

North Tyneside Council Report to Cabinet Date: 28 November 2016

ITEM 3

Title: 2017-2020 Financial Planning
and Budget Process: Cabinet's
Initial Budget proposals

Portfolio(s): Elected Mayor Finance and Resources Housing and Transport	Cabinet Member(s): Mrs Norma Redfearn Cllr Ray Glindon Cllr John Harrison
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Report from: Senior Leadership Team

Responsible Officer: Janice Gillespie, Head of Finance (Chief Finance Officer) Tel: 643 5701

Wards affected: All

PART 1

1.1 Executive Summary:

- 1.1.1 The initial budget proposals set out in this report have been developed in the context of the Our North Tyneside Plan and reflect the Plan priorities, but recognise the continued reduction in core funding in both the General Fund and HRA, increasing cost pressures such as the impact of the National Living Wage and increasing demand for services in areas such as Adult Social Care and Children's Services. Included in these proposals is a proposed 2% increase in Council Tax to fund Adult Social Care Spend (as first proposed in the 2015 combined Spending Review and Autumn Statement by the Government) and a general 2% increase in Council Tax (in line with the expectation of Central Governments 2016 Settlement for Local Government).
- 1.1.2 At its meeting on 12 September 2016, Cabinet approved the process and timetable to be adopted for the preparation of the draft Financial Plan, 2017/18 revenue budgets in respect of the General Fund, Dedicated Schools Grant (DSG) and Housing Revenue Account (HRA), and the 2017-2020 Investment Plan, as part of the overall Financial Planning and Budget process for 2017-2020. Cabinet also approved the budget engagement strategy as part of this report.
- 1.1.3 This report presents, for consideration, the outcomes of that process so far with Cabinet's initial budget proposals, in accordance with the time-scales set down in

the Authority's Constitution and Budget & Policy Framework Procedure Rules. This report presents proposals to cover a three-year planning period from 2017-2020 for the revenue budget and a three year planning horizon for the Investment Plan.

1.1.4 An Efficiency Plan was submitted to Central Government on 14 October 2016 in order to secure as far as possible the proposed level of Revenue Support Grant for this Authority that was announced as part of the 2016 Local Government Finance Settlement. The Efficiency Statement is included as a background paper to this report.

1.1.5 The Authority's approach for 2017-20 is to achieve savings early where possible, to mitigate against future financial risks whilst working in a very different way to ensure that resources are most effectively targeted at the people who need them most to ensure that all residents have a successful, healthy and safe future, no matter where they live in the Borough. This means that the Authority will need to:

- understand and manage demand;
- enable people to help themselves;
- use intelligence to target our resources to best effect;
- maximise income and reduce long-term cost;
- work in partnership to improve outcomes and,
- be innovative and utilise technology to improve outcomes.

1.1.6 On the 23 November 2016, the Government announced the 2016 Autumn Statement with no additional changes that have material impact on the draft proposals other than confirmation of the living wage. Much of the detailed information required to finalise the 2017/18 Financial Plan and Budget position was not included in the information released with the Autumn Statement and therefore the proposals included as part of this report are still estimates at this stage. The Provisional and Final Local Government Finance Settlements will provide further detail when they are released. These are expected in December 2016 / January 2017 and it is hoped they will be received early enough to allow time for the information to be considered and reported to Cabinet and Council as part of the draft Budget proposals presented to Cabinet on the 25 January 2017 and Council on the 2 February 2017.

1.2 Recommendation(s):

1.2.1 Cabinet is recommended to:

- (a) Note the progress made in relation to this year's Financial Planning and Budget process;
- (b) Note that the Our North Tyneside Plan forms the Policy Framework for the Financial Planning and Budget Process for 2017-2020;
- (c) Note the key principles being adopted in preparing the Financial Strategy for the Authority, subject to an annual review;

- (d) Note the medium-term financial challenges and financial risks facing the Authority and agree to address these issues as part of the Creating a Brighter Future Programme for the Authority, to deliver continued financial stability and prudent management of our financial resources;
- (e) Note the formal Reserves and Balances Policy for the Authority, subject to review at least annually;
- (f) Consider and agree the initial budget proposals in relation to the 2017/18 General Fund Revenue Budget and Dedicated Schools Grant, including the assessment in relation to the current year's budget monitoring information (2016/17);
- (g) Consider and agree the proposed 2017-2020 Investment Plan;
- (h) Note that all approved schemes within the 2017-2020 Investment Plan will be kept under corporate review by the Investment Programme Board;
- (i) Note the Provisional Statement by the Chief Finance Officer,
- (j) Consider and agree the initial budget proposals in relation to the 2017-2020 Housing Revenue Account budget, and associated Business Plan, including an assessment in relation to the current year's budget monitoring information (2016/17);
- (k) Note the proposed April 2017 1% rent reduction (in line with the Welfare Reform and Work Act 2016), and the initial proposals in relation to housing service charges and garage rents for 2017/18;
- (l) Authorise the Elected Mayor, in conjunction with the Cabinet Member for Finance and Resources, Deputy Mayor and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these initial proposals; and
- (m) Authorise the Chief Executive, in consultation with the Elected Mayor, Cabinet Member for Finance and Resources, Deputy Mayor and the Senior Leadership Team to manage the Efficiency Programme and note that progress will be reported to Cabinet as part of the regular budget monitoring information provided.

