ANNEX 1

North Tyneside Council

2012-2015 Council Strategic Plan and Budget Setting Process:

Cabinet's Draft Council Strategic Plan and Budget Proposals

18 January 2012

widening horizons

www.northtyneside.gov.uk

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Executive Summary

In a challenging global economic environment North Tyneside Council must change the way it has historically operated in order to achieve the efficiency savings that are required of local government, whilst enabling the best services possible to be delivered.

The Council has to contribute to the national commitment to reduce structural budget deficit and manage the challenge of having 28% less money available to spend by accepting it needs to do things differently – and realistically that means sometimes delivering less than before. At the same time it must deliver a budget not just for now, but for the future too. It is a challenge the Council has planned for and is prepared to respond to, using its track record of managing change and delivering excellent services.

That means making decisions focused on strategic priorities and the needs of the borough to facilitate the services that matter most to residents, while also supporting the borough's growth through investment and business success, to protect and grow new jobs. Strong partnership working and innovation will achieve maximum benefit from available resources, drive out inefficiency and support value for money.

But changing the way the Council works - and changing the way the organisation is shaped - will not detract from it remaining democratically led and publically accountable for every penny it spends.

One of the key drivers of the Coalition Government's fiscal programme was to develop proposals that would lead to the elimination of the public sector structural budget deficit. This emphasis has led to a series of new challenges for local government to overcome in respect of how we use our resources in the most efficient manner while at the same time providing the best services possible for our residents. The Chancellor has recently commented that the period of austerity may well extend to 2017.

The Provisional Local Government Finance Settlement for 2012/13 results in a Formula Grant reduction of £7.6 million (8.2%) for North Tyneside Council. This is part of the Spending Review 2010, which set out reductions to local government funding of 28% over the four years from 2011/12. To tie into the Government's timescales, we have moved to a three-year planning timeframe for this year from our previous four year process. A ten-year planning period remains in place for Capital.

As a result of the changes to local authority funding, our financial environment is undergoing a radical change over the next three years, with the emphasis for financial planning now shifting much more towards savings and efficiencies, the continued close control of costs, a focus on our priorities and new ways of working. North Tyneside Council is well prepared to take on the challenges resulting from these changes and new expectations of local government, as this fundamental change to the way services are delivered is being driven forward through the Change, Efficiency and Improvement (CEI) programme. This CEI programme sets a new direction for the Council – a direction that empowers people and creates opportunities as well as accepting the need to find new solutions to current and future demands.

To address these challenges the Council must drive forward in a new direction with a clear vision and priorities. The Council cannot achieve this level of savings without fundamentally changing what we do and how we do it. Plans are being put in place to prepare for the demographic changes ahead and build for the future, ensuring that the borough is well placed to continue to grow and thrive, despite the current economic climate.

The approach is an ambitious one, but it is one that will set a new direction for the Council, empower local people, widen horizons and create opportunities. It is an approach embedded in growth with well targeted plans to deliver savings in ways that will secure the longer term future for services and better outcomes for residents. Inevitably this has involved some difficult choices but our approach so far has been to be proactive.

This could involve a new role for many Council services – less direct delivery of services and more commissioning and partnership arrangements with a broader range of providers in the voluntary / community, private and public sector.

The financial plan includes £47.658m of savings to be achieved by this programme over the four years from 2011/12 to 2014/15, of which £16.051m are planned to be achieved in 2012/13.

The inclusion of these levels of savings in this budget represent a higher risk to the Council in terms of deliverability than in previous years. In order to reflect this, it is proposed that the general contingencies budget remains at the 2011/12 amount of £2.785m. This would represent over 15% of the value of the CEI savings required to be delivered in 2012/13 and is felt to be prudent as the pressures that have been highlighted through financial management reports in 2011/12 are addressed as part of this budget setting process. An additional £0.230m is proposed to be added to contingencies in respect of the grant awarded to support the roll out of free education places for disadvantaged 0-2 year olds. This is included as a specific contingency as detailed plans for the use of this funding are still to be developed. This brings the total level of contingency in 2012/13 to £3.015m.

The cornerstone of the process is the 2012-2015 Council Strategic Plan, which sets the overarching vision and priorities for the Council and details how the Council will achieve this. This year we have taken the opportunity to begin to create a different relationship with our residents and stakeholders, taking the lead from the Government's drive to ensure relationships and services are developed in partnership more than ever before. The Council Strategic Plan has seven priorities, which will be used to guide the Council over the next three years.

Although the emphasis of the budget setting process relates to savings and efficiencies, additional revenue budget provision is proposed in several key areas so that the Council can deliver its priorities and address the known emerging pressures that have been highlighted in 2011/12.

£0.200m of funding is included in the budget as 'pump priming' investment to enable the CEI programme to deliver the required efficiency savings. It is planned to fund this investment by a contribution from the Strategic Reserve. Funding is also included for the Joint Service Centres of £0.040m for Wallsend and £0.151m for Whitley Bay, which are part year effects in 2012/13 and an additional £0.200m for Contact Centre Investment. In addition, £1.270m is included for the Capital Plan revenue cost of borrowing. This figure includes £0.589m to fund the expected cost of borrowing arising from Equal Pay costs. £0.400m is also included to reflect the agreed level of management support to Kier which is much lower than had been included in previous years' Financial Plans as a result of contract negotiations.

The specific areas of growth in the 2012/13 budget to fund emerging pressures include £1.000m for Safeguarding / Child Placement and Children's Disability Placement pressures that have arisen in 2011/12 due to increased costs of looked after children and some fall out of grant relating to respite provision for children with a disability. There is also a pressure of £1.500m within the Learning Disability Service caused by increased costs, increased numbers and a greater proportional increase in more severe forms of disability. The estimated impact of potential increases in Energy costs over the next year of £1.410m is also included. The additional funding of £0.300m for the Highways and Engineers frontline budget is to reflect the limited ability of the service to achieve the overhead recovery that is associated with these budgets due to the reduction in the Local Transport Plan.

The items in respect of the New Homes Bonus additional spending power (£0.335m), Extended Rights to Free Travel (£0.013m) and Troubled Families Support (£0.080m) represent the expenditure plans to reflect recent grant changes, mainly as announced in the Provisional Local Government Finance Settlement for 2012/13 on 8 December 2011.

The 2012-2022 Capital Plan includes £346.186m of investment in the borough (£97.669m General Fund and £248.517m Housing). Major schemes included within the plan for 2012/13 include £3.748m for the Local Transport Plan, a further £1.000m for Roads and Pavements, £1.350m for Coastal Developments, £1.000m for Youth Facilities and £2.338m for Excellent Parks. In addition to this, a further £16.297m is included for Housing schemes. Education capital grant allocations totalling £5.840m were announced on 13 December 2011 and are now included in the draft Capital Plan. Where new bids have been made these have been included on a Reserve list and will be considered for inclusion in the approved Capital Plan as appropriate.

The Cabinet need to confirm what level of Council Tax is to be proposed for 2012/13, within the context of this report and available resources. By making use of the Government's Council Tax Freeze Grant, which has been announced as a one off grant for 2012/13, the proposals included in this report for general fund services would allow Cabinet to propose no increase for 2012/13, i.e a zero percent increase in the Council Tax levels for 2012/13. Cabinet is reminded that this report is presented based upon available information at the time of writing and that there are still a number of funding announcements to be made before any final recommendations to Council can be made.

Housing

The Housing Revenue Account (HRA) is a separate landlord account that reflects revenue expenditure and income relating to the Council's own housing stock. Under powers now enacted under the Localism Act 2011, a major change is proposed from 1 April 2012. This change will see the introduction of self-financing HRAs and the abolition of the current HRA Subsidy system, where councils that are deemed by Government to be making a surplus on their HRA will be required to pay into a central pool, which subsidises "loss-making" authorities. In 2011/12 actual subsidy payments made by this authority are projected to be in the region of £7m.

In future, stock-owning councils will be able to keep all rents collected locally and will pay no subsidy to Central Government; the “price” for this change will be a one-off allocation of the National HRA Debt, which will be £129.834m for North Tyneside Council. This allocation takes into account assumptions of increased expenditure allowances in particular in relation to Major Repairs, which will make additional resources available over the 30-year life of the business plan averaging over 10% extra per annum.

A central assumption in the Government’s self-financing model is that authorities will continue to implement the national rent restructuring policy which provides a coherent framework for setting rents across all local authorities and registered providers to achieve, a convergence date of 2015/16. Because of the historically low rent levels set by North Tyneside Council prior to 2002 when rent restructuring began, the path to convergence has been steeper for this authority than for many others. Therefore, continuing on this path necessitates an average rent increase of 9% for 2012/13, which is reflected in the Budget proposals, and average increases of RPI + 0.5% plus up to £2 per week for the following three years. The impact of this will be a business plan that is in a much better position to meet the management, maintenance and investment needs of the existing stock for the next 30 years. The business plan includes a programme of new house-building, which could see over 900 homes built over the next 30 years.

The HRA business plan also includes the net implications of the Quality Homes for Older People Private Finance Initiative Scheme, and 2012/13 will see a final preferred bidder selected and construction begin on a scheme worth in the region of £300m over the next 30 years. In addition 2012-2022 will see the delivery of a Housing Capital Plan totalling over £248m, with £16.297m delivered in 2012/13 including £5.236m on kitchens and bathrooms and £3.613m on central heating and electrical works.

There are also proposals for increasing service charges in line with RPI.

PART I

(to be received by Council on 2 February 2012)

Section 1.0
The 2012-2015 Council Strategic Plan and Budget Setting Process

1.1 Introduction

At its meeting on 12 September 2011, Cabinet approved the process and timetable to be adopted for the preparation of the draft Council Strategic Plan, 2012/13 revenue budgets in respect of the , dedicated schools grant (DSG) and housing revenue account (HRA), and the 2012-2022 capital plan, as part of the overall Council Strategic Plan and Budget Setting process for 2012-2015. Cabinet also approved the Council Strategic Plan and budget engagement strategy at that meeting.

On 28 November 2011, Cabinet considered its draft Council Strategic Plan and initial budget proposals so that these proposals could go forward as part of Council Strategic Plan and budget engagement with the Council's partners and communities. Cabinet should note that the proposals cover a three-year planning period from 2012-2015 to align with the remaining period of the Spending Review, except the Capital Plan which is set within a ten-year planning horizon.

This document now presents, for Cabinet's consideration, the estimates of amounts for all aspects of its proposed spending and resource plans that are required to support delivery of the draft Council Strategic Plan for 2012-2015. Consideration also needs to be given to the level of Council Tax to be set for 2012/13 and the proposed housing rent, garage rent and service charge increases for 2012/13.

The Senior Leadership Team has been fully involved in the budget setting process and all of the Senior Leadership Team are in agreement with the proposals that are contained in this budget report.

Cabinet's draft Council Strategic Plan and estimates of amounts 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 lie mainly outside the control of the Council and need to be finalised. The estimates of amounts will therefore need to be subject to further review before full Council can approve the Council Tax level for 2012/13 and the 2012-2022 capital plan. The information to be assessed and finalised is:

(a) Tyne and Wear Fire & Rescue Authority and Northumbria Police Authority Precepts (due 20 February 2012 and 22 February 2012 respectively);

(b) Levies, including the Tyne and Wear Integrated Transport Authority (ITA) (due January / February 2012);

(c) Tyne and Wear Joint Service Budgets (due January/February 2012);

(d) The Final Local Government Finance Settlement announcements for 2012/13, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG) and Council Tax Freeze Grant) final detailed information (due late January 2012/ February 2012);

(e) The Final Housing Revenue Account Self Financing Determination for 2012/13 (expected 28 January 2012); and

(f) Final consideration of the impact of the economic climate on the residents of the borough and council tax payers.

In addition to the information outstanding as detailed above, there may be amendments to the proposals set down in this report in response to any recommendations from Overview and Scrutiny Committee. In addition, as the Budget and Council Strategic Plan Engagement process will continue until 31 January 2012, any further comments received from residents after the drafting of this Cabinet report but before the 1 February 2012 will be considered by the Elected Mayor and presented as an addendum to the report to Council on 2 February 2012.

1.2 Budget and Policy Framework Procedure Rules in relation to the Council's Budget and Council Strategic Plan

The Budget and Policy Framework Procedure Rules are set out in Part 4.7 of the Council's Constitution. The Council Strategic Plan is guided by paragraph 4.7.4 covering the process for the preparation, consideration and final approval of plans and strategies and the Budget is guided by paragraph 4.7.3 covering the process for the preparation, consideration and final approval of the Council's Budget. The constitutional requirements for preparing, considering and approving the Council Strategic Plan and Budget drive the timetable for the Council Strategic Plan and Budget Setting process.

The development of the Council Strategic Plan and Budget is following the same timetable as in previous years. The priorities in the Council Strategic Plan provide the strategic framework within which budget resources are allocated. The timetable is set out in Section 1.6 of this report.

The Council Strategic Plan and Budget Setting process is a fundamental part of the overall governance and assurance framework of the Council. This in turn provides assurance that is considered as part of preparing the Annual Governance Statement each year.

1.3 The Council Strategic Plan and Budget Setting Process for the 2012–2015 planning period

This year, there is a move to a three-year planning timeframe from our previous four year process. This is due to a number of factors – most significantly, the Spending Review which was a four year Review from 2011/12. Hence, information is only available to cover the period to the end of the 2014/15 financial year.

In order to deliver the savings the Council needed over the period of the Spending Review, the Council established it's Change, Efficiency and Improvement (CEI) Programme. This Programme is now in its operational phase. The focus for the Council's financial planning for 2012/13 and following years has therefore been to identify savings and efficiencies in order to allow the Council to meet the challenge of delivering the scale of change necessary.

In addition, the Local Prudential Code, which is used to help inform decisions on borrowing requirements for capital investment, has been reviewed to ensure affordability and value for money. The Code is attached as Appendix K to this report.

1.4 Widening Horizons – The Draft Council Strategic Plan 2012-2015

This year we have taken the opportunity to create a different relationship with our residents and stakeholders, taking a lead from the Government's drive to ensure relationships and services are developed in partnership more than ever before. We have engaged with residents and partners to identify, in order of importance, where resources should be targeted and how services should be delivered.

The first stage of the engagement process with residents and stakeholders concluded that the following priorities should be noted in the following order of importance. The Council Strategic Plan and budget engagement strategy continues to cover the period from September 2011 until the end of January 2012. A full report containing the outcomes of the engagement process up until 18 January 2012 is set out in Appendix B. As previously mentioned, as the Budget and Council Strategic Plan Engagement process will continue until 31 January 2012, any further comments received from residents after the drafting of this Cabinet report but before the 1 February 2012 will be considered by the Elected Mayor and presented as an addendum to the report to Council on 2 February 2012.

OUR PRIORITIES

We have seven priorities to guide us.

- Delivering sustainable growth;
- Delivering excellent education, skills and employment;
- Supporting people to be healthy and independent and protecting the vulnerable;
- Creating safe and secure communities;
- Protecting and enhancing the environment;
- Helping people to make a positive contribution; and
- Making change happen, improving customer service and facing up to our financial challenges.

The full draft of the Council Strategic Plan is set out at Appendix A.

Cabinet should note that as the Council Strategic Plan forms part of the budget and policy framework, approval of the plan is a decision reserved to full Council. There may, however, be the need to amend the plan during the year. The Officer Delegation Scheme makes provision for delegated authority to the Chief Executive to approve and make necessary in-year changes to the annual plans following sign-off by Council unless the change would:

(a) Have a budgetary impact outside the financial regulations framework;

(b) Have an impact on other strategic plans; and/or,

(c) Involve the insertion or deletion of a key objective from the plan.

In these circumstances, Council would be required to approve the changes.

1.5 Defining our Financial Strategy

Good practice ('Improving Budgeting: Modernising the Cycle,' CIPFA 2008), highlights the need for medium-term planning horizons. The Council's three-year planning timeframe will assist in ensuring that there is a clear demonstration of sustainability in its plans for the future.

The approach to resource planning for 2012-2015 has concentrated on ensuring all of the above drivers are embedded into the decision-making process for the allocation and re-direction of the Council's finite resources, financial and otherwise. In addition, there has been a review of the current financial plan forecasts and commitments for revenue, capital investment and housing finance. The Financial Strategy has been subject to its annual review.

Schools revenue funding is mainly directed through the DSG; however, we have ensured appropriate consultation and inclusion of schools and young people within the Council Strategic Plan and Budget Setting process.

1.6 2012/13 Council Strategic Plan and Budget Setting Timetable of Key Decision Milestones

Key aspects of the 2012/13 Council Strategic Plan and Budget Setting timetable are summarised in Table 1 below. This highlights key decision milestones in the process. This information has been supplemented by a detailed operational timetable for 2012/13.

Table 1: 2012/13 Council Strategic Plan and Budget Setting Timetable of Key Milestones – to date all of these milestones have been met.

Date / Meeting	Detail
4 July 2011 **Overview and Scrutiny Committee**	All Member Conference to consider the CEI programme and how Scrutiny can provide challenge and support to the programme.
28 July 2011 **Council**	Council considers the report on the proposed restructure of the Overview and Scrutiny arrangements. This determines the Scrutiny process for the 2012/13 Budget.
5 September 2011 **Overview and Scrutiny Committee**	Overview and Scrutiny Committee meeting to determine the scrutiny arrangements for the 2012-2015 Council Strategic Plan and Budget process.
5 September 2011 **Overview and Scrutiny Committee** 8 September 2011 **Council**	Report of the sub group established by Finance Sub Committee to examine the Notice of Objection process for 2012/13 presented firstly to Overview and Scrutiny Committee and then to Council.
6 September 2011	Council Strategic Plan and Budget Engagement process begins. Ends 31 January 2012.
12 September 2011 **Cabinet**	Cabinet approves the process being proposed for 2012–2015 Council Strategic Plan and Budget Setting process and associated Engagement Strategy for 2012/13.
12 September 2011 to 31 October 2011	Detailed work undertaken on the 2012-2015 Council Strategic Plan and Budget Setting process
27 September 2011 **All Members' Council Strategic Plan & Budget Briefing**	First All Members' Council Strategic Plan and Budget Briefing for consideration of the CEI programme and Council Strategic Plan and Budget Setting process.

Date / Meeting	Detail
12 October 2011 **All Members' Council Strategic Plan & Budget Briefing**	First All Members' Council Strategic Plan and Budget Briefing re-run for those Members not able to attend the 27 September 2011 session for consideration of the CEI programme and Council Strategic Plan and Budget Setting process.
31 October 2011	Initial Equality Impact Assessments to be completed.
28 November 2011 **Cabinet**	Cabinet considers its 2012-2015 Council Strategic Plan proposals and initial budget proposals in relation to , schools, housing revenue account business plan and Capital Plan.
29 November 2011 **All Members' Council Strategic Plan & Budget Briefing**	Second All Members' Council Strategic Plan and Budget Briefing for consideration of the Cabinet's initial 2012-2015 Council Strategic Plan and Budget proposals.
1 December 2011 **All Members' Council Strategic Plan & Budget Briefing**	Second All Members' Council Strategic Plan and Budget Briefing re-run for those Members not able to attend the 29 November 2011 session for consideration of the Cabinet's initial 2012-2015 Council Strategic Plan and Budget proposals.
8 December 2011	2012/13 Provisional Local Government Finance Settlement announced.
End of December 2011	Full Equality Impact Assessments completed
9 January 2012 **Overview and Scrutiny Committee**	Overview and Scrutiny consider the results of their review of the 2012-2015 Council Strategic Plan and Budget Setting process.
18 January 2012 **Cabinet**	Cabinet considers its draft Council Strategic Plan and budget proposals for 2012-2015 in relation to revenue, schools, housing revenue account business plan and Capital Plan, taking into account feedback received as part of Council Strategic Plan and Budget Engagement process.
2 February 2012 **Council**	Cabinet submits to the Council its estimates of amounts for the 2012-2015 Council Strategic Plan, budget & Council Tax levels. Consideration of any Amendments to the Housing Revenue Account aspects of the proposals. Annual housing rent increase for 2012/13 approved by Council as part of the HRA business plan.

Date / Meeting	Detail
21 February 2012 **Council**	Reconvened Council meeting to consider Cabinet's estimates of amounts for the 2012-2015 Council Strategic Plan, budget and Council Tax levels. Consideration of any Notices of Objection.
23 February 2012 (if required) **Cabinet**	Cabinet Meeting to consider any objections to Cabinet's Council Strategic Plan and Budget proposals.
1 March 2012 (if required) **Council**	Council meeting to agree the Council Strategic Plan for 2012-2015, the revenue budget for 2012/13; the Council Tax level for 2012/13 and Capital Plan for 2012-2022.

1.7 Managing our Risks

The Council has used the information that it holds in relation to strategic risks as part of managing its business and has looked to implement strategies to minimise financial and other risks by deploying resources appropriately. The 2012–2015 Council Strategic Plan and Budget Setting process has included specific consideration of how to address key business risks faced by the Council. Services are continuing to consider ways in which to minimise or eliminate risk from business decisions, particularly in relation to capital investment schemes and major CEI projects.

