ANNEX 1

Cabinet 11 November 2013 – Agenda Item 6(a)

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Section 1.0
Executive Summary

1.1 This is the third report to Cabinet for 2013/14, setting out the Authority's financial position as at the 30 September 2013.

1.2 This report includes details of the forecast outturn position to the 31 March 2014, highlighting key strategic issues to be managed by the Authority during the year.

Strategic Management of the Council's Budget

1.3 The budget for 2013/14 was approved by full Council at its meeting of 5 March 2013. The net General Fund revenue budget was set at £177.132m, this included CEI savings of £12.240m to be achieved.

1.4 The Capital Plan level of expenditure for 2013/14 was approved at £55.849m. Further reprogramming and variations were approved by Cabinet through the budget monitoring and outturn reports (£9.236m on 11 March 2013, £12.365m on 10 June 2013, £0.873m on 8 July 2013, and £0.127m on 9 September 2013). Also full Council approved an additional allocation of £0.200m for Longbenton Voluntary Aided Schools on 21 March 2013, and £0.607m for Vehicle replacements (£0.600m for 2014/15) on 25 July 2013. This gave a total approved capital plan for 2013/14 of £79.257m.

1.5 The current forecast outturn for the General Fund revenue budget reflects in-year pressures of £0.908m after the application of part of the contingencies budget to the areas for which it was identified, where pressures are being forecast. 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 Housing Revenue Account (HRA) is forecasting an underspend of £0.138m for the year.

1.7 In the period to 30 September 2013, the level of capital spend posted within the General Ledger was £19.352m, which represents 28.2% of the revised Capital Plan for the year, a slight increase on the comparative spend for 2012/13.

1.8 Cabinet are recommended to approve reprogramming of £7.565m and variations of £3.136m credit to the 2013-23 Capital Plan. Full details can be found in paragraphs 5.5 and 5.6 of this annex.

Strategic Issues

1.9 As in previous years, over and above the management of the Authority'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

1.10 The budget for 2013/14 included savings of £12.240m, 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.

1.11 The scale of the financial challenge for the year meant that wide ranging efficiencies and service reconfiguration were required to be implemented during 2013/14. It is important that these CEI savings are monitored as part of the overall financial position of the Authority so the bottom line financial position is known. Regular updates of progress on the CEI projects are shared with the Mayor and Cabinet and the Deputy Mayor recently met with the Directors and Heads of Service with regard to those projects identified as red or amber to ensure actions are taken to mitigate the position.

1.12 It is 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. **Appendix J** details the status of each of the specific CEI savings included in this report. The information contained in this Appendix was reported to Overview and Scrutiny on 4 November 2013. This reflects the changes agreed in the 2013/14 In Year Budget Changes to the General Fund budget report to Cabinet on 9 September 2013.

Redundancies

1.13 At the end of September 2013 the Authority issued a HR1 notice, setting out the potential need to reduce up to 250 posts in light of spending reductions in future years. In terms of the costs associated with restructuring and redundancy, accounting standards require that we make provision for estimated redundancy costs, therefore included in this report is a provision for £1.400m.

1.14 In previous years the Authority has taken the opportunity` to capitalise the statutory costs of redundancy payment. Any revenue (non statutory) costs and associated Strain on the Fund costs have been met from the Strategic Reserve. However, as explained in paragraph 1.19 below the current estimate of costs would fall below the deminimus level, meaning that the option for capitalisation would not be available. Therefore, £1.400m has been included as an exceptional item in Table 1 below to reflect current estimates.

Equal Pay and Equal Value

1.15 The draft 2012/13 Annual Financial Report included a provision of £9.080m 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. Any additional claims above the provision would need to be funded either from reserves or capital receipts.

1.16 As explained in previous reports, Equal Pay payments can now be financed from capital receipts, in addition to the revenue financing previously allowed. The Department for Communities and Local Government have also introduced a capitalisation process for 2013/14. Further details can be found in paragraph 1.19 below.

Financing of the Capital Plan

1.17 The Major Projects Group (MPG) met on 25 September and 1 October 2013 and undertook a review of the financing of the 2013/14 Capital Plan as the initial stage of a full review of the 10 year Capital Plan. This initial review identified savings in the Council Contribution requirement of £3.186m and reprogramming of £4.550m of Council Contribution funding into future years. Full details are provided in section 5 of this report. After taking account of changes in funding arising from the proposed amendments to the Capital Plan and the level of capital receipts received to date, £1.774m of general fund capital receipts still need to be generated in the year.

1.18 During 2012/13 the total General Fund capital receipts received was £1.913m.

Capitalisations

1.19 On 25 July 2013, the Department for Communities and Local Government (CLG) published the guidance for capitalisation in 2013/14, setting out the timetable, process and criteria for local authorities wishing to apply for capitalisation this year. This process includes the costs of Equal Pay as well as restructuring and transformation. There is only £100m available for capitalisation nationally and the criteria is very stringent. Amongst the criteria is an affordability criteria whereby new claims for Equal Pay would need to exceed around £9.6m and for restructuring and transformation costs would need to exceed £4.8m. Only costs above this would qualify to be capitalised. As these thresholds are not likely to be reached no application was made for capitalisation in 2013/14.

1.20 In addition to the capitalisation process described in paragraph 1.19, CLG have also recently consulted on proposals to allow the use of capital receipts to pay for one off costs of service reforms. The consultation period ended on 24 September 2013 and the outcome is expected to be released by CLG this Autumn.

Welfare Reform

1.21 1 April 2013 saw the introduction of a number of changes as part of the wider welfare reforms introduced by Central Government. In recognising the risks associated with the implementation of welfare reform the Council and its' partners have established a number of internal and cross partner working groups that meet regularly to consider and monitor the impact of the reforms across the borough.

