ANNEX 1

2014-2018 Financial Planning and Budget Process:

Cabinet's Initial Budget Proposals

25 November 2013

North Tyneside Council

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PART I

Section 1.0
The Council Plan 2014-2018 Our North Tyneside

Our North Tyneside Budget – Delivering Services for the Future

1.1 Reduced government funding and inflationary pressures mean the council has to find £64million of efficiencies over the next four years - and £20million of this must be achieved in the next 12 months.

Therefore, North Tyneside Council has significantly less money to spend in the future and that means we have to cut back on the services we currently provide.

However, we recognise that the rising cost of living presents every day hardships for people and families across the borough, therefore the Council has to recognise that in meeting the financial challenges we have a responsibility to consider the needs of people at the centre of its budget plans.

One of the ways we can help ease the burden on our residents is by not increasing council tax next year.

Our longer-term, four-year financial plan, also sets out to make a difference for residents by making the council work smarter, putting people at the centre of what it does and ensuring that the organisation maximises how it uses public money to achieve residents' priorities - including delivering economic success and jobs for the borough.

The 2014-18 financial plan is built on a foundation that will commit the borough to actively work with other authorities across the North East to access money from the government and Europe to help make change happen for North Tyneside and the region.

Our partnership working - not just with other councils and public sector organisations, but also with the voluntary sector - will make us stronger, more resilient and help build capacity and expertise.

However, any decisions about how to spend the money available will focus on making a difference for people in North Tyneside and their communities.

We know what the public priorities are, as we have consulted with people across the borough to develop the 'Our North Tyneside Plan'. The budget proposals help deliver those priorities by identifying how the council will allocate money to its priorities, and make sure the organisation and its decision-makers are well prepared for the challenges.

That means:

For **Our Economy** our long-term spending plans will see us invest in the long-term economic future of North Tyneside by:

- **Providing more jobs.** We will achieve that by encouraging investment and supporting businesses. This will include taking forward the development of the Swans site in Wallsend as a focus for high-tech advanced manufacturing businesses - in a partnership bringing together development partners Kier Property, the Local Enterprise Partnership, European and national funders.

- **Help local people access jobs.** Together with our partners, we will provide training and learning opportunities for residents, support apprenticeships and grow a range of employment opportunities, across different sectors, from entry level to senior management.

- **Making North Tyneside a place where people want to live and visit**. That means considering not just physical improvements, but also ensuring that North Tyneside is a borough where it doesn't matter where you live, as people will be able to get around easily, not just by car, but also by public transport; and delivering the regeneration of the coastal area - including the Spanish City Dome site - so all parts of the borough benefit.

- **Successfully regenerating our town centres so they are places people want to live and serve local needs**. That means considering the 'big picture' for all of our town-centres. In Wallsend that will mean physical regeneration to create a distinct and attractive shopping centre that businesses want to be part of. It requires housing to meet local needs, including delivering the Hedley Place scheme. We will prevent potential eyesores and void properties becoming a blight on the community - the council can play an active part in this by making sure it has long-term plans when it vacates buildings. We will not ignore the essentials, including planning the infrastructure and transport needs.

We'll also tackle the issues for individuals and communities.

For **Our People** we will

- **Review all education provision across the borough**. Headteachers have already been asked to work together to come up with ideas to tackle the issue of having too many surplus places as a result of the creation of Kings Priory Academy. We need to shape our borough-wide school network to address financial viability while maintaining high academic standards, and meeting the new education priorities to help young people have the skills that help them access jobs.

- **Make council services more accessible** - but also ensuring that when people contact council services they always have a positive experience and excellent customer service. To supplement our Customer First centres we will improve how people can access all council services via the telephone contact centre or on-line – enabling more self-service for those who prefer it.

- **Working better with our partners to deliver effective services**. Our services have to work for residents as individuals and be a positive customer experience, rather than pass from one service to another. We've made a start, for example, our recently introduced 'Front Door Service' provides a single point of access for children and families services in North Tyneside. We will build on that by providing a single point of access for children and adults who have social care needs, bringing together expertise from different services and agencies.

- **Focus on improving health,** tackling inequalities in health and life opportunities, and where possible preventing people from needing to access intensive health and social care services in the future through targeted intervention.

For **Our Places** we will:

- **Make our town centres places that work for local people.** That will include focusing on delivering a successful North Shields town centre - we'll talk to people and listen to their views to help us shape those plans.

- **Provide services in key locations across the borough**. That may mean considering bringing different services together under one roof to improve accessibility and financial viability. Decisions will be based on community need and supported by mobile services to reach people where they live if they cannot easily get out and about.

- **Consider sustainability**. Continue weekly bin collections, but also review how we manage waste across the borough and increase recycling with innovative approaches as well as retaining our brown bin recycling service, free of charge.

- **Provide housing to meet local needs.** That includes working with partners to provide up to 12,000 new homes by 2030 to meet changing population needs. Residents have told us that we need more of these to be affordable housing and we have set a target of delivering at least 3,000 affordable homes in ten years, which will include provision for rent, to buy and to cater for people with specific needs.

North Tyneside Council will continue to deliver frontline services. To do that within a challenging environment, it will work smarter and better integrate its resources across the organisation and with partners, working to deliver innovative solutions that may change how services are provided, but still focus on the benefits for the public.

As it does this, it has to also take account of other factors.

Like every local authority in the country, North Tyneside Council has significantly less money to spend. As a result of reduced government funding and inflationary pressures the Council has to find £64 million of savings over the next four years - £20 million of these must be achieved in the next 12 months.

Any changes to services also need to take into account the need to cope with different demands resulting from a growing and increasingly aging population, with greater demand for specialist services. The number of people with dementia is expected to increase by 20 percent by 2022 and there is an expected 74 percent increase in over 65's living in the borough. Already one in 29 adults aged 18 years and over receive care and support services.

Overall, it is a challenging position for the Authority, which has no option, but to review and change its previous spending plans and be innovative in doing things differently to achieve efficiencies.

The Elected Mayor and Cabinet have reviewed every area of spend in a robust and proactive approach to identify opportunities to help meet the challenges against some key principles, including:

- Aligning spending plans against the Our North Tyneside Plan priorities, which have been developed following extensive consultation with residents.
- Refocusing the total spend to secure the right mix of services for current and future needs - and not simply cutting across the board as this potentially could have the most impact on residents who need services most.
- Being people centred in how we deliver services and working smarter to maximise how we use resources.

As a priority the Authority has been putting its own costs under scrutiny to ensure it achieves value for money for tax-payers and frees up as much as possible for investment in front-line services.

To re-shape the organisation, making sure our services are efficient - but still effective, the council is:

- Reducing management costs - the council has started at the top in streamlining management. That process will continue across the organisation and £2.7 million will be saved.
- Minimising the costs of centralised back-office services.
- Making sure the public receive maximum benefit from our partnerships - building capacity and expertise by working together, and where partners are delivering services on our behalf setting high standards for quality and efficiency.
- Finding new ways to generate income by better trading our services and our expertise.
- Working across services to reduce the cross-cutting costs on transport and energy.

- Carrying out more in-depth reviews into key areas of spending, including exploring how we look after vulnerable people and considering integrating a range of different services to deliver a new modern service for the young people of our Borough.

North Tyneside Council is committed to being a modern council that delivers effective and sustainable services for residents.

It will do that by being a "listening council" - considering feedback from its residents and other stakeholders on its planned approach - and working as an effective organisation, and partner, ensuring we maximise the value of every pound we spend for the benefit of North Tyneside, its people and communities.

1.2 Policy Framework for the 2014/15 Financial Planning and Budget Process

The Our North Tyneside Plan 2014-2018 which was agreed by the North Tyneside Strategic Partnership on 11 September 2013 and Council on 26 September 2013 provides the provides the policy direction and strategic priorities for the 2014/15 Budget. It will be delivered through a partnership between the Authority, local people, communities, businesses, and local voluntary and public sector organisations.

1.3 Our North Tyneside Plan 2014-2018

The priorities in the Our North Tyneside Plan are:

- Our people will:
  - Be listened to by services that respond better and faster to their needs.
  - Be supported to achieve their full potential, especially our children and young people.
  - Be supported to live healthier and longer lives.
  - Be cared for and kept safe if they become vulnerable.
- Our places will:
  - Be places that people like living in and will attract others to either visit or live.
  - Have more quality affordable homes.
  - Work with residents, communities and businesses to regenerate the borough.
- Our economy will:

- Grow by building on our strengths, including existing world-class companies in marine technology and engineering.

- Have the right conditions to support investment and create new jobs, especially apprenticeships.

- Have local people that have the skills which businesses need.

- Our partners will include:

  - The Police, Fire and Rescue Service and NHS.

  - School and colleges, where our children and young people will receive the skills they need for the future.

  - Businesses and manufacturers who will be assisted to develop and expand.

  - The voluntary sector, which provides support and opportunities for thousands across the borough

Approach to Budget Engagement

1.4 The Authority carries out engagement during the budget and financial planning process to ensure resident and other stakeholder views are considered during this process. Engagement on the budget proposals will take place between 26 November 2013 and 7 February 2014.

Feedback on the proposals will be sought through the Council's website and through a range of focus groups with different stakeholders including: residents, staff, businesses, partner organisations and schools.

In addition there will be further detailed engagement as proposals are taken forward.

Section 2.0
The 2014-2018 Financial Planning and Budget Process

2.1 Introduction

At its meeting on 9 September 2013, Cabinet approved the process and timetable to be adopted for the preparation of the draft Financial Plan, 2014/15 revenue budgets in respect of the general fund, dedicated schools grant (DSG) and housing revenue account (HRA), and the 2014-2018 Capital plan, as part of the overall Financial Planning and Budget process for 2014-2018. Cabinet also approved the budget engagement strategy at that meeting.

The Our North Tyneside Plan 2014-2018, which was agreed by Council and the North Tyneside Strategic Partnership in September 2013, provides the policy direction and strategic priorities for the 2014/15 Budget.

This document includes details of Cabinet's initial budget proposals, in accordance with the time-scales set down in the Authority's Constitution and Budget & Policy Framework Procedure Rules. Cabinet and the Senior Leadership Team have been fully involved in the financial planning and budget process to date.

Cabinet's initial budget proposals are presented here based upon available information and judgements at the time of writing. There are a number of assumptions and judgements built into the figures presented here that lie mainly outside the control of the Authority and need to be finalised. The initial budget proposals will therefore need to be subject to further review before they can be confirmed. The information to be assessed and finalised is:

(a) Police and Crime Commissioner for Northumbria and Tyne and Wear Fire and Rescue Authority Precepts (due 8 February 2014 and 17 February 2014 respectively);

(b) Levies, including the Tyne and Wear Integrated Transport Authority (ITA) (due January / February 2014);

(c) Tyne and Wear Joint Service Budgets (due January / February 2014);

(d) The Final Local Government Finance Settlement announcements for 2014/15, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG), Council Tax Freeze Grant and Council Tax Support funding) final detailed information (due December 2013); and

(e) Consideration of the impact of the economic climate on the residents of the borough and council tax payers.

2.2 Budget and Policy Framework Procedure Rules in relation to the Authority's Budget

The Budget and Policy Framework Procedure Rules are set out in Part 4.7 of the Authority's Constitution. The Budget is guided by paragraph 4.7.3 covering the process for the preparation, consideration and final approval of the Authority's Budget. The constitutional requirements for preparing, considering and approving the Budget drive the timetable for the Financial Planning and Budget process.

The development of the Budget will follow the same timetable as in previous years. The Financial Planning and Budget process is a fundamental part of the overall governance and assurance framework of the Authority. This in turn provides assurance that is considered as part of preparing the Annual Governance Statement to Council each year.

2.3 The Financial Planning and Budget Process for the 2014–2018 planning period

In order to meet the significant and challenging levels of savings introduced by the four year Spending Review, North Tyneside Council introduced its new Service and Spending Review Process for 2011/12, which included the Change, Efficiency and Improvement (CEI) programme. This process has enabled the Authority to continue to deliver effective and efficient services to the residents of North Tyneside, while at the same time achieving the required levels of savings.

The Authority has already made, and has plans in place to make significant efficiency savings. The agreed Authority Budgets for 2011/12, 2012/13 and 2013/14 have included efficiency savings totalling £45m for these three years.

The financial year 2013/14 has seen the introduction of a number of significant changes to the system of Local Government Finance through, for example, the Business Rates Retention Scheme and the Localised Council Tax Support Scheme. The way in which North Tyneside Council dealt with these changes was reported on extensively as part of the 2013-2015 Financial Planning and Budget process. The implications of any changes in relation to 2014/15 for these areas are included in this report to Cabinet and in the other specific reports to Cabinet and Council as part of the 2014-2018 Financial Planning and Budget process reports.

Last year we had in place a two year financial planning process, in line with the planning horizon of the remainder of the current Spending Review due to end in March 2015. For the 2014/15 Financial Planning and Budget process we are proposing a four-year financial planning process covering the years 2014-2018. Provisional information on the 2014/15 Local Government Finance Settlement was issued in late December 2012, and on the 26 June 2013 the Government announced the Spending Round for 2015/16 only. A two-year Local Government Finance Settlement covering 2014-2016 will be issued in early December 2013. Detailed future funding for Local Government beyond 2015/16 is yet to be confirmed, but our assumption is that it is likely to follow a similar trajectory to the current Spending Review.

2.4 Strategic Planning – The Council Plan 2014-2018 Our North Tyneside

In May 2013 the Borough of North Tyneside elected a new Mayor. The 'Our North Tyneside' Plan has been developed to reflect the priorities of the new administration and was approved by full Council on 26 September 2013. The 'Our North Tyneside Plan' provides the policy direction and strategic priorities for the 2014/15 Budget and the period of the current Financial Plan.

It is accepted that the 'Our North Tyneside Plan' cannot be delivered just by the Authority working on its own. It will need to be a partnership with local people, communities, businesses and other local public sector and voluntary organisations. The North Tyneside Strategic Partnership have therefore agreed that the 'Our North Tyneside Plan' will replace the Sustainable Community Strategy to enable this partnership working to have a clear focus.

2.5 Financial Strategy

A Financial Strategy is critical in order to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term. This financial strategy needs to link to the Our North Tyneside Council Plan which ultimately drives our resources. Our Financial Planning and Budget process helps the Authority respond appropriately to responsibilities and duties placed upon Local Government through legislative requirements and the Government's drive for a deliverable programme of efficiency savings.

Financial planning is of critical importance during the period of the Government's own Spending Review and beyond, given the potential scale of future challenges noted previously. This planning is supported by the continuing need to integrate revenue, capital, asset and treasury planning, driven further by the Prudential Code requirements in relation to longer-term capital investment. In formulating the financial plan, the impact of priorities, objectives and preferred options needs to be fully evaluated.

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

<u>CEI Programme</u>

An important element of our overall Financial Strategy is the Authority's Change Efficiency and Improvement (CEI) Programme which is part of our structured approach to managing the financial reductions resulting in a Financial Plan and Budget that reflects the delivery of the Our North Tyneside Council Plan priorities. The CEI programme has therefore been structured in line with the Our North Tyneside Council Plan themes:

- Our People;
- Our Places;
- Our Economy;
- Our Partners.

With a general cross-cutting theme.

2.6 Defining our Financial Strategy

Best practice highlights the need for medium-term planning horizons. The Authority's four-year planning timeframe will assist in ensuring there is a clear demonstration of sustainability in its plans for the future. The key drivers for change and the improvement focus in resource planning continue to include the need for:

(a) Medium term planning horizons – for workforce, assets, finance;

(b) Financial flexibility;

(c) Driving value for money and efficiency gains;

(d) Joined-up performance management;

(e) Strong financial awareness and budget holder responsibility;

(f) Effective risk management;

(g) More rapid accounts closure;

(h) Continuous forecasting and in-year reporting; and,

(i) Effective use of technology.