1.3 Forward plan:

Twenty eight days notice of this report has been given and it first appeared on the Forward Plan that was published on 10 October 2016.

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's Constitution. The Budget is guided by paragraph 4.7.3 covering the process for the preparation, consideration and final approval of the Authority's Council Tax requirement and Council Tax level. The statutory and constitutional

requirements for preparing, considering and approving these issues drive the timetable for the Financial Planning and Council Tax setting process of the Authority.

- 1.4.2 The development of the Financial Plan and Budget has followed the same timetable as in previous years. The priorities in the 2016-2019 Council Plan - 'Our North Tyneside' provides the strategic framework within which budget resources are allocated.
- 1.4.3 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 each year.

1.5 Information – Executive Summary

- 1.5.1 An initial report was previously submitted to meet reporting deadlines in order to allow time to assess the implications for North Tyneside Council of the Government's Autumn Statement, which was published on 23 November 2016.

General Fund

- 1.5.3 The Authority has to find efficiencies and resource changes in the General Fund budgets of up to £52m over the next three years as a result of sustained cuts in government funding and unfunded pressures. Since 2010 the Authority, along with other local authorities, has faced unprecedented reductions in Government spending. The Authority has already made efficiency savings of more than £101m since 2010 and a further £23m must be saved in 2017/18. These huge cuts come at a time when demand for some of the Authority's most costly services such as support to vulnerable adults and children's social care is increasing. These initial budget proposals aim to achieve the required savings.
- 1.5.4 The Authority is facing an incredibly tough and challenging time as is faced with steeply declining government funding as well as relentless pressure on our already reduced budgets. In light of this challenge, the Authority has listened to residents and we have set out a clear plan for the future. These initial budget proposals will protect and improve essential services for the people of North Tyneside, invest in the future of the borough, grow the local economy, creating more jobs and opportunities and build a more modern Authority that enables people to do more for themselves.
- 1.5.5 With so many competing demands to pay for services the Elected Mayor and Cabinet have taken a lot of time to scrutinise the Authority's finances. With the scale of the funding reductions, very difficult decisions have had to be made and unfortunately many more lie ahead if the Authority is to manage with less money. These proposals aim to protect essential services and make sure that the Authority operates in as efficient a way as possible, providing excellent value for money for local taxpayers.
- 1.5.6 The 'Our North Tyneside' Plan has been refreshed as part of the 2016-2019 Financial Planning and Budget process to ensure it continues to reflect the priorities

of the Elected Mayor and Cabinet and Residents. The Budget proposals set out in this report have therefore been developed in the context of the 2016-2019 'Our North Tyneside' Plan and reflect the Plan priorities. The overall direction is outlined in Annex 1 to this report. The savings to be delivered will be managed through the four service delivery themes of the Creating a Brighter Future programme which will redefine, reshape and redesign how North Tyneside Council delivers the required outcomes through a Target Operating Model.

- 1.5.7 Engagement on the Budget proposals started in the summer and will continue from 29 November 2016 and continue until January 2017. It will involve information and feedback through the Authority's website as well as focus group activity with staff, residents, businesses and strategic partners.
- 1.5.8 In February 2016 the final Local Government Financial Settlement was issued. The Authority's spending power was assumed to change over the period to 2019/20 based on an average annual increase in Council Tax (excluding the Social Care precept of 1.5%). The assumptions in Cabinet's Budget and financial plan proposals therefore include an increase to council tax of 3.99% in 2017/18. Of this increase 2.0% will part-fund the significant cost pressures the Authority faces in relation to adult social care. Whilst this additional income is welcome, and will help to mitigate the impact of these cost pressures on the Authority's overall budget, the amount raised (i.e. £1.5m) is a relatively small proportion of the adult social care cost pressures faced by the Authority. The remaining 1.99% increase in council tax will be used to fund cost pressures in other services areas.