1.22 A briefing was issued to all members on the 2 October 2013 providing an update on Welfare reform. The specific financial aspects of welfare reform are set out in more detail in the Service area reporting in the following paragraphs:

- 2.13 Local Welfare Provision
- 2.16 Discretionary Housing Payments

- 3.5 Under Occupancy in Social Housing

1.23 With regard to the Local Council Tax Support Scheme (LCTS) previously the impact on Council Tax collection rates was considered. There are now 83% of claimants up to date with their Council Tax payments an improvement from 70% previously reported. For the remaining 17% recovery action is now taking place. The actions should ensure that the Council Tax debt is cleared this financial year.

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 £0.908m.

2.2 The budget monitoring is based on the recorded transactions as at 30 September 2013 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 - F)** set out variations by Service Area.

Table 1: 2013/14 General Fund Revenue Budget Forecast to 31 March 2014

		Full Year Budget	Forecast Outturn before contingency	Contingency allocation	Forecast Outturn after contingency	Forecast Outturn Variance Sep 2013	Forecast Outturn Variance Jul 2013
	Net Expenditure	£m	£m	£m	£m	£m	£m
1	Children, Young People & Learning:						
	Controllable	24.147	25.879	-0.650	25.229	1.082	0.998
	Non-Controllable	10.250	10.250	0.000	10.250	0.000	0.000
		34.397	**36.129**	**-0.650**	**35.479**	**1.082**	**0.998**
2	Community Services:						
	Controllable	79.793	83.240	-3.221	80.019	0.226	0.712
	Non-Controllable	11.852	11.852	0.000	11.852	0.000	0.000
		91.645	**95.092**	**-3.221**	**91.871**	**0.226**	**0.712**
3	Finance and Resources:						
	Controllable	13.665	13.661	0.000	13.661	-0.004	-0.013
	Non-Controllable	-8.834	-8.834	0.000	-8.834	0.000	0.000
		4.831	**4.827**	**0.000**	**4.827**	**-0.004**	**-0.013**
4	Chief Executive's Office:						
	Controllable	13.700	14.313	0.000	14.313	0.613	0.572
	Non-Controllable	-5.801	-5.801	0.000	-5.801	0.000	0.000
		7.899	**8.512**	**0.000**	**8.512**	**0.613**	**0.572**
5	Public Health:						
	Controllable	0.000	0.000	0.000	0.000	0.000	0.000
	Non-Controllable	0.000	0.000	0.000	0.000	0.000	0.000
		0.000	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
Sub Total - Service-Approved Budget		**138.772**	**144.560**	**-3.871**	**140.689**	**1.917**	**2.269**

Table 1 Continued

		Full Year Budget	Forecast Outturn before contingency	Contingency allocation	Forecast Outturn after contingency	Forecast Outturn Variance July 2013	Forecast Outturn Variance July 2013
		£m	£m	£m	£m	£m	£m
	Non-delegated budgets:						
6	Corporate and Democratic Core	9.838	9.838	0.000	9.838	0.000	0.000
7	Corporate Accounting	3.965	0.594	0.000	0.594	-3.371	-1.601
8	Contingency Budget	5.515	1.644	3.871	5.515	0.000	0.000
9	Levies	13.076	13.076	0.000	13.076	0.000	0.000
10	Utilities	0.000	0.562	0.000	0.562	0.562	0.453
11	Staff Capitalisation	0.000	0.400	0.000	0.400	0.400	0.400
12	Non-controllable	5.966	5.966	0.000	5.966	0.000	0.000
Sub-total- non delegated budgets		**38.360**	**32.080**	**3.871**	**35.951**	**-2.409**	**-0.748**
Net Forecast pressure/(surplus) after application of reserves		**177.132**	**176.640**	**0.000**	**176.640**	**-0.492**	**1.521**
Exceptional items							
13	Planning Appeals	0.000	0.000	0.000	0.000	0.000	0.265
14	Redundancies	0.000	1.400	0.000	1.400	1.400	0.000
Net Forecast pressure/(surplus) after exceptional items		**177.132**	**178.040**	**0.000**	**178.040**	**0.908**	**1.786**

Directorates

2.3 **Children, Young People and Learning** (CYPL) are currently projecting a pressure at year end of £1.082m. This is an increase from the £0.998m forecast in July. All areas of variance are outlined in **Appendix A** with the main areas of note detailed further in the paragraphs below.

2.4 The demand-led area of Looked after Children remains a key area of management focus. In setting the 2013/14 budget CYPL originally identified a likely pressure of £0.700m in this area for 2013/14. 65% of this, i.e. £0.455m, was added to the Corporate Contingency in 2013/14 in relation to this. The current forecast is £1.226m however the Directorate is committed to containing this pressure as much as possible whilst ensuring the corporate parenting responsibilities of the Authority are delivered and therefore hope to reduce this to the reported £1.006m. The number of expensive Out of Borough placements has been kept to a minimum and has reduced from 23 in July to 19 at the end of September.

2.5 The position relating to Early Help and Support has improved significantly from a forecast pressure of £0.243m at July to a forecast pressure of £0.057m. Whilst the Directorate have identified savings in recent months this remains a forecast overspend and hence the CEI project associated with the review of non school estate remains flagged as an Amber rated CEI project.

2.6 The forecast pressure of £0.295m in Children's Disability Services remains in keeping with the position reported at July. When setting the 2013/14 budget CYPL originally identified likely pressure of £0.300m in this area, particularly related to home to school transport. 65% of this, i.e. £0.195m, was added to the Contingency budget in 2013/14 in relation to this. Since the budget was set there has been a reduction in the extended rights for free travel grant (notified by the DfE in July). An analysis of costs associated with Home to school transport has been conducted since the start of the new academic year and the Directorate anticipates being able to report an improved position at the next monitoring report.

2.7 Members will be aware that many areas of CYPL services have historically been funded by specific individual revenue grants, mainly from the Department for Education. It has been appropriate to ensure these grants each make a contribution to the service overheads they enjoy subject to this being allowed within the individual grant conditions. There is an income expectation within the CYPL budget for these contributions. In recent years the number and value of grants received has reduced. Furthermore the conditions of many grants have been tightened. For these reasons it is increasingly difficult to meet the income expectation in the budget and a forecast pressure has emerged for 2013/14 of £0.278m. Should new grants be received in CYPL in 2013/14 then, grant conditions permitting, this position will improve.