The approach to resource planning for 2014-2018 has continued to concentrate on ensuring that all of the above drivers are embedded into the decision-making process for the allocation and re-direction of the Authority's significantly reduced resources, financial and otherwise. In addition, there has been an annual detailed review of the current financial plan forecasts and commitments for revenue and capital investment. The Financial Strategy is subject to annual review.

Schools revenue funding is mainly directed through the Dedicated Schools Grant (DSG), however, the Authority has ensured appropriate consultation and inclusion of schools and young people within the Financial Planning and Budget process.

2.7 2014/15 Financial Planning and Budget Timetable of Key Future Decision Milestones

Key aspects of the 2014/15 Financial Planning and Budget timetable remaining are summarised in Table 1 below. This highlights key decision milestones in the process. This information has been supplemented by a detailed operational timetable for 2014/15.

Table 1: 2014/15 Financial Planning and Budget Process Timetable of Key Milestones

Date / Meeting	Detail
25 November 2013 **Cabinet**	Cabinet considers its 2014-2018 initial budget proposals in relation to general fund, schools, housing revenue account and Capital Plan.
26 November 2013	Budget Engagement process begins. Ends on 7 February 2014
December 2013 **Scrutiny Process**	Scrutiny of the 2014-2018 Financial Planning and Budget Process
Early December 2013	2014/15 and 2015/16 Provisional Local Government Finance Settlement announcement
6 January 2014 **Overview and Scrutiny**	Overview and Scrutiny Committee consider the results of their scrutiny of the 2014-2018 Financial Planning and Budget process
15 January 2014 **Cabinet**	Cabinet considers its draft budget proposals for 2014-2018 in relation to general fund revenue, schools, housing revenue account and capital plan, taking into account feedback received as part of the Budget Engagement process
15 January 2014 **Cabinet**	Annual housing rent increase for 2014/15 approved by Cabinet
23 January 2014 **Council**	2014/15 Council Tax Support Scheme agreed by Council
30 January 2014 **Cabinet**	2014/15 Council Taxbase approved by Cabinet
6 February 2014 **Council**	Cabinet submits to the Council its estimates of amounts for the 2014-2018 Financial Plan and 2014/15 Budget and Council Tax levels.

Date / Meeting	Detail
7 February 2014	End of Budget Engagement process
8 February 2014 (Estimated Date)	Estimated Police and Crime Commissioner for Northumbria precept setting date.
17 February 2014	Tyne and Wear Fire and Rescue Authority precept setting date.
20 February 2014 **Council**	Reconvened Council meeting to consider Cabinet's estimates of amounts for the 2014-2018 Financial Planning and Budget process & council tax levels. Consideration of any Notices of Objection.
24 February 2014 (if required) **Cabinet**	Cabinet Meeting to consider any objections to Cabinet's Budget proposals.
4 March 2014 (if required) **Council**	Council meeting to agree the general fund revenue budget for 2014/15; the council tax level for 2014/15 and Capital Plan for 2014-2018.

2.8 Managing our Risks

The Authority has used the information that it holds in relation to strategic risks as part of managing its business and has looked to implement strategies to minimise financial and other risks by deploying resources appropriately. The 2014–2018 Financial Planning and Budget process has included specific consideration of how to address key business risks faced by the Authority. Services are continuing to consider ways in which to minimise or eliminate risk from business decisions, particularly in relation to capital investment schemes and major Change, Efficiency and Improvement (CEI) projects.

2.9 Outstanding Information

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

Section 3.0
Local Government Finance

3.1 Context / National Settlement including North Tyneside Council Information

On 1 April 2013, we saw the introduction of the Business Rates Retention Scheme (BRRS), one of the most fundamental changes to the Local Government Finance system for some time. This system introduced a number of new aspects, which were detailed in the 2013-2015 Financial Planning and Budget process reports to Cabinet on 26 November 2012 and 28 January 2013. The most fundamental aspect to the new BRRS system is that from 1 April 2013 every local authority will retain a percentage of the business rates they collect locally. This “local share” has been set at 50%, the rest being paid to Central Government, and in the case of North Tyneside, 2% of the “local share” is paid to the Tyne and Wear Fire and Rescue Authority. The 2013/14 “local share” for North Tyneside Council was based on the 2013/14 NNDR1 Form submitted to the Department for Communities and Local Government (DCLG) on 31 January 2013, which showed the following information:

Table 2: 2013/14 North Tyneside Council Business Rates Taxbase

	2013/14 £m
2013/14 North Tyneside Business Rates Taxbase	57.800
North Tyneside Council Retained Local Share (50%)	28.900
Of the Local Share:	
Amount Paid to the Tyne and Wear Fire and Rescue Authority (2%)	0.578
Amount Retained by North Tyneside Council (98%)	**28.322**

2014/15 Provisional Local Government Finance Settlement

As part of the Government’s current commitment to providing more than a single year Settlement, the 2014/15 Budget covers the final year of the current 2-year 2013-2015 Local Government Finance Settlement. As part of the 2013-2015 Local Government Finance Settlement received from the DCLG, initially on 20 and 21 December 2012 with final information on 4 February 2013, indicative figures for the financial year 2014/15 were outlined. The detail of this announcement and the implications for North Tyneside Council were set out in the 2013-2015 Financial Planning and Budget Report to Cabinet on 28 January 2013 and Council on 21 February 2013.

At the time of writing this report, the updated Provisional Local Government Finance Settlement for 2014/15 is still awaited. It is expected that this information, together with the indicative 2015/16 Provisional Local Government Finance Settlement will be published after the 2013 Autumn Statement has taken place on 5 December 2013.

Since the indicative 2014/15 Provisional Local Government Finance Settlement announcement in February 2013, there have been a number of key developments which impact on the financial position for North Tyneside Council, both for 2014/15 and in particular for the financial year 2015/16. A summary of the key announcements with implications for Local Government Finance are set out below.

Budget 2013

Budget 2013 announced on 20 March 2013 set out a number of key announcements with implications for Local Government Finance:

<u>Public Sector Pay</u>

It was announced that public sector pay awards in 2015/16 will be limited to an average of up to 1 percent increase. Whilst Local Government does not necessarily have to adhere to this limit, Local Government budgets will be adjusted accordingly.

<u>Single Local Growth Fund</u>

Lord Heseltine published his report 'No Stone Unturned in Pursuit of Growth' in October 2012. The report set out the case for a reconfiguration of responsibilities for economic development between Government, the private sector and Local Enterprise Partnerships (LEPs), and recommended the creation of a single funding pot. Budget 2013 confirmed the Government's endorsement of Lord Heseltine's recommendation on the creation of a Single Local Growth Fund, which will be devolved to the local level through new Local Growth Deals. It was announced that this would be operational by April 2015, with funding allocated to LEPs on the basis of strategic multi-year plans for local growth.

<u>Local Government Finance</u>

Budget 2013 fixed the envelope for Total Managed Expenditure (TME) for 2015/16 and set out that the detailed Departmental Budgets for 2015/16 would be published in a Spending Review to take place on 26 June 2013. The level of savings required for 2015/16 would rise from £10bn to £11.5bn. Schools and health budgets would be protected.

Departmental Expenditure Limits (DEL) would be adjusted which would see reductions for most Government Departments of 1% (£1.1bn) for 2013/14 and 1% (£1.2bn) for 2014/15. As the Budget for 2013/14 for Local Government had been set, the Department for Communities and Local Government (DCLG) confirmed that there would be no further reductions for 2013/14. However, the Local Government Departmental Expenditure Limit (DEL) would see a further national reduction of £219m in 2014/15. The estimated financial implication for North Tyneside Council of this reduction is in the region of £1.1m.

"Spending Round 2013"

On 26 June 2013, HM Treasury issued a 1-year only Spending Review, entitled Spending Round 2013, to cover the financial year 2015/16, as a supplement to the current 4-year 2010 Spending Review which ends in 2014/15. Spending Round 2013 set out a number of key announcements with implications for Local Government Finance, which are detailed below.

<u>Overall Local Government Funding</u>

The central headline reduction announced was a 10% cut to the Department for Communities and Local Government Funding for 2015/16, an overall reduction of £2.1bn from £25.6bn to £23.5bn. Taking account of inflation, this represents an 8.2% cash reduction in terms of the re-stated 2014/15 allocations. This was announced as a 2.3% reduction in local government spending power.

<u>Council Tax and Referendums</u>

Funding to allow councils to freeze council tax for one year only, 2011/12, was provided as part of the original 2010 Spending Review. This funding was extended into 2012/13, albeit with less funding and some specific conditions, and then again for 2013/14. Spending Round 2013 announced the extension of the Council Tax Freeze Grant into both 2014/15 and 2015/16, the details being:

- The grant is available to local authorities, including the Greater London Authority, single purpose fire and rescue authorities, and Police and Crime Commissioners (PCCs). Town and parish councils are not included;

- The freeze grant will operate in the same way as the 2013/14 Council Tax Freeze Grant scheme, namely that authorities and PCCs which freeze or reduce their Band D council tax will receive a grant (additional to their Revenue Support Grant) equivalent to a 1% increase on their Band D council tax levels;

- The grant will be based on the local authority taxbase which would apply having disregarded the reduction in the taxbase due to localisation of council tax support – so it will be a higher taxbase figure than the actual one and means the 1% grant will be worth more than a 1% rise in council tax;

- It was also confirmed in the Spending Round that the 2011/12 and 2013/14 freeze grants would be baselined into 2015/16.

The Chancellor also announced in the Spending Round that the Government will propose a council tax referendum threshold of 2 per cent for 2014/15 and 2015/16, identical to the limit set out for 2013/14. The Secretary of State will set out full details of the 2014/15 referendum principles in parallel with the announcement of the provisional Local Government Finance Settlement later this year.

Adult Social Care

Fundamental to the changes announced was the introduction of a £3.8bn pooled budget for health and social care services, shared between the NHS and local authorities, to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people.

The NHS will make available a further £200m in 2014/15 to accelerate this transformation. From 2015/16 the shared pool will include existing NHS funding for social care and an additional £2bn, alongside further funds for carers and people leaving hospital who need support to regain their independence. It also includes £350m of capital funding which will be available for projects to improve integration locally, including IT funding to facilitate secure sharing of patient data between the NHS and local authorities, and to improve facilities for disabled people.

In addition to the Integration Fund, the Government will be providing £335m to local authorities in 2015/16 to prepare for delivery of the capped costs system from April 2016. The capped cost system, which will cap people's care costs, was announced in the Queen's Speech earlier this year.

School Funding

The Government outlined the national funding formula that will be applied in the future, rather than the current funding arrangements. Spending Round 2013 announced a £200m national reduction in the Education Services Grant, which is provided to fund central education services. The current level of this grant is around £1bn and the Department of Education will consult in Autumn 2013 on the detail of how the reductions will be implemented.

Troubled Families Programme

There was an extension of the Troubled Families programme with a £200m investment, in order to change the way that local authorities, education and the criminal justice services work with a further 400,000 vulnerable families.

Single Local Growth Fund

The Chancellor announced that, in line with the recommendation from Lord Heseltine, £2bn will be made available for each of the next five years for Local Enterprise Partnerships to bid for. Local Enterprise Partnerships will get to control more than £15bn in the years up to 2021, the details of which were set out on the 27 June 2013 in the HM Treasury publication "Investing in Britain's Future".

The funding allocated to Local Enterprise Partnerships is set out in Table 3 below:

Table 3: Annual Single Local Growth Fund Funding

Source of Funding	**Annual Funding £m**
Local authority transport major projects	819
Local sustainable transport fund	100
Integrated transport block funding	200
Further education capital	330
European Social Fund skills match funding	170
New Homes Bonus	400
Total Funding	**2,019**

Efficiency Funding

A number of new efficiency funds were made available, including:

- £100m to be provided for a collaboration and efficiency fund to cover the initial costs associated with local authorities working with each other, for example new IT systems.

- The creation of an innovation fund of up to £50m for police forces to work jointly with each other and local authorities on new and more efficient ways to prevent crime and ensure people stay safe.

- The establishment of a £30m fund to assist in meeting the upfront costs of transforming the fire service.

Local Government Association Future funding outlook for Councils from 2010/11 to 2019/20

In June 2012 the Local Government Association (LGA) published their preliminary model of future funding for councils. The aim of the paper was to present an analysis of the challenges facing local councils in the current and future spending review period.

In response to the specific announcements detailed in the June 2013 Spending Round, the LGA updated their funding model. The LGA analysis is built on projections of council tax, business rates, grant and other income streams over the period from 2010/11 to 2019/20 and projections of total annual net revenue spending in ten principal service blocks within council budgets over that same period. The key messages from the latest work undertaken include:

- The key overall conclusion the LGA reached is that the current funding gap for Local Government is growing at around £2.1bn a year. If this trend continues then the anticipated shortfall in funding could reach as high as £15.6bn by 2020.

- With social care and waste spending absorbing a rising proportion of the resources available to councils, funding for other council services drops by 46 per cent in cash terms by the end of the decade, from £26.6bn in 2010/11 to £14.3bn in 2019/20. More funding from the NHS for social care does not fully fund the adult social care funding gap for the period.

- Making the assumption that authorities can keep making efficiencies at between 1 per cent and 2 per cent per year, the LGA estimate a predicted increase in expenditure in cash terms of some £7bn, or 14 per cent, by 2019/20.

- The model assumes that local authorities will use reserves to spread the impact of cuts.

The research undertaken by the LGA has in part informed aspects of the North Tyneside Council 2014-2018 Financial Plan.

Local Government Finance Technical Consultations

On 25 July 2013, the Department for Communities and Local Government issued three key technical consultations:

1. New Homes Bonus and Local Growth Fund Technical Consultation.

2. Use of Capital Receipts from Asset Sales Consultation.

3. Local Government Finance 2014/15 and 2015/16 Technical Consultation.

North Tyneside have responded to each of these Consultations. An update on the Capital Receipts from Asset Sales Consultation is contained at Section 6.0 of this report. The key information from the other two consultations is set out below:

New Homes Bonus and the Local Growth Fund Technical Consultation

The Department for Communities and Local Government (DCLG) Technical Consultation on the New Homes Bonus and the Local Growth Fund was issued on 25 July 2013 and closed on 19 September 2013. This is the first consultation that has taken place on the New Homes Bonus Scheme since its introduction.

The Government introduced the New Homes Bonus Scheme in April 2011, for two main reasons:

1. As part of the Government's economic growth proposals, to incentivise local authorities to encourage new homes locally.

2. As one of several major changes to local government funding.

In introducing the scheme, the DCLG set aside £949m nationally for the period of the four-year 2010 Spending Review as specific grant to fund the New Homes Bonus Scheme. Beyond this, each year the rising Bonus excess is financed by the redistribution of Formula grant. Payments for the scheme commenced in the financial year 2011/12.

The New Homes Bonus is paid to local authorities as a non ring fenced grant. It is paid out to local authorities based on every new home added to their council tax register, after the deduction of demolitions. The homes qualifying for the Bonus can either be:

- Newly built
- Conversions
- Empty Homes returned to use
- Affordable Homes

This technical consultation was introduced following the announcement in the 2015/16 Spending Round on 26 June 2013 that the creation of a Local Growth Fund totalling £2bn would include the transfer of £400m of New Homes Bonus monies to Local Enterprise Partnerships (LEPs) from 2015/16. This money would, under the current distribution arrangements, have been allocated instead to local authorities.

