Cabinet 12 November 2012
Agenda Item 6(a) 2012/13 Financial Management Report to 30 September 2012
Annex 1

North Tyneside Council

2012/13 Financial Management Report to 30 September 2012

widening horizons

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Section 1.0
Executive Summary

1.1 This is the third report to Cabinet for 2012/13, setting out the Council's financial position as at the end of September 2012.

1.2 This report includes details of the forecast outturn position to the 31 March 2013, highlighting key strategic issues to be managed by the Council during the year.

Strategic Management of the Council's Budget

1.3 The budget for 2012/13 was approved by Council at its meeting of 1 March 2012. The net General Fund revenue budget was set at £169.974m, which represented a reduction of £5.794m (3.3%) over 2011/12 spending levels.

1.4 The Capital Plan level of expenditure for 2012/13 was approved at £43.734m. Further reprogramming and variations were approved by Cabinet through the budget monitoring and outturn reports (£5.592m on 12 March 2012, £8.869m on 11 June 2012, £3.341m on 9 July 2012 and £0.157m on 10 September 2012). Cabinet approved an additional £1.487m on 11 June 2012 (with the associated increase in borrowing of £1.087m approved by Council on 26 July 2012) taking the total approved capital plan for 2012/13 to £63.180m.

1.5 The current forecast outturn for the General Fund revenue budget reflects in-year pressures of £4.678m before general contingencies are released. The Directorate and Central teams are working to embed plans that will ensure these pressures are managed and that the budget is brought in on target at the end of the year. This corrective action will be taken into account when forecasting the year end position once it is prudently assessed as being realisable.

1.6 The contingency budget for the year has been partially applied for specific instances, however £2.719m of the general contingency remains unapplied at this time to specific schemes. This is accounted for within the non-delegated budgets and reduces the forecast pressure to £1.959m (£2.425m pressure reported at 31 July 2012).

1.7 The Housing Revenue Account (HRA) is forecasting a small underspend of £0.123m for the year.

1.8 In the period to 30 September 2012, the level of capital spend posted within the General Ledger was £15.777m, which represents 25.0% of the revised Capital Plan for the year, a slight decrease on the comparative spend for 2011/12. After taking account of the required changes in funding arising from the proposed amendments to the Capital Plan and the level of capital receipts received to date, £10.937m of general fund capital receipts still need to be generated in the year.

1.9 Cabinet is recommended to approve variations of £0.193m credit and £0.087m reprogramming to the 2012/13 Capital Plan.

Strategic Issues

1.10 As in previous years, over and above the management of the Council's core budget, there are issues that need to be addressed in year or that give rise to implications which extend beyond the one-year timescale of the annual budget. These issues are summarised below.

Change Improvement and Efficiency Programme

1.11 The budget for 2012/13 included savings of £16.739m, from the delivery of projects/actions included as part of the Change, Improvement and Efficiency programme (CEI). The savings are embedded within service budgets and are therefore included within the budget monitoring. Good progress has been made to date in delivering these savings, with work still to do in some areas as highlighted in section 2.

1.12 The scale of the financial challenge for the year meant that wide ranging efficiencies and service reconfiguration were required to be implemented during 2012/13. It is important that these CEI savings are monitored as part of the overall financial position of the Council, so the bottom line financial position is known.

1.13 It is also important that savings are only considered to be achieved once they are assessed as being realisable. To that end, this report has been prepared on a prudent basis. However, Cabinet should note the level of budget challenges that have been addressed to date through both the CEI programme and by on-going management action.

1.14 Cabinet appointed the Preferred Bidders for the Technical and Business Packages in August 2012. The contracts were signed at the end of September 2012. Detailed mobilisation work is now underway and the contracts will "go live" on 1 November 2012.

Cabinet Implementation Plan

1.15 Each Cabinet meeting this financial year has received a report detailing progress with the Implementation Plan for the Council Strategic Plan and Budget. The report to the 10 September 2012 confirmed that the decisions taken to date remained within the overall financial envelope of the budget, with additional resources of £0.302m. **Appendix I** provides a breakdown of this figure.

Equal Pay and Equal Value

1.16 The 2011/12 Annual Financial Report included a provision of £15.128m for equal pay claims; this was the estimated value of the known claims at the year-end. 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.

1.17 We will continue to monitor the level of potential and known claims and update Cabinet as appropriate. This will include consideration of the potential impact arising from the recent judgment against Birmingham City Council with regard to the timescale for the submission of Equal Pay claims.

1.18 The method of funding these claims is also important. In 2011/12, £6.542m of the provision was capitalised after permission was granted by the Secretary of State. This means 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 £2.265m was carried forward into 2012/13 through the "Unequal Pay Back Pay Account" on the balance sheet; this is an accounting transaction so that the costs are recognised in the accounts when they are physically paid.

1.19 Currently no decision has been made by Central Government regarding options to capitalise equal pay costs in 2012/13 and therefore the risk remains that any settlements made during 2012/13 will be required to be funded from reserves. For purposes of transparency, we have included in Table 1 on page 7, an indication of the current estimate of equal pay payments we anticipate making during 2012/13 for which we do not have capitalisation approval, together with a corresponding adjustment from reserves to fund that expenditure.