1.8 Outstanding Information

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

1.9 Delegation to amend Cabinet's Estimates of Amounts

With reference to paragraph 1.1 above, it is proposed that the Elected Mayor is granted delegated authority to consider any changes that may need to be made to Cabinet's estimates of amounts in light of external information still to be assessed and finalised in relation to:

(a) Tyne and Wear Fire & Rescue Authority and Northumbria Police Authority Precepts (due 20 February 2012 and 22 February 2012 respectively);

(b) Levies, including the Tyne and Wear Integrated Transport Authority (ITA) (due January / February 2012);

(c) Tyne and Wear Joint Service Budgets (due January/February 2012);

(d) The Final Local Government Finance Settlement announcements for 2012/13, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG) and Council Tax Freeze Grant) final detailed information (due late January 2012/ February 2012);

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(f) Final consideration of the impact of the economic climate on the residents of the borough and Council Tax payers.

In addition to the information outstanding as detailed above, there may be amendments to the proposals set down in this report in response to any recommendations from Overview and Scrutiny Committee. In addition, as the Budget and Council Strategic Plan Engagement process will continue until 31 January 2012, any further comments received from residents after the drafting of this Cabinet report but before the 1 February 2012 will be considered by the Elected Mayor and presented as an addendum to the report to Council on 2 February 2012.

Section 2.0
Widening Horizons
The Draft Council Strategic Plan 2012-2015

2.1 Council Strategic Plan Development

This year's Council Strategic Plan and Budget Setting process has been developed to align with a considerable change in national policy direction in the reform of public services. Although our challenge is to meet the efficiencies set to reduce the structural budget deficit by 2015, it is also about being innovative in the approach we take in how services are delivered and with the relationship we have with residents.

This year's Council Strategic Plan 2012-2015 reflects how this will be achieved, laying out what we will be doing within the Council's Change, Efficiency and Improvement programme. This Section of the document sets down the proposed priorities for the Council to deliver over the period 2012-2015. These have directly informed the formulation of the budget proposals and the development of the Council's financial strategy and resource plans. The full draft of the Council Strategic Plan is set out in Appendix A.

The 2007 Local Government and Public Involvement in Health Act removed the legal requirement to publish an annual Performance Plan. However, we will continue to use various forms of reporting and engagement to ensure elected Members of the Council and members of the public are able to monitor progress against the Council Strategic Plan. This includes performance reporting to Cabinet and Overview and Scrutiny Committee.

In preparation of the 2012-2015 draft Council Strategic Plan and 2012/13 Budget proposals the Elected Mayor and Cabinet have also considered the implications of:

(a) The North Tyneside Sustainable Community Strategy;

(b) The latest Residents' Survey and other information about residents and other stakeholders' priorities gained during engagement;

(c) The needs of the borough and how they are projected to change; and

(d) National policy priorities.

2.2 Linking the 2012-2015 Council Strategic Plan to the North Tyneside Strategic Partnership (NTSP) Sustainable Community Strategy

Table 2 below sets out how the Council Strategic Plan priorities link to the delivery of the NTSP Sustainable Community Strategy for North Tyneside. The overall vision of the Sustainable Community Strategy is:

"We want North Tyneside to be a place of opportunity, prosperity and vibrancy. A place where people are happy, healthy, safe, able to participate in a flourishing economy and achieve their full potential."

Table 2: Council Strategic Plan Priorities link to the Sustainable Community Strategy

Sustainable Community Strategy 2030 vision	**Council Strategic Plan Priority Theme for Action**
The North Bank of the Tyne is established as a zone of global significance in the renewable and marine industries, where our economic renewal is supported by an innovative higher education offer	Priority 1 o As the new Enterprise Zone is established, we will undertake infrastructure improvements to facilitate major investment in the marine and offshore wind sector which will have a significant impact on the business and employment prospects for the Swan Hunter site, the Port of Tyne North Estate and broader River Tyne North Bank
North Tyneside plays a full part in the renaissance of the North East as a prosperous, innovative and distinctive region	
A diverse range of businesses across the borough achieve their economic potential	Priority 1 o Develop enterprise and employability skills working with the Local Enterprise Partnership to help deliver a strengthened skilled workforce
Our children and young people have high aspirations, enjoy their childhood and acquire the skills to support their own and the borough's wellbeing and prosperity	Priority 2 o Review early years and family support service to ensure vulnerable and young families have the best start in life o Increase activities and provision for 13+ to make sure young people grow well and make a positive contribution Priority 3 o Continue to develop the Learning Village
Our town centres are renewed, easily accessible and provide a wide range of shops and services	Priority 5 o Remodel our Customer First Service in town centres o Continue to support business development within the town centres
Our local environment is clean, green, attractive and sustainable	Priority 5 o We will continue to review all of the maintenance regimes of our green areas, town centres and seafront to ensure they remain sustainable and

	affordable
Our stunning coastal strip and unique cultural assets are enhanced and enjoyed by residents and visitors alike	Priority 5 o We will provide high quality floral displays at; areas of tourism importance (such as the seafront), within our parks & cemeteries, town centres and strategic roundabouts Priority 3 o We will continue to develop the coastal area in accordance with the objectives of the approved Coastal Regeneration Strategy
Opportunities to engage and participate in sport, culture and the arts are available to all	Priority 3 o We will support sustainability and growth of sport and cultural organisations to deliver a wide offer of opportunities o We will commission sport clubs and organisations to deliver activities in areas of need o We will develop a framework for the investment in the tourism infrastructure of the coast and river corridor from St Mary's Lighthouse to the World Heritage site at Segedunum Roman Fort and Museum in Wallsend, and promote a coherent, cultural offer
Health inequalities are reduced and people receive the care and support they need to enjoy healthy lifestyles at all ages	Priority 3 o Continue to promote the use of Personal Budgets to enable vulnerable people to have more choice and control over the services they receive or the activities they wish to take part in. o Offer more support to enable people to take their Personal Budgets as direct cash o Continue the work of the Adult and Children Safeguarding Boards to ensure that safeguarding is everyone's business. o Work with NHS and schools to improve the health and wellbeing outcomes for children and young people o We will maximise the opportunities for residents and visitors to the Borough to participate and benefit from our cultural offer, to improve health outcomes

Our borough is welcoming and everyone has the chance to contribute to their community. Differences between people are valued and respected, and everyone has similar life opportunities	Priority 6 o We will support development of volunteering schemes within the Borough o Work with the community and voluntary sector to continue to support, build and strengthen their capacity to be a fundamental partner in the future commissioning and design of good public services
Neighbourhoods are friendly, inclusive, safe and connected, offering a range of quality housing options and local facilities	Priority 4 o We will work in partnership to tackle local problems that affect our communities with particular attention to those communities suffering disproportionately from crime and anti social behaviour. o Continue to increase public confidence and provide reassurance to vulnerable people by installing crime prevention measures to protect them from crimes such as household burglaries o Listen to, understand and respond to residents' community safety concerns by publicising the action we have taken o Meet the challenges for safeguarding vulnerable adults emanating from the personalisation agenda across social care and the increased emphasis on choice and control
People, young and old, feel a sense of pride in and belonging to our area, are involved in volunteering, and are engaged in shaping the decisions that affect their lives	Priority 6 o Develop opportunities to allow our residents to influence decisions around the services that impact upon them o Develop the area forum meetings giving more control to enable residents to influence decisions and topics of discussion, which has been highlighted, in recent engagement events, as something residents want to see happen

2.3 What our residents tell us

The Council Strategic Plan also responds to what the people of North Tyneside say are their service priorities.

The Council gathers feedback through an annual face to face Residents' Survey of more than 2,600 adult residents and carries out engagement activities with children and young people, older people and with users of specific Council services. This enables these services to contribute to the Council Strategic Plan process as well as to shape their own Service Plan.

The following shows the key areas of improvement and priorities of residents, taken from the most recent Residents' Survey in 2011.

The most significant improvements that the survey shows are in:

- Satisfaction with North Tyneside as a place to live (up by 5 percentage points since 2008 to 80%).
- People feeling safe after dark in North Tyneside (up by 12 percentage points since 2008 to 60%).

As well as showing significant improvements since 2008 in the areas identified in Section 2.2, the results are also generally positive for the survey overall, particularly in terms of satisfaction among users of specific services. Satisfaction among service users, in the majority score between 66% and 95%. Below are the top five rated services:

- Beaches - 95% user satisfaction;
- Waste collection – 93% user satisfaction;
- Local libraries – 88% user satisfaction;
- Kerbside recycling – 88% user satisfaction; and
- Local tip facilities – 86% user satisfaction.

While the results for the 2011 survey are generally positive, they also show that the residents of North Tyneside believe the following three areas are most in need of improvement:

- Road and pavement maintenance - suggested by 64% of residents;
- Activities for teenagers (13 years or older) - suggested by 35% of residents; and
- Community involvement and influence in local decision - making processes - 65% of residents believe they cannot influence decisions. (However, it is worth noting that 60% of residents did say that, depending on the issue, they would like to be involved in decisions affecting their local area).

It is also worthy of note that the first two areas identified (road and pavement maintenance and activities for teenagers) feature in other satisfaction surveys across the country in terms of residents wishing to see improvement.

2.4 Focus on needs

A range of data has been analysed for the preparation of the 2012-2015 Council Strategic Plan.

The 2010 Index of Multiple Deprivation showed that significant percentages of the borough still live in areas of deprivation.

Table 3 - Estimated population in 2009 living in areas ranked as amongst the worst 20% nationally according to the 2010 Index of Multiple Deprivation.

Type ("domain") of Deprivation	% of population in deprived areas[1]
Employment	35
Health and Disability	27
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Our Population

The population of North Tyneside continues to grow and is projected to increase from 196,000 in 2008 to 231,300 by 2033. The age profile of the population is projected to change significantly with 23% of the population over 65 by 2030 compared with 17% in 2008. The growth in the number of older residents will create challenges in supporting these residents as they age. However, there are also opportunities offered by the growth in this age group, for example, nationally 65% of volunteers are aged 50 or over. It is important to note that these changes are projections of current trends rather than forecasts of what will actually happen.

The 'prime age' population is projected to reduce slightly from 25% of the population to 24%. This is the most mobile and highly qualified section of the workforce and is crucial to sustain a competitive economy.[1]

The Office for National Statistics estimated that percentage of non-'white British' North Tyneside residents has grown from 3.2% in 2001 to 7.3% of the population in 2009. The largest group within this 7.3% was 'other white' (for example from elsewhere in Europe), and was estimated to make up 2.1% of the total population in

[1] Tyne and Wear Economic Assessment
[2] ONS Inter-Departmental Business Register 2009

2009. The next largest group is 'Asian or Asian British', which was estimated to make up 1.8% of the total population in 2009.

Our Economy

The proportion of the population (age 16-64) estimated to be economically active in North Tyneside was 81.1% in 2010, significantly higher than regional and national rates. The borough now forms a key part of the Tyneside economic area and is proving an attractive business location due to a combination of major business parks, good communications and available workforce. The number of registered enterprises in North Tyneside grew by 22.8% between 2000-2009, more than Tyne and Wear, the North East and England [2].

The economic downturn from mid 2008 onwards has had an impact across the borough with an increase in those out of work. The number of people in receipt of Jobseeker's Allowance increased from 2.9% of the age 16-64 population in January 2008 to 4.7% in January 2011. There have been relatively few large-scale business closures in North Tyneside during this period.

The public sector accounted for an estimated 24.6% of total employment (employees plus working proprietors) in the borough in 2009[3]. Some estimates put the possible reduction in the number of public sector jobs in the North East at between 20,000 and 30,000 by 2015/16.

North Tyneside will therefore play its full part working with the North Eastern Local Economic Partnership in rebalancing and growing the local economy by supporting measures to ensure growth in private sector jobs. This will include encouraging an enterprising culture, a proactive approach to new and existing businesses, supporting the continued development of existing strategic employment sites such as Quorum and Cobalt business parks, and, focused initiatives in key regeneration areas such as the River Tyne North Bank and the Coast. Enterprise Zone designation for the Port of Tyne North Estate and the former Swan Hunter site together with funding opportunities from the Regional Growth Fund, Growing Places Fund and European Regional Development Fund will provide significant incentives to businesses, particularly in the river corridor, to grow and diversify into new and emerging advanced manufacturing markets, especially in relation to renewable energy, such as offshore wind, and other low carbon sectors.

Our Quality of Life

There are 94,031 homes in North Tyneside. Approximately 73,000 are privately owned (78%) and of these approximately 9,000 are rented privately. The council owns and manages 15,522 homes (16%). Registered Providers (Housing Associations) own and manage the remaining 5,683 (6%) of homes[4]. Of the privately owned homes in the borough around 35%[5] are estimated to be non-decent (i.e. they do not meet the National Decent Hones Standard) and around 3.4% are

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2 ONS Inter-Departmental Business Register 2009
3 ONS Business Register and Employment Survey 2009
4 Housing Strategy Statistical Appendix 2011
5 NTC Private Sector Housing Stock Projections 2011 Update

currently empty[6]. Bringing empty homes back into use improves the local environment and provides more housing to meet need.

There is a high level of semi-detached properties and flats / maisonettes in North Tyneside compared to the North East region and nationally. However, the borough has a lower number of detached or executive homes compared to other areas. The average cost of buying a home in North Tyneside is £121,000[7]. Currently, the affordability ratio in North Tyneside is 5:1[8]. This means that the cost of buying an average house in North Tyneside is five times the average income in the borough. There is an annual shortfall of 479 affordable homes[9] in the borough to meet identified housing need.

Since 2002 recorded crime has reduced year on year and feelings of safety among residents have improved steadily since 2005.

The Council continues to pursue grants to support investment in the borough. For example, three wards have benefitted from the Council's successful application for Community First Grant funding and the Council are pursuing a bid for Heritage Lottery Funding for investment in Cullercoats.

Health inequalities

Health inequalities remain an issue for North Tyneside. There is a difference in life expectancy of around 11.5 years for men and 9.1[10] for women between the most and least deprived areas of the borough. It is estimated that up to half of this difference in life expectancy is due to smoking as this contributes to the two major causes of death in the borough: cardiovascular disease and cancer.

Environment

The borough is a relatively low carbon emitter compared to other areas but this will need to reduce further to meet the UK's carbon reduction targets. There will also be an increasing need to plan for the effects of climate change. For example, flooding may damage roads and affect business productivity whilst increasing temperatures may affect bio-diversity and increase health risks, particularly amongst vulnerable people.

Young People

Children's Services are one of 18 local authorities nationally to have retained their 'Outstanding' Ofsted rating. In recent years we have seen a significant increase in the number of children who require a Child Protection Plan and in those who enter the care of the Council.

The proportion of children living in families in receipt of out-of-work benefits (a proxy measure for child poverty) as of May 2009 was 21.3% in North Tyneside. This is

[6] Council Tax Data November 2011
[7] Land Registry, 2011
[8] Hometrack, December 2010
[9] North Tyneside Strategic Housing Market Assessment Key Elements Update, 2011
[10] Based on Slope Index of Inequality 2005-2009, North Tyneside Health Profile 2011

lower than the national average and only Northumberland in the North East has a lower percentage. In terms of numbers, at May 2009 there were 7420 children aged 0-15 living in out-of-work benefit households, at May 2010 this figure reduced to 7320.

Our early years pupils achieve positive outcomes, including those from deprived backgrounds. Pupils achieve GCSE results that are in line with or exceed the national average. The gap in outcomes between vulnerable pupils and their peers remains at GCSE level and has actually increased in the case of young people with Special Educational Needs and those receiving Free School Meals. Levels of persistent absence from school are low and there have been no permanent exclusions from schools for four years. The majority of schools are rated as good or outstanding by Ofsted, with behaviour found to be good or outstanding in 93% of schools.

Outcomes post -16 are improving but fewer 19 year olds achieve a level 3 qualification than the national average. The latest data, 2010/11, shows level 2 qualifications by age 19 to be in the 2nd quartile nationally while the proportion of 19 year olds achieving a level 3 qualification is in the 3rd quartile 1.8% behind the national average. Overall, progression to Higher Education (HE) continues to rise but remains below the national levels.

Inequalities in achievement at 16+ years persist with young people from deprived backgrounds less likely to achieve higher skills by age 19 or enter higher education. We have reduced the proportion of young people who are not in education, employment or training but further progress is required.

2.5 Respond to performance issues identified by our own performance monitoring

Performance against the Sustainable Community Strategy 2010-2013 has been reported to, and discussed by Cabinet and the Senior Leadership Team. This shows our performance on the Council's performance measures used to monitor progress against the objectives outlined in the Sustainable Community Strategy 2010-2013. At the end of 2010/11, in total, 17 measures did not achieve their 2010/11 target; examples of which are Engagement in the Arts and Inequality gap in the achievement of a Level 3 qualification by the age of 19. Full details can be found in the full report entitled North Tyneside Strategic Partnership Annual Performance Report 2010/11 which was presented to Cabinet on 13 June 2011.

2.6 Engagement on the Council Strategic Plan and Budget

North Tyneside Council is committed to being a resident - focused Council. One key requirement for achieving this is to ensure that residents' views are gathered and considered during the annual Council Strategic Plan and Budget Setting process. The Council Strategic Plan and Budget Engagement Strategy for 2012/13 aimed to continue the stepped improvements to the process which we make each year. The public increasingly expects to be consulted about their local services and have their say in how their money is going to be raised and spent. Our aim was for the Council to increase the involvement of local people in decisions about the level of Council Tax and budget issues.

All of the groups we engaged with last year were consulted as part of this process. This year we also included consultation with minority groups in the community and Sure Start centres. We have also publicised the opportunities to engage more widely via social media to raise awareness of the consultation events. As part of the 2012/13 process we are using an "on-line" model to capture residents' views on priorities. Such a model allows residents to focus on priorities and the implications of decisions regarding changes in priorities and increasing or reducing spend in specific areas. We have continued the process of consulting with individuals and groups earlier than last year, thereby allowing more time for the results of the engagement to inform the Budget and Council Strategic Plan proposals for 2012/13.

Appendix B provides a comprehensive summary of the outcomes of the budget engagement process and how the information provided by those individuals involved in the engagement events has been used in formulating the 2012-2015 Council Strategic Plan and Budget Setting process together with details of the various engagement activities.

As the Budget and Council Strategic Plan Engagement process will continue until 31 January 2012, any further comments received from residents after the drafting of this Cabinet report but before the 1 February 2012 will be considered by the Elected Mayor and presented as an addendum to the report to Council on 2 February 2012.

2.7 Relationship with other plans

The Council Strategic Plan for 2012-2015 is one of our key strategic documents. It sets out the Council's priorities for the next three years.

The Council Strategic Plan should be read alongside other key strategies and plans, including:

(a) The Sustainable Community Strategy (including the 2030 Vision), which sets out the North Tyneside Strategic Partnership vision for the Borough;

(b) Our Change, Efficiency and Improvement Programme and capital programme, which sets out how we intend to resource our commitments;

(c) Our Service Plans; and,

(d) Other key plans including the Children and Young People's Plan and the Local Development Framework.

2.8 Format of the Council Strategic Plan

The 2012-2015 Council Strategic Plan will be a key tool for both officers and Elected Members. By clearly outlining the Council's key priorities for action and how we will measure impact, it will be a key part of the Council's new Performance Framework. It will enable managers to plan their services to align with the Council's overall priorities.

2.9 For residents and stakeholders

The Council priorities and actions set out in the Strategic Plan will be communicated in a number of different ways for residents and other key stakeholders. This will include :

- Face to Face including the Resident's Panel, Area Forums and many other events;
- The Council's magazine, Widening Horizons;
- On the Council's website; and,
- Other service specific publications.

Contact details will also be provided for those residents and partners who wish to find out more about the plan. Arrangements will also be made to ensure all publications will be accessible to all residents, using the appropriate translation services of the Council.

2.10 Fundamental principles of the 2012-2015 Council Strategic Plan

The overall aim of the 2012-2015 Council Strategic Plan is to make a difference to the lives of the people in North Tyneside by creating a sustainable, stable and economically prosperous future for the borough.

The core principles in the plan provide a clear direction for what we will achieve and the key priorities and actions provide a clear framework for delivery.

Cabinet should note that as the Council Strategic Plan forms part of the budget and policy framework, approval of the plan is a decision reserved to full Council. There may, however, be the need to amend the Plan during the year. The Officer Delegation Scheme makes provision for delegated authority to the Chief Executive to approve and make necessary in-year changes to the annual plans following sign-off by Council unless the change would:

(a) Have a budgetary impact outside the financial regulations framework;

(b) Have an impact on other strategic plans; and/or,

(c) Involve the insertion or deletion of a key objective from the plan.

In these circumstances, Council would be required to approve the changes.