The National Audit Office estimates that by 2015/16 the value of the New Homes Bonus nationally will be £1.140bn. On this basis, the £400m transfer to LEPs will represent 35.09% of this total, which is illustrated below:

Table 4: New Homes Bonus Example Distribution for 2015/16

	Total
National Audit Office Forecast of Value of New Homes Bonus for 2015/16	£1.140bn
£400m proposed distribution as a percentage of total New Homes Bonus Value	35.09%
New Homes Bonus Paid to Authority	£1,000,000
New Homes Bonus Retained by Authority	£649,100
New Homes Bonus Contribution to Local Pooling	£350,900

The Consultation Paper proposed a number of technical questions but two main options:

1. In the first of these, which is the one impacting on North Tyneside directly, is that all authorities would have the New Homes Bonus reduced by the same proportion – 35%. We estimate that the potential financial loss of this proposal to North Tyneside Council will be in the region of £0.8m in 2015/16. North Tyneside's response expressed concern about this aspect of the Consultation Paper and the resulting financial implications for the Council.

2. The second option impacts on counties and districts as it proposes in two tier areas on the basis of a 35% top slice that Counties would lose all of their New Homes Bonus money in 2015/16, with districts losing about 19% of their allocation.

The Consultation Paper set out that LEPs should take into account where there is committed spend of New Homes Bonus money in their area for 2015/16.

Local Government Finance Settlement 2014/15 and 2015/16 Technical Consultation

Also on 25 July 2013, the DCLG issued a Technical Consultation on the Local Government Finance Settlement for 2014/15 and 2015/16, with a closing date for responses of 2 October 2013.

2014/15 Local Government Finance Settlement

In relation to 2014/15, Budget 2013 announced a further 1% reduction to Local Government Funding in addition to those reductions announced as part of the 2014/15 Local Government Finance Settlement. This equates to a national reduction of around £219m. This consultation outlines that this funding reduction will come to Local Government from reductions to one of our main funding streams, the Revenue Support Grant, which will as a result reduce by a further 1.73% for 2014/15 as set out in Table 5 below:

Table 5: Change in 2014/15 National Revenue Support Grant Control Totals

Element	**Original 2014/15 Revenue Support Grant Control Total £m**	**Revised 2014/15 Revenue Support Grant Control Total £m**	**Reduction in Revenue Support Grant (%)**
Upper-Tier Funding	7,847.288	7,707.382	-1.78%
Lower-Tier Funding	1,929.580	1,895.171	-1.78%
Fire and Rescue Funding	650.702	639.099	-1.78%
2011/12 Council Tax Freeze	349.038	349.038	0.00%
Early Intervention Funding	896.378	880.394	-1.78%
Greater London Authority (GLA) General Funding	23.819	23.395	-1.78%
GLA Transport Funding	N/A	N/A	N/A
London Bus Operators Funding	N/A	N/A	N/A
Homelessness Prevention Funding	47.060	46.221	-1.78%
Lead Local Flood Authority Funding	12.353	12.133	-1.78%
Learning Disability and Health Reform Funding	866.230	850.783	-1.78%
Isles of Scilly	1.593	1.561	-2.01%
Total	**12,624.041**	**12,405.177**	**-1.73%**

For North Tyneside Council, the updated 2014/15 position announced in this Consultation Paper reflects what we had anticipated in terms of reductions and the likely Local Government Finance Settlement for 2014/15. Whilst these figures are in line with projections, they still represent a significant reduction in our core income for 2014/15, excluding council tax, with our overall resources reducing by around 11%.

The Business Rates Retention Scheme which came into effect on 1 April 2013, provided a safety net**,** set at 7.5% of baseline funding, to protect local authorities from significant negative shocks to their business rates income. This safety net is being funded by a levy on the disproportionate gains in income being generated by some councils in their business rates income. There was always a risk that the amount paid out by the safety net would be greater than the amount paid out through the levy, so £25m was held back as central funding to ensure the safety net could be paid. However, the Consultation paper set out that, based on the estimates from local authority returns, the £25m will prove to be insufficient and this amount will have to increase to £120m in 2014/15. The result of this is that another £95m nationally will need to be cut from Revenue Support Grant in 2014/15 to fund this increase.

As part of the Local Government Finance Settlement it was announced that £100m would be made available for capitalisation in 2013/14 and 2014/15. The Consultation Paper proposes using £50m of the capitalisation funding for 2014/15 to fund the safety net, which potentially reduces the amount available for capitalisation in 2014/15 nationally to just £50m.

<u>2015/16 Local Government Finance Settlement</u>

The 2015/16 Spending Round of 26 June 2013 announced a 10% real terms reduction for Local Government from the Department for Communities and Local Government (DCLG) for 2015/16. The national Local Government Departmental Expenditure Limit (DEL) falls from £25.6bn in 2014/15 to £23.5bn in 2015/16. The 2014/15 and 2015/16 Local Government Finance Technical Consultation confirms these figures and also sets out that the overall reduction to funding is 2.3% in real terms when the resources from other budgets are taken into account, though this total includes a number of existing funding streams.

The Consultation does, however, set out a worsening of the overall funding position for Local Government since the 2015/16 Spending Round. The additional cut to Local Government is another £800m bringing the overall reduction for 2015/16 to £2.9bn.

The core area of Revenue Support Grant funding will see very significant reductions in funding for 2015/16 – an overall national reduction of 27.6% in one year between 2014/15 and 2015/16. Within this figure the DCLG have applied differential rates to the RSG reduction, as follows:

Table 6: 2015/16 Revenue Support Grant Reductions from DCLG Consultation

Element	**Year on Year Change in Revenue Support Grant (%)**
Upper-Tier Funding	-32.3%
Lower-Tier Funding	-33.9%
Fire and Rescue Funding	-17.5%
2011/12 Council Tax Freeze	-2.0%
Early Intervention Funding	-17.5%
GLA General Funding	-7.8%
GLA Transport Funding	N/A
London Bus Operators Funding	N/A
Homelessness Prevention Funding	-2.0%
Lead Local Flood Authority Funding	-2.0%
Learning Disability and Health Reform Funding	-2.0%
Overall	**-27.6%**

Taking the above factors together, the overall funding will see an average 13% cash reduction, for England, which translates into a 15% real terms reduction between 2014/15 and 2015/16. The national figures for different types of authorities are shown below:

Table 7: National Funding Reductions for 2015/16 compared with 2014/15

Local Authority Type	**2015/16 Funding Reduction**
London	-11.3%
Metropolitan Authorities	-14.4%
Shire Areas	-13.3%
England Total	-13.0%

From a North Tyneside Council perspective, the key aspect set out in the Consultation paper is that the reduction in core funding for us in 2015/16 will be even greater than the reductions for 2014/15. We are likely to see a reduction in a key element of our income – our Revenue Support Grant (RSG) in 2015/16 of around 27.8%. The result is that our RSG will have reduced by over 40% in the 2 years 2014/15 and 2015/16.

When the full implications of this Technical Consultation are considered our key overall funding for 2015/16 will fall by more than the 10% set out in the 26 June 2013 Spending Round. Initial projections indicate that our core funding including Revenue Support Grant, and excluding council tax income, will reduce by around 13.9% between 2014/15 and 2015/16.

At the time of writing this report the Government response to these Technical Consultations is still awaited.

3.2 Education Funding Settlement

Following consultation conducted by the Department for Education (DfE) earlier this year (published in the document Review of 2013/14 School Funding Arrangements) the DfE outlined its proposed changes to school funding from 2014/15 on 5 June 2013 in the paper “School funding reform: findings from the review of 2013 to 2014 - arrangements and changes for 2014 to 2015”.

Schools will remain funded predominantly by the Dedicated Schools Grant (DSG). The DSG will continue to be supplied in three blocks: Schools, Early Years and High needs. The North Tyneside DSG totalled £136.925m in 2013/14 with the value of each of these blocks shown below:

- Schools Block £112.368m
- Early Years Block £7.849m
- High Need Special Educational Needs (SEN) Block £16.708m

These three blocks remain collectively ring-fenced to be used in support of school funding, although it is possible to move money between the three blocks.

In addition to the DSG funding, schools may be eligible to receive separate funding through specific grants, the most significant of which is the Pupil Premium. The Pupil Premium provides additional support for children in deprivation, looked after children and for children whose parents are in the armed forces.

North Tyneside Schools Forum was briefed on the detail of the DfE requirements for 2014/15 funding as early as 3 July 2013. Since then the Authority has have held a number of meetings with the Schools Forum and held a wider consultation with schools in early October 2013 regarding areas of potential change.

Cabinet received updates on the DfE 2014/15 required changes on 9 September 2013 and 11 November 2013. On the 11 November Cabinet authorised the Head of Commissioning and Fair Access and the Head of Finance and Commercial Services, in consultation with the Cabinet Member for Children, Young People and Learning, to undertake resource allocations to schools for 2014/15 in line with the school funding arrangements set out in that report. These arrangements are repeated below in this report for clarity.

Schools Block

The majority of the Schools Block is distributed to schools using a local mainstream formula. The local formula has to meet set criteria by the DfE, although there is some local flexibility around elements of the formula. It should be noted however that local flexibility is reducing as the DfE continues the transition towards a national school funding formula.

The impact of prescribed changes to the mainstream funding formula for 2014/15 are minimal for North Tyneside in that our current formula meets most of the new 2014/15 requirements. The consultation exercise undertaken on the proposed changes to the mainstream formula was shared with Cabinet on 11 November 2013. The framework of the 2014/15 mainstream formula was subsequently submitted to the Education Funding Agency (EFA) by the deadline of 31 October 2013. The changes to North Tyneside's mainstream formula for 2014/15 are:

a) The eligibility criteria for the Low cost high incidence SEN element of the formula will change in line with the new DfE criteria;

b) We will introduce a factor for "pupil mobility" which will ensure those schools who experience the additional administrative burden of integrating a significant number of pupils joining school through the year (outside of the normally entry dates of August / September, or January for reception) will receive additional funding to support this;

c) We will retain £0.250m to support schools with temporary falling rolls in exceptional circumstances; and,

d) We will not change basic entitlement rates unless we are required to do so as a result of changing demographics that would make the overall formula unaffordable if we did not.

Despite having set our 2014/15 funding formula framework, the Authority will not know the exact values of each formula element, and hence the exact budget allocations for each school, until the EFA issue Authorities with their 2014/15 settlement which is expected on the 18 December 2013. With this information the Authority will prepare the final 2014/15 mainstream funding formula, return this to the EFA by 21 January 2014 and issue 2014/15 allocations to its maintained mainstream schools before the national deadline of 28 February 2014.

It should be noted that all mainstream schools will continue to be protected from any significant reduction in funding in 2014/15 through the Minimum Funding Guarantee – meaning no school will lose more than 1.5% per pupil in 2014/15 from their 2013/14 per pupil allocation.

Discussions regarding the centrally retained and de-delegated elements of the Schools block for 2014/15 will continue with the Schools Forum on 11 December 2013.

Early Years Block

There are no changes required to Early Years funding by the DFE/ Education Funding Agency (EFA) and therefore the early years funding formula in North Tyneside for 2014/15 will remain unchanged from 2013/14.

High Needs SEN (Special Educational Needs) Block

Operational guidance for 2014/15 relating to High Needs SEN (Special Educational Needs) funding was issued on 18 July 2013 by the EFA. There are limited changes to the funding arrangements for 2014/15 as the DfE look to let the system settle from the major changes implemented in 2013/14.

Cabinet received an update on 2014/15 required changes in July 2013. These include:

- The £6,000 threshold (regarding element 2 – low cost high incidence SEN) will become a mandatory requirement in 2014/15;
- Specific criteria needs to be decided by Local Authorities and Schools Forums in advance in respect of determining additional funding allocations to support schools with disproportionate numbers of high need pupils;
- Local Authorities have been asked to review of the number of High Need SEN places they want to commission in 2014/15 for 5-25 year olds with high needs. These include places in maintained schools resourced provisions and special schools, as well as external and independent providers;
- Returns, which may be from individual authorities or as part of a regional or sub regional network, are required by 23 December 2013; and,
- There is a strong expectation that planned places will not increase or decrease. If returns show a planned increase or decrease in numbers then the EFA are requesting these come with an evidenced business case for such a change.

Beyond the DfE prescribed funding changes it should be noted that from September 2014 all Local Authorities will see the phased implementation of single plans - Education, Health and Social Care plans (EHC), replacing statements of educational need. The EHCs are core components of the Special Educational Needs and Disabilities (SEND) reforms as is the option of a personal budget for those with an EHC plan. Given that the distribution of High Need SEN funds in North Tyneside remains partially dependent on data within statements of educational need we will need to be mindful of how the transition to EHCs and personal budgets impact upon the funding arrangements.

EFA state they are not planning significant changes to the overall high needs funding system beyond 2014/15, but will need to keep the arrangements under review as the national funding formula for schools is developed. The one change the DfE currently envisage in High Need SEN is that place-led funding in special schools and academies, special units in mainstream schools and academies, post-16 high needs provision, and alternative provision in PRUs (Pupil Referral Units) and academies, will be adjusted automatically on the basis of school and Post 16 provider census data. Submissions from Local authorities and institutions would be exceptional.

The North Tyneside Schools Forum received an update on the planned High Need SEN provision for 2014/15 in September and October 2013 with a view to ensuring the return for 23 December 2013 will meet need.

Work with the Schools Forum regarding non place led High Need SEN provision in 2014/15 will continue beyond 23 December 2013 with the EFA not expected to confirm 2014/15 High Needs SEN funding block allocations to authorities until late March 2014.

Section 4.0
The Financial Strategy for 2014-2018

4.1 Financial Strategy

A Financial Strategy is critical in order to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term. This financial strategy needs to link to the 2014-2018 Council Plan 'Our North Tyneside' which ultimately drives our resources. Our Financial Planning and Budget process helps the Authority respond appropriately to responsibilities and duties placed upon Local Government through legislative requirements and the Government's drive for a deliverable programme of efficiency savings. The Change, Efficiency and Improvement Programme (CEI) has been refreshed and updated and additional financial targets determined as part of ensuring a balanced financial plan and budget forecast for next year. These are covered in more detail in Section 5.0 of this Annex.

Financial planning is of critical importance during the period of the Government's own Spending Review and beyond, given the potential scale of future challenges noted previously. This planning is supported by the continuing need to integrate revenue, capital, asset and treasury planning, driven further by the Prudential Code requirements in relation to longer-term capital investment. In formulating the financial plan, the impact of priorities, objectives and preferred options need to be fully evaluated.

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

4.2 National Context

As noted previously, the forthcoming year, 2014/15, represents the final year of the current 4-year Government Spending Review announced in June 2010.

The financial year 2013/14 has seen the introduction of a number of significant changes to the system of Local Government Finance through, for example, the Business Rates Retention Scheme and the Localised Council Tax Support Scheme. The way in which North Tyneside Council dealt with these changes was reported on extensively as part of the 2013-2015 Financial Planning and Budget process. The implications of any changes in relation to 2014/15 for these areas will be reported through specific reports to Cabinet and Council and as part of the 2014-2018 Financial Planning and Budget reports produced between November 2013 and February 2014.

Last year we had in place a two year financial planning process, in line with the planning horizon of the current Spending Review due to end in March 2015. For the 2014/15 Financial Planning and Budget process we are proposing a four-year financial planning process covering the years 2014-2018. Provisional information on the 2014/15 Local Government Finance Settlement was issued in late December 2012, and on the 26 June 2013 the Government announced the Spending Round for 2015/16 only. A two-year Local Government Finance Settlement covering 2014-2016 will be issued in December 2013. Detailed future funding for Local Government beyond 2015/16 is yet to be confirmed, but it is likely to follow a similar trajectory to the current Spending Review.

4.3 Local Context

As a result of the scale of the changes to local authority funding, the financial environment in which the Authority operates is in the process of a radical change over the next four years, with the emphasis for financial planning continuing to shift much more towards savings and efficiencies, the close control of costs, a concentration on priorities and consideration of the shape of the authority in delivering services with our partners. For North Tyneside Council, this fundamental change in the way services are delivered continues to be driven forward through the CEI Programme. This is explained in more detail in Section 5.0 of this report.