Financing of the Capital Plan

1.20 As is set out in Section 5 of this Annex, there remains a balance of £10.937m to be generated from capital receipts if the original budget for financing this year's capital programme is to be met.

1.21 During 2011/12 the total capital receipts received was £6.504m (£4.386m General Fund and £2.118m Housing), which highlights the challenge in generating £10.937m in the remainder of the year. To meet the receipts target, 28 transactions are currently being progressed. The transactions are at various stages of completion and continue to be regularly monitored.

Section 2.0
General Fund Income and Expenditure

2.1 This section of the report details the current budget pressures identified by Directorates and the expected year-end outturn following mitigating actions taken to reduce those pressures. Table 1 summarises the position and reflects in year pressures of £1.959m.

2.2 The budget monitoring is based on the recorded transactions as at 30 September 2012 and is set out in Table 1 below. Table 1 is supplemented by a summary commentary below, covering the key variances by Directorate. The detailed **Appendices (A- E)** set out variations by Service Area.

Table 1: 2012/13 General Fund Revenue Budget Forecast to 31 March 2013

		Full Year Budget	Forecast Outturn	Forecast Outturn Variance	Forecast Outturn Variance July 12
	Net Expenditure	£m	£m	£m	£m
1	Children, Young People & Learning (note 1)				
	Controllable	21.682	22.676	0.994	0.818
	Non-Controllable	10.295	10.295	0.000	0.000
		31.977	**32.971**	**0.994**	**0.818**
2	Community Services				
	Controllable	78.499	81.066	2.567	2.889
	Non-Controllable	8.500	8.500	0.000	0.000
		86.999	**89.566**	**2.567**	**2.889**
3	Finance and Resources (note 2)				
	Controllable	7.946	7.956	0.010	-0.148
	Non-Controllable	-7.050	-7.050	0.000	0.000
		0.896	**0.906**	**0.010**	**-0.148**
4	Chief Executive's Office (notes 1 and 2)				
	Controllable	19.427	20.918	1.491	1.481
	Non-Controllable	-5.195	-5.195	0.000	0.000
		14.232	**15.723**	**1.491**	**1.481**
Sub Total - Service- Approved Budget		**134.104**	**139.166**	**5.062**	**5.040**

Notes

1 Business and Economy is now included within the Chief Executive's Office having previously been included in Children, Young People & Learning.
2 Strategic Property is now included within the Chief Executive's Office having previously been included in Finance and Resources.

Full details of these movements are shown in Appendix J.

Table 1 Continued

		Full Year Budget	Forecast Outturn	Forecast Outturn variance	Forecast Outturn Variance July 12
	Non-delegated budgets:	£m	£m	£m	£m
5	Corporate and Democratic Core	8.952	8.952	0.000	0.000
6	Corporate Accounting	5.128	3.019	-2.109	-1.510
7	Contingency Budget	3.699	0.980	-2.719	-2.719
8	Equal Pay	0.000	2.265	2.265	2.265
9	Levies	12.728	12.728	0.000	0.000
10	Utilities	0.000	0.725	0.725	0.614
11	Flooding Estimate	0.000	1.000	1.000	1.000
12	Non-controllable	5.363	5.363	0.000	0.000
Sub-total- non delegated budgets		**35.870**	**35.032**	**-0.838**	**-0.350**
Net current forecast pressure/(surplus) before use of reserves		**169.974**	**174.198**	**4.224**	**4.690**
13	Potential use of Reserves	**0.000**	**-2.265**	**-2.265**	**-2.265**
Net Forecast pressure/(surplus) after application of reserves		**169.974**	**171.933**	**1.959**	**2.425**

Directorates

2.3 **Children, Young People and Learning** (CYPL) are currently projecting a pressure at year end of £0.994m. The areas of variance are outlined in **Appendix A**.

2.4 During the year the Directorate have attempted to mitigate pressure and manage within budget by:

- Cessation of non essential spend;
- Controls over appointments;
- Head of Service challenge sessions with all budget holders;
- Weekly Looked After Children placement challenge and review meetings;
- Route by route review of transport arrangements; and,
- Budget monitoring updates to CYPL Directorate Leadership Team at least fortnightly.

2.5 The main projected pressure remains in the demand-led area of looked after children where the forecast of £0.690m pressure has remained stable since the first reporting period in May.

2.6 One area of pressure that the Directorate has seen emerge over the last couple of years is the area of special educational needs and children’s disability. There are increasing numbers of children, both in North Tyneside and nationally, that are presenting with these additional support needs. Whilst most of the costs incurred in supporting these children are incurred in respect of education (and hence funded from within the Dedicated Schools Grant) there are a number of statutory areas the Council need to fund, such as home to school transport. This area is now a forecast pressure at year end by £0.297m.

2.7 The CYPL Directorate Leadership Team remain committed to trying to manage within its 2012/13 budget and continues to meet regularly to identify mitigating actions that might allow them to meet the budget for the year.

2.8 Overall the **Community Services Directorate** is required to deliver just under £8.7m of savings in 2012/13 and has additional pressures of around £6.5m, mainly, but not exclusively, in Adult Social Care. Of the £8.7m savings the directorate is confident that it has the processes in place to deliver all of these although there remain a limited number of elements which are dependent on external influences such as customer demand. The teams are working through the £6.5m of pressures and have already identified contingency plans which should deal with around £3.9m. The teams continue to develop plans to reduce and contain the remaining pressures.