Section 3.0
Local Government Finance

3.1 Context

On 8 December 2011, Communities and Local Government (CLG) set out details of the updated Provisional Local Government Finance Settlement for 2012/13. The formula grant national total for 2012/13 will be £27.8 billion, of which redistributed business rates will be £23.1 billion, Revenue Support Grant of £0.5 billion and Police Grant of £4.2 billion.

This overall settlement is generally in line with that proposed on 7 February 2011, the main change being the inclusion of the 2011/12 Council Tax freeze grant into formula grant. The sum of the provisional 2012/13 formula grant as at 7 February 2011 and the 2011/12 Council Tax freeze grant form the allocations of formula grant for 2012/13. The Council Tax freeze grant allocations remain separately identifiable.

This is the last year of the current two year transitional settlement. As noted in 28 November 2011 Cabinet Report, the Government has recently consulted on a fundamental change to the Local Government Finance system from 2013/14 onwards through the Local Government Resource Review: Proposals for Business Rates Retention. This consultation closed on 24 October 2011 and on 19 December 2011 the Government issued a response to this consultation. This will form the basis of the necessary legislation which will need to be passed in 2012, allowing the new scheme to be introduced on 1 April 2013.

These proposals involve the removal of the current national pooling system whereby business rates collected by local authorities are pooled nationally and redistributed to councils. Instead, local authorities will be allowed to retain business rate growth above the level the Government estimates they should grow, thereby providing an incentive effect. Those authorities that are likely to see future significant increases in their business rate yields, e.g. some areas of London, are proposed to have to pay a levy to recoup a share of any “disproportionate gains”. This could then be used to fund a “safety net” to fund those authorities whose actual business rates income falls.

Fundamental to the new system will be the rebalancing of the resources at the outset of the scheme. This will involve some authorities paying a “tariff” to the Government and some receiving a “top up” amount. To do this, a “baseline” amount will need to be established for each local authority, which will in effect be an assessment of the level of funding against which to compare the amount of business rates the authority collects. All local authorities in the North East are expected to be “top up” authorities under this system.

Beyond the current Spending Review period which ends in 2014/15, the HM Treasury Autumn Statement announced on 29 November 2011 set out the need for further measures necessary for the Government to meet their target of eliminating the structural Budget deficit by 2017. An initial assessment of this announcement is that North Tyneside Council is likely to see funding reductions in excess of 6% a year for both 2015/16 and 2016/17. This will be kept under review and updated as further information becomes available.

3.2 National Settlement 2012/13

An analysis of national funding by blocks for 2012/13 compared with the 2011/12 allocations is shown in Table 4 below. As noted above the main change here since the 7 February 2011 is as a result of the £652 million provided in 2011/12 to allow local authorities to freeze Council Tax in 2011/12, which is now included within formula grant.

Table 4: National Funding by Blocks 2012/13

Block	**2011/12 £m**	**2012/13 £m**
Grants Rolled in Using Tailored Distribution	2,028.109	2,004.577
Relative Needs Amount	18,959.187	17,352.493
Relative Resource Amount	-6,076.077	-5,561.160
Central Allocation	9,959.284	9,115.285
Floor Damping	0.000	0.000
Top up to avoid Losers from Additional £10 million	0.000	1.343
Council Tax Freeze Compensation	652.159	652.159
Principal Formula Police Grant	4,546.388	4,224.451
Isles of Scilly	2.452	2.459
Formula Grant Total	**30,071.502**	**27,791.607**

Explanation of Items

Grant Rolled in using a Tailored Distribution – A new separate grant block which was created as part of the 2011/12 Local Government Finance Settlement to distribute approximately £2bn of the £34bn of specific grants rolled in using a tailored distribution.

Relative Needs Amount – Determined by Relative Needs Formula and intended to reflect the relative needs of individual authorities in providing services. The formula for each specific service area is built on a basic amount per client, plus additional top ups to reflect local circumstances. The block aims to measure the need of an authority relative to others.

Relative Resource Amount – This is a negative figure, which adjusts for the fact that some areas can raise more income locally and require less support from Government. This negative amount is deducted from the positive grant arising from the Relative Needs Block.

Central Allocation – Once the above blocks are allocated, the remainder of the Formula Grant pot is then allocated on a per head basis. The per head amounts are based on the appropriate minimums from each authority already calculated for the needs and resources block.

Floor Damping – The resulting allocation from the three blocks above are 'damped' to ensure the amount each authority receives is limited by a guaranteed maximum decrease. This basically protects authorities from late changes in funding year on year. The baseline for damping is calculated by adjusting for any grant transfers into the formula grant system.

Top up to avoid Losers from Additional £10 million - The adjustment for the top up of an additional £1.3 million reflects the extra money announced on 7 February 2011 which was in addition to the £10 million already announced as support for Shire areas to help manage the reductions between 2011/12 and 2012/13.

Council Tax Freeze Compensation – The reflection of the £652 million funding provided allowing local authorities to freeze Council Tax in 2011/12, now included within formula grant.

Principal Formula Police Grant – Main grant provided to Policy Authorities which represents a separate block under the Local Government Finance System.

Isles of Scilly – Main grant provided to the Council of the Isles of Scilly which represents a separate block under the Local Government Finance System.

Grants Rolled in Using Tailored Distribution

One of the main changes announced in last year's Local Government Finance Settlement was that a separate block to distribute grants rolled in using a tailored distribution was introduced. This continues in 2012/13 and again over £2 billion is transferred in nationally in 2012/13. An analysis of the national totals for grants rolled in using a tailored distribution for 2012/13 compared to 2011/12 is set out in Table 5 below.

Table 5: National Grants Rolled in Using a Tailored Distribution 2012/13 compared with 2011/12

Grant	**2011/12 £m**	**2012/13 £m**
Local Transport Services	79.000	72.000
Supporting People	1,625.000	1,620.000
Housing Services for Older People	15.500	13.500
Learning and Skills Council (LSC) Staff Transfer	46.523	42.350
HIV / AIDS Support	27.900	30.500
Preserved Rights	228.836	221.677
Animal Health and Welfare	4.800	4.000
County Council Functions for Civil Contingencies in London	0.550	0.550
Grants Rolled in Using a Tailored Distribution Total	**2,028.109**	**2,004.577**

The 2012/13 Provisional Local Government Finance Settlement sees a reduced national formula grant in 2012/13 of £1.3 billion, excluding the police grant, compared with 2011/12. A summary of the national formula grant changes between 2011/12 and 2012/13 is set out in Table 6 below:

Table 6: National Formula Grant Allocations 2012/13 compared with 2011/12

Block	2011/12 £m	2012/13 £m
Business Rates	19,000.000	23,119.000
Revenue Support Grant	5,872.955	448.156
Principal Formula Police Grant	4,546.388	4,224.451
Formula Grant Total	**29,419.343**	**27,791.607**

3.3 North Tyneside Council Context 2012/13

Floor Damping Levels within the Provisional 2012/13 Local Government Finance Settlement

The 2012/13 Provisional Local Government Finance Settlement maintains four separate groups of authorities i.e. education / social services, districts and police and fire and rescue authorities. A change in the 2011/12 Settlement where four levels of banded floors were introduced, to reflect how much local authorities are dependent on formula grant, continues in 2012/13. Band 1 reflects those councils most reliant on formula grant and band 4 applies for those authorities least reliant on formula grant. North Tyneside Council falls into band 2.

North Tyneside Council Formula Grant Allocation 2012/13
The updated provisional Local Government Finance Settlement for 2012/13 announced on 8 December 2011 set out that North Tyneside Council will see a reduction in our Formula Grant in 2012/13 of 8.2%. This is illustrated in Table 7 below:

Table 7: North Tyneside Council Formula Grant Allocation 2012/13

	North Tyneside Council £m	Reduction £m	Reduction %
Formula Grant 2011/12	90.547		
Academies Adjustment	-0.373		
Private Sewers Adjustment	-0.082		
Adjusted Formula Grant 2011/12	90.092		
2011/12 Council Tax Freeze Grant	2.130		
2011/12 Sub Total	92.222		
Formula Grant 2012/13	84.654	-7.568	-8.2%

Three specific adjustments have been made to the Formula Grant for 2011/12 to arrive at a revised formula grant for 2011/12. These adjustments are in respect of:

- 2011/12 Council Tax Freeze (£2.130 million) – reflecting the movement of this grant into formula grant.

- Academies (£0.373 million) reflecting the removal of formula grant to pay for central education functions for academies; and,

- Private Sewers (£0.082 million) reflecting a transfer from formula grant to reflect savings on private sewers

Analysis of North Tyneside Council's Four Block Model 2012/13 compared with 2011/12

The table below shows the movement for North Tyneside Council for the 4 block model.

Table 8: North Tyneside Council's Four Block Model 2012/13 compared with 2011/12

	2011/12 £m	**2012/13 £m**
Relative Needs Amount	67.879	63.044
Relative Resource Amount	-15.348	-14.113
Central Allocation	27.682	24.754
Grants Rolled in Using Tailored Distributions	8.702	8.602
Council Tax Freeze Compensation	2.130	2.130
Academies Adjustment	-0.373	0.000
Private Sewers	-0.082	0.000
Total Formula Grant Before Damping	**90.590**	**84.417**
Damping Adjustment - **Band 2 Adjustment**	1.632	0.237
Formula Grant Allocation (Damped)	**92.222**	**84.654**

Analysis of North Tyneside Council Grants Rolled into Formula Grant Using Tailored Distribution 2012/13

As part of the 2011/12 Formula Grant Settlement, approximately £2bn of £3.4bn specific grants being rolled into formula grant were distributed using a 'tailored distribution'. This continues for the 2012/13 Provisional Local Government Finance Settlement. The total of these grants for North Tyneside Council is £8.602 million for 2012/13 which is a reduction of £0.100 million compared with 2011/12. The 2012/13 allocations for North Tyneside Council are shown in Table 9 below:

Table 9: North Tyneside Council Grants Rolled into Formula Grant Using Tailored Distribution 2012/13

	2012/13 £m
Local Transport Services	0.090
Supporting People	7.524
Housing Services for Older People	0.058
Learning and Skills Council (LSC) Staff Transfer	0.231
HIV / AIDS Support	0.053
Preserved Rights	0.639
Animal Health and Welfare	0.007
Total Grants Rolled in Using Tailored Distribution	**8.602**

Council Tax

The 2011/12 Local Government Finance Settlement confirmed that there would be £652 million made available nationally in England to fund the implementation of a Council Tax freeze in 2011/12. This set out that there would be funding to support this over the period of the current Spending Review for 2011/12 but no funding to support a further freeze in 2012/13. North Tyneside took advantage of this Council Tax freeze grant in 2011/12 meaning there was no Council Tax increase for residents in 2011/12. As noted earlier, this amount has now been included within the formula
grant allocations for 2011/12 and 2012/13.

On 3 October 2011 HM Treasury announced that a further £804 million would be made available nationally (£675 million in England and £129 million for Scotland, Northern Ireland and Wales) to allow the continuation of the Council Tax Freeze into 2012/13.

On 14 November 2011 the indicative payments and arrangements for the 2012-2015 Council Tax Freeze Grant for authorities was announced by the CLG. The same arrangements as last year will apply for 2012/13 i.e. local authorities will receive funding of up to 2.5% allowing the freezing of Council Tax in 2012/13. Police and Fire and Rescue Authorities will receive additional funding for 2012/13 which will be equivalent to 3%.

The total payments to North Tyneside from this scheme for 2012-2015 are detailed in Table 10 below.

The payment to North Tyneside Council for 2012/13 is made up of two distinct elements:

1. The original Council Tax Freeze Grant of £2.130 million which was available to freeze Council Tax in 2011/12 and which continues throughout the four year period of the Spending Review, funded through formula grant.

2. An additional specific grant of £2.141 million is to be provided to North Tyneside Council in 2012/13 which will allow us to freeze Council Tax in 2012/13. This

grant will be a ‘one-off’ payment for 2012/13. As noted in the 28 November 2011 Cabinet Report, we are intending to take advantage of the Council Tax Freeze grant for 2012/13.

Table 10: Indicative 2012/13 Council Tax Freeze Grant Payments for North Tyneside Council

	2012/13 £m	**2013/14 £m**	**2014/15 £m**
2011/12 Council Tax Freeze Grant	2.130	2.130	2.130
2012/13 Council Tax Freeze Grant	2.141	0.000	0.000
Indicative Council Tax Freeze Payment to North Tyneside Council	**4.271**	**2.130**	**2.130**

<u>Council Tax Referendums</u>
The Localism Act also includes powers to abolish Council Tax capping in England and instead allows local residents to veto “excessive” Council Tax rises. In announcing the updated Provisional Local Government Finance Settlement for 2012/13, the Government confirmed their intention to move ahead with introducing arrangements for Council Tax referendums if an authority sets a Council Tax which exceeds the principles endorsed by Parliament (i.e. is “excessive”).

These provisions will be implemented for 2012/13, and on 8 December 2011 the Government indicated the principles they are minded to propose. These are that local authorities will be required to seek approval of their local electorate in a referendum if, compared with 2011/12, they set Council Tax increases that exceed:

- 3.5% for most principal authorities
- 3.75% for the City of London
- 4% for the Greater London Authority (GLA), police authorities and single purpose fire and rescue authorities.

‘Spending Power’ Calculation 2012/13

The 2011/12 Local Government Finance Settlement introduced a new calculation of individual authorities’ spending power. This is calculated as being an individual authorities’ Council Tax income plus formula grant income plus income from specific grants. This continues into 2012/13 and is illustrated below:

Spending Power Calculation Illustration 2012/13

2011/12 Council Tax Requirement **Plus** 2012/13 Formula Grant **Plus** Specific Grants including Council Tax Freeze Grant 2012/13 **Plus** National Health Service (NHS) Funding to Support Social Care and Benefit Health **Equals** **Estimated 2012/13 Revenue Spending Power including NHS Support for Social Care**

The Spending Power calculation for North Tyneside Council for 2012/13 compared with 2011/12 is set out in Table 11 below:

Table 11: North Tyneside Council 'Spending Power' Calculation 2012/13 compared with 2011/12

	2011/12 Adjusted £m	**2012/13 £m**
Council Tax Requirement	84.602	84.602
Formula Grant	92.222	84.654
Learning Disability Grant	6.781	6.942
Early Intervention Grant	8.659	8.817
Preventing Homelessness	0.172	0.172
NHS Funding to Support Social Care and Benefit Health	2.802	2.685
Total	**195.238**	**187.872**
Cash Reduction		**7.366**
Cash Reduction (%)		**3.77%**

North Tyneside Council therefore sees a 3.77% reduction in its spending power calculation between 2011/12 and 2012/13, based on the 2012/13 figures as announced on 8 December 2011.

3.4 Education Settlement

Details on 2012/13 budgets covering funding for schools, 16-19 provision and school capital funding were announced by the Department for Education on 13 December 2011. The Statement was supported by technical papers on the DSG (Dedicated Schools Grant) and the Pupil Premium and by a further Paper on 16-19 funding and priorities from the Young People's Learning Agency (YPLA), the Funding Agency for the 16-19 sector. All documents can be found on the DfE's public website.

The main issues to note are:

a) A continuation of the current methodology for funding schools early years and 4-16 provision in 2012/13 through the Dedicated Schools Grant (DSG).

b) The overall funds available to support the DSG nationally, and for each local authority area, will be kept at flat cash per pupil for 2012/13. The Guaranteed unit of funding per pupil (used to establish the DSG) for North Tyneside therefore remains at £4,905.81. The pupil numbers used to determine the total DSG for 2012/13 are taken from the January 2012 school census. The DSG for 2012/13 is currently estimated at £133.423m;

c) Some schools will see budget reductions, either because they have fewer pupils or because of changes to funding distribution factors used in the local schools funding formula. To protect schools from significant budget reductions, a Minimum Funding Guarantee (MFG) will be employed that ensures no school sees more than a 1.5% per pupil reduction in 2012-13 budgets (excluding sixth form funding) compared to 2011-12 and before the Pupil Premium is added. i.e. a per pupil reduction of 1.5% in a school's delegated budget is the worst case funding scenario for any individual school for 2012/13.

d) Funding for the Pupil Premium doubles to £1.25bn for 2012/13, meaning a rise to £600 per eligible pupil, though £50m will be used from the overall pot to support the Summer School programme (details yet to be announced). Eligibility for the Pupil Premium will be extended to include pupils who have been eligible for Free School Meals over the last 6 years. The Pupil Premium for children increases from £200 to £250. The Pupil Premium is worth £2.379m for schools and children in North Tyneside in 2011/12 and is currently forecast to increase to £4.366m for 2012/13.

e) No change to the funding formula for 16-19 provision or to the overall funding approach. Reductions for school sixth forms will therefore continue to be affected by the convergence of funding rates (between school sixth forms and further education colleges). Individual institutional allocations will be confirmed in late spring by the YPLA.

f) The capital budget remains at just over £2bn with additional money to come from the Autumn Statement to help with the demand for extra places in some areas. The capital announcement is a one year settlement for 2012/13. DfE intend to publish their final Government response in January 2012 to the capital review which ended in October.

g) Schools will continue to feel a number of inflationary pressures in 2012/13 and will need to consider these when budget planning for 2012/13. These pressures will need to be managed from within the funding envelope described above.

h) The funding system beyond 2012/13 remains subject to the outcome of ongoing consultation by the DfE.

Section 4.0
The Financial Strategy for 2012-2015

4.1 Financial Strategy

Based on the fact that the Local Government Resource Review will not be implemented until 2013, Members must be aware that the figures included in the financial plan for 2013/14 and 2014/15 have to be caveated and are best estimates based on the information currently available.

It is imperative that the Council has a Financial Strategy that can support service delivery and be flexible enough to enable opportunities to be explored, enable challenges to be fully costed and ensure that the implications of those challenges are fully understood by decision-makers. We need a financial resource base that demonstrates our resources are driven by our Council Strategic Plan. Our Council Strategic Plan and Budget Setting process helps the Council respond appropriately to responsibilities and duties placed upon Local Government through legislative requirements and the Government's drive for a deliverable programme of efficiency savings.

Financial planning is of critical importance during the period of the Government's own spending review. 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.

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

4.2 National Context

For the 2011/12 financial year the Council introduced its new Service and Spending Review Process. This has been fundamental to the delivery of effective and efficient services for the residents of North Tyneside. The reason for the introduction of the new process was the level of savings that councils would be required to make over the four years from 2011/12. The details of the savings required by Local Government were set out in the Government Spending Review of October 2010 and then in the Final Local Government Finance Settlement for 2011/12 on 31 January 2011, with further adjustments to the 2012/13 Local Government Finance Settlement being announced on 7 February 2011.

The Government Spending Review announced on 20 October 2010 set out details of the Departmental Expenditure Limits (DELs) allocated across Government departments for the four year period from 2011/12 to 2014/15. In order to eliminate the public sector structural budget deficit, the Spending Review set out £81bn of national expenditure reductions. This equated to an average 19% reduction to departmental budgets over the four years from 2011/12. For Local Government, funding for annual expenditure was set to reduce by 20% in cash terms or 28% in real terms. Most of this reduction was by way of Formula Grant, the annual revenue grant which, in North Tyneside's case, supports approximately half of the Council's net revenue expenditure.

The detailed implications of the first two years of the Spending Review for North Tyneside Council were confirmed in the Final Local Government Finance Settlement for 2011/12 (31 January 2011) and the indicative Final Local Government Finance Settlement for 2012/13 (7 February 2011). The 2012/13 figures were confirmed on 8 December 2011. These settlements showed a Formula Grant reduction of over £20 million alone for North Tyneside Council for this two year period. The 2011/12 Settlement also set out the rolling up of various specific grants into Formula Grant, additional National Health Service (NHS) funding for social care and a Council Tax Freeze Grant to encourage local authorities to set a zero percent rise in Council Tax for 2011/12.

Looking further ahead to 2013/14, there is likely to be a two year Local Government Finance Settlement to match the final two years of the Spending Review period. This Settlement will also outline the first year's figures taking into account the Government's Local Government Resource Review in relation to the local retention of business rates.

In terms of the Housing Revenue Account (HRA) and Business Plan, Central Government has issued proposals as part of the Localism Act 2011 to reform the HRA and the current subsidy system, replacing it with a self financing HRA. These proposals would see the Council being subject to a one-off adjustment of debt financed by borrowing. This transaction is being seen as a "buy-out" of future estimated subsidy commitments. Further details of this change are included in Section 10.0 of this report.

4.3 Local Context

The local impact of these national level reductions was set out in the Final Local Government Finance Settlement.

The Final Local Government Finance Settlement for 2012/13 has set out a Formula Grant Reduction of £7.6 million (8.2%) for North Tyneside Council. This reflects the fact that North Tyneside Council has been determined as a Band 2 authority for the current 2 - year Settlement, with Band 1 reflecting those councils most reliant on Formula Grant and Band 4 applying to those authorities least reliant on Formula Grant. As a continuation of the 2011/12 Formula Grant Settlement, which resulted in approximately £2bn of a total of £3.4bn specific grants being rolled into Formula Grant, this continues into 2012/13. These grants for North Tyneside Council total £8.602m in 2012/13 (£8.702m in 2011/12).