4.4 Defining our Financial Strategy

Best practice highlights the need for medium-term planning horizons. The Authority's four-year planning timeframe will assist in ensuring there is a clear demonstration of sustainability in its plans for the future. The key drivers for change and the improvement focus in resource planning continue to include the need for:

(a) Medium term planning horizons – for workforce, assets, finance;

(b) Financial flexibility;

(c) Driving value for money and efficiency gains;

(d) Joined-up performance management;

(e) Strong financial awareness and budget holder responsibility;

(f) Effective risk management;

(g) More rapid accounts closure;

(h) Continuous forecasting and in-year reporting; and,

(i) Effective use of technology

The approach to resource planning for 2014-2018 will continue to concentrate on ensuring that all of the above drivers are embedded into the decision-making process for the allocation and re-direction of the Authority's finite resources, financial and otherwise. In addition, there will be the annual detailed review of the current financial plan forecasts and commitments for revenue, capital investment and housing finance. The Financial Strategy will be subject its usual annual review.

Leading on from this, the key components and principles adopted for our 2014-2018 Financial Strategy have been fully reviewed as part of this year's process and are summarised in Table 8 below:

Table 8: Principles adopted for the 2014-2018 Financial Strategy

Financial Themes	Principles Adopted
Council Tax	• Provide value for money for the people of North Tyneside • Council tax levels that demonstrate prudence and retain stability in the Authority's finances • Determine a policy for the future take-up of the Council Tax Freeze Grant • Council tax collection managed to secure recurrent efficiencies in the Authority's collection fund • Ensure that the financial implications of the Localisation of Council Tax Benefit scheme have been fully considered • Welfare Reform changes are reviewed to ensure that the full implications are taken into account
Revenue Income Generation	• Encourage a climate / approach where trading and charging powers of the authority are maximised • Continue to manage income and debts to reduce the need to make provision for bad debts • Apply a charging policy consistently across all Authority services
Revenue Expenditure & Budget Strategy	• Annual budget resources aligned and prioritised to meet the 'Our North Tyneside Plan' • A Reserves and Balances Policy in line with best practice that is reviewed on at least an annual basis • General unearmarked reserves (general balances) retained at least at a level of £6m at the end of each financial year, subject to a risk assessment as part of budget setting in each of the four years of the financial planning period • Earmarked reserves established appropriately for

	known and quantifiable (future) liabilities and financial risks • Pay and price inflation forecasts and full payroll costs built into projections and then used as a way to target general efficiency savings across service areas • Continuous challenge of the base budget to secure service efficiency savings • Implementation of Service Plans to demonstrate how our services can achieve value for money in terms of customer satisfaction, quality of services and costs. This is driven through the CEI Programme. • Specific annual review of those services supported by specific grant in readiness for any further detailed Government announcement(s) in relation to grant changes, and as a direct result of the Finance Settlement • Where external funding is secured for a limited time period, any operational arrangements put in place must not assume that the fall-out of grant will be replaced by mainstream funding automatically • Reduce reliance on reserves supporting the revenue budget in the medium term • The Financial Strategy needs to be flexible enough to manage the changes to the Local Government finance system. • Recognise the implications of a move to a Business Rates Retention Scheme and the resulting consequences for future finances
Capital Financing and Expenditure	• Four year Capital Plan (including Private Partnerships / Private Finance initiative (PPP/PFI arrangements) ensures financial certainty in relation to infrastructure investment in the borough • Strategic assets reviewed at least annually to maximise the potential to release value into the business for strategic re-investment • Prudential borrowing to support local capital investment priorities or invest to gain schemes that will secure greater revenue efficiencies, in accordance with the Authority's approved Local Prudential Code • Asset management plans updated on at least an annual basis and acknowledging available budget resources • Continuous review of prudential borrowing and its impact on the revenue budgets • Review of Strategic Property assets to support

	delivery of the Capital Plan.
Treasury Management	• Treasury Management Strategy to focus on delivering safe stewardship • Strategic options devised, where the market allows, for managing the overall level of borrowing over the medium term.
Risk Management	• Business risk embedded in all decision-making processes of the Authority • Budget resources aligned to reduce any material financial risks to the Authority.

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

4.5 Financial Risk Assessment

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

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

<u>Key Financial Risks identified through the Corporate Risk Register</u>

Spending Review

Following the Government's 4 year spending review and the announcement of financial settlements to local authorities in 2010 as noted above, there is a need for the Authority to reform its services in order to be able to deliver its statutory responsibilities and fulfil public expectations over the period of the financial strategy. Financial settlements to authorities and other public sector bodies will continue to be significantly reduced year on year. This affects the whole Authority and the services that are delivered. The Authority therefore need to ensure that the Authority can live within our means, while at the same time meet the targets set by future Spending Reviews.

The consequences of this risk not being managed are that the Authority is unable to deliver on budget and there is the potential to jeopardise future grant bids or inward investment.

In order to deliver the savings the Authority needed following the Local Government Finance Settlement, the Authority established a CEI Programme. This Programme continues in its operational phase.

Plans and proposals have been established to deliver our services in a different way to achieve the annual efficiencies targets. The programme Governance Structure has remained in place during 2013/14.

Deliverables from year two of the 2013-2015 CEI programme have already been incorporated into the Authority's 2014/15 budget and the deliverables for years 2014-2018 form the basis of this 2014-2018 Financial Planning and Budget process.

In addition, the following risk is also linked to the Spending Review.

Price Inflation – The latest monthly inflation figures published on 12 November 2013 showed a reduction of 0.5% Government's preferred measure of Inflation, the Consumer Price Index (CPI), which reduced from 2.7% in September to 2.2% in October. The level of the Retail Price Index (RPI) reduced from 3.2% in September to 2.6% in October. On 13 November 2013 the Bank of England produced their latest Quarterly Inflation Report. This judged the future prospects for inflation as lower than expected three months ago in their previous report, which reflects recent trends, including lower than expected outturns and the recent appreciation of sterling. Over the next year, the impetus from previous import prices is expected to fade, and there is expected to be a gradual revival in productivity growth, which together with a persistent margin of capacity in the economy is generally expected to curb domestic price pressures. Consequently, the Bank of England conclude that inflation is expected to fall back to around the 2% target over the next year or so. Over the medium term, up to the next 24 to 36 months, the Bank of England judge the probability of CPI inflation being between 2% and 2.5% to be lower than in August. However, a number of uncertainties remain with inflation, including changes to exchange rates and developments in commodity prices, and the extent to which productivity picks up as demand increases. Inflation is being managed through containment within service budgets over the life of the financial plan.

Regeneration

There is a risk that North Tyneside may suffer from a lack of investment impacting on jobs, skills and the ability to stimulate economic growth. Schemes that will enable an increase in wellbeing and opportunities in the borough are being developed and implemented. The Authority and local businesses are looking at ways in which they can work together more closely for the benefit of the borough. There is an opportunity for a one river approach to establish the River Tyne as a hub for offshore and renewable energy investment and for Local Authorities to work with wider Business Partners via the Local Enterprise Partnership. The benefits attached to the Enterprise Zone sites should encourage business to invest in the area e.g. reduced planning requirements, incentivised tax regime and superfast broadband.

Workforce Planning and Performance

The Authority has agreed a Workforce Strategy which reflects the current climate and challenges facing the authority. If the Authority is unable to deliver this strategy, there is a risk that we will not achieve the identified workforce outcomes, with a subsequent impact on service to our customers and achievement of related corporate objectives. This will have an adverse effect on Value for Money and lead to a costly workforce.
There are controls in place to monitor the costs of the workforce which will enable the Authority to drive the costs down. In addition a planned review of the Workforce Strategy will ensure the Authority gets the right resources enabling the CEI Programme and Authority priorities to be achieved.

Health Inequalities

If measures are not put in place there may be an increased chance that people from deprived areas may continue to suffer from ill health and be more likely to die young than those in the more affluent areas of the borough. There is a risk that joint action across the Partnership does not have an impact on the Health and Wellbeing of the people of North Tyneside or health inequality increases. The key financial risk remains in relation to inappropriate investment. This risk is being managed through the Health and Wellbeing Board involving all of the partners which identifies the shared priorities across the borough. The Board has a Joint Needs Assessment in place that identifies the health and social care needs across the borough, which was refreshed in September 2013. The Board also links these priorities with commissioning decisions. In addition, integrated commissioning arrangements are developing in relation to Health, Social Care and Children (Children Commission Executive is in place to inform commissioning decisions).

Business and Technical Partnerships

As the Authority appoints strategic partners to undertake the delivery of some of our Authority Services, it is important that there are mechanisms in place to ensure that the objectives and ambitions of the Authority are delivered and statutory responsibilities met. If the objectives and ambitions of the Authority are not met, this could lead to Value for Money not being achieved and the financial implications may have an impact internally and alternative savings may need to be found. This may lead to reputational damage to the Authority and some statutory duties not being met. To mitigate this risk, the appointment of partners was against a Cabinet agreed set of objectives and through a competitive process which ensured that the selection process made certain that short listed partners were fully aware of the objectives and ambitions of the Authority throughout the procurement process.

This risk is being managed through governance structures which ensure that the governance to manage the partnerships is in place eg Strategic Partnering Board and the Operational Partnering Board and an agreed payment and performance mechanism which includes key performance indicators which ensure that the Authority’s ambitions and objectives are being delivered.

Flood Resilience

There is a risk that due to changes in climate and potentially urban design the borough may be subject to increased instances of severe weather, resulting in pluvial flooding for which the Authority may be unable to provide adequate emergency response and mitigation of the impact of flooding events. There is the potential for increased costs and increased insurance premiums and potential hardship for residents.

Mitigation of this risk is through joint working with multi agency groups and development and implementation of appropriate strategies and plans including a review of existing surface water management regimes. Improving our drainage, asset maintenance regimes and investment strategies, and working more closely with partner agencies such as Northumbrian Water, Environment Agency and significant land owners to reduce surface water run off will ensure surface water is managed in a manner which offers least impact to our residents, businesses and infrastructure. A Surface water management plan is now in place which will steer future capital investment, maintenance, public engagement, land use planning, emergency planning and future developments. In addition, Emergency Response Plans are in place and established which will ensure that in the event of emergencies procedures are known and can be followed.

Information Governance

There is a risk that unless there are robust policies and systems in place and implemented there is a possibility that sensitive data may be lost.

Some information held by the Council is extremely sensitive in nature which requires the authority to have robust policies and systems in place to ensure that it is as secure as possible, and that staff are fully aware of the procedures they need to follow when dealing with such information. If we fail to do so we are at risk of putting residents in a vulnerable situation. We may also incur fines if we breach the Data Protection Act which could potentially be material. There are a suite of existing information governance policies which are currently being updated for issue to all staff, and an Information Governance Improvement Plan is being put in place ensure policies and procedures are maintained and implemented by staff.

Risks identified through Financial Management Reporting

2013/14 identified pressures

Several areas of pressure have been identified through the Authority's financial management process in 2013/14 and therefore need to be taken into account in this financial planning process for 2014/15 and the following years. These are summarised below:

CEI programme

The most recent financial management report (11 November 2013) highlights that good progress has been made to date in delivering the planned savings for 2013/14, with work still to do in some areas which are set out in that report.

Equal Pay

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

Over time, the Authority's exposure to equal pay claims will diminish. This is because as time passes from the implementation of the Authority's current pay and grading structure (in April 2007) the value of the claims that can be brought are reducing significantly. The 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. 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.

The Authority will continue to monitor the level of potential and known claims and update Cabinet as appropriate.

The method of funding these claims is also important. In previous years the Authority has taken advantage of the opportunity given to capitalise any cost incurred after permission was granted by the Secretary of State. This means that the costs did not impact immediately on the Authority's reserves and balances, but were financed as if they were an element of capital expenditure.

Changes introduced by Department for Communities and Local Government in the spring of 2013 were such that Capital Finance Regulations were amended to allow the use of capital receipts to fund Equal Pay payments. To take advantage of this option, the Authority would be required to generate additional capital receipts over and above those already required to finance the 2014-2018 Capital Plan.

Land and property values

The effect of falls in property values since 2008 remains a budget management issue in 2013/14, specifically in relation to land sales and the generation of capital receipts for the financing of the Authority's Capital Plan. The latest financial management report to Cabinet (11 November 2013) shows a general fund capital receipts requirement of £1.774m to balance the 2013/14 Plan. There is a confirmed risk that the requirement to borrow may increase if sufficient capital receipts cannot be generated to fund the Capital Plan. This risk is being managed through the Capital Programme Management and Finance Group and by a focus on this area by the Property Client lead working with our Partner Capita.

During 2012/13 the total general fund capital receipts received were £1.913m. To meet the receipts target, 33 transactions are currently being progressed. The transactions are at various stages of completion and continue to be regularly monitored.

Accommodation Costs

Accommodation 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. A fundamental review of the Council's property estate is being overseen by the Strategic Property Group. This will determine actions necessary to manage these pressures.

Demand - Led pressures

Demand - led pressures continue in areas such as Looked after Children and Adult Social Care and have been taken into consideration as part of these initial budget proposals. Work has been done at a regional level to inform national debate and influence national spending decisions.

Use of Reserves

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

The Authority ended the financial year 2012/13 with £54.335m of useable reserves and balances. The greater part of that figure is held as Schools and HRA balances, or in the form of earmarked reserves, i.e. reserves built up and held for specific and sometimes statutory purposes. The only reserve generally available to help the Authority manage its finances over the medium term is the Strategic Reserve. At the end of 2012/13, this reserve stood at £7.134m. The 2013/14 budget approved at full Council on the 5 March 2013 included the use of £1.295m of the Strategic Reserve to support the budget.

The main purpose of the Strategic Reserve is to manage major financial pressures which can arise in year or over financial years. The latest monitoring report (11 November 2013) indicates no additional use of reserves during 2013/14 other than the planned use in respect of financing the completion of the North Shields Customer Service Centre, originally planned for use during 2013/14.

There is the potential for a further call on the Strategic Reserve should there be no further improvement in the General Fund revenue position for 2013/14. The 11 November 2013 budget monitoring report to Cabinet for the six months to 30 September 2013 highlighted forecast pressures of £0.908m. Service Areas and the Finance service teams continue to work together to manage this overall in-year pressure. There remains a balance of £1.189m contingency fund which has not been allocated for use during 2013/14 and is expected this budget would be called upon in the first instance to manage the overall position with the expectation this will bring the 2013/14 outturn in on budget.

The proposed draft budget for 2014/15 includes the use of £1.795m of the Strategic Reserve to support the phasing of some CEI savings that may necessarily be a part year effect only in that year.

The planned use and replenishment of the Strategic Reserve ensures that this Reserve is maintained at least the planned level of £5.000m over the life of the financial plan in line with the Authority's agreed Reserves and Balances Policy.

Cabinet is advised that the 2014/15 budget proposals and under the wider 4-year Financial Plan, leave the Authority's general unearmarked reserves (General Fund balances) unchanged at £6.604m.

4.6 Treasury Management Strategy

The proposed Treasury Management Strategy for 2014/15 is included as Section 7.0 of the report. The key elements of the Strategy are:

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

Treasury Management continues to be affected by the on-going economic uncertainty with low returns on investment and low short term borrowing rates. The expected longer run trend for Public Works Loan Board (PWLB) borrowing rates is for them to rise slightly during 2014/15 with the bank interest rate expected to remain constant at 0.5%.

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

Section 5.0
Cabinet's initial budget proposals for the 2014/15 Council Tax Requirement including the General Fund Revenue Budget and 2014-2018 Financial Plan and the Dedicated Schools Grant

5.1 Introduction

This section of the Annex sets out in more detail the General Fund and Dedicated School Grant proposals for 2014/15.