2.9 The majority of these pressures fall in Adult Social Care and therefore the service is currently forecasting a pressure of £2.061m. While all of the action has been taken to realise planned savings, the service continues to experience demand-led costs, particularly in Learning Disabilities and Mental Health services. Although there has been growth in the budget of £1.5m to reflect the demand on this service as more and more clients present with more complex needs, we forecast that this will only cover the new pressures we expect in year.

2.10 Staffing restructures are progressing well around the whole Adult Social Care service to reflect the new operating model introduced to work with the Personalisation agenda and to focus resources where they have the most impact. The geographical split of services has been removed to allow the teams to be split into those managing more routine care cases and those with complex needs. The new structure also allows for a clearer distinction between commissioning and provider services. The budget changes reflect only a change to management structure and there has been no adjustment to the type of budget spend e.g. payroll budget and supplier budgets have only been reallocated and the total available for each has not altered.

2.11 Cultural and Customer Services area forecasting a pressure of £0.109m, which includes the impact of budget changes within the Implementation Plan. Work continues to identify additional contingency plans to bring this pressure down.

2.12 Within Environmental Services we are forecasting pressures of £0.416m, which represent transport cost pressures mitigated in part by bereavement income and some reductions in supplier spend where this is possible.

2.13 The **Finance and Resources Directorate** is currently reporting a forecast pressure at year end of £0.010m.

2.14 The overall position includes a forecast pressure in relation to inflationary pressures associated with Oracle licences and storage maintenance and some staff costs (as a result of not meeting the vacancy expectation built into budgets). These are offset by a budget saving in respect of external fees in the Finance service of £0.120m.

Although the Directorate's budget is broadly balanced the Finance and Resources Directorate continues to scrutinise all budgets at its disposal and all means of reducing expenditure and maximising income.

2.15 The **Chief Executive's Office** is currently reporting in-year pressures of £1.491m. The majority (£1.177m) of the pressures arise in Regeneration, Development and Regulatory (RDR) services where current forecasts indicate some income targets may not be achieved. It also includes costs of employing external consultants for planning appeals where the Planning Committee have refused planning permission against officer advice; this is predicted to be around £0.443m. (This forecast does not include the Scaffold Hill Planning decision taken in 21 August 2012 as these costs are not yet known).

2.16 Business and Economy is now included within RDR having previously been included in Children, Young People & Learning and is expected to spend on budget.

2.17 Strategic Property is now included within RDR having previously been included in Finance and Resources and overall is predicting a pressure of £0.585m across non-operational buildings, operational buildings and those surplus to requirements. We are currently forecasting an under recovery of £0.283m of rental income in respect of commercial properties given the continued depressed economic climate, although members will be aware that this risk is now managed by Capita. In addition to this the service is faced with managing inflationary increases on its properties, including increased lease charges associated with the Quadrant buildings.

2.18 Legal Governance and Commercial have pressures of £0.091m which reflects the impact of budget changes within the Implementation Plan, compensated for in part by small savings and a delay in joint working with Newcastle to provide a legal service to Housing Associations. The Chief Executive post has pressures of £0.148m as a result of the changes within the Implementation Plan.

2.19 Strategic Services are reporting in-year pressures of £0.075m. Of this £0.049m relates to Communications mainly around advertising income shortfalls and £0.077m to a shortfall on Service Level Agreement income from schools in Human Resources which is partly compensated for by small savings elsewhere in Human Resources.

2.20 The following table sets out a list of revenue grants, which have been awarded since the last report to Cabinet, which Cabinet are requested to approve. All new capital grants are shown in the capital variations section (paragraph 5.6) of this report.

Table 2: 2012/13 Revenue Grants awarded since 1 August 2012

Grant	Amount £m	Grantor	Directorate	Council contribution required
Disability Hate Crime Worker	0.016	Northumbria Police Authority	Chief Executive's Office	nil
Healthy Relationships	0.012	Northumbria Police Authority	Chief Executive's Office	nil
Total	**0.028**			

Both grants are a continuation of 2012/13 schemes:

(a) Disability Hate Crime Worker – this grant is for the extension of the current Disability Hate Crime Workers post for the 12 month period to January 2013; and,

(b) Healthy Relationships - The principle aim of the initiative is to provide a comprehensive tiered service to Youth Offending service users and their families to prevent and reduce domestic violence incidents. This will be achieved by providing a range of intervention programmes within the Youth Justice System to meet assessed need, where there is an emerging pattern of Domestic Violence in either intimate or non intimate relationships.

Non Delegated Budgets

2.21 After the first four months of 2012/13 there are limited budget variations in relation to the non-delegated budgets with the exception of **Corporate Accounting**. The forecast underspend of £2.116m is in respect of a saving in Minimum Revenue Provision (MRP) of £0.319m following a review of asset lives and an expected saving of £0.377m (credit) in Strain on the Fund costs based on current reorganisations. It also includes an anticipated saving in interest costs (£1.272m) as a result of the timing of current borrowing requirements, due to the overall cash flow of the Council associated with our Capital Plan, and lower interest rates in the market than were anticipated at budget setting time. A refund of £0.398m has been received following a review by central government of the adjustments in 2011/12 to Local Authority formula grants in respect of academies. Included in corporate accounting are costs of £0.250m which reflects the costs of the payment of the £250 to school based staff.