As a result of the scale of the changes to local authority funding, the financial environment in which the Council operates is in the process of a radical change over the next three years, with the emphasis for financial planning now shifting much more towards savings and efficiencies, the close control of costs, a concentration on priorities and new ways of working. For North Tyneside Council, this fundamental change in the way services are delivered is being driven forward through the CEI Programme. This is explained in more detail in Section 4.6 below.

As a general principle it is assumed that, in the case of specific grants, if there were to be a reduction in such a grant then the relevant service spend would reduce by a corresponding amount. It is recognised that because the timing of grant announcements does not always align with financial planning timescales. These grant reductions will be looked at corporately.

4.4 Defining our Financial Strategy

Good practice ('Improving Budgeting: Modernising the Cycle,' CIPFA 2008), highlights the need for medium-term planning horizons. The Council's three-year planning timeframe will assist in ensuring there is a clear demonstration of sustainability in its plans for the future. The key drivers for change and the improvement focus in resource planning include the need for:

(a) Medium to longer-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 2012-2015 has concentrated on ensuring that all of the above drivers are embedded into the decision-making process for the allocation and re-direction of the Council's finite resources, financial and otherwise. In addition, there has been a review of the current financial plan forecasts and commitments for revenue, capital investment and housing finance. The Financial Strategy has been subject to its annual review.

Leading on from this, the key components and principles adopted for our 2012-2015 Financial Strategy have been fully reviewed as part of this year's process and are summarised in Table 12 below:

Table 12: Principles adopted for the 2012-2015 Financial Strategy

Financial Themes	**Principles Adopted**
Council Tax	• Provide value for money for the people of North Tyneside • Council tax levels that demonstrate prudence and retain stability in the Council's finances • Maximise the opportunity afforded in relation to the Council Tax Freeze Grant in 2012/13 • Council tax collection managed to secure recurrent efficiencies in the Council's collection fund
Income Generation	• Development of new opportunities in relation to the trading and charging powers available to local authorities • Continue to manage income and debts to reduce the need to make provision for bad debts • Develop a charging policy for the Council
Revenue Expenditure & Budget Strategy	• Annual budget resources aligned and prioritised to meet Council Strategic Plan objectives • A Reserves and Balances Policy in line with best practice that is reviewed on at least an annual basis • 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 three 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 <u>or</u> 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 Spending Review and 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 • Move to a position of no 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 which will be brought about through the localisation of business rates from 1 April 2013
Capital Financing and Expenditure	• Capital Strategy reflects Council Strategic Plan priorities and recognises available resources • A ten-year Capital Plan (including Public Private Partnerships / Private Finance Initiative (PPP/PFI) arrangements) in place that enhances financial and delivery certainty in relation to infrastructure investment in the borough • 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 Council's approved Local Prudential Code • 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
Treasury Management	• Treasury Management Strategy to focus on delivering safe stewardship • Strategic options devised for managing the overall level of borrowing over the medium term
Risk Management	• Business risk embedded in all decision-making processes of the Council • Budget resources aligned to reduce any material financial risks to the Council

The budget proposals contained in this report have been developed within the context of these key financial strategy principles.

Charging guiding principles

While some of the Council's activity has a statutory framework; for example housing rents, for the discretionary element, an approach to fees and charges has been developed in five parts which are set out below:

- **Universal services are paid for universally – differentiated services are paid for by the user:** in line with the increasing personalisation of public services, it makes sense for the universal services the Council offer to be paid for from the money the Council receives from general and local taxation. Where the service is differentiated and chosen by the consumer then the services the Council offer will be paid for by the user;

- **Matching the market:** where the Council operates in a market, its fees and charges will match that market and the quality of the product;

- **Staying in line with our neighbours:** where the Council operate a service that is statutory in nature or normal business for a local authority it will stay in line with its neighbours. This will avoid cross-border issues for individuals and communities and should prevent a localised market where that might be unhelpful. It should also help residents in tough financial times;

- **Considering ability to pay:** The Council's stated aim is to raise aspirations and widen horizons. The Council will consider and assess an individual's ability to pay for a service where appropriate; and,

- **Differentiated pricing:** The Council will consider the personal circumstances and differentiate some services to reflect the fact that residents already pay tax in the Borough and that some activities are good for the health and wellbeing of the people of North Tyneside and therefore the Council might wish to incentivise some types of residents to participate by paying less.

The Council also aims to change its approach to increases and decreases in its charges. For each of the affected services the Council will make sure Members, residents and customers know what is changing, when and why.

4.5 Financial Risk Assessment

Financial risks are driven by changes to Government policy and the national financial climate, issues arising throughout the year and reported as part of the financial management reporting process and those risks highlighted as part of the Council's risk management procedures and monitored through the Council's risk registers.

The challenges being faced by the Council are noted below along with details of the nature of the financial risks, how they are currently being managed by the Council and proposals for the management of these risks going forward.

Key Financial Risks identified through Corporate and Operational Risk Registers

Spending Review and Local Government Finance Settlement

Following the Government's spending review and the announcement of financial settlements to local authorities in 2010 as noted above, there is a need for the Council to reform its services in order to be able to deliver its statutory responsibilities and fulfil public expectations over the period of the financial strategy. The spending review has resulted in financial settlements to Councils and other public sector bodies which are, and will continue to be, fundamentally reduced year on year.

In order to deliver the savings the Council needed following the Local Government Finance Settlement, the Council established a CEI Programme. This Programme is now in its operational phase. This was established as part of the 2011-2015 planning process to identify how the Council would take forward its business to meet its financial challenges and to deliver the scale of financial savings required over a four year period from 2011/12 to the end of 2014/15. The CEI programme looks at how the Council will respond to this with increasing focus on:

- Council as a commissioner rather than provider of services;
- Building community capacity by engaging and enabling communities to take more local control over the shaping and delivery of services;
- Personalisation of services which places the customer at the heart of services;
- Developing a wider range of service models to stimulate choice and diversity; and,
- Stronger partnerships between public sector agencies to deliver a more seamless service to customers.

The CEI programme is now moving forward and changes have been made to refocus resources to support the continued delivery of the programme. The revised governance arrangements, to adjust the programme into three themes in order to put capacity in areas which need it most, are allowing the Council to deliver the scale of change necessary.

Each theme is led by a Strategic Director and the projects for each theme are embedded in Service Plans and the Council Strategic Plan 2012-2015. Cabinet Members and Strategic Directors continue to monitor the programme. These revised arrangements for the CEI programme are helping to provide capacity and focus for the next phases of work.

Deliverables from year one of the CEI programme have already been incorporated into the Council's 2011/12 budget and the deliverables from years two, three and four form the basis of this 2012-2015 Council Strategic Plan and Budget.

An updated governance process along with extensive monitoring and scrutiny procedures have been put in place in order to mitigate the inherent risk in any savings programme.

Partnership Working

As the Council may start to place greater reliance on working with our partners to deliver essential services, there is a need to ensure that the partners are in a position to fulfil their responsibilities. The current financial climate may have an impact on our partners resulting in them being unable or unwilling to undertake responsibilities already agreed.

North Tyneside Council is working to ensure that those partners engaged in the Local Strategic Partnership and working with the Council engage successfully in the delivery of the Sustainable Community Strategy, and at an operational level engage with the Council in terms of performance, service delivery and efficiencies. This is being progressed as North Tyneside Strategic Partnership Partners have agreed new ways of working and a new performance management framework. The Partnership will continue to monitor against changes in Government legislation and policy to ensure the Community Strategy is delivered.

Delivery of Council Services

In terms of shared services, the Council is managing the risk attached to working in partnerships with other local authorities / shared services through the CEI Programme. The Council faces the key financial challenge that if some Council services are delivered by alternative methods of service delivery rather than the traditional in - house model, there is a need to ensure that decisions are made on information that reflects the actual overhead provision.

This risk is being managed through this budget setting process and the CEI theme boards. In addition, this issue will be factored into the commercial negotiations that take place in relation to the delivery of Council services.

Regeneration and Economic Growth

There is a risk that North Tyneside may suffer from a lack of investment impacting on jobs, skills and the ability to stimulate economic growth. Schemes that will enable an increase in wellbeing and opportunities in the borough are being developed and implemented. The Council and local businesses are looking at ways in which they can work together more closely for the benefit of the borough. The River Tyne North Bank has the potential to be a hub for offshore and renewable energy investment while local authorities can work with wider Business Partners as part of the Local Enterprise Partnership.

Housing Revenue Account Self Financing

The full details of the Housing Revenue Account Self Financing proposals are explained in the report to Cabinet of 28 November 2011. If the Council deviates from the National Rent Restructuring Policy this would reduce the resources available to maintain its stock. Central Government has issued proposals as part of the Localism Act 2011 to reform the HRA and the current subsidy system, replacing it with a self financing HRA. These proposals would see the Council being subject to a one-off adjustment of debt financed by borrowing. This transaction is being seen as a “buy-out” of future estimated subsidy commitments i.e the Council will no longer make any subsidy payments.

This is a key issue for the Council over the coming months as if the Council deviates from the National Rent Restructuring Policy, this could result in a deficit for the HRA overall which would lead to the Council being unable to fund all services for tenants and make it more difficult to maintain its stock at the Decent Homes Standard. This situation will be carefully monitored with the Council doing all it can to ensure it takes advantage of any additional resources generated as they will stay with the authority to improve the housing stock. Full detail of this position is explained in Section 10.0 of the report.

In addition, as a result of self financing there will be more direct exposure to fluctuations in interest rates as the Council will need to raise loans of £129.834m to ‘buy out’ its current stake in the National Housing Subsidy System. That is, the Council will no longer be making contributions to the National Housing Subsidy System. Work is ongoing to ensure the most appropriate method of financing this new debt is achieved which is the most financially beneficial to the Council and is in accordance with the Council’s Treasury Management Strategy.

Equal Pay

Equal Pay claims have been a major financial pressure for the Council since 2004/05, when the first claims were settled. The Council has progressively resolved claims against it and has successfully introduced a scheme of job evaluation and grading structure, which is generally recognised as a safeguard in respect of future claims for equal pay.

Over time, the Council’s exposure to equal pay claims will diminish. This is because as time passes from the implementation of the Council’s current pay and grading structure (in April 2007) the value of the claims that can be brought are reducing significantly. The 2010/11 Statement of Accounts included a provision of £9.999m for equal pay claims. This was the estimated value of the known claims at the year-end that should be included in the Accounts. The Accounts also disclosed further potential costs of equal pay, but as the timing and amount of any such claims was not known, it was included as a contingent liability.

In 2010/11, £6.744m of the provision was capitalised after permission was granted by the Secretary of State. This meant that the costs did not impact immediately on the Council’s reserves and balances, but were financed as if they were an element of capital expenditure. The remaining £3.255m was carried forward into 2011/12.

The deadline for any applications to the Department of Communities and Local Government (CLG) for permission to capitalise equal pay payments incurred in 2011/12 was 16 September 2011. The Council has received confirmation of approval for equal pay payments to be capitalised. The revenue implications of this capitalisation approval are built into the figures included in this report.

Land and property values

The effect of falls in property values since 2008 remains a budget management issue in 2011/12, specifically in relation to land sales and the generation of capital receipts for the financing of the Council's Capital Plan. To finance the 2011/12 Capital Plan, the capital receipts required are £14.476m. The latest financial management report to Cabinet (16 January 2012) shows a capital receipts requirement of £2.967m to balance the 2011/12 Plan. There is a confirmed risk that the requirement to borrow may increase if sufficient capital receipts cannot be generated to fund the Capital Plan. This risk is being managed through the Major Projects Group and by a focus on this area by the Strategic Property Team. Whilst this remains a challenging target, specific sites have been identified and work is ongoing to realise the receipts.

Risks identified through Financial Management Reporting

2011/12 identified pressures

Several areas of pressure have been identified through the Council's financial management process in 2011/12 and therefore need to be taken into account in this financial planning process for 2012/13 and the following years. These are summarised below:

CEI programme

One of the pressures which needs to be addressed is the impact of any CEI saving not being achieved and the consequential actions required to secure savings into 2012/13. The most recent financial management report (16 January 2012) highlights that the planned saving of £1.300m from Terms and Conditions is the main project which is currently at risk of not being delivered in 2011/12. Whilst Service Areas and the Finance service teams continue to work together to manage these in year pressures, in light of this, £1.000m has been built into the financial plan in 2012/13 in order to reflect the pressure forecast through the potential non-achievement of this target.

Energy Costs

Energy costs continue to remain a significant issue for the Council in respect of pressures being faced during 2011/12. Projects are in place to support services as they take action to reduce consumption of both gas and electricity, but rising unit costs continue to negate the impact of those actions. To address this risk, additional revenue funding of £1.410m in 2012/13, £0.250m in 2013/14 and £0.250m in 2014/15 has been provided for this area in these draft budget proposals.

Demand - led pressures

Demand - led pressures in areas such as Looked after Children and Adult Social Care remain for future years. These are recognised in the financial plan with £1.000m built into the 2012/13 figures for Safeguarding / Child Placement and

Children's Disability Placement Pressures and a further £1.500m for the Learning Disability Service in each of the three years of the financial plan.

Use of Reserves

The Council necessarily reviews its level of reserves both when it sets its annual budget and when it draws up its final Accounts for the year. In addition, because of factors such as the current economic climate and the incidence of such issues as equal pay claims, the level of reserves is monitored continuously throughout the year. The effect of any change in assumptions, or additional calls on reserves, is reflected in the regular bi-monthly monitoring reports to Cabinet. At each individual stage of this process, whether budget setting, final accounts preparation, or in-year monitoring, the Council must ensure that there is adequate financial provision to cover known and/or unquantifiable risks. The review takes place in accordance with best practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) – *Local Authority Accounting Practice Bulletin 77 (November 2008) on Local Authority Reserves and Balances*. The Council's Reserves and Balances Policy reflects this guidance.

The Council ended the financial year 2010/11 with £52.371m of useable reserves and balances. The greater part of that figure is held as , Schools and HRA balances, or in the form of earmarked reserves, ie reserves built up and held for specific and sometimes statutory purposes. The only reserve generally available to help the Council manage its finances over the medium term is the Strategic Reserve. At the end of 2010/11, this reserve stood at £7.370m. The 2011/12 budget approved at Council on the 3 March 2011 included the use of £1.382m of the reserve as a contribution to the General Fund revenue budget.

The main purpose of the Strategic Reserve is to manage major financial pressures which can arise in year or over financial years. In 2011/12, pressures have been identified in respect of additional Strain on the Fund costs expected to be incurred in 2011/12. The figure built into the latest monitoring report (16 January 2012) for this item is £0.250m (and it is proposed that this expenditure is financed by a one-off contribution from reserves). This creates a potential call on reserves of £0.250m and leaves the available balance on the Strategic Reserve of £5.738m.

As stated earlier in this report the Council have received confirmation of approval for equal pay payments to be capitalised. The revenue implications of this capitalisation approval are built into the figures included in this report. If equal pay payments are in excess of the capitalisation approval, any costs will fall on reserves in the first instance.

There is the potential for a further call on the Strategic Reserve should there be no further improvement in the General Fund revenue position for 2011/12. The 16 January 2012 budget monitoring report to Cabinet for the eight months to 30 November 2011 highlighted a forecast year-end position reflecting in-year pressures of £1.065m.

The proposed 2012/13 budget includes the use of £0.200m of the Strategic Reserve to establish the CEI Fund. £1.436m is being used to replenish the reserve in 2012/13, in line with the projected budget monitoring position for 2011/12 and the use of some one-offs in that year, which maintains the Strategic Reserve at an average level of £5.000m over the life of the financial plan in line with the Reserves and Balances Policy. Any unplanned use of the Strategic Reserve over the 2012-2015 financial plan would take the level outside of this boundary.

Cabinet is advised that the 2012/13 budget proposals leave the Council's general unearmarked reserves (General Fund balances) unchanged at £6.604m.

Risks arising due to the National Financial Climate

Price Inflation

The Government's Spending Review built in inflation figures (using CPI, the Consumer Price Index) for the four year period 2011- 2015 of 1.6% in 2011/12, increasing to 2.3% in 2012/13 and then 2.7% in both 2013/14 and 2014/15. However, these estimates are substantially below the current reality with CPI inflation currently (December 2011 figures) 4.2%, and RPI (Retail Price Inflation) at 4.8%. Inflation is being managed through containment within service budgets over the life of the financial plan.

Treasury Management

Treasury Management continues to be affected by on-going economic uncertainty with low returns on investment and low short term borrowing rates. The expected longer run trend for Public Works Loan Board (PWLB) borrowing rates is for them to rise during 2012/13 primarily due to the need for a high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries.

If interest rates were to rise then rates for investment would also increase and the Council would benefit from improved investment returns on any cash surpluses it holds, after taking into account the primary requirement to safeguard the Council's assets. Movements in both short and long term interest rates are monitored on a daily basis to try and gauge the best lending and borrowing options for the Council.

4.6 Change, Efficiency and Improvement Programme

This programme is focused on maintaining essential services to the public while delivering over £47m of efficiencies (over the four years from 2011-2015) and as far as possible protecting staff jobs by giving services opportunities to grow and explore other means of investment and job opportunities. The only way this can be achieved is to look at how services can be delivered in a different way in the future. It is structured in three themes and each theme has been allocated a savings target which has been weighted in line with the Council's priorities. The three themes are:

- **Theme A Children, Education and Adult Services**
  Enabling better and more efficient access to education, employability, social care, health and wellbeing services through new ways of working and supporting independence through increased prevention activity.

- **Theme B Business**
  Introducing new ways to deliver a range of services through partnerships with public, private or voluntary/community sector providers, reducing central overheads and support costs as well as improving our customer services.

- **Theme C Environment**
  Introducing new ways to deliver environmental services and reducing costs of energy and transport as well as increasing carbon reduction.

4.7 Treasury Management Strategy

The proposed Treasury Management Strategy for 2012/13 is included as section 7.0 of the report. One of the main changes from previous years is the implications on the Treasury Management Strategy of the Housing Self Financing Settlement. The key elements of the Strategy are:

- Treasury limits in force which will limit the treasury risk and activities of the Council;
- The current treasury position;
- Prospects for interest rates;
- The borrowing strategy;
- Interest risk;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- Annual investment strategy;
- Monitoring credit ratings; and,
- Policy for the use of external service providers.

The Treasury Management Strategy also takes into account the implications for Treasury Management of the Housing Revenue Account Self Financing Reforms as discussed above which are detailed in Section 10.0 of this report.

Section 5.0
Cabinet's Estimates of Amounts for the 2012/13 General Fund Revenue Budget and 2012-2015 Financial Plan, including the Dedicated Schools Grant

5.1 Introduction

In a challenging global economic environment North Tyneside Council must change the way it has historically operated in order to achieve the efficiency savings that are required of local government, whilst enabling the best services possible to be delivered.

The Council has to contribute to the national commitment to reduce the structural budget deficit and manage the challenge of having 28% less money available to spend by accepting it needs to do things differently – and realistically that means sometimes delivering less than before. At the same time it must deliver a budget not just for now, but for the future too. It is a challenge the Council has planned for and is prepared to respond to, using its track record of managing change and delivering excellent services.

That means making decisions focused on strategic priorities and the needs of the borough to deliver the services that matter most to residents, while also supporting the borough's growth through investment and business success, to protect and grow new jobs. Strong partnership working and innovation will achieve maximum benefit from available resources, drive out efficiency and support value for money.

But changing the way the council works - and changing the way the organisation is shaped - will not detract from it remaining democratically led and publically accountable for every penny it spends. North Tyneside Council will remain a significant and responsible leader that makes a difference for its residents and the wider borough.

As the Council has moved through its Council Strategic Plan and Budget Setting process, a number of financial and service pressures have been identified that Cabinet has taken into account in considering its draft Council Strategic Plan and Budget proposals for 2012/13 and the following two years. This particular Section summarises these issues.

The approach that has been adopted in developing the 2012-2015 Financial Plan and 2012/13 budget proposals are set down in Section 1.0 of this document.

Final figures for some elements of the budget, such as the Final Local Government Finance Settlement and precepts, are not known at this point. Cabinet is therefore advised that forecasts for 2012-2015 are indicative at this stage and subject to further review between Cabinet Members and the Senior Leadership Team.

Cabinet is further advised that all figures quoted in Tables 13 to 18 below reflect additional resources and/or savings in any particular year. The starting point for the next year in each table is the end point for the previous year / column. Appendices D to I provide the overall position for the General Fund by Directorate.