2.8 The CYPL Directorate Leadership Team remains committed to trying to manage within its 2013/14 budget and continues to meet regularly to identify mitigating actions that might allow them to meet the budget for the year. This includes ensuring all unnecessary expenditure is avoided and all opportunities to make savings, or secure additional income, are achieved. All CYPL budget holders are reminded of their responsibilities on a regular basis, most recently in a joint email from Finance and CYPL Heads of Service on 18 October 2013.

2.9 Overall the **Community Services Directorate** is required to deliver just over £5.800m of savings in 2013/14 and has had some significant additional pressures in Cultural Services, Environmental Services and Adult Social Care. These are highlighted in **Appendix B,** where we have not been able to cover them by generating in-year savings against discretionary budgets.

2.10 Not all of the contingency identified against Adult Social Care during the 2013/14 budget setting process has been allocated as, although pressures overall in the areas identified slightly exceed the contingency value, the individual areas of contingency provision are being applied discreetly.

2.11 Of the £5.800m savings target for 2013/14 we are confident that we have the processes in place to deliver all of these savings either directly or through compensating mitigating actions. The majority of our CEI targets are “green” or “amber”. There only remain 2 “red” savings targets totalling £0.125m. Both are within Adult Services and both will be compensated for by over-achievement in other savings targets. There are 5 amber savings totalling £0.264m which include changes to the operating model for community centres and a leisure centre, security income due to the loss of a CCTV surveillance contract and a small element of two large ASC savings where we can not yet be fully confident that the savings targets will be delivered in full. In addition we have some residual pressures from 2012/13 especially around transport within Environmental Services and around community asset transfers within Cultural Services.

2.12 The majority of the reported pressure falls within Adult Social Care which is reporting a pressure of £3.310m before the application of contingencies of £3.221m. 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, which is forecasting an overspend of £3.239m before the application of the contingency of £2.925m. There continues to be pressure on this service as more and more clients present with more complex needs however the position within Learning Disabilities and Mental Health Services has had a modest improvement since the July report which itself had improved significantlymainly as a result of reduction in the growth assumption for 2013/14 following a review on a case by case basis. In addition the costs for a number of Independent Supported Living packages have been successfully managed down with providers to reduce the number of support hours required and consolidate a small number of costly void places.

2.13 The current forecast outturn position is based on an assumption that the budget for Local Welfare Provision (crisis loans) will be spent by the year end. At the end of the first six months committed expenditure was £0.021m. The authority continues to provide quality service different to that of the DWP and nationally the picture being seen continues to reflect that demand for this support has fallen away. Cabinet Member & partners are working together to determine what more can be done.

2.14 Cultural and Customer Services are forecasting a pressure of £0.116m following approval by Cabinet to release budget growth originally intended for Whitley Bay Joint Service centre to offset the £0.130m target re the rolling review of library provision. There are also residual pressures from the operating model savings in 2012/13 and 2013/14 which have not as yet proved possible to deliver for community centres and some other community assets. Work continues to identify additional contingency plans to bring this pressure down.

2.15 Within Environmental Services we are forecasting a pressure of £0.090, which represents transport cost pressures within the services, mitigated in part by proposals within the transport account to reduce costs by further extending the useful lives of the vehicles. The forecast outturn is based on the assumption that the winter maintenance service will not transfer to Capita during 2013/14, and that any additional bereavement income generated will be ring-fenced to support the capital costs of replacing the cremators and upgrading the Tynemouth crematorium (as agreed by Cabinet 20 May 2013).

2.16 The **Finance and Resources Directorate** is currently reporting a forecast surplus of £0.004m. The areas of variance are outlined in **Appendix C**. Within this balanced overall position the Directorate is seeking to contain budget pressures associated with the CEI projects for Trading Income Opportunities and Street lighting both of which are currently highlighted as a "Red" rated CEI projects. The pressures associated with these projects are currently offset by other savings across the Directorate. It should be noted that the current projection assumes any under spend on Discretionary Housing payments(DHP) at year end will be carried forward for use in 2014/15, subject to the Authority's overall position at year end. The current actual and committed spend against DHP is £0.276m, leaving an available fund of £0.553m.

2.17 The **Public Health Directorate** came into existence for the first time in 2013/14 following the transfer of responsibilities from the National Health Service on the dissolution of the Primary Care Trust. The budget is ring-fenced and is forecasting to spend within budget overall with a £0.080m under spend within the Public Health team being re-invested within other Public Health Services. To aid understanding of the budgets and their purpose a commentary has been provided for this month's budget monitoring to indicate the key areas of spend within each budget area. The projected year-end position and variance analysis for September 2013 is attached as **Appendix E** to this report.

2.18 The **Chief Executive's Office** is currently reporting in-year pressures of £0.613m. The majority (£0.458m) of the pressures arise in Business & Economic Development (previously known as Regulatory, Development and Regeneration). This includes a pressure of £0.175m relating to a National Non-Domestic Rates (NNDR) rebates income target that is not expected to be achieved in the current round of rating revaluations anticipated during 2013/14 and a pressure at the Swan Hunter site (£0.295m) mainly due to the reduction in expected income whilst the regeneration work is underway. As no costs have been awarded against the council for the Whitehouse Farm planning appeal there is no planning appeal pressure being reported in year at September.

2.19 Law and Governance have pressures of £0.060m and managers in these areas are working hard to identify any mitigating reductions in discretionary spend that could be made. The Chief Executive Service has a forecast pressure of £0.083m reflecting that a provision has been made for the appointment of our new full time Chief Executive and that the acting Chief Executive is staying on to provide continuity until the new Chief Executive commences.

2.20 Strategic Services are reporting in-year pressures of £0.013. Of this £0.116m relates to Communications mainly around advertising income shortfalls. There is a small compensating saving within Human Resources (£0.054m) from reduced working hours and some maternity leave savings.