Housing Revenue Account

- 1.5.9 The HRA faces significant challenges, not least from two pieces of Government legislation now passed into law i.e. the Welfare Reform and Work Act 2016, and the Housing and Planning Act 2016. In addition, the Authority is also facing the impact of the continued roll-out of Universal Credit and other welfare reforms.
- 1.5.10 These challenges continue to be considered as part of the updating of the 30-year plan which aims to ensure the long-term viability of the HRA. For the purposes of the current Financial Planning and Budget process a three-year revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that the second and third year projections are only indicative at this stage.
- 1.5.11 Housing Revenue account tenants will be consulted on these initial proposals and the final HRA budget will be presented to Cabinet on 18 January 2017. At that meeting Cabinet will be asked to approve the HRA Business Plan and Budget for 2017/18, including the housing rent, garage rent and service charge changes and the Housing Investment Plan.
- 1.5.12 Annex 1 to this report sets down in detail the Cabinet's 2017-2020 initial Budget proposals for the General Fund Revenue Budget, Dedicated Schools Grant, Housing Revenue Account and the 2017-2020 Investment Plan.
- 1.5.13 Cabinet's initial budget proposals are presented here based upon available information and judgements at the time of writing. There are a number of assumptions and judgements built into the figures presented here that sit mainly outside the control of the Authority and need to be finalised. The initial budget

proposals will therefore need to be subject to further review before they can be confirmed. The information to be assessed and finalised is:

- (a) The Provisional and Final Local Government Finance Settlement announcements for 2017/18, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG) (due December 2016 / January 2017));
- (b) Police and Crime Commissioner for Northumbria and Tyne and Wear Fire and Rescue Authority Precepts (due 7 February 2017 and 13 February 2017 respectively);
- (c) Levies, including the Tyne and Wear element of the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Transport Levy (The North East Combined Authority due January 2017);
- (d) Tyne and Wear Joint Service Budgets (due January / February 2017); and
- (e) Consideration of the impact of the economic climate on the residents of the borough and council tax payers.

Therefore, as some external announcements are still to be received, it is recommended that Cabinet authorises the Elected Mayor, in conjunction with the Cabinet Member for Finance and Resources and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these proposals.

1.6 Decision options:

1.6.1 The following decision options are available for consideration by Cabinet:

Option 1

Cabinet can agree the proposals set down in this report.

Option 2

Cabinet can suggest that further / different options are considered by the Senior Leadership Team.

Option 1 is the recommended option.

1.6.2 As explained in the Annex to the report, there is still a significant amount of externally provided information that has not yet been received by the Authority. On this basis, Cabinet is recommended to authorise the Elected Mayor, in consultation with the Cabinet Member for Finance and Resources, the Deputy Mayor and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these initial proposals. Recommendation 1.2.1 (l) refers.

1.7 Reasons for recommended option:

1.7.1 Due to external information still to be received, Cabinet is not in a position to finalise setting its proposed Council Tax level for 2017/18 in relation to the General Fund although these initial budget proposals assume an increase to council tax of 3.99% (including the Social Care Precept of 2%) in 2017/18. This report will form the basis of Budget Engagement and Scrutiny over the next two months, but further work will inevitably be required before final decisions are made on the budgets for next year. Hence the authorisation recommendation referred to in paragraph 1.6.2 above.

1.8 Appendices:

Annex 1:	2017-2020 Financial Planning and Budget Process – Cabinet’s Initial Budget Proposals
Appendix A:	General Fund 2017-2020 Financial Pressures Summary
Appendix B	Efficiency Plan
Appendix C	HRA 3 year financial forecasts, Growth and Pressures and Efficiency Plan
Appendix D(i)	2017-2020 Investment Plan Summary
Appendix D(ii)	HRA 2017-2020 Investment Plan-detail
Appendix E	2017/18 Financial Planning and Budget Timetable of Key Future Decision Milestones
Appendix F	Glossary of Terms

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) 2017-2020 Financial Planning and Budget Process, incorporating the Council Plan and associated Engagement Strategy, Cabinet 12 September 2016

http://www.northtyneside.gov.uk/browse-display.shtml?p_ID=566444&p_subjectCategory=41

- (b) 2016 Autumn Statement

<https://www.gov.uk/government/publications/autumn-statement-2016-documents>

http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=567414

- (c) Efficiency Statement

http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=566926

http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=566927

- (d) Chartered Institute of Public Finance and Accountancy's (CIPFA's) LAAP Bulletin Number 77: Local Authority Reserves and Balances, November 2008 (P).