5.2 2011/12 Financial Management Position

Cabinet received a report on 16 January 2012 setting out the latest revenue budget monitoring position for financial year 2011/12 as at 30 November 2011. The report included an assessment of the forecast year-end position over all elements of the Council's revenue budget. The year-end projection at that point was a forecast year-end position reflecting in-year pressures of £1.065m. Whilst Service Areas and the Finance service teams continue to work together to manage these in year pressures, as it is prepared on a prudent basis, this budget assumes a use of reserves of £1.436m in 2011/12, in line with the projected budget monitoring position for 2011/12 and the use of some one-offs in that year. Where underlying pressures have been offset in 2011/12 by one-off measures, these have been addressed as part of the 2012/13 budget setting process and are included within the Cabinet's draft budget proposals.

The strategic financial issues identified in the financial management report which would have implications for 2012/13 and following years are as follows:

(a) The Pressures which need to be addressed due to the impact of any CEI saving not being achieved in 2011/12 and actions required to secure savings into 2012/13;

(b) Plans to mitigate increasing rates of energy costs;

(c) The impact of demand led pressures in areas such as Looked After Children and Adult Social Care remain for future years;

(d) The necessity of reviewing the use of reserves to support General Fund revenue expenditure on an ongoing basis;

(e) The level of capital receipts financing built into the Capital Plan in the medium term, and the necessity of reviewing these and other capital financing resources in the light of current economic conditions; and

(f) The level of equal pay and redundancy costs, the application of the capitalisation approval to finance these costs and the consequential revenue cost of financing.

The strategic management of these issues over the three year period 2012/13 to 2014/15 forms an integral part of the proposals contained in this report.

5.3 Pay and Price Pressures

The starting point for the base budget for 2012/13 is the 2011/12 approved net budget of £175.768m (excluding schools). Pay and price cost pressures that cover all services are considered as part of the budget setting process. These pressures include an allowance for the effect of pay awards and levy increases. This is the second year of the two-year pay freeze (2011/12 and 2012/13), that the Chancellor announced in his Emergency Budget of 22 June 2010, for public sector workers, with the exception of employees paid less than £21,000, who would receive a flat rate increase of £250. The 2012/13 budget therefore does not include any provision for a pay award, with the exception of those employees paid less than £21,000 as negotiations on a provision of a pay award for these employees in 2012/13 is continuing. This cost is estimated to be £0.400m in 2012/13.

Using our estimate of the average rate of CPI (Consumer Price Index) for 2012 of 2.7%, inflation has been estimated at £1.100m for 2012/13. In accordance with the Financial Strategy, these costs will be contained within directorate budgets in 2012/13.

The 2010 Pension Fund Valuation set employer contributions to the fund for the period 2011/12 to 2013/14. The employers' contribution was set at 14.3% for the three-year period of the valuation. The "backfunding" (past service) element of the pensions contribution was, however, increased by £1.122m in 2011/12 (£6.578m to £7.700m), with a further increase of £0.410m in 2012/13 and £0.430m in 2013/14. This net increase of £0.410m has been built into the financial plan for 2012/13 and £0.430m in 2013/14.

A saving of £0.706m is included for the Integrated Transport Authority (ITA) levy. The estimate for North Tyneside is a 5.4% reduction in the levy on the current year. There are also small increases in levies to the Northumberland Inshore Fisheries and Conservation Authority (IFCA) of £0.004m and the Environment Agency of £0.016m in 2012/13. The net effect of these changes in levies is a saving of £0.686m in 2012/13.

Table 13 summarises these pressures over the next three years:

Table 13: 2012-2015 Pay and Price Pressures

Pay and Price Pressures	2012/13	2013/14	2014/15
	Additional	Additional	Additional
	£000's	£000's	£000's
Pay Awards	400	0	0
Inflation	1,100	850	800
Pension Fund Deficit Contribution	410	430	0
Levies	-686	25	27
Total Pay and Price Pressures	**1,224**	**1,305**	**827**

5.4 Pressures and Growth

This sub-section of the document highlights those pressures that Services have reported as being mandatory or committed in nature. In addition, where there is a prior year commitment or a mandatory service (where the public would expect certain services), we have included those pressures within this category. Corporate pressures and those highlighted through 2011/12 financial monitoring are also highlighted. Table 14 summarises these pressures over the next three years:

Table 14: 2012-2015 Pressures and Growth

Pressures and Growth	2012/13	2013/14	2014/15
	Additional	Additional	Additional
	£000's	£000's	£000's
Service Pressures			
Safeguarding / Child Placement and Children's Disability Placement Pressures	1,000	0	0
Learning Disability Service	1,500	1,500	1,500
Waste Management	320	320	320
Waste management procurement - advisors	0	200	100
Kier Management Charge	400	-100	400
Energy costs	1,410	250	250
Wallsend Heritage Lottery Fund	50	50	50
Wallsend Joint Service Centre	40	200	0
Whitley Bay Joint Service Centre	151	453	0
Contact Centre Investment	200	0	0
Highways Frontline / Engineers	300	0	0
Development and Implementation of an E Petition	2	0	0
New Homes Bonus Additional Spending Power	335	0	0
Extended Rights to Free Travel	13	0	0
Troubled Families Support	80	0	0
Potential Pressures in other years	0	2,000	2,000
Total Service Pressures	**5,801**	**4,873**	**4,620**
Corporate Items			
Terms and Conditions	1,000	0	0
Strain on the Fund (Leavers in 2011 and onwards)	250	250	250
Capital Plan Revenue costs of Borrowing - Existing Plan	681	207	-25
Capital Plan Revenue costs of Borrowing - Equal Pay	589	450	0
Establish CEI Fund	200	0	0
Total Corporate Items	**2,720**	**907**	**225**
Total Pressures and Growth	**8,521**	**5,780**	**4,845**

In order that the Council's priorities can be delivered in 2012/13, £0.200m of funding is included in the budget as 'pump priming' investment to enable the CEI programme to deliver the required efficiency savings. It is planned to fund this investment by a contribution from the Strategic Reserve. Funding is also included for the Joint Service Centres of £0.040m for Wallsend and £0.151m for Whitley Bay which are part year effects in 2012/13 and an additional £0.200m for Contact Centre Investment. Growth of £0.320m is required for waste management to reflect the rising cost associated with waste disposal and Landfill Tax. In addition, £1.270m is included for the Capital Plan revenue cost of borrowing. This figure includes £0.589m to fund the cost of borrowing arising from Equal Pay costs.

£0.400m is also included to reflect the agreed level of management support to Kier which is much lower than had been included in previous years' Financial Plans as a result of contract negotiations.

The specific areas of growth in the 2012/13 budget to fund emerging pressures include £1.000m for Safeguarding / Child Placement and Children's Disability Placement pressures which have arisen in 2011/12 due to increased costs of looked after children and some reduction of grant. There is also a pressure of £1.500m within the Learning Disability Service caused by increased costs, increased numbers and a greater proportional increase in more severe forms of disability. The estimated impact of potential increases in energy costs over the next year of £1.410m is also included. Whilst Service Areas and the Finance Service teams are working together to manage in year pressures, an additional £1.000m is required to reflect the forecast non-achievement of the £1.300m of Terms and Conditions savings included in the 2011/12 budget. The additional funding of £0.300m for Highways and Engineers frontline budget is to reflect the limited ability of the service to achieve the overhead recovery that is associated with these budgets due to the reduction in the Local Transport Plan.

Strain on the Fund costs of £0.250m relates to costs that may arise from changes to headcount across the Council. Wallsend Heritage Lottery Fund – Parks funding of £0.050m is required as part of a staged increase in revenue funding to reflect the fall out of the grant. And £0.002m is included for the development and implementation costs of an E Petition.

The items in respect of the New Homes Bonus Additional Spending Power (£0.335m), Extended Rights to Free Travel (£0.013m) and Troubled Families Support (£0.080m) represent the expenditure plans to reflect recent grant changes, mainly as announced in the Provisional Local Government Finance Settlement for 2012/13 on 8 December 2011.

5.5 Reserves and Contingencies

An amount of £2.882m is included as this is the impact of the one off use of the Strategic Reserve in the 2011/12 budget. The proposed 2012/13 budget includes the use of £0.200m of the Strategic Reserve to establish the CEI Fund. £1.436m is being used to replenish the reserve in 2012/13 in line with the projected budget monitoring position for 2011/12 and the use of some one-offs in that year. This maintains the Strategic Reserve at an average level of £5.000m over the life of the financial plan in line with the Reserves and Balances Policy. Any unplanned use of the Strategic Reserve over the 2012-2015 financial plan would take the level outside of this boundary.

As this is a higher risk budget than in previous years, it is proposed that the general contingencies budget remains at the 2011/12 amount of £2.785m, rather than a reduction in the contingencies as had been planned in previous years' financial plans. This would represent over 15% of the value of the CEI savings required to be delivered in 2012/13 and is felt to be prudent as the pressures that have been highlighted through financial management reports in 2011/12 have been addressed as part of this budget setting process.

In addition, it is proposed that a further £0.230m is added to contingencies in respect of the additional roll out of free education places for disadvantaged 0-2 year olds. The Council has recently received an additional grant award for this amount but detailed plans for the use of this additional funding are still to be developed. It is considered prudent to put this in contingencies until plans are developed. This brings the total level of contingency in 2012/13 to £3.015m.

Cabinet is advised that the proposals in Table 15 leave the Council's general unearmarked reserves (General Fund balances) unchanged at £6.604m.

Table 15: 2012-2015 Reserves and Contingencies

Reserves and Contingencies	2012/13	2013/14	2014/15
	Additional	Additional	Additional
	£000's	£000's	£000's
Impact of use of Strategic Reserve in 2011/12	2,882	0	0
Replenish use of Strategic Reserve following use in 2011/12 to fund Forecast Pressures	1,436	129	0
Use of Strategic Reserve to establish CEI Fund	-200	-200	-200
Increase in Contingencies	230	0	0
Total Reserves and Contingencies	**4,348**	**-71**	**-200**

5.6 Income and Grants

One of the main features of the 2011/12 and 2012/13 Local Government Finance Settlements has been the transfer of a large number of grants, mainly Area Based Grants, into Formula Grant. This necessitated the removal of these individual grant amounts from the base budget as part of the 2011/12 budget setting process. There have been a number of additional Government grant changes that will impact from 2012/13 of £0.856m including a further Council Tax Freeze grant for 2012/13, but this is offset within grants by the fact that the 2011/12 Council Tax Freeze grant will now form part of formula grant. The Council Tax Freeze grant indicative payments were announced on 14 November 2011 and are set out at section 3.2 of this report. The main changes in grants contributing towards the total of £0.856m reflect recent grant changes, mainly as announced in the Provisional Local Government Finance Settlement for 2012/13 on 8 December 2011. These changes include grant changes for New Homes Bonus (£0.335m), announced on 1 December 2011, Additional roll out of Free Education places for disadvantaged 0-2 year olds (£0.230m), announced on 8 December 2011, Extended Rights to Free Travel (£0.013m), announced on 8 December 2011 and Troubled Families Support (£0.080m) announced on 16 December 2011.

The inclusion of the Strain on the Fund saving in Table 16 below is a previous budget requirement that is not required in 2012/13. Table 14 above, includes the Pension costs of Strain on the Fund for staff leaving the authority.

Table 16: 2012-2015 Income and Grants

Income and Grants	2012/13	2013/14	2014/15
	Additional	Additional	Additional
	£000's	£000's	£000's
Strain on the Fund Savings (Pre 2010 Leavers)	-2,000	0	0
Containment of Inflation within Service Budgets	-1,100	-850	-800
Government Grant Changes	-856	2,139	0
Total Income and Grants	**-3,956**	**1,289**	**-800**

5.7 Change, Efficiency and Improvement Programme

The CEI programme is enabling the Council to deliver the scale of change necessary. The financial plan includes £47.658m of savings to be achieved by this programme over the four years from 2011/12 to 2014/15 of which £16.051m are planned to be achieved in 2012/13.

The individual savings projects included in the CEI Programme are set out in the directorate schedules shown in Appendices E to I. The total annual savings are set out in Table 17 below.

Table 17: 2011-2015 Change, Efficiency and Improvement Programme

CEI Programme	2011/12 Additional £000's	2012/13 Additional £000's	2013/14 Additional £000's	2014/15 Additional £000's	Total £000's
Children, Education, Skills and Adults	-6,675	-9,435	-1,940	-1,741	-19,791
Business	-7,687	-4,969	-3,359	-1,808	-17,823
Environment	-1,466	-1,647	-826	-560	-4,499
Cross Cutting	-366	0	0	0	-366
CEI Programme Target	0	0	-2,804	-2,374	-5,178
Total CEI Programme	**-16,194**	**-16,051**	**-8,929**	**-6,483**	**-47,657**

It is proposed that delegated authority be given to the Chief Executive, in consultation with the Elected Mayor, Cabinet Member for Finance and the Senior Leadership Team to manage the CEI Programme. Decisions made under this delegated authority will be reported to Cabinet as part of the regular budget monitoring information provided.

It is proposed that delegated authority be given to the Strategic Director of Finance and Resources, in consultation with the Elected Mayor, Cabinet Member for Finance and the Head of Legal, Governance and Commercial Services to deal with all matters arising in relation to the treatment of pensions and any associated matters relating to the potential transfers of Council employees to the Business Package, the Technical Package and the Community Based Trust projects of the Change, Efficiency and Improvement Programme.

The Senior Leadership Team has confirmed its commitment to delivering these challenging targets that reflect the sustainable efficiencies the Council needs to deliver in 2012/13 in order to achieve its financial strategy and Council Strategic Plan. The savings targets will be included within the 2012/13 budget book and reflected at service area level to assist in budget monitoring reporting.

5.8 Use of Contingencies

A sum of £2.785m continues to be set aside in the budget to accommodate a number of events that may arise during 2012/13 but that cannot be quantified to such an exact degree as to be allocated directly into the Council's main budget headings, and to reflect the high level of efficiency savings built into the 2012/13 Budget. It is proposed that the £2.785m General Contingency is set aside in 2012/13 for the following items:

(a) general inflation;

(b) demand-led pressures; and,

(c) CEI Programme.

This contingency provision may be needed to cover any material change in inflation.

Demand-led pressures will include adult social care services and children's services where the Council has a statutory responsibility to respond.

The Contingency will also be available to cover the CEI Programme and the savings required in 2012/13. This is to reflect the possibility that some savings, for unforeseen or external factors, may not be deliverable in the original planned timescale. Where original proposals become unachievable, alternative proposals must be substituted as soon as practical after the issues are raised through the performance monitoring process of the Council and be reported through to Cabinet.

An additional £0.230m is proposed to be added to contingencies in respect of the grant awarded to support the roll out of free education places for disadvantaged 0-2 year olds. This is included as a specific contingency as detailed plans for the use of this funding are still to be developed. This brings the total level of contingency in 2012/13 to £3.015m.

Where Contingency is used in 2012/13, no assumption should be made that this will be funded in 2013/14 unless a business case is made and proposed by Cabinet to the Council as part of the 2013/14 budget setting process.

5.9 2012-2015 Draft General Fund Financial Plan Forecast

Table 18 below summarises the draft General Fund forecast plan for 2012/13 and the following two years, after taking into account the information and details included in the paragraphs above:

Table 18: 2012-2015 General Fund Financial Plan

General Fund Financial Plan	2012/13	2013/14	2014/15
	£000's	£000's	£000's
General Fund Base Budget	**175,768**	**169,854**	**169,228**
Pay and Price Pressures	1,224	1,305	827
Pressures and Growth	8,521	5,780	4,845
Reserves	4,348	-71	-200
Income and Grants	-3,956	1,289	-800
CEI Programme	-16,051	-8,929	-6,483
Total General Fund Financial	**169,854**	**169,228**	**167,417**

5.10 Council Tax Levels 2012/13

The Cabinet needs to determine what level of Council Tax is to be proposed for 2012/13, within the context of this report and available resources. Cabinet is reminded that this information is presented based upon available information and judgements at the time of writing. This means that there are still an additional number of assumptions and judgements built into the figures. The estimates of amounts will therefore need to be subject to further review before full Council can approve the Council Tax level for 2012/13 and the 2012-2022 Capital Plan, as detailed in paragraph 1.1 of this document.

Table 19 shows the proposed Council Tax levels for 2012/13. After the application of the Council Tax freeze grant for North Tyneside Council for 2012/13 there is no proposed increase to the Council Tax level for 2012/13. That is, it reflects the assumption of no Council Tax increase in 2012/13 for the Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority based on available information at this stage. In setting its own Council Tax level, the Council must take into account any increases proposed for the Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority for 2012/13. Final figures are expected from the Authorities in February 2012.

Table 19: 2012/13 Council Tax Increases by Band

Council Tax Band	2011/12 Council Tax £	2012/13 Council Tax £	Increase %	Annual Increase £	Weekly Increase £
A	989.93	989.93	0.00%	£0.00	£0.00
B	1,154.92	1,154.92	0.00%	£0.00	£0.00
C	1,319.91	1,319.91	0.00%	£0.00	£0.00
D	1,484.90	1,484.90	0.00%	£0.00	£0.00
E	1,814.88	1,814.88	0.00%	£0.00	£0.00
F	2,144.86	2,144.86	0.00%	£0.00	£0.00
G	2,474.83	2,474.83	0.00%	£0.00	£0.00
H	2,969.80	2,969.80	0.00%	£0.00	£0.00

5.11 Dedicated Schools Grant 2012/13

Details on the DSG for 2012/13 and all associated funding for schools is addressed in section 3.4 of this paper.

Since 2006/07 the majority of funding for maintained schools and the education of children is received through the Dedicated schools grant (DSG). It has always been imperative we allocate and apply the public funds we have available to the best effect. In North Tyneside we have always reviewed our use of the DSG annually with the help of our Schools Forum and the wider school community.

Details of the use of the DSG and wider Children's Services budgets in North Tyneside are made publically available nationally through the Section 251 (s257) Budget statements. Benchmarking tables detailing these budgets for all Local

Authorities are also produced nationally (usually late September) which can be found on the DfE website.

The majority of the DSG is delegated to individual schools through the Individual Schools Budget (ISB) and the Individual Special Schools budget (ISSB). This is distributed to individual schools on the basis of the Local School funding formula. Using the S251 benchmarking tables it is possible to note that in 2011/12 North Tyneside devolved 94.1% of the DSG to schools, which places it as the 11^{th} highest delegator of DSG funds to schools out of the 150 local authorities nationally.

As part of a Report brought to Cabinet on 14 November 2011 it was agreed to consult with Schools Forum and all stakeholder groups to ensure North Tyneside adopts any changes necessary in response to both the national and local funding position of schools. This work considered all elements of the local school funding formula and the wider DSG. Following meetings with the Forum in November and December changes to the use of the DSG were developed and subsequently shared with all stakeholder groups. The outcome of this process for 2012/13 are in the following areas:-

a) Changes in budget allocations to reflect changes in demand of Special Educational needs (including Special schools, Pupil referral unit, Additionally Resourced Provisions);

b) Changes to the North Tyneside's Early Years education funding model following introduction of this model in 2011/12; and

c) Agreement that the net cost of the High Borrans outdoor educations facility is to be charged to the DSG.

Section 6.0
Cabinet's Estimates of Amounts for the 2012-2022 Capital Plan and Prudential Indicators

6.1 Base Capital Plan 2012-22

The 2011-2021 Capital Plan was approved by Council on 3 March 2011. This plan is reviewed by the Major Projects Group (MPG) regularly throughout the year. The MPG is 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. However, a new year ten has been added for rolling programme schemes (ie Health and Safety – planned maintenance, ICT strategy, Disabled Facilities Grants, Private Sector Homes renovation and contingency provision).

A variation of £2.700m has also been added to the draft Capital Plan in respect of scheme ST014 (North Shields Customer First Centre).

Reprogramming of £7.986m was identified as part of the Financial Management report to 30 November 2011 approved by Cabinet on 16 January 2012. This has now been included in the 2012-2022 draft Capital Plan.

The Housing Capital Plan is detailed in Section 10.11 of this report but for the purpose of completeness the Housing figures are also included in this Section of the report.

6.2 Capital Allocations 2012/13

As part of the 2011/12 local government settlement, two year allocations were announced for the Local Transport Integrated Transport and Maintenance Block Capital Grants with a further two years indicative allocations provided. An additional grant for Integrated Transport of £0.214m has recently been allocated in 2011/12. However, due to the tight timescale this money will be spent in 2012/13 and so has been included in the draft Capital Plan.

A two year grant allocation was also provided by the Department of Health for Community Capacity. These figures are included in the draft Capital Plan.

Education grant figures were announced on 13 December 2011 totalling £5.840m (2011/12 £6.970m) for Local Authority schools. A reduction of £1.130m compared to 2011/12. These figures are now included in the draft Capital Plan. A breakdown of the grants is also shown below:

£000's

Capital Maintenance	2,896
Basic Need	2,335
Devolved Capital	609
Total	5,840

The Central Promenade reconstruction scheme that was previously included on the Reserve List has now been including in the draft Capital Plan in order to demonstrate the Council's commitment to providing funding for the scheme as part of the bid for Environment Agency funding. There is no requirement for Council Contribution to the scheme until 2014/15.