5.2 Council Tax Freeze

In discussion with the Elected Mayor and Cabinet Members as part of preparing the draft budget proposals, the budget presented for the General Fund is predicated on a financial planning assumption of accepting the Government's recently announced Council Tax Freeze Grant for 2014/15 and so proposing no increase in Council Tax for the fourth year in succession.

5.3 Change, Efficiency and Improvement Programme

In light of refreshing the Financial Plan and taking into account a level of known pressures, particularly in demand-led services such as Adults' and Children's Social Care, the Change, Efficiency and Improvement Programme (CEI) has been refreshed and updated and additional financial targets determined as part of ensuring a balanced financial plan and budget forecast for next year.

The first three years of the CEI Programme has seen £45.173m of savings either achieved or broadly on target to be achieved by the end of 2013/14. These draft budget proposals show that plans are in place to save an estimated £16.552m in 2014/15 across all themes of the CEI Programme. Full details of these plans are set out in Appendix A of this report.

5.4 2014-2018 Financial Plan and General Fund

Paragraphs 5.6 to 5.13 below provide the build up to the financial picture for the next two years, reflecting:

a) The messages coming out of the reported financial management position for the current year, 2013/14;
b) Inflation;
c) Existing committed plans;
d) Service Improvements;

e) Transfer of services;
f) Reserves and Contingencies' proposals;
g) Income and Grants; and,
h) The CEI Programme.

Final figures for some elements of the budget, such as the Final Local Government Finance Settlement and precepts, are not known at this point. Cabinet is therefore advised that forecasts for 2014-2018 are indicative at this stage and subject to further review between Cabinet Members and the Senior Leadership Team.

Cabinet is advised that all figures quoted in Tables 9 to 16 below reflect additional resources and/or savings in any particular year. The starting position for the next year in each table is the end position for the previous year/column.

At its meeting on 23 January 2014 Council will consider a report on the second year of the Local Council Tax Support Scheme. On 9 September 2013 Cabinet agreed to consult on retaining the scheme introduced for 2013/14 for 2014/15. The current scheme set the maximum entitlement for working age claimants at 93% rather than 100% in the old Council Tax Benefit Scheme. There is no additional financial impact arising from this option.

5.5 2013/14 Financial Management Position

Cabinet received a report on 11 November 2013 setting out the latest revenue budget monitoring position for the financial year 2013/14, as at 30 September 2013. The report included an assessment of the forecast year-end position over all elements of the Authority's revenue budget. The year end projection at that point was a forecast pressure of £0.908m. Where underlying pressures being experienced in 2013/14 have been offset during the year by one-off measures, these pressures have been addressed as part of the 2014/15 Financial Planning and Budget process and are included within Cabinet's draft budget proposals.

5.6 2014-2018 Inflation

Table 9: 2014-2018 Inflation

Inflation	2014/15	2015/16	2016/17	2017/18
	Additional	Additional	Additional	Additional
	£000's	£000's	£000's	£000's
Levies	8	0	0	0
Total Inflation	**8**	**0**	**0**	**0**

As in previous years, the financial plan has been developed on the basis that any general inflation will be contained within service areas and will be funded through compensating savings within the service area where available and in line with the principles of our Financial Strategy. Some specific inflationary pressures are covered by the Contingency Budget and are explained in paragraph 5.10 below.

5.7 2014-2018 Existing Plans

Table 10: 2014-2018 Existing Plans

Existing Plans	2014/15	2015/16	2016/17	2017/18
	Additional	Additional	Additional	Additional
	£000's	£000's	£000's	£000's
Corporate				
Increase in Employer's National Insurance Contributions	0	0	2,500	0
Pension Fund Contribution	3,000	500	500	1,000
Strain on the Fund	250	50	50	50
Mayoral Election	0	0	0	65
Capital Plan Revenue Costs of Borrowing	-10	95	865	152
Corporate Total	**3,240**	**645**	**3,915**	**1,267**
Service				
Care Home Contracts	420	300	300	300
Richardson Dees Park - Heritage Lottery Fund Match	50	0	0	0
Chief Executive's - Full Time Salary	101	0	0	0
Wallsend Joint Service Centre	375	0	0	0
Waste Management	0	320	320	320
Carbon Reduction Commitment Scheme - Street Lighting	100	0	0	0
Kier Management Fee	400	200	200	200
Accommodation	250	0	0	0
CEI Base Budget Adjustments 2013/14	2,268	50	50	50
Service Total	**3,964**	**870**	**870**	**870**
Total Existing Plans	**7,204**	**1,515**	**4,785**	**2,137**

This element of the financial plan sets down the financial implications of known Corporate and Service Plans for spend that is required for commitments. In addition, where there is a prior year commitment or a mandatory service (where the public would expect certain services), those pressures are included within this table.

The growth in the Pension Fund Contribution of £3.000m is the increase anticipated as a result of the 2013 Pension Fund Valuation. Strain on the Fund costs of £0.250m relate to estimated costs that may arise from changes to headcount across the Authority. The £0.420m figure for Care Home Contracts reflects the requirement to commission a new set of home care providers and the likely cost of that contract. Richardson Dees Park Heritage Lottery Fund (HLF) match funding of £0.050m is required as part of a staged increase in revenue funding to reflect the known fall out of the grant. The growth of the Chief Executive full time salary reflects the decision to appoint a permanent full time chief executive officer.

Additional funding for Wallsend Joint Service Centre of £0.375m is included as the full year effect of the new centre. The Carbon Reduction Commitment Scheme reflects the impact of the Street Lighting contract on carbon management. The Management Fee charged to Kier of £0.400m is included to reflect the agreed reduction in management support to Kier. The accommodation cost of £0.250m reflects contractual pressures. The CEI Base Budget adjustments of £2.268m reflect changes arising from proposals that are not sustainable beyond 2013/14.

5.8 2014-2018 Service Improvements

Table 11: 2014-2018 Service Improvements

Service Improvements	2014/15	2015/16	2016/17	2017/18
	Additional	Additional	Additional	Additional
	£000's	£000's	£000's	£000's
Service Improvement Fund	500	-500	0	0
Economic Development and Regeneration Activity	482	-82	0	0
Promotion and delivery of Affordable Homes	400	-90	0	0
Total Service Improvements	**1,382**	**-672**	**0**	**0**

To support delivery of the major change programme that is required to ensure we continue to provide the services that our people need, a Service Improvement Fund is to be established. This will also provide flexibility for Cabinet to make service improvement choices during the year, based on feedback from residents and other key stakeholders.

In addition, New Homes Bonus Grant is to be used to support growth in economic development and regeneration activity as outlined in the Our North Tyneside Plan (Section 1.0 of this report refers).

Governance processes for the use of these funds will be established and involve the Cabinet Member for Finance and Resources and relevant Cabinet Members.

5.9 2014-2018 Transfers

Table 12: 2014-2018 Transfers

Transfers	2014/15 Additional £000's	2015/16 Additional £000's	2016/17 Additional £000's	2017/18 Additional £000's
Transfer of Public Health Responsibilities	390	0	0	0
Local Reform and Community Voices Department of Health Revenue Grant	6	0	0	0
Social Fund Administration	-12	0	0	0
Council Tax Support New Burdens	-10	0	0	0
NHS Funding To Support Social Care and Benefit Health	177	0	0	0
Localised Support Grant	100	0	0	0
Weekly Collection Support Scheme	0	0	0	397
Total Transfers	**651**	**0**	**0**	**397**

The financial plan for 2014/15 includes £0.390m of additional budget which reflects the transfer of Public Health responsibilities to the Authority on 1 April 2013. There is also a corresponding Public Health Funding Grant which will be received by the Authority in 2014/15. This is highlighted in Table 14 below.

Local Reform and Community Voices Department of Health Revenue Grant £0.006m, Social Fund Programme and Administration (£0.012m), Council Tax Support New Burdens (£0.010m) and Localised Support Grant are changes in spending plans to reflect changes in grants. NHS Funding to Support Social Care and Benefit Health £0.177m represents the expenditure plans to reflect recent grant changes and transfer of services as announced in the Provisional Local Government Finance Settlement for 2013/14 on 20 and 21 December 2012.

5.10 2014-2018 Reserves and Contingencies

Table 13: 2014-2018 Reserves and Contingencies

Reserves & Contingencies	2014/15	2015/16	2016/17	2017/18
	Additional	Additional	Additional	Additional
	£000's	£000's	£000's	£000's
Increase in Contingencies	766	4,167	4,167	4,167
Impact of Use of Strategic Reserve in 2013/14	1,295	0	0	0
Use of Strategic Reserve to fund Service Improvement Fund	-500	0	0	0
Use of Strategic Reserve	-1,295	0	0	0
Replenish Strategic Reserve to maintain medium term agreed level	0	1,015	800	800
Total Reserves & Contingencies	**266**	**5,182**	**4,967**	**4,967**

The proposed draft budget for 2014/15 includes the use of £1.295m of the Strategic Reserve to support the phasing of some CEI savings that may necessarily be a part year effect only in that year. In addition £0.500m of the Reserve will be used to fund the new Service Improvement Fund. Of this, £0.285m represents the Airport dividend received in 2013/14. This use, together with the planned replenishment in the Financial Plan, will maintain the Strategic Reserve at the planned level of £5.000m over the life of the financial plan in line with the Authority's agreed Reserves and Balances Policy.

It is proposed to increase the level of contingencies by £0.766m to £1.955m to recognise demand-led pressures particularly in Adults' and Children's Social Care areas, and the estimated pay award for 2014/15.

Cabinet is advised that the proposals in Table 13 leave the Authority's general unearmarked reserves (the General Fund Balances) intact at £6.604m. The Chief Finance Officer has determined that, given the general uncertainty around the announcements for the Final Local Government Finance Settlement, this level of Balances should be maintained for 2014/15.

5.11 2014-2018 Income and Grants

Table 14: 2014-2018 Income and Grants

Income and Grants	2014/15	2015/16	2016/17	2017/18
	Additional	Additional	Additional	Additional
	£000's	£000's	£000's	£000's
Fall out of Grant				
Changes in Education Service Grant (ESG)	50	740	0	0
Reduction in School Transport grant	23	0	0	0
Social Fund Administration	12	0	0	0
Council Tax Support New Burdens	10	0	0	0
Council Tax Support Scheme Transitional Grant	386	0	0	0
Fall Out of New Homes Bonus Grant	0	172	1,500	0
Fall Out of 2013/14 Council Tax Freeze Grant	0	0	857	0
Fall out of 2014/15 Council Tax Freeze Grant	0	0	858	0
Total Fall out of Grant	481	912	3,215	0
Income and Grants				
Levies	-32	0	0	0
2014/15 Council Tax Freeze Grant	-858	0	0	0
New Homes Bonus Grant	-2,382	0	0	0
Public Health Funding Grant	-390	0	0	0
Local Reform and Community Voices Department of Health Revenue Grant	-6	0	0	0
NHS Funding To Support Social Care and Benefit Health	-177	0	0	0
Total Income and Grants	-3,845	0	0	0
Total Income and Grants	**-3,364**	**912**	**3,215**	**0**

In 2014/15 the Education Services Grant is expected to reduce by £0.050m, and the Education Transport Grant reduces by £0.023m.

The Local Council Tax Support Scheme adopted by the Council for 2013/14 was supported by a transition grant of £0.386m, which will no longer be received during 2014/15.

Any Authority that decides to freeze or reduce their Council Tax in 2014/15, compared to 2013/14 will receive a grant equivalent to 1% of their Council Tax funding for both 2014/15 and 2015/16. The details of this grant were set out in the 2015/16 Spending Round on 26 June 2013, with subsequent details being confirmed by the CLG. The estimated grant for 2014/15 is £0.858m.

The Authority anticipates receiving £2.382m of New Homes Bonus for 2014/15. This is subject to confirmation in the 2014/15 Provisional Local Government Finance Settlement to be issued in December 2013.

For the remaining grants, the corresponding expenditure / income change is included in the Transfers table above.

5.12 2014-2018 Change Efficiency and Improvement (CEI) Programme

As mentioned earlier, in light of refreshing the Financial Plan and taking into account a level of known pressures, particularly in demand-led services such as Adults' and Children's Social Care, the Change, Efficiency and Improvement Programme (CEI) has been refreshed and updated and additional financial targets determined as part of ensuring a balanced financial plan and budget forecast for next year. Table 15 below reflects the current proposed position:

Table 15: 2014-2018 CEI Programme

CEI Programme	2014/15	2015/16	2016/17	2017/18
	Additional	Additional	Additional	Additional
	£000's	£000's	£000's	£000's
Our People	-9,071	-400	0	0
Our Place	-2,041	0	0	0
Our Economy	-60	0	0	0
Coporate / Cross Cutting	-5,380	-30	0	0
CEI Programme Target	0	-18,256	-16,429	-12,774
Total CEI Programme	**-16,552**	**-18,686**	**-16,429**	**-12,774**

The first three years of the CEI Programme has seen £45.173m of savings either achieved or broadly on target to be achieved by the end of 2013/14. These draft budget proposals show that plans are in place to save an estimated £16.552m in 2014/15 across all themes of the CEI Programme. Further details of these plans are set out in Appendix A of this report.

Section 2.0 of this Annex outlines the overall approach to the four years of the Financial Plan and the achievement of managing the CEI targets currently identified. The programme has been re-profiled to align to the Our North Tyneside Plan priorities, and governance arrangements are being reviewed in light of this change.

5.13 2014-2018 General Fund Financial Plan

Table 16 summarises the impact of all the changes highlighted in this Section:

Table 16: 2014-2018 General Fund Financial Plan

General Fund Financial Plan	2014/15	2015/16	2016/17	2017/18
	£000's	£000's	£000's	£000's
General Fund Base Budget	**177,132**	**166,727**	**154,978**	**151,516**
Inflation	8	0	0	0
Existing Plans	7,204	1,515	4,785	2,137
Service Improvements	1,382	-672	0	0
Transfers	651	0	0	397
Reserves and Contingencies	266	5,182	4,967	4,967
Income and Grants	-3,364	912	3,215	0
CEI Programme	-16,552	-18,686	-16,429	-12,774
Total General Fund Financial Plan	**166,727**	**154,978**	**151,516**	**146,243**

5.14 Dedicated Schools Grant 2014/15

The value of each of the DSG blocks for North Tyneside in 2013/14 is shown below:

- Schools Block £112.368m
- Early Years Block £7.849m
- High Need SEN Block £16.708m

The schools block and early years block for 2014/15 will be based upon the same per pupil value as in 2013/14, with the total value updated to reflect the pupil numbers in North Tyneside schools as at the October 2013 pupil census.

Technical adjustments will then be made by the Education Funding Agency in relation to a number of items e.g. Carbon Reduction commitment charges will be taken at source from 2014/15 for schools and not levied in year.

2014/15 amounts in relation to Academies will be deducted from the Schools block before it is received by the Authority.

The Pupil Premium is currently £900 per pupil in 2013/14 (£300 for service children) and is due to rise further in 2014/15 to £1,900 per looked after child and £1,300 for primary school pupils. The DfE has yet to confirm the rate for eligible secondary students or service children in 2014/15.

The EFA are expected to issue Authorities with their 2014/15 settlement including the Schools block, Early years block and further detail on the Pupil Premium on 18 December 2013.

The EFA are not expected to confirm 2014/15 high needs SEN funding block allocations to Authorities until late March 2014.

Section 6.0
Cabinet's initial budget proposals for the 2014-2018 Capital Plan and Prudential Indicators

6.1 Introduction

Section 1.0 of this report sets out the key capital investments planned for the Borough over the next four years.

As part of the 2014/15 budget process, the Major Projects Group (MPG) has been responsible for the governance of the Capital Plan including the provision of guidance, support and challenge in respect of capital proposals and delivery of capital projects.