- (e) 2016/17 Financial Management Report to 30 September 2016 – Cabinet 14 November 2016

http://www.northtyneside.gov.uk/browse-display.shtml?p_ID=567013&p_subjectCategory=41

- (f) Update of Welfare Reform – Housing Revenue Account (HRA)

http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=567413

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

- 2.1.1 The financial implications arising from this report are appraised as part of the decisions made about what will be included in the Authority's Financial Plan, incorporating the 2017/18 Budget setting process. Decisions on the Budget in relation to the General Fund, Housing Revenue Account, Dedicated Schools Grant (DSG) and Investment Plan need to be made within the overall context of the resources available to this Authority and within the legal framework for setting budgets. The Authority will need to examine closely the links with its 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 full 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 2017-2020, as issued in guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA) in November 2008. A provisional statement to Council by the Chief Finance Officer is included in the Annex to this report.

2.2 Legal

- 2.2.1 The Local Government Finance Act 1992 (Section 32: Calculation of Budget Requirement) 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. The Localism Act 2011 inserted a new Section 31 into the Local Government Finance Act 1992, which requires the calculation of a council tax requirement by billing authorities, rather than a budget requirement calculation, as previously. The Localism Act 2011 also abolished Council Tax capping in England. It instead introduced new provisions into the 1992 Act, making provision for Council Tax referendums to be held in England if an authority increases its Council Tax by an amount exceeding the principles determined by the Secretary of State. The current principles for local authorities with responsibility for social care (county and unitary authorities) provide that a referendum is required if Council Tax is to increase by 4% or more.
- 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 2017-2020 Financial Planning and Budget process has been prepared to comply with the time-scales required within the Budget & Policy Framework Procedure Rules contained in the Authority's Constitution and legislative requirements that the Council Tax requirement is determined before the 11 March in any year.

2.2.4 Section 76 (2) of the Housing Act 1989 requires each authority to produce a Housing Revenue Account budget in the January and February that immediately precede the financial year to which it will relate. In relation to the Housing Revenue Account (HRA) draft revenue Budget and associated Business Plan, there is a legal requirement to give all tenants four weeks notice of any rent changes. In order to allow time for the production and delivery of the appropriate notifications, the Rent and Service Charge increase will be presented to the 18 January 2017 Cabinet meeting for approval.

2.2.5 In accordance with the above and the Local Government Act 2000 (and the Regulations made under that Act) Cabinet are responsible for considering and determining the issues raised in this report.

2.3 Consultation / Community engagement

Internal consultation

2.3.1 Each Cabinet Member has been consulted on the individual proposals put forward in this report, with regular discussions held between the Chief Executive, Deputy Chief Executive, Head of Finance, Heads of Service, the Elected Mayor and Cabinet.

Community engagement

2.3.2 The 2017/18 Budget Engagement Strategy was agreed at Cabinet on 12 September 2016. The Authority's overall approach to engagement ensures that the public should have opportunities to have their say throughout the year. Between June and September 2016 there has been an extensive programme of engagement across the Borough through the 'Big Community Conversation'. Further engagement on the Cabinet's initial budget proposals will take place from 29 November 2016 to late January 2017. The Budget proposals have been shaped in the context of 'Our North Tyneside Plan 2016 -2019.

2.3.3 For the next phase of engagement there will again be opportunities for residents to have their say online, via social media and at a discussion event. There will also be meetings with key groups of stakeholders to discuss the Budget proposals.

2.4 Human rights

2.4.1 All actions and spending plans contained within the Budget are fully compliant with national and international Human Rights Law. 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

2.5.1 In undertaking the process of the Budget setting 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 an Equality Impact Assessment has been carried out on the Budget Engagement process. The aim is to remove or minimise any disadvantage for people wishing to take part in the engagement programme. Specific proposals on how services will seek to meet budgetary requirements will be subject to EIAs, which will be informed by the findings of the budget engagement. A cumulative impact assessment of all of these will also be undertaken prior to Cabinet in February.

2.6 Risk management

- 2.6.1 Individual projects within the Financial Plan and 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 operational, strategic, corporate or project 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 Projects within the Financial Plan and Budget will promote the reduction of crime and disorder within the Borough. Under the 1998 Crime and Disorder Act, local authorities have a statutory duty to work with partners on the reduction of crime and disorder.

2.8 Environment and sustainability

- 2.8.1 The Our North Tyneside plan states that "We will reduce the carbon footprint of our operations and will work with partners to reduce the Boroughs carbon footprint." A number of the proposals will contribute to this including those to reduce the Authority's energy consumption. The environmental and sustainability aspects of individual proposals will be assessed in detail as and when agreed and implemented.

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