The revised draft Capital Plan is shown in Table 20 below: A schedule of individual projects is attached as Appendix J(i). The revenue implications of these schemes have been included in the revenue budget.

Table 20: Summary of base Capital Plan 2012-2022

Spend	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/22 £000's	Total £000's
Chief Executive's Office	12,320	6,867	6,768	12,690	38,645
Children, Young People and Learning	12,673	3,750	0	0	16,423
Community Services	3,894	1,957	0	0	5,851
Finance and Resources	2,750	3,000	3,000	21,000	29,750
Corporate items	1,500	1,500	500	3,500	7,000
General Fund total	**33,137**	**17,074**	**10,268**	**37,190**	**97,669**
Housing – HRA	**16,297**	**14,368**	**20,133**	**197,719**	**248,517**
Total	**49,434**	**31,442**	**30,401**	**234,909**	**346,186**

6.3 Capital Financing

Table 21 below summarises the proposed financing of the Capital Plan:

Table 21: Summary of Capital Financing 2012-2022

Resources	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/22 £000's	Total £000's
Council Contribution:					
Unsupported Borrowing – General Fund	6,439	5,310	2,216	22,940	36,905
Capital Receipts – General Fund	9,419	7,519	3,065	10,914	30,917
Major Repairs reserve (HRA)	13,104	12,902	13,354	106,355	145,715
Revenue Contribution (HRA)	3,193	1,466	6,779	91,364	102,802
	32,155	**27,197**	**25,414**	**231,573**	**316,339**
Grants & Contributions	17,279	4,245	4,987	3,336	29,847
Total Resources	**49,434**	**31,342**	**30,401**	**234,909**	**346,186**

Capital receipts of £30.917m (£30.917m General Fund and £nil Housing) have been assumed in the financing of the 2012-2022 draft Capital Plan.

Unsupported Borrowing totalling £36.905m (£36.905m General Fund and £nil Housing) is included in the financing of the 2012–2022 draft Capital Plan. The cost of borrowing for years 2012-2015 is included within the General Fund Revenue budget. The Prudential Indicators arising from the Prudential Code are covered in paragraphs 6.5 to 6.14 below.

6.4 Reserve List

At its meeting on 24 October 2011 the Major Projects Group (MPG) also received bids for the 2012-2022 draft Capital Plan. These bids included factors such as Council Plan priorities, risk, environmental impact and financing availability. Following the review it was recommended that the bids should be placed on a Reserve list to be brought forward for inclusion on the Capital Plan as appropriate, with prioritisation to be determined by the MPG. Any proposed changes to the Capital Plan in respect of implementing any of the Reserve schemes will be dealt with in accordance with stated practice as set out in the Council's Financial Regulations.

As highlighted in paragraph 6.2 the Central Promenade reconstruction scheme has now been included in the draft Capital Plan.

A list of the Reserve schemes is attached as Appendix J(ii).

6.5 Draft Prudential Indicators

The Local Government Act 2003 requires Councils to comply with the 'CIPFA Prudential Code for Capital Finance in Local Authorities.' The Prudential Code requires authorities to develop a set of Prudential Indicators for capital as laid out in the Code. In addition to the indicators laid down in the Code, local authorities are free to set up their own local indicators, as they consider appropriate.

As outlined in Section 10.0 of this report the additional debt required to be taken in the move to housing self financing is expected to be £129.834m. This figure has been included in the indicators below. The indicators will be revised following the confirmation of the final debt figures.

The draft Housing Prudential Indicators are detailed in Section 10.11 of this report but for the purpose of completeness the Housing figures are also included in this Section of the report.

To support delivery of our ten year Capital Plan, we have reviewed our Local Prudential Code attached at Appendix K.

The following part of the report sets down the draft Prudential Indicators as calculated and proposed for North Tyneside Council for 2012–2015.

6.6 Indicators of Affordability

Prudential Indicators (PIs) 1 to 4 are key indicators of affordability.

6.7 Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)

This indicator shows the estimate of the ratio of financing costs to net revenue stream for the current and future years, that is the proportion of the budget (for both General Fund and Housing) that is spent on the financing of capital spend. The estimates of financing costs include the base Capital Plan.

The actual figures for 2010/11 are also set out in Table 22 below:

Table 22: Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	**Est.**	**Est.**	**Est.**	**Est.**
General Fund	14.20%	14.33%	16.00%	16.41%	16.29%
HRA	14.43%	17.26%	30.57%	31.12%	24.17%

The above indicator shows costs for all borrowing, both supported and unsupported. It also includes the financing costs of PFI schemes and leases that have been brought "on balance sheet" under International Financial Reporting Standards (IFRS). To enhance the information available for decision-making we have also provided a local indicator to show the proportion of the budget that is spent on unsupported borrowing. This is shown in Table 23 below:

Table 23: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream (PIs 1 and 2)

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	**Est.**	**Est.**	**Est.**	**Est.**
General Fund	5.23%	6.32%	7.55%	8.08%	8.29%
HRA	4.51%	4.57%	4.17%	3.93%	3.91%

6.8 Impact on Council Tax and Housing Rents (PIs 3 and 4)

This prudential indicator reflects the estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken. These figures reflect the amount of unsupported borrowing that is built into the proposed Capital Plan in terms of both unsupported borrowing costs and any changes to revenue running costs arising from the proposed Capital Plan.

Table 24: Impact on Council Tax and Housing Rents (PIs 3 and 4)

For the Band D Council Tax	2012/13 £ 4.38	2013/14 £ 19.06	2014/15 £ 24.94
For average weekly housing rents	2012/13 £ 0	2013/14 £ 0	2014/15 £ 0

6.9 Net Borrowing and the Capital Financing Requirement (PI 5)

This is a key indicator for prudence and is designed to ensure that over the medium term net borrowing will only be for a capital purpose. Net borrowing should not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

The Council's estimated net borrowing (borrowing less investments) is set out below together with the estimated Capital financing requirement (i.e. the Council's underlying need to borrow for Capital purposes) projected to 31 March 2015:

- Estimated net borrowing as at 31 March 2012 - £462.598m
- Capital Financing Requirement as at 31 March 2015 - £622.956m

6.10 Capital Expenditure (PIs 6 and 7)

The actual capital expenditure that was incurred in 2010/11 and the estimates of capital expenditure to be incurred for the current and future years are set out in Table 25 below:

Table 25: Capital Expenditure (PIs 6 and 7)

	2010/11 Actual £000's	2011/12 Est. £000's	2012/13 Est. £000's	2013/14 Est. £000's	2014/15 Est. £000's
Chief Executive's Office	17,734	18,600	12,320	6,867	6,768
Children, Young People and Learning	9,970	15,470	12,673	3,750	0
Community Services	2,076	7,469	3,894	1,957	0
Finance and Resources	2,732	3,432	2,750	3,000	3,000
Corporate items	14,385	3,428	1,500	1,500	500
Total General Fund	**46,897**	**48,399**	**33,137**	**17,074**	**10,268**
HRA	**35,699**	**17,700**	**16,297**	**14,368**	**20,133**
Total	**82,596**	**66,099**	**49,434**	**31,442**	**30,401**

These estimates mirror those shown in Table 21 of this report.

6.11 Capital Financing Requirement (CFR) (PIs 8 and 9)

The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. It reflects the cumulative amount of borrowing required for capital purposes less the annual Minimum Revenue Provision (MRP).

In accordance with best professional practice North Tyneside Council does not associate borrowing with particular items or types of expenditure.

The actual external debt of the Council may be lower than the CFR as the Council may choose to use its own external funds (reserves, balances, provisions etc) to finance borrowing. The difference between the CFR and actual external debt is the unfunded element (or internal borrowing) of the CFR. As at 31 March 2011, the Council's overall CFR (excluding PFI and leases) was £398.737m. Actual external debt was £330.901m giving an unfunded element (or internal borrowing) of £67.836m.

Estimates of the end of year Capital Financing Requirement for the authority for the current and future years and the actual Capital Financing Requirement at 31 March 2011 are set out in Table 26 below:

Table 26: Capital Financing Requirement (PIs 8 and 9)

	2010/11 Actual £000's	**2011/12 Est. £000's**	**2012/13 Est. £000's**	**2013/14 Est. £000's**	**2014/15 Est. £000's**
General Fund	290,284	295,973	302,170	294,629	284,035
HRA	162,159	292,465	301,899	319,240	338,921
Total	**452,443**	**588,438**	**604,069**	**613,869**	**622,956**

The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 27 below:

Table 27: Capital Financing Requirement for Unsupported Borrowing (PIs 8 and 9)

	2010/11 Actual £000's	**2011/12 Est. £000's**	**2012/13 Est. £000's**	**2013/14 Est. £000's**	**2014/15 Est. £000's**
General Fund	115,858	128,520	144,333	143,451	139,239
HRA	47,294	47,766	45,266	41,366	40,616
Total	**163,152**	**176,286**	**189,599**	**184,817**	**179,855**

6.12 CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes

The Council has an integrated Treasury Management Strategy and has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. North Tyneside Council has, at any point in time, a number of cash flows, both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved Treasury Management Strategy and Practices.

In addition to the Prudential Indicators set out above, there are a set of Treasury Management Indicators which cover the following:

(a) Authorised limit for external debt;

(b) Operational boundary for external debt;

(c) Upper limits for exposure to fixed and variable interest rates; and,

(d) Maturity structure of borrowing.

These indicators are an integral part of the Council's Treasury Management Strategy which is included at Section 7.0 of this report. However, to some extent, the strategy is informed by decisions on the Council's budget setting process and can only be presented in an informed way once the budget is set. With this in mind, the Treasury Management Indicators are presented here based upon approval of the budget proposals set down in this report.

6.13 External Debt

In respect of its external debt, it is recommended that the Council approves the following Authorised Limits for its total external debt gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary.

These limits separately identify borrowing from other long-term liabilities such as PFI and finance leases.

Council is requested to approve these limits and to delegate authority to the chief finance officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities, in accordance with option appraisal and best value for money for the Council.

Any such changes made will be reported to the Cabinet at its next meeting following the change.

Table 28: Authorised Limit for External Debt

	2012/13 £000's Est.	2013/14 £000's Est.	2014/15 £000's Est.
Borrowing	938,352	1,078,812	1,140,987
Other Long Term Liabilities	90,000	90,000	90,000
Total	**1,028,352**	**1,168,812**	**1,230,987**

The chief finance officer reports that these Authorised Limits are consistent with the authority's current commitments, existing plans and the proposals in this 2012/13 budget report for capital expenditure and financing, and in accordance with its approved Treasury Management Policy Statement and Practices.

The chief finance officer confirms that they are based on the estimate of most likely, prudent, but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements.

Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements for all purposes.

Council will be requested to approve the following Operational Boundary for external debt for the same time period.

The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly the chief finance officer's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the Authorised Limit, to allow, for example, for unusual cash movements, and equates to the maximum of external debt projected by this estimate.

The Operational Boundary represents a key management tool for in-year monitoring by the chief finance officer. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified. Council is requested to delegate authority to the chief finance officer, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the Authorised Limit.

Any such changes will be reported to the Cabinet at its next meeting following the change.

Table 29: Operational Boundary for External Debt

	2012/13 £000's	2013/14 £000's	2014/15 £000's
	Est.	Est.	Est.
Borrowing	523,602	555,210	585,777
Other Long Term Liabilities	90,000	90,000	90,000
Total	**613,602**	**645,210**	**675,777**

Actual External Debt at 31 March 2011

The Council's actual external debt at 31 March 2011 was £386.866m, comprising £330.900m borrowing and £55.966m other long-term liabilities.

It should be noted that actual external debt is not directly comparable to the Authorised Limit and Operational Boundary, since the actual external debt reflects the position at one point in time.

In taking its decisions on this budget report, Council should note that the Authorised Limit determined for 2012/13 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

6.14 Upper limit for fixed interest rate exposure

Council will be requested to set an upper limit on its fixed interest rate exposures for 2012/13, 2013/14 and 2014/15 of 100% of its net outstanding principal sums.

Council will be requested to set an upper limit on its variable interest rate exposures for 2012/13, 2013/14 and 2014/15 of 50% of its net outstanding principal sums.

The proposals to set upper and lower limits for the maturity structure of the Council's borrowings are as follows:

Table 30: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Upper Limit	Lower Limit
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	25%

Table 31: Upper limit for total principal sums invested for over 364 days

	2012/13	2013/14	2014/15
% of Investments with Maturity over 364 days	25%	25%	25%

The above indicator sets the exposure of investments in excess of 364 days at no more than 25% of the portfolio.

6.15 Annual Minimum Revenue Provision (MRP) Statement

The Capital Finance Regulations require the Council to agree an annual policy for the Minimum Revenue Provision.

The Minimum Revenue Provision is the amount that is set aside to provide for the prepayment of debt (principal repayment). This is the amount required to make a prudent provision and ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the support provided through the RSG.

It is proposed that the Council adopts a policy for Annual Minimum Revenue Provision in line with the following principles:

(a) Assets existing at 31 March 2007 – MRP will continue to be charged at 4% per annum;

(b) Supported Borrowing – MRP will continue to be charged at 4%, which matches the level of Government support provided for this borrowing through the RSG;

(c) Unsupported Borrowing – for all assets financed by unsupported borrowing, MRP will be charged over the estimated life of the assets. This will include assets financed through current PFI schemes and finance leases; and

(d) The conversion to International Financial Reporting Standards (IFRS) may also result in some lease transactions being treated as “on balance sheet” for the Council. Where this is the case an element of the annual charge to the Council for the lease will be treated as repayment of capital (ie repayment of principal and interest). The principal element is effectively the MRP charge for the year. This MRP charge will be equal to the element of the rent/service charge that goes to write down the balance sheet liability.

The effects of the MRP policy have been built into the current revenue budget projections (Section 5.0 refers).

Section 7.0
Treasury Management Statement and Annual Investment Strategy 2012/13

7.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing needs of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as:

"The management of the local authority's investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

7.2 Reporting Arrangements

In line with best practice, Council is required to receive and approve three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are:

- **Prudential and Treasury indicators and Treasury Strategy** (this report) -This report covers the Treasury Management Strategy detailing how investments and borrowing are to be organised, including treasury indicators, and an investment strategy;

- **A Mid - Year Treasury Management Report** – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision; and

- **An Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

7.3 Treasury Management Strategy for 2012/13

The proposed strategy for 2012/13 in respect of the following aspects of the treasury management function is based upon the treasury officers' view on interest rates, supplemented with market forecasts provided by the Council's treasury adviser, Sector.

This strategy covers:

- The current treasury position;
- Prospects for interest rates;
- The borrowing strategy;
- Housing Revenue Account (HRA) Self-financing;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- Annual investment strategy;
- Creditworthiness policy; and,
- Policy for the use of external service providers.

7.4 Current Treasury Position

The Council's treasury position at 12 January 2012 is set down in Table 32 below. This has been compared with the comparable position as at 12 January 2011.

Table 32: Current Treasury Position

	Principal Outstanding	**Average Rate**	**Principal Outstanding**	**Average Rate**
	(12 Jan 2012) £m	**%**	**(12 Jan 2011) £m**	**%**
Fixed Rate Funding				
PWLB*	274.750	5.54	294.750	5.40
Market Loans	20.000	4.35	20.000	4.35
Temp Loans	25.000	1.15	21.000	1.30
Total External Debt	**319.750**		**335.750**	
less **Investments**				
(UK) Banks			16.200	0.44
(UK) DMO**	12.350	0.25	15.000	0.25
Other LA's***			5.000	0.45
Total Investments	**12.350**		**36.200**	

Net Position	**307.400**		**299.550**	

***Public Works Loan Board**
****Debt Management Office**
*****Other Local Authorities**

7.5 Prospects for Interest Rates

The Council has appointed Sector as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. Regular meetings are held with Sector to discuss the Council's treasury options; all major investment and borrowing decisions consider the professional advice offered by Sector.

Appendix L(iv) of this report sets out Sector's professional view of interest rate forecasts. Appendix L(v) draws together a number of current City forecasts for short term or variable, and longer fixed interest rates.

Table 33 below gives the Sector central view.

Table 33: Sector forecast for PWLB new borrowing

	Mar 12 %	June 12 %	Sept 12 %	Dec 12 %	Mar 13 %
Bank Rate	0.50	0.50	0.50	0.50	0.50
5 yr PWLB	2.30	2.30	2.30	2.40	2.50
10 yr PWLB	3.30	3.30	3.40	3.40	3.50
25 yr PWLB	4.20	4.20	4.30	4.30	4.40
50 yr PWLB	4.30	4.30	4.40	4.40	4.50

"Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.50%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee (MPC) inflation target. The current Eurozone financial position is having an impact on UK exports, with growth being lower than hoped. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years" – Sector, January 2012.

Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilts issued is expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historic low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

This challenging and uncertain economic outlook has several key treasury management implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality lower risk counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2012/13;

- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully; and

- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

7.6 Borrowing Strategy

The Council is currently maintaining an “under-borrowed” position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high.

Over the next three years, investment rates are expected to continue to be lower than long term borrowing rates and so value for money considerations would indicate that it is beneficial to avoid new external borrowing and to use internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term savings.

However, short term savings by avoiding new long term external borrowing in 2012/13 need to be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

The Council’s borrowing strategy will give consideration to new borrowing in the following order of priority:-

- The cheapest borrowing and lowest risk approach is internal borrowing. By continuing to maintain a relatively low level of cash balances the risk of investment is reduced and the historically low rates of interest means that the interest foregone is lower than in previous years. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.

- Temporary borrowing from the money markets or other local authorities.

- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

- PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.

- PWLB borrowing for periods of longer than 10 years may be explored.

The principal risks that impact on the strategy are the security of the Council's investments and the potential for sharp changes to long and short term interest rates. Officers, in conjunction with the Council's treasury advisor, will continue to monitor the financial standing of banks and building societies on the counterparty list, and the level of interest rates, both those prevailing and forecast.

Against this background caution will be adopted with the 2012/13 treasury operations. The Strategic Director of Finance and Resources will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet or Council, as appropriate, at the next available opportunity. Such circumstances include a situation where:

- If it were felt that there was a significant risk of a sharp fall in long and short term interest rates, perhaps due to marked increases of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered; or

- If it were felt there was a significant risk of a sharp rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap.

7.7 HRA Self – financing

The requirement for the HRA reform settlement to be paid to the CLG on 28 March 2012 will require a separate consideration of a borrowing strategy, as outlined in Section 10.3 to this report. The Council will need to have a cash settlement amount of £129.834m available by the 28 March 2012, so separate borrowing solely for this purpose is anticipated. The PWLB are providing loans at an interest rate of 0.85% lower than the usual PWLB interest rates solely for the settlement requirements. This provides a compelling reason to utilise this borrowing availability. The exact structure of debt to be drawn is currently being considered by officers to ensure it meets the requirements of the HRA business plan and the overall requirements of the Council.

The allocation of income and expenditure and risks between the General Fund and the HRA will follow the four principles set out in the CIPFA Code of Practice:

- A fair apportionment of costs and risks between the General Fund and the Housing Revenue Account;

- Local authorities are required to deliver a solution that is broadly equitable between the HRA and General Fund;

- Future charges to the HRA in relation to borrowing are not influenced by General Fund decisions, giving a greater degree of independence, certainty and control; and,

- Uninvested balance sheet resources, which allow borrowing to be below the CFR, are properly identified between the General Fund and the HRA.

7.8 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will;

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;

- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;

- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;

- Consider the merits and demerits of alternative forms of funding;

- Consider the alternative interest rate bases available, the most appropriate periods to fund the repayment profiles to use; and,

- Consider the impact of borrowing in advance temporarily increasing investment cash balances and the consequent increase in exposure of counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

7.9 Debt Rescheduling

As short term borrowing rates are expected to be considerably cheaper than longer term rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of the premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any position taken via rescheduling will be in accordance with the strategy position outlined above.

In order to generate the most attractive debt rescheduling opportunities, it is proposed that the strategy for 2012/13 should remain flexible. The reason for any rescheduling to take place may include:

- the generation of cash savings at minimum risk;
- to help fulfil the strategy outlined above; and
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to Cabinet as part of the next budget monitoring report at the meeting following its action.

7.10 Annual Investment Strategy 2012/13

This Council has regard to the CLG's Guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Council's investment priorities are:

a) the security of capital;
b) the liquidity of its investments; and,
c) return.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activities.

The Investment Strategy states which instruments the Council may use for investment purposes, making a distinction between specified and non-specified investments. This is set out in Appendix L(vi). The Council's current counterparty list is set out in Appendix L(i) and L(ii) of the report.

In order to develop an investment strategy for the next financial year, it is necessary to take a view on future interest rate movements. Professional advice is sought from Sector, the Council's treasury advisor. Bank Rate has been unchanged at 0.50% since March 2009. As set out in Appendix L(iv), Sector is forecasting that the Bank Rate is to remain unchanged at 0.50% during 2012/13 before starting to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are as follows:

- 2011/12 0.50%
- 2012/13 0.50%
- 2013/14 1.25%
- 2014/15 2.50%

There is a downside risk to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England 2% target rate.