During September and October 2013, MPG met to review the 2013/14 Capital Plan and to consider initial bids in relation to the 2014-2018 Capital Plan.

Having considered the 2013/14 Capital Plan the Cabinet Member for Finance and Resources asked that refreshed bids be submitted for all existing projects that were expected to continue into 2014/15. New bids for 2014/15 and future years also came forward. All bids were considered in terms of their strategic alignment with the Our North Tyneside Plan.

This full review process has enabled Cabinet to effectively zero-base the Capital Plan, and several meetings have taken place with relevant Cabinet Members to consider the draft bids and to develop the draft Capital Plan which has been set for four years to match the time frame of the Our North Tyneside Plan and supporting Financial Plan.

Cabinet and officers will continue to review the 2014-2018 Capital Plan, together with the 2014-2018 Reserve List, while details are finalised in respect of external funding arrangements and further work is progressed in respect of capital receipts.

There are plans in place to review and revise the governance arrangements of the Capital Plan for 2014/15 onwards, increasing the focus on delivery and programme management.

6.2 Draft Capital Plan 2014-2018

Following the review of the bids the initial draft Capital Plan for 2014-2018 has been prepared. The draft Capital Plan includes ongoing schemes including reprogramming of £7.565m from 2013/14, reported to Cabinet on 11 November 2013 as part of the 2013/14 Financial Management report.

The draft Capital Plan is shown in Table 17 below. A schedule of individual projects is attached as Appendix B (i). The revenue implications of these schemes have been included in the revenue budget.

The proposed 2014-2018 plan for the General fund includes expenditure of £41.332m in 2014/15. Of this expenditure £19.887m (48%) is funded through grants and other external funding contributions.

Table 17: Summary of draft Capital Plan 2014-2018

Spend	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's	Total £000's
Our People	10,217	1,452	1,200	1,200	14,069
Our Places	16,963	12,954	10,261	5,125	45,303
Our Economy	7,854	0	0	0	7,854
Corporate	6,298	5,294	5,273	3,950	20,815
General Fund total	**41,332**	**19,700**	**16,734**	**10,275**	**88,041**
Housing - HRA	**23,936**	**25,427**	**24,303**	**24,731**	**98,397**
Total	**65,268**	**45,127**	**41,037**	**35,006**	**186,438**

6.3 Capital Financing

Table 18 below summarises the proposed financing of the Capital Plan:

Table 18: Summary of Capital Financing 2014-2018

Resources	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's	Total £000's
General Fund					
Council Contribution:					
Unsupported Borrowing	15,905	14,415	10,552	9,515	50,387
Capital Receipts	5,540	0	0	0	5,540
	21,445	**14,415**	**10,552**	**9,515**	**55,927**
Grants & Contributions	19,887	5,285	6,182	760	32,114
Total General Fund Resources	**41,332**	**19,700**	**16,734**	**10,275**	**88,041**
Housing - HRA					
Capital Receipts	2,574	1,489	868	544	5,475
Revenue Contribution	6,913	9,351	8,309	8,937	33,510
Major Repairs Reserve	13,399	13,870	14,409	14,533	56,211
House Building Fund	1,050	717	717	717	3,201
Total Housing - HRA Resources	**23,936**	**25,427**	**24,303**	**24,731**	**98,397**
TOTAL RESOURCES	**65,268**	**45,127**	**41,037**	**35,006**	**186,438**

Capital receipts of £11.015m (£5.540m General Fund and £5.475m Housing) have been assumed in the financing of the 2014-2018 Capital Plan.

Across the life of the 2014-2018 Capital Plan, unsupported borrowing totals £50.387m. The cost of borrowing for years 2014-2018 is included within the General Fund Revenue budget. The Prudential Indicators arising from the Prudential Code are covered in Appendix B (iii).

6.4 Capital Allocations 2014/15

A number of capital allocations (grants) are announced by central government as part of the local government settlement. Namely:

- Community Capacity (Department of Health);
- Education Funding (Basic Need, Capital Maintenance and Devolved Formula Capital) (Department for Education); and,
- Local Transport Plan (Department for the Environment)

As part of the 2013/14 settlement indicative figures for 2014/15 were provided for Community Capacity (£0.566m), Education Basic Need (£1.010m) and Local Transport Plan (£3.630m). These have been built into the draft Capital Plan. Any announcements made as part of the 2014/15 settlement will be reflected in the Capital Plan as soon as they are available.

The split of the Local Transport Plan allocation amongst the Tyne and Wear authorities will be agreed by the Integrated Transport Authority.

6.5 Reserve List

A number of projects not included in the draft Capital Plan have been included on a Reserve list whilst they are developed further and pending funding becoming available. These schemes are shown in Appendix B (ii). A prioritisation process will be applied to release a reserve project from the list.

6.6 Draft Prudential Indicators

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

The proposed Prudential Indicators are included as Appendix B (iii) to this report.

6.7 Annual Minimum Revenue Provision (MRP) Statement

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

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

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

(a) Existing assets pre 1 April 2007 – MRP will continue to be charged at 4% per annum;

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

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

(d) Lease transactions treated as “on balance sheet” - an element of the annual charge to the Authority for the lease will be treated as repayment of capital (i.e. repayment of principal and interest). The principal element is effectively the MRP charge for the year. This MRP charge will be equal to the element of the rent/service charge that goes to write down the balance sheet liability.

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

Cabinet is requested to endorse by agreement the annual Minimum Revenue Provision Policy in line with Capital Finance Regulations.

6.8 Use of Capital Receipts from Asset Sales Consultation

The consultation was issued on 25 July 2013 to consider the use of capital receipts to pay for the revenue costs of supporting investment in transforming local services. The proposal was to implement a bid process similar to the capitalisation for Equal pay to allow expenditure during 2015/16 to be funded through Capital Receipts. The response from North Tyneside Council set out no objection to the principles proposed but raised the issue that robust asset management plans would already be an integral part of the Financial Planning process.

Section 7.0
Treasury Management Statement and Annual Investment Strategy 2014/15

7.1 Background

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

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

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

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

7.2 Reporting Arrangements

In line with best practice, the Treasury Strategy is considered as part of the budget approval process. This includes the approval of the Prudential and Treasury Indicators.

There are two other main reports each year, which incorporate a variety of policies, estimates and actuals which are approved by Cabinet. These reports are:

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

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

7.3 Treasury Management Strategy for 2014/15

The proposed strategy for 2014/15 in respect of the following aspects of the treasury management function is based upon the treasury officers' view on interest rates, supplemented with market forecasts provided by the Authority's treasury advisor, Capita Asset Services. This strategy covers:

- The current treasury portfolio position;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- Annual investment strategy;
- Investment objectives;
- Creditworthiness; and,
- Policy for the use of external service providers.

7.4 Current Treasury Portfolio Position

The Authority's debt and investment position at 7 November 2013 is set down in Table 19 below. This has been compared with the comparable position as at 7 November 2012.

Table 19: Current Treasury Portfolio Position as at 7 November 2013

	Principal Outstanding	**Average Rate**	**Principal Outstanding**	**Average Rate**
	(07 Nov 2013) £m	**%**	**(07 Nov 2012) £m**	**%**
Fixed Rate Funding				
PWLB*	264.750	5.70	264.750	5.70
PWLB – (HRA Settlement 2012)	128.193	3.49	128.193	3.49
Market Loans	20.000	4.35	20.000	4.35
Temp Loans	28.170	0.54	28.173	0.50
Total External Debt	**441.113**		**441.116**	
Less **Investments**				
(UK) DMO**	14.900	0.25	15.200	0.25
Total Investments	**14.900**		**15.200**	
Net Position	**426.213**		**425.916**	

***Public Works Loan Board**
****Debt Management Office**

7.5 Prospects for Interest Rates

The Authority has appointed Capita Asset Services as it's external treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 20 below sets out Capita Asset Services professional view of forecast interest rate.

Table 20: Capita Asset Services forecast interest rates – November 2013

	Bank Rate %	5 year PWLB %	25 year PWLB %	50 year PWLB %
Dec 2013	0.50	2.50	4.40	4.40
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.40	4.40
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.50	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.20	5.00	5.10
Jun 2016	0.50	3.30	5.10	5.20
Sep 2016	0.75	3.50	5.10	5.20
Dec 2016	1.00	3.60	5.10	5.20
Mar 2017	1.25	3.70	5.20	5.30

7.6 Economic Outlook

Until 2013, the economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history. However, growth rebounded in quarter 1 and quarter 2 of 2013 to surpass all expectations. Growth prospects remain strong looking forward, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. One downside is that wage inflation continues to remain significantly below Consumer Price Index (CPI) inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent.

A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do much damage to growth. Further information on the current economic environment is set out in Appendix C (i).

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years and levels of government debt, in some countries, continue to rise to levels that compound already existing concerns. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2014/15 and beyond;

- Borrowing rates have risen during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down cash balances has served well over the last few years. However, this needs to be reviewed to avoid incurring even higher borrowing costs, which are forecast, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future; and,

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

7.7 Borrowing Strategy

The Authority's capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

The Authority's borrowing strategy will give consideration to new borrowing in the following order of priority:

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

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

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

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

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

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

Against this background caution will be adopted with the 2014/15 treasury operations. The Head of Finance and Commercial Services will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet or full Council, as appropriate, at the next available opportunity. Such circumstances include a situation where:

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

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

7.8 Policy on borrowing in advance of need

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

In determining whether borrowing will be undertaken in advance of need the Authority will:

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

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

- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- Consider the merits and demerits of alternative forms of funding;
- Consider the alternative interest rate bases available, the most appropriate periods to fund the repayment profiles to use; and,
- Consider the impact of borrowing in advance temporarily increasing investment cash balances and the consequent increase in exposure of counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

7.9 Debt Rescheduling

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

In order to generate the most attractive debt rescheduling opportunities, it is proposed that the strategy for 2014/15 should remain flexible. The reason for any rescheduling to take place may include:

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

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

7.10 Annual Investment Strategy

This Authority has regard to the Communities and Local Government's (CLG's) Guidance on Local Government Investments and the 2011 revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Authority's investment priorities are:

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

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Authority has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. Creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by credit rating agencies. Potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Treasury officers recognised that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Authority will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources will include the financial press, share prices and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The investment strategy states which instruments the Authority may use for investment purposes. This is set out in Appendix C (ii) of the report.

The intention of the strategy is to provide security of investments and minimisation of risk.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

The Bank Rate has been unchanged at 0.50% since March 2009. The Bank Rate is forecast to remain unchanged at 0.50% before starting to rise from quarter 3 of 2016. Table 21 below sets out Bank Rate forecasts for financial year ends (March) as follows:

Table 21: Bank Rate Forecast for Financial Year Ends

Year End (March)	Bank Rate Forecast (%)
2013/14	0.50
2014/15	0.50
2015/16	0.50
2016/17	1.25

There is an upside risk to these forecasts (i.e. the start of increases in the Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

The strategy for 2013/14 agreed on 5 March 2013 was set in a background of uncertainty and a prudent approach was taken with nearly all investments on an overnight basis. In the current economic climate it is essential that a prudent approach is maintained. This will primarily be achieved through investing with selected banks and funds which meet the Authority's credit rating criteria, set out in Appendix C (ii).

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

It is also important to recognise that movements within the money markets can happen with no notice and the Head of Finance and Commercial Services may have to amend this strategy in order to safeguard the funds of the Authority. Any such actions will be reported to Cabinet as part of the next financial management report at the meeting following this action.

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

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

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

7.11 Creditworthiness

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

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

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

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

7.12 Policy on the use of external service providers

The Authority uses Capita Asset Services as its external treasury management advisors.

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

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

Section 8.0
Provisional Statement to Cabinet by the Chief Finance Officer

8.1 Background

The Local Government Act 2003 imposes duties on local authorities in relation to budget setting. The Act requires that when an authority is deciding its annual budget and Council Tax level, members and officers must take into account a report from the chief finance officer on the robustness of the budget and the adequacy of the authority's financial reserves.

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

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

The intention would be to make a full Statement as part of the report to the Council meeting on 20 February 2014, when all outstanding information should be available as detailed in paragraph 1.1 of this document.

8.2 Provisional Statement

Robustness of Estimates

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

- The general financial standing of the Authority;
- The underlying budget assumptions from the financial strategy;
- Future budget pressures and growth proposals, including the impact of prudential borrowing for the 2014-2018 Capital Plan;
- The adequacy of the budget monitoring and financial reporting arrangements in place;
- The adequacy of the Authority's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2012/13 Statement of Accounts, presented to full Council on 26 September 2013;

- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority; and,
- The implications of government's 2011–2015 Spending Review and the Local Government Finance Settlement on the Authority's financial plan.

The level of contingencies will be £1.955m as pressures incurred during 2013/14 have been recognised as part of the 2014/15 Financial Planning and Budget process.

The Chief Finance Officer is satisfied that due attention has been given to the 2014-2018 Financial Planning and Budget process and in particular the Council Tax Requirement ,and budget setting element of that process for 2014-2018 to enable a positive statement to be made.

The Cabinet is aware it must keep under review its medium-term Financial Strategy and four year Financial Plan, in the context of the 2014-2018 'Our North Tyneside' Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2014/15 in isolation to future years' needs and pressures. Each year's budget must continue to be considered within the context of the four-year Financial Plan, the four-year Capital Plan, the Financial Strategy and the global economic position prevailing at the time.

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

8.3 Adequacy of Financial Reserves

The level of reserves used to support the 2014/15 budget proposals has been set at £1.795m. The chief finance officer's view, based on Cabinet's estimates of amounts proposals is that, this figure for the use of reserves in 2014/15 is manageable within the overall financial position of the Authority and the overall level of reserves and balances carried in its balance sheet.

This use, together with the planned replenishment over the 4 year financial plan, maintains the Strategic Reserve at least the planned level of £5.000m over the life of the financial plan. This is in line with the Authority's agreed Reserves and Balances Policy. Any unplanned use of the Strategic Reserve over the 2014-2018 financial plan would take the level outside of this boundary and corrective action would be needed to demonstrate how the £5.000m agreed level would be restored.

Guidance on Local Authority Reserves and Balances is given in Accounting Bulletin LAAP (Local Authority Accounting Practice) 77. This states that *"Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short term option",* and so the proposed 2014/15 budget does not contradict the issued guidance. The Bulletin does then go on to say *that "It is not normally prudent for reserves to be deployed to finance current expenditure"*. The 2014-2018 financial plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long term reliance on reserves.

PART II

Section 9.0
Cabinet's initial proposals for the Housing Revenue Account (HRA) Business Plan and budget for 2014-2018

9.1 Housing Revenue Account (HRA)

As Cabinet will be aware the Housing Revenue Account (HRA) budget will be formally received for agreement and approval by Cabinet on 15 January 2014. At that meeting Cabinet will be asked to approve the Housing Revenue Account Business Plan and Budget for 2014/15, including the housing rent, garage rent and service charge increases and the Housing Capital Plan.

Cabinet will also be aware that 2012/13 saw the introduction of self-financing HRAs and the abolition of the HRA Subsidy system. These were the biggest changes to housing finance in decades, and were introduced under powers enacted by the Localism Act 2011 from 1 April 2012. In essence the changes meant that from April 2012 this authority kept all rents raised locally and is no longer required to pay any sums over to Government. As part of these changes there is an assumed increase in the amount of money estimated to be spent on major repairs, management and maintenance costs. The "price" of the increased local determination was a one-off national debt adjustment, which redistributed over £20 billion of council housing debt held nationally, of which this authority's share was finally determined to be £128.193m. An additional outcome of this change is that the Authority will also be exposed to future inflationary and interest rate risks, which it was protected from to a large extent by the subsidy system. This makes future efficient use of resources and Treasury Management decisions in relation to the HRA of paramount importance.