2.22 This section also includes the **Contingency** budget of £3.699m. The expected usage of this is shown in Table 3 below. This leaves a balance of £2.719m currently unallocated to specific Services. This is unchanged since the 31 July Financial Management report to Cabinet.

Table 3: 2012/13 Contingency Budget

	General £m	0-2 year olds £m	Total £m
Budget	**3.469**	**0.230**	**3.699**
Expected usage:			
0-2 year olds	0	(0.230)	(0.230)
36 hour week	(0.730)	0	(0.730)
Over £50k voluntary reduction	(0.020)	0	(0.020)
Balance not allocated to specific Services	**2.719**	**0**	**2.719**

2.23 **Energy Costs** remain a significant issue for the council in respect of potential pressures being faced during 2012/13. 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. Action was taken in the 2012/13 budget to address the forecast energy pressures, which broadly provided the required budget for general utility costs, however did not fully address the on-going PFI streetlighting electricity bill. This will continue to be closely monitored during the year.

2.24 **Flood damage:** The current estimate of the costs associated with the flooding caused on 28 June 2012 is £1.000m. This is the estimate of general fund costs which are not covered by insurance. Work is on-going to determine if the Bellwin Scheme will apply, but this is only for certain categories of spend and only for costs above a threshold (£0.603m for North Tyneside).

2.25 Cabinet should note the recommendation, contained in the “Flooding Task and Finnish Group” report, to this Cabinet (agenda item 7(l)) to approve the virement of £0.096m revenue and £0.092m capital funding from the Area Forums budgets for use on measures identified by the Group. These amounts represent the portion of these budgets that are currently uncommitted.

Section 3.0
Housing Revenue Account Income and Expenditure

3.1 This section of the report provides an update on the financial position and projections for the Council's Housing Revenue Account (HRA). The projected year-end position and variance analysis to 30 September 2012 are attached as **Appendix F** to this report.

3.2 On the 15 February 2012 the Council approved the HRA budget for 2012/13. This included an average increase in housing rents of 9% in line with the requirements of rent restructuring, which aims for rent convergence by 2015/16.

3.3 The HRA has started the year with what was £0.837m higher than anticipated on opening balances i.e. £4.298m as opposed to the budgeted figure of £3.461m, and the current expectation is that the in-year position will be £0.123m better than budget.

3.4 The major variations anticipated at this stage arise from the impact of the introduction of the HRA self-financing regime from 1 April 2012, the impact of the changes to the Council's debt portfolio, and a small improvement in the anticipated levels of rental income and service charges to be raised. The main elements of these issues are as follows:-

(a) Self-financing loans – the Council borrowed £128.193m on the 28 March 2012 from the Public Works Loan Board to effectively "buy-out" its place in the national housing subsidy system. The original self-financing report estimated that the cost of these loans, depending on their profiling, prevailing market conditions etc would come in at an interest rate of 3.5% – 4%. The budgeted figure used was 4% to provide a hedge against uncertainty. The final deal saw 26 loans taken out with an overall average interest rate of 3.49% and a loan profile of between 24 and 50 years. This means that the HRA will realise savings against budget in 2012/13 estimated at around £0.652m, incurring costs of approximately £4.476m against a budget of £5.128m for the new debt.

(b) Existing debt portfolio – as part of the transition to self-financing the Council had to decide on the approach it wished to take in relation to its existing debt portfolio. As recommended by the Chartered Institute of Public Finance & Accountancy(CIPFA), Council agreed to recognise the "split" between the HRA and the General Fund, by having two debt pools – one containing the General Fund share, the other the above self-financing loans, and the HRA's share of the existing long-term loans i.e. £162.631m. The fairest way to do this was deemed to be to split every loan proportionately. When the budget report was prepared it was estimated that the overall average rate attached to these loans for 2012/13 would be just over 5.5%. However, because of the continued availability of loans at low interest rates, it is anticipated that the re-financing of existing loans due in 2012, will be at lower than anticipated rates, realising a further saving to the HRA in 2012/13 of at least £0.277m.

(c) Rental Income & Service Charge Income – now anticipating increased revenue from service charges and rental income, mainly in relation to furniture packs and temporary accommodation.

3.5 House-building Fund: As agreed by Council on 15 February 2012 a new House-building Fund has been set up, to fund the cost of new build and environmental works. The initial contribution to this fund will come from the £0.065m budget, created as a result of estimated interest savings from the final self-financing settlement figure, which dropped from £129.834m to £128.193m. For 2012/13 as outlined above this should result in total additional contributions to the fund during 2012/13 of approximately £0.929m. The level of the fund will be confirmed as part of the Outturn report to Cabinet in June 2013.