The strategy for 2011/12 agreed on 3 March 2011 was set in a background of uncertainty and a prudent approach was taken with nearly all investments on an overnight basis. In the current economic climate it is essential that a prudent approach is maintained. This will primarily be achieved through investing for up to three months with selected banks and funds which meet the Council's credit rating criteria, set out in Appendix L(vi).

The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by the Council.

It is also important to recognise that movements within the money markets can happen with no notice and the Strategic Director of Finance and Resources may have to amend this strategy in order to safeguard Council funds. Any such actions will be reported to Cabinet as part of the next budget monitoring report at the meeting following this action.

The Strategic Director of Finance and Resources will undertake the most appropriate form and duration of investments depending on the prevailing interest rate at the time, taking into account the risks shown in the interest rate forecast.

All investments will be made in accordance with the Council's investment policies and prevailing legislation and regulations.

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

7.11 Creditworthiness Policy

Credit ratings will continue to be monitored by the Council's treasury management team. The Council is alerted to changes to ratings through its use of the Sector creditworthiness service who notify the Council of any changes as soon as they receive the information. The Sector creditworthiness service uses a modelling approach with credit ratings from the three main rating agencies – Fitch, Moody's and Standard and Poor's, forming the core element. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system. Where an institution has its credit rating downgraded so that it fails to meet the Council's credit criteria then:

- no new investments will be made after the date of notification,
- any investments 'on call' will be recalled immediately.

Where an institution is placed on negative rating watch (notification of a possible rating downgrade) deposits will continue to be made up to approved limits so long as the institution's credit quality is above the Council's minimum criteria.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of the government support.

7.12 Policy on the use of external service providers

The Council uses Sector Treasury Services as its external treasury management advisers.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

Section 8.0
Response to the Overview & Scrutiny Committee Recommendations

8.1 Information Document

This section of the document proposes how to consider responding to any recommendations made by the Overview and Scrutiny Committee and its Budget & Council Plan Study Group, following their scrutiny and challenge of the 2012-2015 Council Strategic Plan and Budget Setting process and the Cabinet's draft council strategic plan and initial budget proposals. The Overview and Scrutiny Committee met on 9 January 2012.

The Cabinet must formally respond to any recommendations made by the Overview and Scrutiny Committee in considering its final budget proposals. It is therefore proposed that delegated authority is granted to the Elected Mayor, in consultation with the Cabinet Member for Finance, the Chief Executive and the Strategic Director of Finance and Resources to formally respond to any recommendations that may be proposed by the Overview and Scrutiny Committee and its Budget & Council Plan Study Group.

A separate report will be issued, indicating Cabinet's response to any Overview and Scrutiny Recommendations that may arise.

Section 9.0:
Provisional Statement to Council by the Chief Finance Officer

9.1 Background

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.

Government has a back up power to impose a minimum level of reserves on any authority that it considers is making inadequate provisions.

In making the statement the chief finance officer necessarily places reliance on information provided to her by other officers of the Council as part of the budget setting process. Due cognisance to CIPFA's guidance in relation to the adequacy of reserves and balances will also be taken into account.

The intention would be to make this full statement as part of the Council meeting on 21 February 2012 when all outstanding information should be available as detailed in paragraph 1.1 of this document.

9.2 Provisional Statement

Robustness of Estimates

In assessing the robustness of estimates, the chief finance officer has considered the following issues:

- The general financial standing of the Council;
- The underlying budget assumptions from the financial strategy;
- Future budget pressures and growth proposals, including the impact of prudential borrowing for the 2012-2022 Capital Plan;
- The adequacy of the budget monitoring and financial reporting arrangements in place;
- The adequacy of the Council's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2010/11 Statement of Accounts, presented to the Audit Committee on 28 September 2011;

- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Council; and,

- The implications of government's 2011 – 2015 Spending Review and the Local Government Finance Settlement on the Council's financial plan.

The chief finance officer is satisfied that due attention has been given to the 2012-2015 Council Strategic Plan and Budget Setting process and in particular the budget setting element of that process for 2012-2015 to enable a positive statement to be made.

The Cabinet is aware it must keep under review its medium-term Financial Strategy and three year Financial Plan, in the context of its Council Strategic Plan and known key financial risks. Future pressures need to be considered and the Council should not take 2012/13 in isolation to future years' needs and pressures. Each year's budget must continue to be considered within the context of the three-year Financial Plan, the ten-year Capital Plan, the Financial Strategy and delivery of the Council Strategic Plan.

To ensure that the Council continues to keep within its approved budget and the financial integrity of the Council is maintained, it is essential that budget holder responsibility and accountability continues to be recognised as set down in the Council's Financial Regulations and in the roles and responsibilities section of the Council's budget management handbook.

9.3 Adequacy of Financial Reserves

The level of reserves used to support the 2012/13 budget proposals has been set at £0.200m. The chief finance officer's view, based on Cabinet's estimates of amounts proposals is that, this figure for the use of reserves in 2012/13 is manageable within the overall financial position of the Council and the level of reserves carried in its balance sheet. For 2009/10 the budgeted use of reserves, for both revenue and capital, was £11.498m. In the 2010/11 budget this fell to £4.064m and to £3.185m in the 2011/12 budget (comprising of a contribution of £1.803m from the insurance reserve and £1.382m from the Strategic Reserve). The 2012/13 draft budget sees a further fall in the use of reserves to £0.200m (from the Strategic Reserve). These successive reductions recognise the need to reduce the reliance on reserves in balancing the Council's revenue budget.

The proposed 2012/13 budget includes the use of £0.200m of the Strategic Reserve to establish the CEI Fund. £1.436m is being used to replenish the reserve in 2012/13 in line with the projected budget monitoring position for 2011/12 and the use of some one-offs in that year. This maintains the Strategic Reserve at an average level of £5.000m over the life of the financial plan in line with the Reserves and Balances Policy. Any unplanned use of the Strategic Reserve over the 2012-2015 financial plan would take the level outside of this boundary.

Guidance on Local Authority Reserves and Balances is given in Accounting Bulletin LAAP (Local Authority Accounting Practice) 77. This states that *"Balancing the* *annual budget by drawing on general reserves may be viewed as a legitimate short term option",* and so the proposed 2012/13 budget does not contradict the issued guidance. The Bulletin does then go on to say *that "It is not normally prudent for reserves to be deployed to finance current expenditure"*. The 2012-2015 financial plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long term reliance on reserves.

PART II

(to be received and approved by Council on 2 February 2012)

Section 10.0
Cabinet's Estimates of Amounts for the Housing Revenue Account (HRA) Business Plan and budget for 2012-2015

10.1 Housing Revenue Account (HRA)

As Cabinet will be aware, following on from Cabinet's decisions at this meeting, this report will be received by full Council on 2 February 2012. At that meeting Council will be asked to approve the Housing Revenue Account Business Plan and Budget for 2012/13, including the housing rent, garage rent and service charge increases.

Cabinet will be aware that 2012/13 marks a year of landmark change for the HRA, as it will see the introduction of self-financing HRAs and the abolition of the current HRA Subsidy system. Under powers now enacted under the Localism Act 2011 a major change is proposed from 1 April 2012. In future this authority will keep all rents raised locally and will no longer have to pay over any sums to Government. In addition there will be 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 will be a one-off national debt adjustment, which will redistribute over £20 billion of council housing debt held nationally, of which this authority's share will be an estimated additional £130m of debt.

The key principles of the new self-financing proposals were explained in the Cabinet Report "Housing Revenue Account Self-Financing" (28 November 2011). This report sets 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.

This report also sets out the efficiencies, financial and service pressures on the HRA which have been identified through the financial planning process. Cabinet will wish to take these into account when it considers the draft HRA financial plan for 2012/13 to 2014/15 and the associated 30-year Business Plan.

Cabinet will be aware that a long-term view of the HRA financial position is regularly taken. For the purposes of the current Council Strategic Plan and Budget Setting process a three-year plan in line with the approach adopted for the General Fund as is outlined below. Cabinet is advised that the second and third year projections are only indicative at this stage. As part of the self-financing process the authority has continued to develop its 30-year plans to ensure the long-term viability of the HRA.

The HRA budget-setting process has always revolved around the issuing of the Subsidy Determinations each year, which have had a major impact on the HRA budget. In particular items such as subsidy due or repayable, amounts available to support capital spend, capital charges incurred by the account and rent increase levels under the rent restructure formula are set based on information and requirements outlined in the determination. As already indicated above this will be replaced by self-financing from 2012/13, and in January 2012 we will receive the last ever “shadow” Subsidy Determination, which will set out the final settlement terms on which this authority will leave the subsidy system. In future, instead of being concerned with the amount of subsidy we will pay over to Government, the critical determinants will be the amount of rent we collect, the Treasury Management Strategy we use to manage our debt portfolio, how we control the costs of managing and maintaining stock and the future investment needs of that stock.

The following budget proposals include the impact of the final 2012/13 HRA Subsidy Determination and reflect the impact of the key determinants mentioned above on future HRA business planning. We have consulted with Government throughout the self-financing change process and made representations to ensure understanding of issues which are particularly relevant to this authority. We have also spent time discussing these changes with Elected Members and tenants.

Table 34: Key milestones to Implementation of HRA Self-Financing

Date	Issue
End of Aug 2011	Base Data Return (BDR) submitted by North Tyneside to Communities and Local Government (CLG) containing all relevant details re stock numbers etc. The deadline was met.
September 2011	Authority complete draft payment questionnaire for CLG on payment assumptions. The North Tyneside response made it clear that all options were being explored.
10 October 2011	Deadline for external auditor-certified Base Data Return (BDR) data to be submitted by authorities. This deadline was met.
November 2011	Draft self-financing settlement determinations issued and consultation begins. Draft settlement figure of £129.834m received for North Tyneside. Public Works Loan Board (PWLB) will also issue more guidance on use of the new website set up to apply for loans for self-financing. Cabinet considers draft proposals for Housing Revenue Account budgets.
January 2012 (CLG estimate 28 January)	Final self-financing determinations will be published. Local Authorities making a payment will receive another questionnaire, and will have to provide firmed up plans on how much and from where they intend to borrow, to finance the payment in March. PWLB website will also open for business in January. Consultation responses and any representations to Government regarding rent increases due by 6th January 2012.
Early February 2012	CLG will consult on special determinations for 2011/12 subsidy adjustments.
February 2012	Local Authorities will set budgets and agree borrowing arrangements.

End February 2012	CLG will issue special determinations for 2011/12 subsidy adjustments.
28 March 2012	Payments between CLG, PWLB and Local Authorities to enable self-financing to start.
1 April 2012	Self-financing goes live.
March 2013	Cut-off for final payments under the current subsidy system.

10.2 Decent Homes Standard Progress

The 2011/12 HRA budget including the Business Plan and 2011-2021 Housing Capital Plan, which were approved by Council as part of the 2011-2015 Service and Spending Review process, allowed for the Decent Homes Standard to be maintained for most of the General Needs Housing and non-traditional build properties owned by the Council.

The Department for Communities and Local Government (CLG) has approved a draft allocation of Private Finance Initiative (PFI) credits totalling £110.400m for the redevelopment and refurbishment of the authority's Sheltered Accommodation units following the successful submission of the Outline Business Case for the Quality Homes for Older People project. Negotiations and tender evaluations are now ongoing with the remaining final two bidders. The revenue and capital implications of the successful PFI approval have been included in the budget proposals. The project has been reviewed and is the Council's solution to ensure that all of our homes will achieve the required Decent Homes Standard.

2011/12 was the first year of a post-Decent Homes Programme. The over-riding future objective is to ensure that the housing stock is at least maintained at Decent Homes Standard (DHS). The Asset Management Strategy was agreed in the "Better Homes – Better Lives" 2010-2015 report, which was approved by full Council on 9 September 2010. In that report Council approved that a new stock condition survey would be undertaken, to update the assumptions within the Capital Plan and to ensure that the future needs of the stock are fully met. This survey has now been completed, and the results fed into the Council's Keystone Asset Management system. The implications of the survey work have been fed into an updated Capital Plan and this estimates the capital need over the next three years will total £45.451m, with £1.155 billion needed over the next 30 years, excluding any assumptions on new build. If the assumptions outlined in this report are agreed in setting the HRA rent and budget for 2012/13 and beyond, then there is the potential for up to 930 new homes to be built over the next 30 years, providing the HRA can identify enough suitable land and there are not significant changes in the key assumptions within the plan.

These assumptions in relation to the Capital Plan are fully reflected in the budget proposals outlined in this report.

The Council's Joint Venture partner (Kier North Tyneside Limited) will deliver the majority of the works required within the Capital Plan necessary in order to maintain the stock at DHS. The funding assumptions on capital reflect current issues around a need to review our HRA-owned land stocks. Due to the self-financing changes and potential amendments to the Right-to-Buy (RTB) scheme, the plan assumes any RTB receipts will be set aside to repay debt rather than finance capital; this will help to mitigate against viability issues for the HRA business plan which may arise under Government proposals to reinvigorate the Right to Buy scheme by increasing the maximum discount to £50,000.

The last year of the Decent Homes Programme in 2010/11 saw £35.699m of capital works being delivered, of which £21.510m was funded from Prudential Borrowing. Under the proposals for self-financing, part of the deal in determining the debt settlement for the authority was to provide for an increase in the level of funding available for major repairs. This, coupled with a steady increase in the level of revenue contributions available, makes it possible to plan for the long-term to ensure that not only are all existing stock needs met, but that the Council could put itself in a position to begin building new council houses in the foreseeable future. Further details on the Housing element of the Capital Plan and capital financing arrangements are included in Section 6.0 of this report.

10.3 HRA Self-Financing and the Debt Settlement Calculation

The HRA is a separate landlord account that reflects revenue expenditure and income relating to the Council's own housing stock. It is an account that is ring-fenced from the Council's General Fund with statutory guidance about the items that can be charged and credited to it. The Council has a legal duty to prepare budgets that ensure that the account remains solvent and to review the account throughout the year.

Each council's HRA is currently part of a national housing subsidy system that means councils which make a surplus on their account (calculated using Government assumptions) have to make a payment into a central pool that is used, amongst other things, to subsidise authorities that make a loss. North Tyneside is currently a net payer of housing subsidy, with estimated projected payments of £7.006m for 2011/12 (budgeted £6.141m); these were projected to continue to rise significantly year-on-year if the current subsidy system remained in place.

As part of the Government's Localism Act the subsidy system will be abolished and replaced with a self-financing system, which will be in place for April 2012. The main proposal contained in the reform plans is that each authority will retain all rents raised locally, and will no longer be required to make or receive any subsidy payments to or from central Government. In order to achieve this there will be a "one-off" re-allocation of debt nationally, to achieve a once and for all settlement. The debt settlement figure is calculated by determining the commuted Net Present Value (NPV) of expected future income and expenditure streams for the next 30 years. This value is then compared to the HRA Subsidy Capital Financing Requirement (CFR), and if the NPV figure is higher the difference will be the additional amount of debt an authority takes on. If it is lower the authority would get some or all of its debt repaid.

The draft estimated NPV figure for North Tyneside Council at 31 March 2012 is £272.225m, which is £129.834m higher than the subsidy HRA CFR at that point, and hence that is the amount of additional debt that would be allocated to this authority.

The overall CFR of the authority will be used to “cap” any future borrowing. This authority will have an estimated subsidy HRA CFR of £142.392m at 31 March 2012, but an actual HRA CFR of £162.631m. This difference is because the authority had to borrow significantly to finance the Decent Homes Programme. The Government has agreed that any authority whose HRA CFR exceeds their subsidy CFR will have their “cap” adjusted to reflect the higher figure, otherwise we would immediately exceed the cap.

Table 35: Draft Calculation at 31 March 2012

Calculation	**£000’s**
NPV Figure	272.225
Proposed Initial HRA Debt “Cap”	272.225
Subsidy HRA CFR	142.392
Additional Debt	129.834
Notional Total HRA CFR	272.225
Actual HRA CFR	162.631
Additional Debt	129.834
Actual HRA CFR	292.465
Revised HRA Debt “Cap”	**292.465**

Hence, £292.465m is the starting point for the total amount of debt that the HRA will have to manage within the business plan over the next 30 years. So, although the Council will no longer have to pay subsidy, it will have to pay interest and principal repayment costs (depending on the repayment strategy) on £292.465m of debt. The interest alone on the £292.465m of debt in 2012/13 is estimated to be in the region of £14.100m per annum.

The Cabinet report “HRA Self-Financing” outlines all the relevant issues in relation to the treatment of this debt, both in terms of financing the new debt, accounting for the existing and new elements, and the recommended policy as to how this debt should be treated in terms of a debt repayment strategy. This Council Strategic Plan and Budget Setting report assumes that the authority will in principle follow the policies in relation to Treasury Management recommended in that report; £129.834m will be borrowed from the Public Works Loan Board (PWLB) at the favourable rates which are being guaranteed by the PWLB for this one-off arrangement; and to implement a debt repayment strategy that will seek to repay as much of the existing debt as possible over the next 30 years, with the new debt being financed for up to 30 years on an interest-only basis. This reduces the re-financing risks attached to the business plan, but also provides some flexibility in terms of future investment and additions to the stock.

10.4 HRA Self-Financing and Depreciation

As part of the proposals for self-financing CLG declared a desire to ensure that authorities make proper provision for the future investment needs of the stock and they aim to achieve this by introducing a true charge for depreciation. As explained in the "HRA Self-Financing" Cabinet Report, the Major Repairs Allowance (MRA) is currently used as a proxy for depreciation, with any revaluations and impairment charges being reversed out of the accounts; the same principle is applied to the General Fund.

A true depreciation charge could make the business plan unsustainable, which is of major concern to all stock-owning councils. There is also a requirement to move towards assessing the different components of assets with differing lifecycles (e.g. kitchens and bathrooms), under International Financial Reporting Standards (IFRS), which could also lead to variations in depreciation charges previously used.

To manage those concerns and following further work and consultation with CIPFA, CLG has now come up with an interim solution; to allow an up-rated MRA figure to be used as a proxy again for up to five years whilst a workable long-term option is developed. It has proposed an alternative treatment based on a discounted cash-flow valuation, and the Council is working through the implications of this. As recommended in the self-financing report, this budget assumes that the Council will move towards calculating a true depreciation charge, but will use the MRA proxy as a fall-back position for up to five years, whilst this issue is resolved fully.

This means that the transfer to the Major Repairs Reserve that will be required in 2012/13 will increase from £10.026m to approximately £13.418m. These sums can only be used to either pay off debt or fund major repairs, they cannot be used to balance the HRA business plan.

10.5 HRA Self-Financing and Rent Restructuring

The current national subsidy system for housing sets a subsidy "guideline" rent that the Government assumes authorities charge to their tenants. This guideline rent is set according to Government policy on rent restructuring. The objective of rent restructuring is that similar affordable rented homes in the same area should have similar rents regardless of who the landlord is, and therefore deliver more consistent rents and greater transparency for tenants, it will also ensure that that landlord has sufficient resources to maintain its homes to the decent home standard as a minimum. Under this policy, properties with lower or higher rents than a Government set formula have their rents progressively increased or decreased (in the case of Housing Associations) each year until they reach the Government's target. Individual rent increases are limited to Retail price Index (RPI) + 0.5% + £2 (per week).

Councils can set rents below this level, but if they do so they will not be compensated for any rent loss through the housing subsidy system and so must be able to afford the reduced rental income in their overall HRA. The rent restructuring policy was introduced in 2001/02 and originally required the rent for all Local Authority and Registered Social Landlord homes to reach their "formula rent" target level by 2011/12. This was referred to as "convergence" as the intention was for local authority rent levels to converge with the higher rents charged by housing associations.

In recent years the Government has amended the rent restructure formula to allow authorities to reduce the rent increase in part by adjusting the rent convergence deadline and consequently the guideline rent increase. This has had a direct impact on the rent increase now required through the rent restructure formula. For 2011/12 the Government compensated those authorities where the rents were "constrained" from their full convergence path because of the maximum "cap" limit.

For North Tyneside Council this compensation equated to £2.73 per property per week in 2010/11, which was taken into account in determining the 2011/12 Subsidy payment. Under self-financing the Government will build-in an average level of compensation for each property and this will be reflected in the debt settlement figure. This may mean that using a global average will disadvantage those authorities with a high level of compensation and will mean that not every property will converge by 2015/16.

The self-financing proposals already discussed assume that all authorities will continue to implement rent restructuring with a "convergence" deadline of 2015/16. Hence, the financial model that the Government has developed to calculate our debt settlement assumes that the Council's rent increases will mirror the rent increases reflected in that model. If they do not, the Council will have problems generating the resources required to make the business plan balance and meet the future needs of the existing stock.