The key principles of self-financing were explained in the Cabinet Report "Housing Revenue Account Self-Financing" (28 November 2011) and the implications for the first year were also discussed in last year's budget report. That report and last year's budget report detailed the implications of the major decision areas recommended in that report, and the risks for the budget-setting process for 2012/13 and beyond, in particular in relation to Government policy on rent, the treatment of debt, and future investment needs of the stock. This report revisits those issues where they are relevant to the future of the Business Plan, and the decision-making process as we move into the third year of self-financing.

The report analyses the continued implications for the HRA of significant changes which are still occurring, namely:

- Welfare Reform – particularly the introduction of the charge for tenants under-occupying their properties from April 2013, and the introduction of Universal Credit – now planned for October 2014, where rolling a range of benefits into one direct payment for our tenants will create budget management issues for some, and income collection pressures for the Authority in collecting monies which are currently paid directly into Authority's rent collection arrangements through the housing benefit system; and,

- Right to Buy (RTB) – Government's announcement in 2012 of a significant increase in the discounts available to Council tenants, coupled with a national advertising campaign has sparked revived interest in the RTB option for our tenants. Self-financing assumes a relatively modest level of RTB over the next 30 years, if this policy change outstrips those projections this could also cause resource problems for the HRA.

This report sets out the efficiencies, financial and service pressures on the HRA identified through the financial planning process. Cabinet will wish to take these into account when it considers the draft HRA financial plan for 2014/15 to 2017/18 and the associated 4-year Capital Plan and 30-year HRA Business Plan.

Cabinet will be pleased to note that the 2014/15 budget proposals also provide for the continuation of a programme of New Build Council Housing. 2013/14 saw the start on site at Station Road (to be re-named Swan Close) of the first Council homes to be built in the borough for nearly 25 years, estimated for completion around the end of November 2013. The building of these homes was approved by Cabinet in the 13 August 2012 report "Building Council homes", using a combination of financing sources within the HRA and Capital Plan and the House-building Fund.

Cabinet's aspiration is to undertake a much more extensive programme of new build council housing, as part of an ambitious plan to develop and help deliver up to 3,000 affordable homes in the borough in the next 10 years. The current HRA Business Plan identifies over £50m of available resources in that 10-year period to support council house new build as part of those ambitions.

Cabinet knows that a long-term view of the HRA financial position is regularly taken. For the purposes of the current Financial Planning and Budget process a four-year plan has been developed in line with the approach adopted for the General Fund as outlined below, this covers the final year that remains in the Government's current Comprehensive Spending Review (CSR). Cabinet is advised that the second, third and fourth year projections are only indicative at this stage. As part of the self-financing process the authority has continued to develop its 30-year plans to ensure the long-term viability of the HRA.

Historically, the HRA budget-setting process always revolved around HRA Subsidy Determinations, which had a major impact on the HRA budget. Self-financing has changed that, the critical determinants of the budget now being the rent increase, rent collection rates, the Treasury Management Strategy, and how we control the costs of managing and maintaining stock and the future stock investment needs.

Setting the rent is still crucial to the HRA budget-setting process. The HRA self-financing model assumes authorities continue to follow the national Rent Restructuring policy, assuming convergence for most properties in 2015/16. Deviation from that policy has significant implications for the HRA with regard to the level of resources available to manage, maintain and develop the existing stock, and any opportunity to develop new stock. One of the critical determinants in the budget process is the Retail Prices Index (RPI) figures for September each year (announced mid-October), which forms the basis of the formulae for calculating rent increases. The RPI for September 2013 is 3.2%, which sees a recommended average increase for 2014/15 of 6.31%, as explained below.

The Chancellor's Spending Review statement in June 2013 included proposed changes to the future of rent re-structuring and social rent policy for the next 10 years. From 2015/16 it is proposed that the rent increase for the next 10 years will be based on the Consumer Prices Index (CPI) inflation measure plus1%, instead of RPI plus ½%. Only two years into the new self-financing arrangements and this represents a fundamental change to some of the basic assumptions within the 30-year plan, which when considered alongside changes already introduced to the RTB scheme and aforementioned Welfare Reform changes, provide a challenge to maintaining the resource base within the plan.

This change in rent policy was announced as giving the social housing sector greater certainty in its planning. CPI (2.7% for September 2013) is currently trending at about ½% a year below RPI (3.2% for September 2013), which in itself logically would make little difference to rent levels i.e. RPI + ½% compared to CPI + 1%. The difficulty for future planning is the timing of the change, and potential changes to the basis of the calculation, rather than the overall intention to provide certainty, because:

- Government are reviewing elements used to calculate both RPI and CPI, and the Office of Budget Responsibility (OBR) have estimated that the gap between the two will widen to 1% in the next 2-3 years; and,

- These changes will apply from 2015/16 effectively ending rent restructuring a year early, which for authorities such as North Tyneside who were on a steep convergence path, will mean a significant loss of resources from the Business Plan, estimated at over £50m during the next 30 years.

It is likely that tenants will see lower rent increases from 2015/16 than would otherwise have been the case if we had followed rent re-structuring, but this acceleration of the timetable will reduce the resources available to develop the stock, improve services and build new homes. A further consequence will be that very few homes will ever converge to target rent, other than new build or significantly refurbished homes, and hence two identical council homes which currently have differential rents will never move to an equitable rent, with each other or other homes provided by registered providers in the borough. The implications and possible partial mitigations for this are discussed below.

Cabinet will wish to understand that given the significant nature of the national policy changes being implemented, the HRA has to continually revise its position as there is a degree of fluidity in a number of the key variables to this process.

Section 9.2
Strategic Planning

9.2.1 Decent Homes Standard Progress

The 2013/14 HRA budget including the Business Plan and 2013-23 Housing Capital Plan, which were approved by Cabinet as part of the 2013-2015 Service and Spending Review process, allowed for the Decent Homes Standard to be maintained for most of the General Needs Housing and non-traditional build properties owned by the Authority.

9.2.2 Quality Homes for Older People

The Department for Communities and Local Government (CLG) approved a draft allocation of Private Finance Initiative (PFI) credits of £112.400m for the redevelopment and refurbishment of the authority's Sheltered Accommodation units, following the successful submission of the Outline Business Case for the Quality Homes for Older People project back in 2008. Following the resolution of a series of issues that needed to be addressed, the authority issued its call for final tender to the two remaining bidders in 2012, and in December 2012 Cabinet approved the appointment of Solutions 4 North Tyneside (S4NT) as Preferred Bidder for delivery of the scheme. The allocation of PFI credits which has also been subject to Value for Money (VFM) review by the Treasury will be in the region of £109.2m, less the adjustment required for the fact that self-financing took place before the PFI deal was signed, as explained in the November 2011 self-financing Cabinet report. The implications of the PFI scheme have been included in these budget proposals. The project has been and continues to be rigorously reviewed for Value for Money by the Treasury, but is still the Authority's best solution to bring these remaining sheltered homes up to the required Decent Homes Standard.

9.2.3 Asset Management

2013/14 was the second year of the programme to keep our homes at the Decent Homes standard under the self financing regime following the completion of the major decent homes programme to deal with the backlog of investment that had arisen up to the end of 2010. The over-riding future objective is to ensure that the housing stock is as a minimum maintained at Decent Homes Standard (DHS). The Asset Management Strategy was agreed in the "Better Homes – Better Lives" 2010-2015 report, which was approved by full Council on 9 September 2010. That report led to a new stock condition survey being undertaken, to update the Capital Plan and ensure the future needs of the stock are fully identified. The results of the survey were fed into the Keystone Asset Management system. These figures are regularly reviewed and updated, to reflect the identified needs of the stock, and where possible build in the key priorities of our tenants represented via the Tenant Panels. The implications of the survey work along with the outcomes of the consultation processes, are fed into an updated Capital Plan. This Plan estimates the capital need over the next four years will total £74.662m, with £1.186 billion needed over the next 30 years, excluding any assumptions on new build. If the assumptions in this report are agreed in setting the HRA rent and budget for 2014/15 and beyond, then an estimated £23.735m can be released for spend on new build homes in the next 4 years, and up to £170m could be released to build homes over the next 30 years, assuming the HRA can identify or acquire enough suitable land, and there are not significant changes in the key assumptions within the plan. Given the identified need for one and two bed-roomed properties tied to the Welfare Reform changes and the potential for people to "downsize", Cabinet will need to consider carefully the size and types of homes it wants to see built under any proposals that come forward.

The assumptions used in relation to the Capital Plan are fully reflected in the budget proposals outlined in this report. It is assumed that the Authority's Joint Venture partner (Kier North Tyneside Limited) will deliver the majority of the works identified for the current stock within the Capital Plan, needed in order to maintain Decent Homes. A full review of HRA-owned land stocks has been taking place over the last 12 months, and as agreed by Cabinet the plan assumes a proportion of any RTB receipts over and above those assumed for self-financing, will be set aside to repay debt rather than finance capital, to help mitigate against viability issues for the HRA business plan arising from the changes to the RTB scheme. Any set aside will be subject to the restraint that the Authority will have to comply with the new RTB agreement signed with the Government, where the Authority agreed to ensure that it uses any additional receipts as a 30% contribution towards new build. Given the proposed new build programme, this should not be an insurmountable problem as we should be able to match spend to any targets, unless sales rose significantly, at which point the plan would have much broader problems. 2012/13 saw 85 RTB sales with a total capital receipt of £3.476m, an average sale price of £0.041m compared to £0.062m had the system not been changed – with an additional retained capital receipt of £0.461m which requires new build spend of £1.537m within 3 years, and so far 59 sales to the end of September in 2013/14, total receipt £2.402m and additional receipt of £0.431m requiring new build spend of £1.438m within 3 years. The increased numbers of RTB sales has been reflected in the revised Business Plan profile for stock numbers.

The proposed Capital programme for 2014/15, excluding new build works, but including currently identified re-programming from 2013/14 totals £16.812m. This compares to the last year of the backlog Decent Homes Programme in 2010/11 which saw £35.699m of capital works being delivered. Under self-financing, the debt settlement provided for an increase in funding available for major repairs. This, coupled with a steady increase in the level of revenue contributions available from 2014/15, makes it possible to plan for the long-term to ensure that not only are all existing stock needs met, but that the Authority can, subject to the restrictions that may be placed by changes in Government policy, put itself in a position to begin building new council houses in earnest from 2014/15 onwards. Further details on the Housing element of the Capital Plan and capital financing arrangements are included in Section 9.4 of this report.

9.2.4 HRA and Treasury Management issues following the Self-financing Debt Settlement

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

Formerly each authority's HRA was part of a national housing subsidy system that forced local authorities which made a surplus on their "notional" HRA account (calculated using Government assumptions) to make payments into a central pool used, amongst other things, to subsidise authorities that made a loss. In the last few years of the subsidy system North Tyneside was a net payer of housing subsidy, with actual payments of £7.089m for 2011/12 (budgeted £6.141m); these were projected to continue to rise significantly year-on-year if the current subsidy system remained in place.

From 1 April 2012 each authority retains all rents raised locally, and is no longer required to make or receive any subsidy payments to or from central Government. This was achieved via a "one-off" re-allocation of debt. In effect each authority either bought itself out of the system, or was bought out of the system. The debt settlement figure for North Tyneside was £128.193m, with an overall HRA Capital Financing Requirement (CFR) of £270.585m. This overall CFR will be used to "cap" any future borrowing. This authority had a subsidy HRA CFR of £142.392m at 31 March 2012, but an actual HRA CFR of £162.631m. The difference is because the authority borrowed significantly to finance the Decent Homes Programme. The Government agreed that any authority whose HRA CFR exceeds their subsidy CFR will have their "cap" adjusted to reflect the higher figure, otherwise we would have immediately exceeded the cap.

Table 22: Final Calculation at 31 March 2012

Calculation	**£000's**
Net Present Value (NPV)	270.585
Proposed Initial HRA Debt "Cap"	270.585
Subsidy HRA CFR	142.392
Additional Debt	128.193
Notional Total HRA CFR	270.585
Actual HRA CFR	162.631
Additional Debt	128.193
Actual HRA CFR	290.824
Revised HRA Debt "Cap"	**290.824**

Hence, £290.824m was the total initial debt that the HRA had to manage within the business plan over the next 30 years. The Authority no longer pays subsidy, but has to manage interest and principal repayment costs (depending on the repayment strategy) on up to £290.824m of debt. Cabinet and full Council chose to follow the recommendations of the Cabinet report “Housing Revenue Account Self-financing” (28 November 2011) in relation to the strategic treatment of HRA debt. This included that the Authority should follow the Chartered Institute of Public Finance and Accountancy’s (CIPFA), recommendation that the Authority treats the HRA as having a separate debt pool from the General Fund. There are three elements to this:

1) Self-financing debt – the £128.193m payment to the Government funded by 25 separate loans for £5.000m each, and one loan for the balance of £3.193m with maturity periods ranging from 24 to 50 years.

   These loans are directly attributable to the HRA, and can be easily managed as such. The loans were financed with such long maturity periods because the interest rates being offered by PWLB for self-financing were at a “one-off” “premium” against what were already historically low interest rates. Hence, it made prudent financial sense to finance these sums long-term. The average interest rate achieved on these loans totalled 3.49% which equates to an annual interest payment of £4.477m, an estimated £0.652m below the figure budgeted for 2012/13, which will be transferred to a Housebuilding Reserve annually as agreed by full Council. The funds accumulated in this Fund are being used to part fund the “pilot” schemes in 2013/14, and all future sums will help fund the programme of new build and conversions approved by Cabinet, in the 14 October 2013 report “Delivering Affordable Homes –Phase 1” ;

2) Existing Debt – the HRA’s share of the Authority’s pre-self-financing debt portfolio was valued at £162.631m as at 31 March 2012. To create a separate portfolio of existing debt for the HRA, each long-term loan was split proportionally with the General Fund. At the point each loan reaches maturity, there is a separate consideration for the General Fund and HRA re whether they re-finance the loan, either long-term or short-term, or repay the debt using debt set aside. The HRA strategy agreed by Cabinet was that existing loans should be repaid where prudent and affordable. So opportunities to undertake short-term borrowing at current low rates when loans reach maturity, has enabled some additional short-term savings to be made in 2013/14 . These have been identified in the Treasury Plan, and built into the assumptions for the HRA Business Plan. For 2014/15 estimated interest payments due on existing debt will total £7.871m, with a debt set aside of £0.750m. The reduced debt aside is due to additional resources being used to fund new build, and debt set aside will build up again over the next few years of the plan;

3) New HRA Debt – short-term and long-term – as already described, any new HRA borrowing, whether re-financing of existing loans, or genuine new borrowing (currently restricted because of the debt cap) will be done via new loans which will be easily attributed to the HRA. For 2014/15 there will be re-

financing of £8.908m of long-term loans, and temporary borrowing of £13.630m in total costing an estimated £0.257m in interest charges.

It can quickly be seen that, over time, a truly separate portfolio of HRA debt will be established, with differing strategic considerations to the General Fund, albeit within the Authority's Treasury Management Strategy, as ultimately the debt is the authority's. For 2014/15 the overall impact of the debt portfolio approach, will be total estimated interest of £12.605m and a set aside cost of £0.750m giving total estimated financing payments of £13.355m. If this is compared to original budgets for 2013/14 with interest costs totalling £13.084m, and set aside of £3.9m, with an estimated overall cost of £16.984m. Currently it is being predicted that the actual costs for 2013/14 will be in the region of £16.926m realising an increased saving due to more temporary borrowing. These costs are of course now exposed to interest rate risks in the market, but in the current climate represent the best estimate of the implications going forward. Although the HRA has taken on significant debt, close control of the costs of that debt will realise true benefits to the HRA over time, compared to a subsidy system where payments to Government were rising exponentially.