Section 4.0
Schools Finance

School Funding reform

4.1 Finance and CYPL directorates have continued to work through the implications of the national school funding reform in line with the plan reported previously**.** The main events in the timeline are now outlined as follows:

26 Sept 2012	• **Schools Forum Meeting – Recommendations from working groups**
28 Sept – 12 Oct 2012	• Wider consultation on proposed local changes in response to School Funding Reform (including briefing sessions for schools)
24 Oct 2012	• Schools Forum Meeting – Final agreement on proposals
By end of Oct 2012	• Finalise funding arrangements for 2013/14 with the Education Funding Agency (EFA)
12 Nov 2012	• Report to Cabinet on the 2013/14 School funding arrangements
Mid/late Jan 2013	• 2013/14 Budget allocations issued to North Tyneside schools

Further details on this are included in the School Balances and School Funding 2013/14 report to this Cabinet (Agenda item 7(i)).

4.2 In addition to the School funding reform, the North Tyneside Schools Forum have also recently:

- Reviewed its constitution and governance arrangements;
- Noted revisions required to the Scheme for Financing Schools; and,
- Agreed to maintain our excess surplus balances policy for schools.

Section 5.0
Capital Plan Expenditure and Financing

Review of Capital Plan - Position Statement

5.1 The Council's Capital Plan represents the capital investment in projects across all service areas. This report summarises activities up to 30 September 2012.

Capital Plan Delivery

5.2 Some of the key progress areas to note to 30 September 2012 are as follows:

- Planning permission granted for Long Sands North cafe and public toilets. Planning applications approved for Coastal Communities Fund projects at Priors Haven and 2nd Stage application for Coastal Communities Fund projects submitted;

- Work has commenced on consolidating Clifford's Fort walls;

- Progress has been made on securing external funding in relation to Swan Hunter's Redevelopment. Details of the proposals are reported to this Cabinet in a separate report;

- Corporate e-mail migration is underway and completion is expected mid- October 2012;

- Successful completion of schools summer holiday capital maintenance projects within agreed timescales; and,

- Castle Park and Battle Hill Playsites consultation exercises have been completed and preparation for the drafting of the tender specifications is underway, with plans to be issued in late Autumn.

Variations to the 2012/13 Capital Plan

5.3 On 1 March2012, full Council agreed the estimates and amounts in relation to the 2012-2022 Capital Plan based on the schemes identified. The total approved budget was £346.186m (£97.669m General Fund and £248.517m Housing). Reprogramming of £5.592m that was identified as part of December/January 2012 budget monitoring was approved by Cabinet on 12 March 2012 and reprogramming of £8.869m was approved as part of the 2011/12 Provisional Outturn report to Cabinet on 11 June 2012. The capital monitoring process during April to July 2012, identified reprogramming of £2.404 and variations of £2.581m approved by Cabinet on 9 July and 10 September 2012.

5.4 As part of the regular capital monitoring process during August and September 2012, budget variations of £0.193m credit and reverse reprogramming of £0.087m to the 2012/13 plan have been identified. Table 4 details the changes to the approved 10-year Capital Plan, as agreed at Council on 1 March 2012.

Table 4: 2012 - 2022 Capital Plan changes identified

	2012/13 £m	2013/14 £m	2014/15 £m	2015/22 £m	Total £m
Approved Capital Plan – Council 1 March 2012	**43.734**	**35.142**	**32.401**	**234.909**	**346.186**
Reprogramming and other variations previously approved by Cabinet	19.446	-2.404	0	0	17.042
Approved Capital Plan – Cabinet 10 September 2012	**63.180**	**32.738**	**32.401**	**234.909**	**363.228**
Aug/Sep Reprogramming	0.087	-0.087	0	0	0
Aug/Sep Variations	-0.193	0	0	0	-0.193
Revised Capital Plan	**63.074**	**32.651**	**32.401**	**234.909**	**363.035**

5.5 The variations and reprogramming have been identified as part of the regular capital monitoring process and it is these variations that Cabinet is recommended to approve at this meeting. The variations on the individual schemes are shown in **Appendix G. Appendix H** details the whole of the revised capital plan, taking into account the reported changes.

Details of changes to the 2012/13 Capital Plan

5.6 Details of the main changes included in the £0.193m variation for 2012/13 are shown below:

(a) **ED173 Children Placement Strategy, £0.264m** – Additional grant has been awarded in September 2012 by the Education Funding Agency for Short Breaks;

(b) **HS004 Disabled Facilities Grant, £0.457m credit** –There has been a reduction in capital works qualifying under Fair Access to Care Eligibility Criteria. This reduction will reduce the level of capital receipts required.

Full details of the variations are shown in **Appendix G**

5.7 The total reprogramming (reverse) to the end of September was £0.087m. This related to **HS042 PFI Home loss & Land Issues**, £0.087m for the decommissioning of Byrness and Bude Courts which has been brought forward to supplement the new build schemes.