2.21 The following table sets out a summary of revenue grants, which Cabinet are requested to approve, that have been awarded since the report to 31 July presented to Cabinet on 9 September 2013. The details of these grant changes are set out in **Appendix K.** All new capital grants are included in the capital variations (Table 4) of this report.

Table 2: 2013/14 Revenue Grants awarded since 1 August 2013

Directorate	Amount £m
Children Young People and Learning	0.556
Community Services	0.058
Finance and Resources	0.046
Total	0.660

Non Delegated Budgets

2.22 After the first six months of 2013/14 there are limited budget variations in relation to the non-delegated budgets with the exception of **Corporate Accounting**. The forecast underspend of £3.371m is in respect of a saving in Minimum Revenue Provision (MRP) of £1.137m as a result of re-programming during 2012/13 and a review of asset lives assumed for 2012/13 spend, expected savings in external interest of £2.497m also largely as a result of re-programming, lower interest rates than anticipated at budget setting time and the continued level of internal borrowing, and pressures of £0.250m relating to savings from the Review of Terms and Conditions.

2.23 This section also includes the **Contingency** budget of £5.515m. The expected usage of this is shown in Table 3 below. This leaves a balance of £1.127m currently unallocated to specific Services but at this stage in the monitoring cycle it has been assumed that this budget will be fully allocated by the year end.

Table 3: 2013/14 Contingency Budget

	Budget £m	Current Allocation £m	Balance still to be allocated £m	Total forecast pressure £m
-				
Care Home Inflation (100%)	0.300	0.296	0.004	0.296
Homecare Inflation (100%)	0.150	0.000	0.150	0.000
Members Allowances (100%)	0.200	0.000	0.200	0.000
Addition to Contingencies for Pay Award (1%)	0.517	0.517	0.000	0.517
Flood Fund	0.250	0.000	0.250	0.000
Looked after Children Placements (65%)	0.455	0.455	0.000	1.006
Children with Disabilities and Complex Needs (65%)	0.195	0.195	0.000	0.296
Learning Disability Service - In Year Growth (65%)	0.975	0.975	0.000	0.975

Learning Disability Service - Underlying Placements Shortfall (65%)	1.625	1.625	0.000	1.939
Mental and Physical Disability Service - Underlying Placements Shortfall (65%)	0.325	0.325	0.000	0.325
Dementia (65%)	0.195	0.000	0.195	0.000
Council Tax Freeze Grant	0.130	0.000	0.130	0.000
Increase in Contingencies for potential shortfall in Business Rates Growth	0.198	0.000	0.198	0.000
Total Contingencies budget 2013/14	**5.515**	**4.388**	**1.127**	**5.354**

2.24 **Utility Costs** remain a significant issue for the authority in respect of potential pressures being faced during 2013/14. 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.

2.25 **Exceptional items.** The result of planning appeals means that there is no longer an expected cost in respect of employing external consultants. The expected cost reported to 31 July was £0.265m.

2.26 As outlined in paragraphs 1.13 and 1.14 above it is anticipated that it will be necessary to set up a provision of £1.400m in the 2013/14 accounts to recognize the potential costs of redundancies incurred as part of the restructuring of services. This cost has been reflected in Table1

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 for September 2013 are attached as **Appendix G** to this report.

3.2 On the 16 January 2013 the Cabinet approved the HRA budget for 2013/14. This included an average increase in housing rents of 5.81% 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 £0.578m higher than anticipated opening balances ie £2.200m as opposed to the budgeted figure of £1.622m, and the current expectation is that the in-year position will be £0.138m better than budget.

3.4 The main significant variations anticipated in the budget at this stage are in relation to the Authority's HRA debt portfolio, the impact of Treasury Management decisions and Right to Buy (RTB) sales on related costs, and the implications of the continued delays to the Quality Homes for Older People project.

Treasury Management - It is currently estimated that an additional £0.058m of interest savings will be achieved, from a combination of some temporary borrowing at low interest rates, and the interest benefit from having additional debt set aside from the extra Right to Buy (RTB) sales in 2012/13. This saving will increase the estimated transfer to the House-building Fund at year-end once the final HRA accounts for 2013/14 have been closed, from £0.717m to £0.775m.

Quality Homes for Older People (QHfOP) – because of the continued delays in the achievement of financial close on this project; this will have significant in-year impact on the HRA. There will be a significantly reduced call on the in-year contributions required from the affordability and unitary charge contributions, which are currently held in the Repairs budget estimated at £0.535m, this will be partially offset by an increased Depreciation charge of £0.202m, which reflects the assumption that the authority is still responsible for the major repairs elements for the sheltered stock until project commencement. The net saving of £0.333m which will be confirmed after financial close is reached, is assumed will accrue as an additional contribution to the House-building Fund in-year to fund future Council House new build.

3.5 **Impact of Welfare Reform.**
The main changes introduced under the Government's Welfare Reforms in 2012/13 relate to what has become known as the "bedroom tax". This policy currently affects around 2,250 of our tenants on Housing Benefit, of whom approximately 1,350 are in arrears totalling £0.338m. This is an increase of approximately £0.058m from the start of the year, and overall current arrears have increased by around £0.150m to just over £1.430m. There has also been an increase in the amount of former arrears, which has increased to-date in-year by £0.075m. These changes to-date are mitigated by the increased bad debt provision that was made in the budget for this year. The introduction of Universal Credit from October 2013 and the direct payment of benefits to tenants, was expected to have a more significant impact on

rent arrears, however, it appears that the implementation may now be delayed by at least 6 months, and any implementation is likely to be phased.

3.6 **House-building Fund**.