The rent restructure formula for 2012/13 is based on the RPI level prevailing at September 2011 as a base. No individual weekly rent should increase by more than RPI + 0.5% plus £2, which allows authorities the scope to narrow the convergence gap. The RPI prevailing at September 2011 was 5.6%. Applying the rent restructuring formula, using the September 2011 RPI inflation rate and a convergence date of 2015/16, indicates that an average rent increase for our tenants of 9.00% for April 2012 will be required, with increases in each of the following three years of between 6.3% and 6.8% based on assumed inflation of 3.5%.

The rent restructure formula is demonstrated below:-

Table 36: Rent restructuring Formula: (50 week rent figures assumed)

Rent restructuring formula	**£**
Average Target (convergence) Rent 2011-12	70.47
RPI at Sept 2011+ 0.5% (5.6% + 0.5% = 6.1%)	4.30
Average Target Rent 2012-13	74.77
Average Actual Rent 2011-12	62.92
RPI at Sept 2011 + 0.5% (5.6% + 0.5% = 6.1%)	3.84

Base Average Actual Rent 2012-13	66.76
Convergence element ((£74.77-66.76)/4)	2.00
Element constrained by limit ie RPI + 0.5% + £2	0.18
Actual Average Rent 2012-13	68.58

The implications of these changes for our tenants is an average increase in rent of £5.66 per week (9%) which ranges from a lowest actual increase of £4.03 (1 bed bungalow) per week up to a maximum of £7.78 per week (7 bed house), with a minimum percentage increase of 7.1% (3 bed house) up to a maximum of 11.4% (bedsit).

In addition to the rent increase outlined above, it is also assumed that Housing Service Charges and Garage Rents are increased in line with the September 2011 inflation level of RPI, i.e. 5.6%. The exception would be warden service charges which would be amended as described in sections 10.7 and 10.8, removing the warden support service charge of £9.44 per week altogether, and increasing the landlord service charge from £4.12 to £9.00 per week. These changes to warden service charges will only be implemented following consultation with tenants, and will only impact on the 20% of sheltered accommodation tenants not in receipt of Housing Benefit.

The increased income from the indicated rent, service charge, and garage rent increases is included in the budget proposals in this report for 2012/13 and the next three years to the convergence deadline. After 2015/16 the Government will effectively assume that we are on a level playing field with other housing providers, and the rent policy is expected to become one of RPI + 0.5% increases from that point forward.

The authority is notionally free to set a rent increase. However a number of conflicting assumptions make this very difficult. There is a national rent policy setting out the basis upon which all local authorities and registered providers should set their rents, there are requirements set out within the “Home Standard” set by the Housing Regulator to maintain homes as a minimum to the Decent Home Standard and the Regulator has also reserved the right to set a “Rent Standard” based upon the application of the national rent policy. Critically for the Business Plan every 1% reduction in rent represents just under £0.500m in lost rent in 2012/13, and a potential total rent loss over the 30-year business plan of approximately £23m based on assumed future inflation. The Government has calculated a draft debt settlement figure using the increased RPI figures. For illustration purposes this would be like taking on a large mortgage, whilst taking a pay cut.

Because of the starting level of debt and the low average rents when rent restructuring began, the HRA business plan for the next three to four years will be very finely balanced. However, in the longer-term over the duration of the 30-year plan, self-financing offers an opportunity to secure the resources necessary to manage, maintain and invest in the existing stock, and potentially invest in new stock.

HRA Pressures and Income, Grant and Efficiency Opportunities have been classified in the categories used for the General Fund outlined earlier and are shown below:

10.6 Pay and Price Pressures

Pay and price pressures for HRA Services are detailed below. These include the anticipated impact of actuarial valuations on pension fund contributions.

Table 37: 2012/13 – 2014/15 Pay and Price Pressures

Pay and Price Pressures	2012/13 £000's	2013/14 £000's	2014/15 £000's
Pay Awards	0	137	140
Price Inflation (incl. Pension Fund Deficit)	339	442	384
Strain on the Pension Fund	-109	-30	0
TOTAL Pay and Price Pressures	**230**	**549**	**524**

10.7 Pressures and Growth

Table 38 below summarises the major unavoidable pressures and variations faced by the HRA currently built into the budget. These include:-

a) HRA subsidy change – result of moving to self-financing;

The budget for subsidy for 2011-12 is for the payment of £6.140m of HRA Subsidy over to Government. From 2012-13 onwards this payment will no longer be required. As part of the self-financing proposals we have been provided with a "shadow" subsidy determination, which indicates what our subsidy settlement would have been for 2012/13 if the existing system had continued. This is set out in table 38 below, and shows that budgeted subsidy payable in 2012/13 would have increased by £3.404m to £9.544m.

Table 38 : Comparison of HRA Subsidy changes 2011/12 to 2012/13 under existing system.

SUBSIDY	**2012-13**	**2011-12**	**Difference**
	£m	**£m**	**£m**
Guideline Notional Rent	52.272	50.621	1.651
Management & Maintenance Allowance	-24.436	-25.036	0.600
Capital Charges	-6.448	-7.239	0.791
Major Repairs Allowance	-9.953	-10.026	0.073
Rent Limit Compensation	-1.891	-2.180	0.289

TOTAL SUBSIDY PAYABLE	**9.544**	**6.140**	**3.404**

b) The impact of the change to introduce a true depreciation charge as part of the self-financing changes, utilising the up-rated Major Repairs Allowance (MRA) for up to 5 years;

c) The revenue effects of the proposed Housing Capital Plan;

d) The implications in revenue of the Quality Homes for Older People project;

e) Temporary Accommodation – loss of Supporting People Grant from 2012/13 due to the Supporting People Review in 2011/12. Following the comprehensive review of Supporting People Income and the services funded from that income, the funding provided for the Housing Options Support Service (HOSS), and part of the funding for the New Beginnings scheme (£0.051k) have been withdrawn as part of the proposals to help balance the General Fund.;

f) Warden Services – Loss of Supporting People income from 2012/13 following the Supporting People Review in 2011/12. Following the comprehensive review of the Supporting People programme it has been decided to remove the funding for the support element of the service provided by Warden Services. This has been reflected in the savings proposals put forward in section 10.8. There will be a continued review of the way services are delivered in future – although the support element of the service is being removed a more comprehensive "landlord" service will be offered and agreed with tenants through consultation;

g) Increase in the Bad Debt Provision to begin preparations for welfare reform changes from 2013/14.

Table 39: 2012/2013 – 2014/15 Pressures and Growths

Pressures and Growth	2012/13 £000's	2013/14 £000's	2014/15 £000's
HRA Subsidy	-6,140	0	0
MRA / Depreciation	3,392	284	424
Capital Plan - Revenue Effects	6,010	-82	20
Capital Plan – Debt Set Aside	822	1,400	-3,150
Loss of Supporting People Grant – Temporary Accommodation	318	0	0
Loss of Supporting People income – Warden Services	528	0	0
Quality Homes for Older People Project	161	863	0
Bad Debt provision	0	125	125
Capital Plan Revenue Support Costs	1,781	-1,727	5,313
TOTAL Pressures and Growth	**6,872**	**863**	**2,732**

10.8 Change, Efficiency and Improvement Programme

As part of the 2012-2015 Council Strategic Plan and Budget Setting process, proposals have been made for additional income, grant and efficiency opportunities. These include:

- The proposed rent restructure changes and rebasing of rent income collectable;
- Garage and service charge increases;
- The continuing implications of the 2010/11 reviews of the Temporary Accommodation Service in terms of reduced operational costs;
- Housing Options Support Service (HOSS) – termination due to loss of Supporting People Grant;
- Warden Services – following Supporting People Review, revision in Warden Services charge to reflect the changing nature of service, from a supporting role to a property orientated “landlord” service. This will result in the removal of the warden support service charge for all sheltered tenants i.e. a reduction of £9.44 per week, and a proposed increase in the landlord element charge from £4.12 to £9.00 per week (albeit those tenants in sheltered accommodation on housing benefit, which is approximately 80% would pay neither of these charges);
- Savings and efficiencies in relation to the management and repairs budgets; and
- The continued implications of the fallout of Supporting People Transitional Protection.

Table 40: 2012/13 – 2014/15 Change, Efficiency and Improvement Programme

Change, Efficiency and Improvement Programme	2012/13 £000's	2013/14 £000's	2014/15 £000's
Service Efficiencies	-1,178	-76	-141
Income Generation	-4,315	-3,277	-3,617
TOTAL Change, Efficiency and Improvement Programme	**-5,493**	**-3,353**	**-3,758**

10.9 Contributions To / From Housing Revenue Account Balances

The budget monitoring position for 2011/12 to 30 November 2011, as reported to Cabinet on 16 January 2012, shows projected year-end balances of £3.461m. A contribution from balances to the HRA of £2.158m is projected in 2012/13 to give a year-end balance of £1.303m as at 31 March 2013. The budget proposals presented here ensure that a minimum of £1m is retained in HRA revenue balances each financial year covering the three years of the Council Strategic Plan, to ensure some measure of contingency and financial stability. These proposals as they currently stand also balance the plan over the longer 30-year period, which is what the Government will require us to demonstrate as part of the self-financing proposals. The implications of the overall budget proposals on HRA Balances are shown in table 41 below.

Table 41: 2012/13 – 2014/15 Housing Revenue Account Balances

HRA Revenue Balances	2012/13 £000's	2013/14 £000's	2014/15 £000's
Predicted Reserve Balance Brought Forward	3,461	1,303	1,086
Contribution to/(from) balances	(2,158)	(217)	285
Predicted Reserve Balance Carried Forward	**1,303**	**1,086**	**1,371**

10.10 2012/13 – 2014/15 Draft Housing Revenue Account Financial Plan Forecast

Table 42 below summarises the draft Housing Revenue Account forecast plan for 2012/13 – 2014/15, after taking account of the information and details included in paragraphs 10.6 to 10.9 above:

Table 42: 2012/13 – 2014/15 Draft Housing Revenue Account Financial Plan Forecast

HRA Forecast Expenditure Plan	**2012/13 £000's**	**2013/14 £000's**	**2014/15 £000's**
2011/12 Base Budget	0	0	0
Add:			
Pay and Price Pressures	230	549	524
Pressures and Growth	6,872	863	2,732
Change, Efficiency and Improvement Strategy	(5,493)	(3,353)	(3,758)
Change in contributions to / (from) Balances	(1,609)	1,941	502
Net Forecast Expenditure Variation	**0**	**0**	**0**

The rent increases indicated are as required to comply with rent restructuring proposals, and the proposed service charge and garage rent increases. For 2012/13 this increase is 5.6% in line with the September 2011 RPI.

A three-year financial forecast for the Housing Revenue Account is attached at Appendix N(i) for information and the Housing Capital Plan at Appendix N(ii).

10.11 Housing Capital Plan 2012-2022

As outlined in paragraph 10.2 above the final target year for completion of the Decent Homes Programme was 2010/11. The over-riding objective for future years is to ensure that Housing stock is maintained to at least Decent Homes Standard as laid out in the Housing Asset Management Strategy approved by full Council on 9 September 2010.

This Capital Plan also provides for the Council to begin a programme of new build council housing from 2014/15 assuming that enough suitable HRA-owned land can be identified, and planning issues addressed, with the potential for up to 930 new units to be built over the next 30 years in total. This is reflected in the proposed Housing Capital Plan 2012-2022 attached as Appendix N(ii). Some of the main elements of work planned in 2012/13 include:

(a) Kitchens & Bathrooms of £5.2m;

(b) Central Heating and Rewire programme totalling £3.6m;

(c) Disabled adaptations of £1.3m;

(d) Other Targeted Refurbishment Works of £1.8m;

(e) Sheltered Accommodation Lift Replacements - £1.1m - work brought forward and accompanied by a splitting of the associated resources from the Quality Homes for Older People project.

(f) Cyclical / Decoration of £0.6m;

(g) Capital void reinstatements of £1.1m;

(h) Furniture Pack scheme of £0.5m;

(i) Asbestos Works of £0.3m;

(j) Environmental Improvement & Energy Efficiency of £0.4m; and

(k) Other Capital Works – covering ICT Strategy; Water Pipe renewals and Fire Damage reinstatement of £0.250m.

Table 43 below summarises the 2012-2022 Housing Capital Plan and financing, including potential resources available to fund new builds.

Table 43: Summary of Proposed Housing Capital Expenditure and Financing 2012–2022

Resources	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/22 £000's	Total £000's
Housing Capital Expenditure	**16,297**	**14,368**	**20,133**	**197,719**	**248,517**
Existing Need	**16,297**	**14,368**	**15,886**	**152,357**	**198,908**
Potential New Build	**0**	**0**	**4,247**	**45,362**	**49,609**
No.of Potential Units	**0**	**0**	**31**	**294**	**325**
HRA Capital Financing					
Major Repairs Reserve/Depreciation	13,104	12,902	13,354	106,355	145,715
Revenue	3,193	1,466	6,779	91,364	102,802

Contributions (HRA)					
Total Resources	**16,297**	**14,368**	**20,133**	**197,719**	**248,517**

10.12 Draft Prudential Indicators

The Local Government Act 2003 requires Councils to comply with the 'CIPFA Prudential Code for Capital Finance in Local Authorities.' The Prudential Code requires authorities to develop a set of Prudential Indicators for capital as laid out in the Code. In addition to the indicators laid down in the Code, local authorities are free to set up their own local indicators, as they consider appropriate.

To support delivery of our ten year Capital Plan, we have reviewed our Local Prudential Code attached at Appendix K.

The following part of the report sets down the draft Prudential Indicators as calculated and proposed for the Housing Revenue Account for North Tyneside Council for 2012–15.

10.13 Indicators of Affordability

Prudential Indicators (PIs) 1 to 4 are key indicators of affordability.

10.14 Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)

This indicator shows the estimate of the ratio of financing costs to net revenue stream for the current and future years, that is the proportion of the budget for Housing that is spent on the financing of capital spend. The estimates of financing costs include the base Capital Plan, and the implications of the additional debt taken on from 2012-13 in relation to the self-financing settlement.

The actual figures for 2010/11 are also set out in Table 44 below:

Table 44: Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	**Est.**	**Est.**	**Est.**	**Est.**
HRA	14.43%	17.26%	30.57%	31.12%	24.17%

The above indicator shows costs for all borrowing, both supported and unsupported. To enhance the information available for decision-making we have also provided a local indicator to show the proportion of the budget that is spent on unsupported borrowing. This is shown in Table 45 below:

Table 45: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream (PIs 1 and 2)

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Est.	Est.	Est.	Est.
HRA	4.51%	4.57%	4.17%	3.93%	3.91%

10.15 Impact on Council Tax and Housing Rents (PIs 3 and 4)

This prudential indicator reflects the estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken. These figures reflect the amount of unsupported borrowing that is built into the proposed Capital Plan in terms of both unsupported borrowing costs and any changes to revenue running costs arising from the proposed Capital Plan.

Table 46: Impact on Council Tax and Housing Rents (PIs 3 and 4)

	2012/13 £	2013/14 £	2014/15 £
For average weekly housing rents	0	0	0

10.16 Capital Expenditure (PIs 6 and 7)

The actual capital expenditure that was incurred in 2010/11 and the estimates of capital expenditure to be incurred for the current and future years are set out in Table 47 below:

Table 47: Capital Expenditure (PIs 6 and 7)

	2010/11 Actual £000's	2011/12 Est. £000's	2012/13 Est. £000's	2013/14 Est. £000's	2014/15 Est. £000's
HRA Total	**35,699**	**17,700**	**16,297**	**14,368**	**20,133**

These estimates mirror those shown in Table 47 of this report.

10.17 HRA Capital Financing Requirement (CFR) (PIs 8 and 9) and CFR Debt Limit

The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. It reflects the cumulative amount of borrowing required for capital purposes less the annual Minimum Revenue Provision (MRP). In accordance with best professional practice North Tyneside Council does not associate borrowing with particular items or types of expenditure.

Under the self-financing regime introduced by powers enacted under the Localism Act 2011, the Council is limited to a maximum HRA CFR. This means the cumulative HRA borrowing must not exceed this limit on the 31 March of the relevant financial years. These figures assume that the CFR limit will be flexed by Government, to allow for the implications of the Quality Homes for Older People PFI scheme:

Table 48: HRA CFR Limit

	2011/12 Est. £000's	2012/13 Est. £000's	2013/14 Est. £000's	2014/15 Est. £000's
HRA Total	**292,465**	**304,399**	**326,110**	**347,866**

The actual CFR is reduced by any MRP that is set aside as the Council. As at 31 March 2011, the HRA CFR (excluding PFI and leases) was £162.159m. Estimates of the end of year Capital Financing Requirement for the HRA for the current and future years and the actual Capital Financing Requirement at 31 March 2011 are set out in Table 49 below:

Table 49: Capital Financing Requirement (PIs 8 and 9)

	2010/11 Actual £000's	2011/12 Est. £000's	2012/13 Est. £000's	2013/14 Est. £000's	2014/15 Est. £000's
HRA (*)	162,159	292,465	301,899	319,240	338,921
Total	**162,159**	**292,465**	**301,899**	**319,240**	**338,921**

(*) – these figures include estimated implications of PFI scheme which will be on-balance sheet under International Financial Reporting Standards (IFRS).

The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 50 below:

Table 50: Capital Financing Requirement for Unsupported Borrowing (PIs 8 and 9)

	2010/11 Actual £000's	2011/12 Est. £000's	2012/13 Est. £000's	2013/14 Est. £000's	2014/15 Est. £000's
HRA	47,294	47,766	45,266	41,366	40,616
Total	**47,294**	**47,766**	**45,266**	**41,366**	**40,616**

Section 11.0
Housing Revenue Account - Statement to Council by the Chief Finance Officer

11.1 Background

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.

Government has a back up power to impose a minimum level of reserves on any authority that it considers is making inadequate provisions.

In making the statement the chief finance officer necessarily places reliance on information provided to her by other officers of the Council as part of the budget setting process. Due cognisance to CIPFA's guidance in relation to the adequacy of reserves and balances will also be taken into account.

This statement specifically on the Housing Revenue Account (HRA) is considered appropriate due to the financial implications of the Self Financing transaction referred to in Section 10.0 above.

The Council meeting on 2 February 2012 will receive and approve the HRA budget and business plan, so it is considered appropriate to include a statement to Council by the chief finance officer in this report.

11.2 Housing Revenue Account Statement

Robustness of Estimates

In assessing the robustness of estimates, the chief finance officer has considered the following issues:

- The general financial standing of the Council;
- The underlying budget assumptions from the financial strategy;
- Future budget pressures and growth proposals, including the impact of prudential borrowing for the 2012-2022 Housing Capital Plan;

- The adequacy of the budget monitoring and financial reporting arrangements in place;

- The adequacy of the Council's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2010/11 Statement of Accounts, presented to the Audit Committee on 28 September 2011;

- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Council; and,

- The implications of government's 2011 – 2015 Spending Review and the Local Government Finance Settlement on the Council's financial plan.

The chief finance officer is satisfied that due attention has been given to the 2012-2015 Housing Revenue Account and associated business plan.

The Cabinet is aware it must keep under review its 30 year Housing Revenue Account Business Plan in the context of its Council Strategic Plan and known key financial risks. Future pressures need to be considered and the Council should not take 2012/13 in isolation to future years' needs and pressures. Each year's Housing Revenue Account budget must continue to be considered within the context of the 30 year Business Plan, the ten-year Housing Capital Plan and delivery of the Council Strategic Plan.

To ensure that the Council continues to keep within its approved budget and the financial integrity of the Council is maintained, it is essential that budget holder responsibility and accountability continues to be recognised as set down in the Council's Financial Regulations and in the roles and responsibilities section of the Council's budget management handbook.

11.3 Adequacy of Financial Reserves

The level of reserves used to support the 2012/13 HRA budget proposals has been set at £2.158m, with an average assumed rent increase based on the Government's rent restructuring formula of 9%.

The chief finance officer's view is that these decisions are required in order to manage and meet the identified needs of the HRA Business Plan for 2012/13, and to place the HRA in a position to begin to meet the aspirations for a self-financing HRA over the next 30 years. HRA Balances are budgeted to be £1.303m at the end of 2012/13 down from a budgeted figure of £3.217m at the end of 2011/12. In accordance with the Reserves and Balances Policy, the adequacy of this reserve has been reviewed and it is the chief finance officer's view that the HRA reserve balance should be maintained between £1m to £2m over the life of the Business Plan as a minimum. Any decision to implement a different policy decision in relation to the rent increase and use of reserves, will have a potentially damaging impact on the future HRA unless significant compensating savings can be identified.

Guidance on Local Authority Reserves and Balances is given in Accounting Bulletin LAAP (Local Authority Accounting Practice) 77. This states that *"Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short term option",* and so the proposed HRA 2012/13 budget does not contradict the issued guidance. The Bulletin does then go on to say *that "It is not normally prudent for reserves to be deployed to finance current expenditure"*. The 2012-2015 HRA budget and associated business plan have been developed so that ongoing revenue expenditure is aligned to annual income with no long term reliance on reserves.