Capital Financing

5.8 The impact of these changes on Capital Financing is shown in Table 5 below.

Table 5: Impact of variations on Capital financing 2012-22

	2012/13 £m	2013/14 £m	2014/15 £m	2015/22 £m	Total £m
Approved Capital Plan – Cabinet 10 September 2012	**63.180**	**32.738**	**32.401**	**234.909**	**363.228**
Grants and Contributions	0.264	0	0	0	0.157
Unsupported Borrowing	0	0	0	0	0
Capital Receipts – General Fund	-0.457	0	0	0	-0.457
Capital Receipts – Housing	0.087	-0.087	0	0	0
Ring fenced Receipts	0	0	0	0	0
Contribution from Strategic Reserve	0	0	0	0	0
Major Repairs Reserve	0	0	0	0	0
Total Financing Variations		**0**	**0**	**0**	**0.157**
Revised 2012/13 Capital Plan	**63.074**	**32.651**	**32.401**	**234.909**	**363.035**

5.9 A summary of the Capital Financing position after these changes is shown in Appendix H. This shows Council Contribution (Capital Receipts, Unsupported Borrowing and Revenue Contribution) and Grants and contributions**.**

Capital receipts – General Fund

5.10 General Fund Capital Receipts brought forward at 1 April 2012 were £0.030m. The £0.030m general fund receipt is ring-fenced to fund schools expenditure and is not yet committed against projects in the capital plan.

5.11 To finance the 2012/13 Capital Plan the capital receipts required are £11.036m. To date, £0.099m has been received in 2012/13, this leaves a balance of receipts to be generated for the General Fund of £10.937m.

Table 6: Capital Receipt Requirement 2012/13 – General Fund

	General Fund £m
Current Requirement	11.036
Useable Receipts Brought Forward	0
Useable Receipts Received	-0.099
Balance to be generated	**10.937**

Capital receipts – Housing

5.12 Housing Capital Receipts brought forward at 1 April 2012 were £4.180m. The Housing receipts are committed against projects in the 2012-2022 Capital Plan.

5.13 To finance the 2012/13 Capital Plan the capital receipts required are £3.118m. To date, £1.474m of receipts have been received in 2012/13, of which £0.962m is to be pooled, giving a useable balance of £0.511m. This leaves a surplus balance of £1.573m to be carried forward to fund 2013/14 projects.

Table 7: Capital Receipt Requirement 2012/13 - Housing

	Housing £m
Current Requirement	3.118
Receipts Brought Forward	-4.180
Useable Receipts Received	-0.511
Surplus Balance to fund future years	**-1.573**

Capital Plan Monitoring Position to 30 September 2012

5.14 Actual expenditure in the General Ledger was £15.777m (25.0%) of the total revised Capital Plan as at 30 September 2012.

Table 8: 2012/13 Total Capital Plan Budget and Expenditure to 30 September 2012

	2012/13 Revised Capital Plan £m	Actual Spend to 30 September 2012 £m	**Spend as % of Total Revised Capital Budget** %
General Fund	43.659	10.385	23.8
Housing	19.415	5.392	27.8
TOTAL	**63.074**	**15.777**	**25.0**

5.15 Comparative figures for 2011/12 to the end of September 2011 were 25.6% (General Fund 24.4% and Housing 28.8%).

Section 6.0
Treasury Management

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-Year Review Report 2012/13

6.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011) was adopted by the Council on 1 March 2012. The Code stipulates that the Chief Finance Officer should set out in advance the treasury management strategy for the forthcoming financial year, and subsequently report the treasury management activities during that year.

6.2 The primary requirements of the Code are as follows:

a) forecast the likely activity for the forthcoming year (in the Annual Treasury Management Strategy Report); b) a mid-year review report; and,

c) review actual activity for the preceding year, including a summary of performance.

6.3 This section of the document contains the required mid-year review report for 2012/13.

6.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first six months of 2012/13;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy for 2012/13;
- A review of the Council's investment portfolio for 2012/13;
- A review of the Council's borrowing strategy for 2012/13; and,
- A review of compliance with Treasury and Prudential Limits for 2012/13 (detailed in Section 7 paragraphs 7.13 to 7.15).

Economic Update

6.5 <u>Economic performance to date</u> - Economic confidence, in respect of the prospects for the UK economy to recover swiftly from recession, suffered a major blow in August when the Bank of England substantially lowered its expectations for the speed of recovery and rate of growth over the coming months and materially amended its forecasts for 2012 and 2013. It was noted that the UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and that on-going negative confidence in that area would inevitably impact on the UK's economic performance.

6.6 With regard to the Eurozone, investor confidence remains weak because of the failure of successive "rescue packages" to satisfy market expectations. The uncertainty created the continuing Eurozone debt crisis is having a major effect in undermining business and consumer confidence also in America and the Far East/China.

6.7 UK Economy – In the UK, consumer confidence remains very depressed with unemployment concerns, indebtedness and a squeeze on real incomes from high inflation and low pay rises, all taking a toll. However, inflation has fallen considerably (Consumer Prices Index (CPI) at 2.2% in September) and UK Gross Domestic Product (GDP) rose by 1.0% in the quarter to 30 September, after three successive quarterly falls. However, the UK's recovery from the initial 2008 recession has been the worst and slowest of any G7 country apart from Italy (G7= US, Japan, Germany, France, Canada, Italy and UK). It is also the slowest recovery from a recession of any of the five UK recessions since 1930 and total GDP is still 4.5% below its peak in 2008.

6.8 This weak recovery has caused social security payments to remain elevated and tax receipts to be depressed. Consequently, the Chancellor's plan to eliminate the annual public borrowing deficit has been extended into the future. The Monetary Policy Committee has kept Bank Rate at 0.5% throughout the period while quantitative easing was increased by £50bn to £375bn in July 2012. In addition, in June, the Bank of England and the Government announced schemes to free up banking funds for business and consumers.