As agreed by Council on 15 February 2012 a new House-building Fund was set up in 2012/13, to fund the cost of new build housing and environmental works. The initial contribution to this fund came 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. It was also agreed that any savings from the overall debt portfolio against budget would be added to the fund once the final accounts for the year had been audited, as well as any under spend on the HRA Grounds Maintenance budget. For 2012/13 this resulted in total contributions to the fund for 2012/13 of £1.019m. Of this sum, £0.823m has been committed towards the costs of the Station Road and Byrness Court new build schemes, due for completion in 2013/14. For 2013/14 it is currently estimated that a total additional contribution of £1.108m will be made to the fund at year-end as explained above, which will fund spend in future years.

Section 4.0
Schools Finance

2013/14 School budgets

4.1 Budget monitoring is conducted with all schools over the period September to October every year. Particular attention is given to the four schools with deficit approval for 2013/14 budgets i.e. Longbenton Community College, Norham High, St Bartholomews RC Primary and Monkhouse Primary. Further follow up meetings with these four schools and Finance will be held in the Autumn term to monitor the specific requirements of their deficit approval. The current forecast position shows all schools in North Tyneside are broadly performing in line with their original budget plans.

Progress in relation to 2014/15 School funding

4.2 The CYPL Directorate and Finance continue to follow the timetable set out in the July budget report regarding progress in relation to 2014/15 School funding. This is replicated below again for ease of reference:

Date	Action
25 September 2013	Schools Forum consider formula changes for 2014/15
30 September to 17 October 2013	Wider School consultation on proposed 2014/15 changes
23 October 2013	Schools Forum meeting agree changes for 2014/15
31 October 2013	Local authorities submit provisional Schools Budget pro forma to the Education Funding Agency (EFA)
10 December 2013	EFA issue pupil data and formula factors to Local Authorities
18 December 2013	EFA confirms School block Dedicated Schools Grant (DSG) allocations for 2014/15 (prior to recoupment of funding for academies)
23 December 2013	Local authorities submit 2014 to 2015 academic year High need SEN place numbers and submissions
21 January 2014	Local authorities submit final data for Schools Budget pro forma
28 February 2014	Local authorities confirm budget to maintained schools
By 31 March 2014	EFA calculate allocations of place funding for institutions and DSG high needs block funding for Local authorities

4.3 Since the July report we have met the Schools Forum in September and held a borough wide consultation with schools on the proposed 2014/15 mainstream school funding formula. Responses to the consultation were discussed at Schools Forum on 23rd October and the proposed formula accepted, before submitting this to the EFA by 31st October 2013.

4.4 The changes to the mainstream funding formula for 2014/15 are minimal for North Tyneside as our 2013/14 formula already met most of the DfE requirements for 2014/15 requirements. It remains the position that the DfE are working towards a national school funding formula and we anticipate further national consultation on this imminently.

Section 5.0
Capital Plan Expenditure and Financing

Review of Capital Plan - Position Statement

5.1 The Authority's Capital Plan represents the capital investment in projects across all service areas. This report summarises activities up to 30 September 2013.

Capital Plan Delivery

5.2 Some of the key progress areas to note to 30 September 2013 are as follows:

- Completion of the summer holidays Schools' Capital Maintenance programme for 30 schools;

- New classroom extension has been completed at Woodlawn School, the erection of steelwork has started on site at St Bernadette's RC Primary and the works to the main school building at Southlands school have now been completed;

- Longbenton Voluntary Aided Schools – site levelling and foundations are now complete;

- Monitoring visits have commenced to the 26 successful organisations who will receive capital funding to provide skills centres and youth facilities;

- Norham Early Years Centre (Oaktrees) officially opened as an operational centre for 2 year olds;

- The Foxhunters Sports Pavilion opening ceremony is scheduled to take place on 19th October;

- Additional highways maintenance and Road and Pavement improvements are now substantially complete with the remaining sites to be completed by end of October;

- A project appraisal report for the Central Promenade Reconstruction received approval from the Environment Agency approval board;

- Planning permission has been granted for Spanish City Island. The Heads of Terms have been agreed with the developer. Stage 1 Coastal Communities Fund bid has been approved and a Stage 1 bid for Heritage Lottery Enterprise Funds was submitted in August 2013;

- At the end of September, 74 Private Sector loans have been approved via the regionally procured lender, Five Lamps (a social enterprise);

- 64 Disabled Facilities Grants (DFG) have been approved in 2013/14, of which 35 have been completed. There have been a further 118 DFG Emergency Type A2 works approved and completed to date.

Variations to the 2013/14 Capital Plan

5.3 As part of the regular capital monitoring process during August and September 2013, reprogramming of £3.015m and variations of £0.050m have been identified. In addition to this the Major Projects Group (MPG) met on 25 September and 1 October 2013 and undertook a review of the financing of the 2013/14 Capital Plan as the initial stage of a full review of the 10 year Capital Plan. This initial review identified savings in the Council Contribution requirement of £3.186m and reprogramming of £4.550m of Council Contribution funding into future years. Table 4 details the changes to the approved 10-year Capital Plan, as agreed at Council on 5 March 2013.

Table 4: 2013 - 2023 Capital Plan changes identified

	2013/14 £m	2014/15 £m	2015/16 £m	2016/23 £m	Total £m
Approved Capital Plan – Council 5 March 2013	**55.849**	**49.667**	**35.761**	**246.025**	**387.302**
Previously Approved Reprogramming					
Cabinet 11 March 2013	8.226	0	0	0	8.226
Cabinet 10 June 2013	12.365	0	0	0	12.365
Cabinet 3 July 2013	-0.600	0.600	0	0	0
Cabinet 9 September 2013	-0.095	0.095	0	0	0
Total Reprogramming	19.896	0.695	0	0	20.591
Previously Approved Variations					
Cabinet 11 March 2013	1.010	0	0	0	1.010
Council 14 March 2013	0.200	0	0	0	0.200
Cabinet 3 July 2013	1.473	1.111	0	0	2.584
Council 23 July 2013	0.607	0.600	0	0	1.207
Cabinet 9 September 2013	0.222	0	0	0	0.222
Total Variations	3.512	1.711	0	0	5.223
Approved Capital Plan – Cabinet 9 September	**79.257**	**52.073**	**35.761**	**246.025**	**413.116**
August/September Reprogramming	-7.565	6.948	0.617	0	0
August/September Variations	-2.988	-0.148	0	0	-3.136
Revised Capital Plan	**68.704**	**58.873**	**36.378**	**246.025**	**409.980**

5.4 The variations on the individual schemes are shown in **Appendix H. Appendix I** details the whole of the revised Capital Plan, taking into account the reported changes.

