathering data around what the financial impacts on residents will be and any potential impacts on council policy and schemes.

These will include:

- Council Tax Support Scheme
- Local Taxation Discretion
- Discretionary Housing Payments

1.5.17 It is therefore not possible at this stage to outline the detailed financial implications for the Authority. Further information and reports on these issues will be submitted to Cabinet and Council at the appropriate stage during 2015/16.

National Living Wage (NLW)

1.5.18 Another key change announced in the Summer Budget 2015 was that a new National Living Wage will be introduced by the introduction of a new premium on top of the National Minimum Wage (NMW). From April 2016, the new National Living Wage will be set at £7.20 – a rise of 70p relative to the current NMW rate, and 50p above the NMW increase coming into effect in October 2015.

1.5.19 The Government has committed to asking the Low Pay Commission (LPC) to set out how the new NLW would reach 60% of median earnings by 2020. Based on earnings forecasts, this means that the National Living Wage will reach the government's target of over £9 by 2020.

Financial Implications for North Tyneside

1.5.20 The implications for North Tyneside Council relate to both the direct financial impact on the Authority's payroll and the possible indirect impact on services purchased from third parties.

1.5.21 Having undertaken some initial financial modelling, our current assessment is that the financial implications are estimated at this stage for the next 3 financial years to be:

Table 3: Estimated Financial Costs of the National Living Wage

	Estimated Additional Annual Cost
2016/17	£3 to £5 million
2017/18	£3 million
2018/19	£3 million

Public Sector Pay Awards

1.5.22 Within the Summer Budget it was outlined that public sector pay would increase by 1% a year for four years from 2016/17.

Financial Implications for North Tyneside

1.5.23 This level of pay increases is exactly in line with our current financial planning assumptions, with an annual increase of just over £0.9 million assumed each year. There is therefore no additional financial impact on our current 2016-2019 Financial Plan as a result of this announcement.

Government Spending Review Announcement

- 1.5.24 On 21 July 2015, the Government announced that the Spending Review would take place on 25 November 2015. At the same time, it was also announced that the Chief Secretary to the Treasury would write to Government departments asking them to model two scenarios of 25% and 40% of savings within their resource budgets by 2019/20 in real terms. These are the same reductions requested ahead of the Spending Review of 2010.
- 1.5.25 The Summer Budget set out £17 billion of savings to be achieved nationally over the next 4 years, with £12 billion savings from welfare and £5 billion from addressing avoidance, evasion and imbalances in the tax system. Total savings required over the period of this Parliament are currently expected to be £37 billion. Therefore, the reductions still to be met by Government Departments are £20 billion for the next four financial years from 2016/17 to 2019/20. In making these savings, the Government outlined that the Spending Review would reaffirm their commitment to “invest in the NHS and national security, while protecting spending on schools and honouring their commitment to the poorest people in the world”.
- 1.5.26 This announcement of Departmental Spending Reductions does not as yet provide detailed information on the potential financial impact for Local Government over the medium term. At this stage, therefore, it is assumed that our current financial planning assumptions around the savings required for the next 3 years as a result of Government funding reductions is unchanged. This position will be kept under constant review as more information becomes available.

Revised Medium Term Financial Position for North Tyneside

General Fund

- 1.5.27 Having considered the potential financial impact of the various Government announcements from the Summer Budget, then the revised General Fund Financial position for North Tyneside Council for 2016-2019 is as set out in Table 4 below:

Table 4: Revised 2016-2019 Financial Plan Savings Required

	Savings to be Achieved 2016-2019
2016-2019 Estimated savings required prior to Summer Budget 2015 and 21 July 2015 Government Announcement	£44 million
Estimated Financial Impact at this stage of the Summer Budget Announcements	£9 million to £11 million
Revised Estimated Savings Required for 2016-2019	£53 million to £56 million

Housing

- 1.5.28 In addition to the General Fund impact detailed above, the main impact in relation to Housing is as a result of the Reduction in Social Housing Rents. At this stage, it is estimated that this will have a financial impact of over £400 million lost income from the Housing Revenue Account (HRA) Business Plan over 30 years. There are likely to be further financial implications as a result of other policies including Extension of Right To Buy and Sale of “High Value” Council Housing and “Pay to Stay” as well as an impact from the various Welfare Reform changes.

1.6 Decision options:

As this is a report for information purposes, there are no specific decision options for consideration.

1.7 Reasons for recommended option:

As noted in section 1.6 above, as this report is for information purposes, there are no specific decision options for consideration.

1.8 Appendices:

There are no accompanying appendices.

1.9 Contact officers:

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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) Summer Budget 2015
- (b) Government Spending Review Announcement of 21 July 2015

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

As this is a financial report, the financial implications are set out within this main report. Further detailed analysis will be undertaken and will be reported further in specific reports to Cabinet and Council during 2015/16, including as part of the 2016-2019 Financial Planning and Budget process.

2.2 Legal

The Local Government Finance Act 1992 requires the Authority to set a balanced budget in the context of resources available, including central government grants, business rates and council tax. The financial implications of the announcements made as part of the Summer Budget and as a result of the Spending Review will be fully reflected within the 2016/17 Budget proposals.

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, Deputy Mayor and Senior Finance Officers.

2.3.2 External Consultation/Engagement

North Tyneside Council has already embarked on its Big Community Conversation, which is a Summer-long engagement with people across the borough to gather information about the issues important to them as individuals, their families and their communities. This includes talking to people at existing events, and in key locations, eg parks, beaches, shopping centres. This consultation is due to end in September. The findings will be analysed by the Policy, Performance and Research team and can help to inform both the development of the Council Plan and budget priorities to help achieve the efficiencies needed.

Specific engagement will be carried out as the Authority develops its detailed proposals as part of the 2016/17 Budget.

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

Details of some further future financial pressures for the Authority are set out within this report, and where required these will be registered through the Authority's risk management process.

2.7 Crime and disorder

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

2.8 Environment and sustainability

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

PART 3 - SIGN OFF

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