6.9 The UK's sovereign debt remains one of the first port of call for surplus cash to be invested in and gilt yields, prior to the European Central Bank (ECB) bond buying announcement in early September, were close to zero for periods out to five years and not that much higher out to ten years.

Outlook for the next six months of 2012/13

6.10 The risks in economic forecasts continue unabated from the previous treasury strategy. Concern has been escalating that the Chinese economy is heading for a sharp fall, rather than a gentle slowdown, while America's current political position limits opportunities for a positive approach to countering weak growth. Urgent action is expected to be required early in 2013 to address the US debt position.

6.11 Sector, the Council's treasury advisor's, have provided their current Interest Rate Forecast, which is detailed in Table 9 below:

Table 9: Interest Rate Forecast

	Sep 2012 (%)	Dec 2012 (%)	Mar 2013 (%)	Jun 2013 (%)	Sep 2013 (%)	Dec 2013 (%)	Mar 2014 (%)	Jun 2014 (%)	Sep 2014 (%)
Bank Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
5yr PWLB*	1.89	1.50	1.50	1.50	1.60	1.70	1.80	1.90	2.00
10yr PWLB	2.91	2.50	2.50	2.50	2.60	2.70	2.80	2.90	3.00
25yr PWLB	4.15	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10
50yr PWLB	4.32	3.90	3.90	3.90	4.00	4.00	4.10	4.20	4.30

*Public Works Loan Board

6.12 The above Sector forecasts for PWLB rates incorporate the introduction of the PWLB Certainty Rate in November 2012 which will reduce PWLB borrowing rates by 0.20% for most local authorities including North Tyneside Council.

Treasury Management Strategy Statement and Annual Investment Strategy update

6.13 The Treasury Management Strategy Statement (TMSS) for 2012/13 was approved by Council on 1 March 2012. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital; and,
- Liquidity

6.14 The Council will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term.

6.15 A breakdown of the Council's investment portfolio at 30 September 2012 is shown in Section 6.23 of this report.

6.16 Borrowing rates have been at historically low rates during the first six months of the 2012/13 financial year. Any new external borrowing undertaken has been identified in Section 6.29 of this report.

6.17 Investments and borrowing during the first six months of the year have been in line with the strategy, and there have been no deviations from the strategy.

6.18 As outlined in Section 6.10 above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 1 March 2012 is still fit for purpose in the current economic climate.

Investment Portfolio 2012/13

6.19 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.50% Bank Rate. The continuing Eurozone sovereign debt crisis, and its potential impact on banks, prompts a low risk in short term strategy. Given this risk adverse environment, investment returns are likely to remain low.

6.20 The Council's counterparty list details the approved banks that the Council may lend to either directly or through the Money Markets, on a temporary basis. Due to the downturn in the global economy, many financial institutes have been removed from the counterparty list during the past few years. A continuous review of the Council's counterparty list is undertaken.

6.21 On 7 October 2011 the Co-operative Bank's Long Term and Short Term rating were downgraded by Moody's credit rating agency. This institution does not currently meet the minimum credit criteria required for the Council's investments as set out in the Investment Strategy 2012/13 approved by Council on 1 March 2012. As the Co-operative Bank are the Council's own banker, the Council will continue to use the institutions banking services but no term deposits will be placed with them whilst they fail to meet the minimum credit criteria.

6.22 The Council currently uses the Government's Debt Management and Deposit Facility (DMADF) for investments, the maximum rate available from the facility is currently 0.25%. This situation of maintaining shorter term, high quality investments will continue until sufficient strength has returned to banks globally and that there are signs of significantly renewed strength in the UK and global economy. This may be signalled when a substantial number of upgrades have been assessed by the credit rating agencies on the majority of the UK banks.

6.23 Investments held as at 30 September 2012 are summarised in **Table 10** below:

Table 10: List of Investments 2012/13

Investments	30 Sept 2012 £m	Average Rate of Return %
Debt Management Office	6.300	0.25

6.24 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2012/13.

Borrowing

6.25 The Council's estimated Capital Financing Requirement (CFR) to 31 March 2013 is £598.256m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

6.26 Total external borrowing at 30 September 2012 was £442.943m as shown in Table 11 below.

Table 11: Total external borrowing at 30 September 2012

Principal £m	
412.943	Public Works Loans Board (PWLB)
20.000	Lender Option Borrower Option (LOBO)
10.000	Other Local Authorities
442.943	Total
	Split:
290.824	Housing Revenue Account
152.119	General Fund
442.943	Total

6.27 Following the introduction of Self Financing for the Housing Revenue Account from 1 April 2012 loans were split between General Fund and Housing. However, decisions on borrowing for both General Fund and Housing will continue to be made within the overall Treasury Management Strategy and will be reported jointly.

6.28 The difference between the CFR and external borrowing is known as internal borrowing. The level of internal borrowing is determined, within the Treasury Management Strategy, by a number of factors including market conditions for investments and the level of the Council's reserves and balances.

6.29 As at 30 September no new or replacement long term borrowing has taken place. However, a £20.000m long term PWLB loan matures on 1 October.