Details of changes to the 2013/14 Capital Plan

5.5 For 2013/14, total variations to the end of September 2013 of £2.988m credit (£0.148m credit in 2014/15) have been identified. The details of the main changes are shown below:

(a) **ED177 Youth Facilities, £0.250m credit** –MPG agreed to recommend that £0.250m of Council Contribution is no longer required;

(b) **GEN04 Ward Community Budget, £0.050m credit** – There are no planned commitments against this budget head. Following the MPG it is recommended that this budget is reduced to Nil;

(c) **HS004 Disabled Facilities Grant, £0.735m credit** – The level of grants awarded is lower than when the budget was originally set. It was agreed at MPG to recommend a reduction to the Council Contribution to this project in 2013/14 ;

(d) **EV071 Pinch Point – Four Lane Ends/A188 Corridor, £1.200m** – The funding for this project was previously reported within EV034 Local Transport Plan. For project monitoring purposes this budget has been moved to a separate project code; and,

(e) **GEN03 Contingencies, £2.000m** – The MPG agreed to recommend that this budget is reduced by £2.000m leaving a balance of £0.500m. There are currently no commitments against this budget.

Details of all the variations are shown in **Appendix H**

5.6 The total reprogramming to the end of September was £7.565m. The details of the main changes for 2013/14 are shown below:

(a) **CO061 Excellent Parks, £2.119m –** The programme of works for Northumberland Park is planned to complete in October 2014;

(b) **CO064 Community Capacity, £1.700m** – Options around the use of Community Capacity grant funding are continuing to be explored and therefore will not be spent until 2014/15;

(c) **DV019 Whitley Bay Regeneration, £0.350m** – The main programme of works is now expected to be delivered in 2014/15, therefore reprogramming is required;

(d) **DV046 Wallsend North Bank of Tyne, £0.100m** – The element of funding for this scheme from Council contribution is not yet required as the current projects are being funded by Homes and Communities Agency (HCA) grant that will be delivered in 2013/14. An estimated amount has been identified for reprogramming;

(e) **DV054 Coastal Regeneration, £0.680m** – The budget for Coastal Regeneration is expected to span financial years. MPG agreed to recommend £0.680m of the budget is reprogrammed to 2014/15;

(f) **ED166 Longbenton Voluntary Aided Schools, £1.000m** – The expected delivery of works is not expected to complete until July 2014; and,

(g) **ED179 River Tyne Energy Innovation, £1.372m** – Subject to funding award the capital refurbishment does not expect to start on site until October 2013 and therefore reprogramming is expected.

Details of all reprogramming are shown in **Appendix H**

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

Table 5: Impact of variations on Capital financing 2013-2023

	2013/14 £m	2014/15 £m	2015/16 £m	2016/23 £m	Total £m
Approved Capital Plan – Cabinet 9 September 2013	**79.257**	**52.073**	**35.761**	**246.025**	**413.116**
Grants and Contributions	-3.592	3.701	0	0	0.109
Capital Receipts – General Fund	-6.764	3.112	0.617	0	-3.035
Contribution from Revenue - New Homes Bonus	-0.115	-0.095	0	0	-0.210
Contribution from Revenue – Housing Revenue Account	-0.082	0.082	0	0	0
Total Financing Variations	**-10.553**	**6.800**	**0.617**	**0**	**-3.136**
Revised 2013/14 Capital Plan	**68.704**	**58.873**	**36.378**	**246.025**	**409.980**

Capital receipts – General Fund

5.8 General Fund Capital Receipts brought forward at 1 April 2013 were £0.023m.

5.9 The capital receipts approved by Council on 5 March 2013 to finance the 2013/14 Capital Plan were £8.914m. A ring-fenced receipt brought forward of £0.023m has also been added to the plan for the East Howdon Regeneration project and a reduction in receipts (£0.093m) relating to the Disabled Facilities Grant project has been replaced by additional grants, bringing the total requirement reported to Cabinet on 9 September 2013 as £8.844m.

5.10 As part of the reprogramming and variations reported above, the capital receipt requirement for 2013/14 has reduced by £6.764m to £2.080m.

5.11 To date, £0.640m receipts have been received in 2013/14. Included in this value is £0.357m in respect of a premium received on the granting of a long term lease which is to be ring-fenced to the Swan Hunters Redevelopment capital project. Therefore, useable receipts generated in 2013/14 are £0.283m and this leaves a balance of receipts to be generated for the General Fund of £1.774m.

Table 6: Capital Receipt Requirement 2013/14 – General Fund

	General Fund £m
Requirement reported to 9 September Cabinet	8.844
Reprogramming and Variations	-6.764
Revised Requirement	**2.080**
Useable Receipts Brought Forward	-0.023
Useable Receipts Received	-0.283
Balance to be generated	**1.774**

Capital receipts – Housing

5.12 Housing Capital Receipts brought forward at 1 April 2013 were £5.164m. The Housing receipts are committed against projects in the 2013-2023 Capital Plan.

5.13 To finance the 2013/14 Capital Plan the capital receipts required are £3.055m. To date, £2.615m of receipts have been received in 2013/14 of which £0.379m have been pooled as part of the Quarter 1 return to Central Government. This leaves a surplus balance of £4.345m to be carried forward to fund future years.

Table 7: Capital Receipt Requirement 2013/14 - Housing

	Housing £m
Current Requirement	3.055
Receipts Brought Forward	-5.164
Receipts Received	-2.615
Receipts Pooled Quarter1	0.379
Surplus Balance to fund future years (subject to further pooling)	**-4.345**

5.14 The final figure for useable receipts and pooled receipts in year will depend on the final number of Right to Buy properties sold during 2013/14.