6.30 Short term borrowing rates for periods up to 1 year continue at relatively low levels. The Council's borrowing strategy this year has been to borrow short term where possible, to take advantage of these lower rates. As at 30 September 2012 the Council had £10.000m of temporary loans from other Local Authorities (as seen in Table 11 above), at an average rate of 0.82%. A number of short term replacement loans were taken during October 2012 at an average rate of 0.53%.

Debt Rescheduling

6.31 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. Therefore, no debt rescheduling was undertaken during the first six months of 2012/13.

Section 7.0
Prudential Indicators

7.1 The Local Government Act 2003 requires Councils to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. This Prudential Code requires authorities to develop a set of Prudential Indicators (PIs).

7.2 The following part of the report shows the current 2012/13 estimates compared to the budgeted indicators approved by Council on 1 March 2012.

Prudential Indicators for Capital

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

7.3 These PIs show the estimated ratio of financing costs to net revenue streams for 2011/12, together with the 2012/13 budget and current estimate. The 2012/13 current estimates are lower than the original budgets due to lower interest rates. The HRA indicator increased between 2011/12 and 2012/13 as a result of the new debt required for HRA self financing.

Table 12: Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)

2011/12 Actual		2012/13 Budget	2012/13 Estimate
14.00%	General Fund	15.93%	14.54%
17.14%	HRA	30.57%	27.63%

The following indicator is a local indicator that shows the proportion of the budget that is spent on prudential (unsupported) borrowing. As above the 2012/13 current estimates are lower than the original budgets due to lower interest rates. The HRA indicator increased between 2011/12 and 2012/13 as a result of the new debt required for HRA self financing.

Table 13: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream (PIs 1 and 2)

2011/12		2012/13	2012/13
Actual		Budget	Estimate
6.18%	General Fund	7.44%	7.02%
4.04%	HRA	4.17%	3.97%

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

7.4 This shows the incremental impact of new capital investment decisions on Council Tax and Housing Rent levels.

Table 14: Impact on Council Tax and Housing Rents (PIs 3 and 4)

	2012/13 Budget	**2012/13 Estimate**
For the Band D Council Tax	£2.20	£1.98
For average weekly housing rents	£0.00	£0.00

The estimated General Fund indicator has reduced as new loans are forecast to be taken out at a lower rate of interest than originally anticipated.

Net Borrowing and the Capital Financing Requirements (PI5)

7.5 This is a key indicator for prudence and is designed to ensure that, over the medium term, net borrowing will only be for capital purposes. 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.

7.6 Following changes to the CIPFA Prudential Code this indicator now includes all debt (PFI schemes and finance leases) rather than purely borrowing. The Council's net debt 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 Debt (gross debt less investments) as at 31 March 2013: £517.312m
- Capital Financing requirement to 31 March 2015: £620.401m.

7.7 This confirms that the Council is well within its capital financing requirement.

Capital Expenditure (PIs 6 and 7)

7.8 The estimated capital expenditure that will be incurred in 2012/13 compared to original budget is as follows:

Table 15: Capital Expenditure (PIs 6 and 7)

	2012/13 Original Budget £m	2012/13 Current Revised Budget £m
Chief Executive's Office	7.870	14.083
Children, Young People & Learning	11.673	15.229
Community Services	3.894	10.911
Finance and Resources	2.150	2.424
Corporate	1.500	1.012
General Fund	**27.087**	**43.659**
HRA	**16.297**	**19.415**
Total	**43.384**	**63.074**

7.9 The variations between the original budget and the revised budget have been identified in the Financial Management reports to Cabinet and Council comprise £17.302m reprogramming and £2.388m other variations.

Capital Financing Requirement (PIs 8 and 9)

7.10 Estimates of the capital financing requirement at 31 March 2013 compared to the original budget is as follows:

Table 16: Capital Financing Requirement (PIs 8 and 9)

	2012/13 Budget £m	2012/13 Estimate £m
General Fund	296.470	297.998
HRA	301.899	300.258
TOTAL	598.369	598.256

7.11 The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, North Tyneside Council does not associate borrowing with particular items or types of expenditure.

7.12 The following local indicator to shows the Capital Financing Requirement for prudential (unsupported) borrowing.

Table 17: Capital Financing Requirement for Prudential (Unsupported) Borrowing (PIs 8 and 9)

	2012/13 Budget £m	2012/13 Current Estimate £m
General Fund	138.633	130.161
HRA	45.266	44.906
Total	**183.899**	**171.132**

Prudential Indicators for Treasury Management

7.13 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement.

7.14 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Table 18 below.

Table 18: Prudential Indicators for 2012/13

PRUDENTIAL INDICATOR	**2012/13**	**2012/13**
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**Budget £m**	**Estimate £m**
Authorised limit for external debt -		
borrowing	938.352	938.352
other long term liabilities	90.000	90.000
TOTAL	1,028.352	1,028.352
Operational boundary for external debt -		
borrowing	523.602	523.602
other long term liabilities	90.000	90.000
TOTAL	613.602	613.602
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	50%	50%
Upper limit for total principal sums invested for over 364 days	25%	0%

Maturity structure of fixed rate borrowing during 2012/13	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%

7.15 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first half of 2012/13. As indicated in this report none of the performance indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.