Capital Plan Monitoring Position to 30 September 2013

5.15 Actual expenditure in the General Ledger was £19.352m (28.2%) of the total revised Capital Plan as at 30 September 2013.

Table 8: 2013/14 Total Capital Plan Budget and Expenditure to 30 September 2013

	2013/14 Revised Capital Plan £m	Actual Spend to 30 September 2013 £m	Spend as % of Total Revised Capital Budget %
General Fund	50.089	12.756	25.5
Housing	18.615	6.596	35.4
TOTAL	**68.704**	**19.352**	**28.2**

5.16 Comparative figures for 2012/13 to the end of September 2012 were 25.0% (General Fund 23.8% and Housing 27.8%).

Section 6.0
Treasury Management

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-Year Review Report 2013/14

6.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 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 2013/14.

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 2013/14;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy for 2013/14;
- A review of the Authority's investment portfolio for 2013/14;
- A review of the Authority's borrowing strategy for 2013/14; and,
- A review of compliance with Treasury and Prudential Limits for 2013/14 (detailed in Section 7 paragraphs 7.13 and 7.14).

Economic Update

6.5 During 2013/14 economic indicators suggested that the economy is recovering, albeit from a low level. After avoiding recession in the first quarter of 2013, with a 0.3% quarterly expansion the economy grew 0.7% in quarter 2. There have been signs of renewed vigour in household spending in the summer, with a further pick-up in retail sales, mortgages, house prices and new car registrations.

6.6 The strengthening in economic growth appears to have supported the labour market, with employment rising at a modest pace and strong enough to reduce the level of unemployment further.

6.7 The Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and sharpened the incentives for banks to extend more business funding, particularly to small and medium size enterprises. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with mortgage interest rates falling further to new lows. Together with the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks have risen as have house prices, although they are still well down from the boom years pre 2008.

6.8 The 2013 Spending Review, covering only 2015/16, made no changes to headline Government spending plans, the monetary policy was unchanged in advance of the new Bank of England Governor, Mark Carney, arriving. Bank Rate remained at 0.5% and quantitative easing (QE) also stayed at £375bn. In August, the Monetary Policy Committee (MPC) provided forward guidance that Bank Rate is unlikely to change until unemployment first falls to 7%, which was not expected until mid 2016. However, 7% is only a point at which the MPC will review Bank Rate, not necessarily take action to change it. The three month to July average rate was 7.7%.

6.9 CPI inflation (MPC target to 2.0%), fell marginally from a peak to 2.9% in June to 2.7% in August. The Bank of England expects inflation to fall back to 2.0% in 2015.

6.10 Tensions in the Eurozone eased over the second quarter, but there remained a number of triggers for a renewed flare-up. Economic survey data improved consistently over the first half of the year, pointing to a return of growth in quarter 2 2013, so ending six quarters of Eurozone recession.

Outlook for the next six months of 2013/14

6.11 Economic forecasting remains difficult with so many external influences weighing on the UK. Volatility in bond yields is likely during 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

6.12 The downside risks to UK gilt yields and PWLB rates include:

- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations;
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face challenges in engineering economic growth to correct their budget deficits on a sustainable basis.;
- The Italian political situation is frail and unstable: the coalition government fell on 29 September 2013;
- Problems in the Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts;
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan;

- Weak growth or recession in the UK's main trading partners – European Union (EU) and US, depressing economic recovery in the UK; and,
- Geographical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

6.13 The upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include:-

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields;
- Increased investor confidence that sustainable robust world economic growth is firmly expected, together with a reduction or end of QE operations in the US, causing a further flow of funds out of bonds into equities;
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone;
- In the longer term – a reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held; and,
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth, causing the ratio of total Government debt to GDP to rise to levels that provoke major concern.

6.14 The overall balance of risks to economic recovery in the UK is now weighed to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last, and it remains exposed to vulnerabilities in a number of key areas. The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Near-term, there is some residual risk of further QE if there is a dip in strong growth or if the MPC were to decide to take action to combat the market's expectations of an early first increase in Bank Rate. If the MPC does takes action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years, such action could cause gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in Table 9 below.

6.15 The tension in the US over passing a Federal budget for the new financial year started on 1 October 2013 and raising the debt ceiling in mid October could also see bond yields temporarily dip until agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Fed. will cause bond yields to rise.

6.16 Capita Asset Services, the Council's treasury advisors, have provided their current Interest Rate Forecast, which is detailed in Table 9 below:

Table 9: Interest Rate Forecast

	Sep 2013 (%)	Dec 2013 (%)	Mar 2014 (%)	Jun 2014 (%)	Sep 2014 (%)	Dec 2014 (%)	Mar 2015 (%)	Jun 2015 (%)	Sep 2015 (%)
Bank Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
5yr PWLB*	2.50	2.50	2.50	2.60	2.70	2.70	2.80	2.80	2.90
10yr PWLB	3.70	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10
25yr PWLB	4.40	4.40	4.40	4.40	4.50	4.50	4.60	4.70	4.80
50yr PWLB	4.50	4.40	4.40	4.40	4.50	4.60	4.70	4.80	4.90

*Public Works Loan Board

6.17 The above Capita Asset Services forecasts for PWLB rates incorporate the introduction of the PWLB Certainty Rate in November 2012 which reduces PWLB borrowing rates by 0.20% for most local authorities including North Tyneside Council.

6.18 Expectations for the first change in Bank Rate in the UK are now dependant on how to forecast when unemployment is likely to fall to 7%. Financial markets have taken a contrary view to the MPC and have raised short term interest rates and gilt yields due to their view that the strength of economic recovery is now so rapid that unemployment will fall much faster than the Bank of England forecasts. They therefore expect the first increase in Bank Rate to be in quarter 4 of 2014.

6.19 Capita Asset Services take the view that the unemployment rate is not likely to come down as quickly as the financial markets are currently expecting and that the MPC view is more realistic. The prospects for any increase in Bank Rate before 2016 are therefore seen as being limited. However, some forecasters are forecasting that even the Bank of England forecast is too optimistic as to when the 7% level will be reached and so do not expect the first increase in Bank Rate until spring 2017.

Treasury Management Strategy Statement and Annual Investment Strategy update

6.20 The Treasury Management Strategy Statement (TMSS) for 2013/14 was approved by Council on 5 March 2013. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Authority's investment priorities as follows:

- Security of capital; and,
- Liquidity

6.21 The Authority 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.

6.22 A breakdown of the Authority's investment portfolio at 30 September 2013 is shown in Section 6.28 of this report.

6.23 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.

6.24 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 5 March 2013 is still fit for purpose in the current economic climate.

Investment Portfolio 2013/14

6.25 In accordance with the Code, it is the Authority's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Authority'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 introduction of the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

6.26 The Authority's counterparty list details the approved banks that the Authority 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 Authority's counterparty list is undertaken.

6.27 The Authority 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.

6.28 Investments held as at 30 September 2013 are summarised in **Table 10** below:

Table 10: List of Investments 2013/14

Investments	**30 Sept 2013 £m**	**Average Rate of Return %**
Debt Management Office	11.200	0.25

6.29 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2013/14.

Borrowing

6.30 The Authority's estimated Capital Financing Requirement (CFR) to 31 March 2014 is £583.882m (including Private Finance Initiative (PFI) and Finance Leases). 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. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

6.31 Total external debt at 30 September 2013 was £431.281m as shown in Table 11 below.

Table 11: Total external debt at 30 September 2013

Principal £m	
	External borrowing
392.943	Public Works Loans Board (PWLB)
20.000	Lender Option Borrower Option (LOBO)
18.338	Other Local Authorities
431.281	Total
	Other external debt
56.392	PFI and Finance Leases (as at 1 April 2013)
487.673	TOTAL EXTERNAL DEBT
	Split of external borrowing:
288.321	Housing Revenue Account
142.960	General Fund
431.281	Total

6.32 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.

6.33 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 Authority's reserves and balances.

6.34 As at 30 September no new or replacement long term borrowing has taken place.

6.35 Short term borrowing rates for periods up to 1 year continue at relatively low levels. The Authority's borrowing strategy this year has been to borrow short term where possible, to take advantage of these lower rates. As at 30 September 2013 the Council had £18.338m of temporary loans from other Local Authorities (as seen in Table 11 above), at an average rate of 0.42%.

Debt Rescheduling

6.36 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 2013/14.

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 2013/14 estimates compared to the budgeted indicators approved by Council on 5 March 2013.

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 the 2013/14 budget and current estimate. The 2013/14 current estimates are lower than the original budgets due to re-programming, lower interest rates than anticipated at budget setting time and the continued level of internal borrowing as outlined in paragraph 2.21 above. The HRA indicator has reduced due to reprogramming of the Housing PFI scheme.

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

	2013/14 Budget	2013/14 Estimate
General Fund	15.90%	13.41%
HRA	31.11%	29.68%

The following indicator is a local indicator that shows the proportion of the budget that is spent on prudential (unsupported) borrowing. As above the 2013/14 current estimates are lower than the original budgets due to re-programming, lower interest rates than anticipated at budget setting time and the continued level of internal borrowing as outlined in paragraph 2.21.

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

	2013/14 Budget	2013/14 Estimate
General Fund	7.77%	6.70%
HRA	10.20%	10.07%

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)

	2013/14 Budget	2013/14 Estimate
For the Band D Council Tax	£2.95	£2.96
For average weekly housing rents	-£2.67	-£1.99

The estimated General Fund indicator has increased slightly to reflect the additional borrowing approved by Council for vehicles (£0.607m) and equipment at the new Longbenton voluntary aided schools (£0.200m). The estimated Housing Indicator has increased slightly due to the estimated increase in the Major Repairs Allowance resulting from the timing of the Housing PFI scheme.

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 Authority's gross 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 2014.

- Estimated Gross Debt as at 31 March 2014: £513.506m
- Capital Financing requirement to 31 March 2014: £583.882m.

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 2013/14 compared to original budget is as follows:

Table 15: Capital Expenditure (PIs 6 and 7)

	2013/14 Original Budget £m	2013/14 Current Revised Budget £m
Chief Executive's Office	20.997	27.133
Children, Young People & Learning	11.600	14.127
Community Services	2.727	6.457
Finance and Resources	1.600	1.899
Corporate	1.500	0.473
General Fund	**38.424**	**50.089**
HRA	**17.425**	**18.615**
Total	**55.849**	**68.704**

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 £12.331m reprogramming and £0.524m other variations.

Capital Financing Requirement (PIs 8 and 9)

7.10 Estimates of the capital financing requirement at 31 March 2014 compared to the original budget is as follows:

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

	2013/14 Budget £m	2013/14 Estimate £m
General Fund	294.716	295.248
HRA	309.025	288.634
TOTAL	603.741	583.882

7.11 The capital financing requirement (CFR) 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. The General Fund CFR is higher than budgeted due to additional borrowing approved by Council (outlined in paragraph 7.4 above) and PFI adjustments for Whitley Bay Customer First Centre. The HRA CFR is projected to be lower than budget at 31 March 2014 to reflect the timing of works on the Housing PFI project and the set aside of money during 2012/13 to repay debt.

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)

	2013/14 Budget £m	2013/14 Estimate £m
General Fund	133.563	134.173
HRA	41.006	39.693
Total	**174.569**	**173.866**

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 2013/14

PRUDENTIAL INDICATOR	**2013/14**	**2013/14**
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**Budget £m**	**Estimate £m**
Authorised limit for external debt -		
borrowing	1,070	1,070
other long term liabilities	110	110
TOTAL	1,180	1,180
Operational boundary for external debt -		
borrowing	535	535
other long term liabilities	90	90
TOTAL	625	625
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 2013/14	**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%