The HRA is also restricted by the imposition of the "uplifted" debt cap at £290.824m, with current actual debt estimated to be at £283.108m by 31st March 2014. The Authority's total borrowing cannot exceed its cap at any future financial year end. However, North Tyneside Council are in a small group of authorities for whom this premise will be flexed, and that is due to the Authority's Quality Homes for Older People Private Finance Initiative (PFI) Scheme. Once the scheme reaches financial close, there will be a build period of up to approximately just short of 3 years, which will incur significant capital costs. These costs have to be recognised in the Authority's Capital Financing Requirement (CFR), hence if the Council was not allowed to break the cap to reflect the Capital spend, it would be in breach of the self-financing regulations. Written assurance has been sought and received from the Department for Communities and Local Government (CLG), that they will work with us to ensure that the cap is flexed appropriately to reflect this, it is effectively a technical adjustment, and the cap will reduce over the 28 year life of the scheme, as the debt is notionally written down.

The Authority will continue to closely monitor the Treasury Management position and the impact on the HRA, and consult closely with the Mayor and Cabinet to ensure the best results are achieved for the HRA and our tenants. The Authority's current approach to Treasury Management is set out in the Treasury Management Strategy in Section 7.0, and any decisions on HRA debt are made within the context of that overall strategy, whilst seeking to ensure that the risks and impact on the HRA business plan are minimised, whilst providing flexibility in terms of future investment and potential additions to the stock.

9.2.5 HRA Self-Financing and Depreciation

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

A true depreciation charge would need to be very carefully calculated and analysed to ensure that the HRA business plan remained sustainable. There is also a requirement to move towards assessing the different components of assets with differing lifecycles (e.g. kitchens and bathrooms), under International Financial Reporting Standards (IFRS), which could also lead to variations in depreciation charges previously used. To manage those concerns and following further work and consultation with CIPFA, CLG came up with an interim solution; to allow an up-rated MRA figure to be used as a proxy again for up to five years whilst a workable long-term option is developed. It has proposed various alternative treatments including one based on a discounted cash-flow valuation. As recommended in the self-financing report, this budget assumes that the Authority will move towards calculating a true depreciation charge, but will use the MRA proxy as a fall-back position for up to five years, whilst this issue is resolved fully. This is still a difficult issue nationally on which there has not been a lot of movement, and it is something that CIPFA and the Chartered Institute of Housing (CIH) are still struggling to reach a consensus on. 2014/15 will be the third year of the transition phase, and the Authority will continue to work towards a workable and affordable solution for the HRA.

Using the proxy MRA figure for 2014/15 means that the transfer to the Major Repairs Reserve that will be required in 2014/15 will increase from £13.610m to approximately £14.225m. There are two elements to the MRA charge, and this is due to the Quality Homes for Older People PFI project. Because the project had not reached financial close before self-financing was introduced, the debt settlement was based on the stock at that time including the PFI properties, which means the debt was reduced by the MRA attributable to the sheltered properties. In essence this means that when the deal is signed, our PFI credits will be reduced by the amount of MRA attributable as at 31 March 2012 (pro-rata for the first year), and this figure will have to be funded by effectively splitting the MRA proxy calculated. It is estimated that the sheltered properties will amount to approximately £0.798m of MRA in a full year, which will be fixed for the 28 year term of the scheme, and will not be subject to inflation. For 2014/15 the estimated charge is £0.800m that will have to be provided from MRA.

The sums that are transferred to the Major Repairs Reserve to reflect depreciation can only be used to either pay off debt or fund major repairs, they cannot be used to balance the HRA business plan.

9.2.6 HRA Self-Financing and Rent Restructuring

Under the self-financing HRA system it was assumed that authorities would follow the Government's rent restructuring policy through to a conclusion in 2015/16. The Government is now proposing to change this policy and move from an RPI to a CPI based calculation. The objective of rent restructuring was that similar affordable rented homes in the same area should have similar rents regardless of who the landlord is, and therefore deliver more consistent rents and greater transparency for tenants, as well as ensuring that landlords have sufficient resources to maintain homes to the decent home standard as a minimum. Under this policy, properties with lower or higher rents than a Government set formula have their rents progressively increased or decreased (in the case of Housing Associations) each year until they reach the Government's target. Individual rent increases are currently limited to Retail Price Index (RPI) + 0.5% + £2 (per week).

Local Authorities can set rents below this level, but they will have to be able to afford the reduced rental income in their overall HRA and still maintain their stock at the Decent Homes Standard. The rent restructuring policy was introduced in 2001/02 and originally required the rent for all Local Authority and Registered Social Landlord homes to reach their "formula rent" target level by 2011/12. This was referred to as "convergence" as the intention was for local authority rent levels to converge with the higher rents charged by housing associations.

In recent years the Government has amended the rent restructure formula to allow authorities to reduce the rent increase in part by adjusting the rent convergence deadline and consequently the guideline rent increase. This has had a direct impact on the rent increase now required through the rent restructure formula. For 2011/12 the Government compensated those authorities where the rents were "constrained" from their full convergence path because of the maximum "cap" limit. For North Tyneside Council this compensation equated to £2.73 per property per week in 2010/11, which was taken into account in determining the 2011/12 Subsidy payment. Under self-financing the Government built-in an average level of compensation for each property and this was reflected in the debt settlement figure. Using a global average disadvantaged those authorities with high compensation levels, and already meant that not every property could converge by 2015/16.

The self-financing proposals assumed that authorities would continue to implement rent restructuring with a 2015/16 "convergence" deadline. The financial model that the Government used to calculate the debt settlement assumed that rent increases would continue to follow the model. If they don't, the Authority will generate fewer resources to meet business plan aspirations including the future investment needs of the existing stock, and new build.

The Government is now consulting on a proposal to move to CPI + 1% as the average rent increase from 2015/16, meaning effectively, that rent restructuring ends a year early, and that most of our properties rents will not converge with any target rent figures. In addition the business plan will lose an estimated £1.4m in rental income in 2015/16 and over £50m over the life of the plan.

For 2014/15 it is still assumed that authorities will follow the rent restructuring formula, which is based on the RPI level prevailing at September 2013 as a base. No individual weekly rent should increase by more than RPI + 0.5% plus £2, which allows authorities the scope to narrow the convergence gap. The RPI prevailing at September 2013 was 3.2% compared to 2.6% in September 2012. Applying the rent restructuring formula, using the September 2013 RPI inflation rate and a convergence date of 2015/16, indicates that an average rent increase for our tenants of 6.31% for April 2014. For the following three years the figures based on the Office of Budget Responsibility's (OBR) estimates of CPI inflation plus 1%, would see increases estimated at 3.40%, 3.1% and 3.0% respectively for 2015/16, 2016/17 and 2017/18. Using the convergence formula the rent increase for 2015/16 would have seen an average of 5.9%.

The rent restructuring formula is demonstrated below:-

Table 23: Rent restructuring Formula: (50 week rent figures assumed)

Rent restructuring formula	**£**
Average Target (convergence) Rent 2013/14	77.06
RPI at Sept 2013 + 0.5% (3.2% + 0.5% = 3.7%)	2.85
Average Target Rent 2014/15	79.91
Average Actual Rent 2013/14	72.59
RPI at Sept 2013 + 0.5% (3.2% + 0.5% = 3.7%)	2.69
Base Average Actual Rent 2014/15	75.28
Convergence element ((£79.91-75.28)/2)	2.31
Element constrained by limit ie RPI + 0.5% + £2	(0.42)
Actual Average Rent 2014/15	77.17

The implications of these changes for our tenants in 2014/15 is an average increase in rent of £4.57 per week (6.31%) which ranges from a lowest actual increase of £2.75 (1 bed flat) per week up to a maximum of £6.02 per week (7 bed house), with a minimum percentage increase of 3.70% (2 bed bungalow) up to a maximum of 8.13% (bedsit).

If Cabinet wished to try and mitigate some of the impact of the change in government policy re rent increases from RPI to CPI from 2015/16, there are options that Cabinet could look at:

1) Removing the convergence deadline and moving straight to target rent for all properties in 2014/15, and seeing what the impact would be on rent increases;

2) Taking the opportunity of void re-lets to move those properties directly to target rent for new tenants;

The first option of moving the convergence deadline would lead to an average rent increase for 2014/15 of 10.13%. Apart from being particularly unpalatable for tenants, most of the increase above 6.31% would actually breach the limit rent, which in effect would mean a loss of Housing Benefit subsidy, which the General Fund would recoup from the HRA, hence no real benefit to the HRA.

The second option involves moving all new tenancies directly to target rent, except those tenants subject to protection eg, sheltered tenants. Based on 2012/13 figures there were approximately 1,500 voids, and it is estimated that following this policy would have realised £100k in-year and £200k in a full-year, equivalent to £7m over the life of the plan. The down side of this option could be that two neighbours in the same street in identical properties would end up paying significantly different rents. But it is an option that Cabinet can consider, although it is not recommended by this report. Some authorities have gone down this route, most have not mainly for the reason mentioned above. But this can be kept under review and implemented at a future date if Cabinet wished to change current policy.

With regard to the Quality Homes for Older People (QHfOP) Project, new rents will be calculated for all New Build and significantly refurbished properties. It is proposed to provide protection for existing tenants who could see significant increases in their rents. It is proposed that existing tenants receive protection for any increase over and above the normal annual increase based on the current social rent they are paying in their existing property. All new tenancies would commence at the newly calculated rents. It is estimated that this protection will cost in the region of £40k in 2014/15 rising to a maximum of approximately £160k per annum in 2016/17, which will then steadily reduce.

In addition to the rent increase above, it is also assumed that Service Charges and Garage Rents are increased in line with September 2013 RPI, ie 3.2% subject to any benefit restrictions. These changes would also be subject to the Government's Universal Credit Regulations expected to originally come into force in October 2013, but which have been delayed by at least 6 months. If as a result of those regulations there are any significant changes Cabinet will be asked to consider revised proposals. A full review of the service charges attached to the QHfOP schemes will also need to be undertaken as the schemes move towards completion, to ensure consistency and accurate charging for the services being provided.

Additional income from the rent, service charge, and garage rent increases is included in the budget proposals for 2014/15 and the next three years. From 2015/16 Government rent policy will move to being based on CPI + 1% from that point forward, and that assumption has been built into the remaining three years of this financial plan, and the 30-year HRA Business Plan.

Whilst notionally being free to set the rent increase, Cabinet faces a number of conflicting assumptions that make this difficult. There is a national rent policy setting out the basis upon which rents should be set, there are requirements within the "Home Standard" set by the Housing Regulator to maintain homes as a minimum to the Decent Home Standard, and the Regulator has also reserved the right to set a "Rent Standard" based upon the application of the national rent policy. Crucially for the Business Plan a 1% reduction in rent represents an estimated £0.500m in lost rent in 2014/15, and a potential total rent loss over the 30-year business plan of approximately £25m based on assumed future inflation. The authority took on a huge additional debt based on being able to raise the revenue to manage those debts. For illustration purposes this would be like taking on a large mortgage, whilst taking a cut in income.

The HRA Business Plan presents a significant financial challenge for the authority. But careful management of the costs contained in the plan, along with efficient income management has already started to bear fruit as the authority seeks to secure the resources under self-financing to manage, maintain and invest in the existing stock, and to increase the pace of investment in new stock.

9.2.7 Major Issues and Risks to the HRA

Significant risks to the HRA such as exposure to the interest markets, and changes to RTB which impact on HRA cost and income streams have already been highlighted. This section discusses some of the potential risks around the Government's proposals re Welfare Reform.

9.2.8 Welfare Reform

The Welfare Reform Act received Royal Assent on 8 March 2012 and proposed major changes to the way that welfare support is provided. The Revenue and Benefits Service and North Tyneside Homes have been working on the potential impacts upon both the Authority and tenants. If all of the proposals are implemented there will be significant implications for North Tyneside, as set out below:

1) Shared Accommodation Rate – around 300 people will lose some of their Housing Benefit (HB) as a result of the extension of this rate;

2) Over 2,200 working age claimants of HB are currently under-occupying their council tenancy by one or two bedrooms, this would see a reduction of 15% in HB for one bedroom and 25% for two bedrooms under-occupied. It is estimated that this would reduce household income by between £1m - £2m per annum, and have significant risks for the levels of rent arrears;

3) Universal Credit – direct payment to up to 6,000 working age tenants where the HB is currently paid direct to the Authority again could impact significantly on arrears;

4) Localised Council Tax support – There will be a 10% reduction in the financial support provided to fund this scheme, which will again squeeze the resources of those left to pick up the costs who currently either don't pay or pay a smaller proportion currently;

5) Homelessness – the pressure of the issues identified above could lead to significantly increased pressures on housing advice and homelessness services;

6) Partners – reductions in resources and increased pressure on limited resources, will inevitably have a knock-on effect on the partner services of other local support services, such as housing charities and CAB who will see increased pressure for help from their services. Reduced incomes will also have an impact on the local business community;

7) Workforce – these changes will also place increased pressures on the current workforce as there will be significant administrative changes required to cope with the proposed changes.

Mitigations for some of these changes were included as part of last year's budget proposals, which have been implemented. The Authority also continues to take a cross-council approach in trying to co-ordinate a reasoned approach to coping with these changes. The main mechanism within the HRA to deal with welfare reform provision, outside of financial inclusion measures, relates to bolstering the Bad Debt Provision within the Plan.

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

Section 9.3
Elected Mayor and Cabinet's Proposals for the Housing Revenue Account Business Plan and budget for 2014-18

9.3.1 Overview

Paragraphs 9.3.2 to 9.3.5 below provide the build up of the financial picture for the next four years reflecting:

a) Pressures and Growth;
b) The CEI Programme; and,
c) Reserves and Contingency Proposals.

9.3.2 Pressures and Growth

Table 24 below summarises the major unavoidable pressures and variations faced by the HRA currently built into the budget. These include:-

a) Changes in sums set aside for Debt repayment (equivalent to the Minimum Revenue Provision (MRP) in the General Fund), albeit this is not compulsory in the HRA;

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

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

d) The implications in revenue of the Quality Homes for Older People project – relating to payments to PFI Contractor and Affordability gap;

e) Increase in HRA Interest charges for refinanced / new HRA debt and changes to Debt Management Expenses (DME) & Premiums & Discounts;

f) Increase in HRA Bad Debt Provision to continue mitigations for welfare reform changes;

g) Property Client Team - additional resources to create surveyor support to new build projects, and rectify budgets re support and mileage;

h) Head of Housing – creation of HRA budget for union costs & rates costs re the White Swan Centre;

i) Additional Pension Contributions, Pension Fund Deficit Contributions & Strain on the Fund Costs;

j) Furniture Pack Service – revenue budget to meet costs eg storage and delivery covered by service charge income;

k) Affordable Homes Project – HRA contribution towards resourcing project costs;

l) Sheltered Housing Officers – budget to fulfil Elected Mayor's pledge to restore staffing levels;

Table 24: 2014-2018 Pressures and Growths

Pressures and Growth	**2014/15 £000's**	**2015/16 £000's**	**2016/17 £000's**	**2017/18 £000's**
a) Debt set aside – MRP;	-3,150	370	1,640	1,130
b) MRA / Depreciation;	615	423	433	275
c) Capital Plan - Revenue Effects;	5,447	2,438	-1,042	628
d) Quality Homes for Older People – Contractor and Affordability payments;	653	45	46	46
e) HRA New Debt / DME / Premiums & Discounts;	57	655	428	328
f) Bad Debt Provision – increase to cope with Welfare Reform changes;	100	150	24	24
g) Property Client team – additional surveyor resource, and budget corrections re support & mileage;	60	0	0	0
h) Head of NTH – creation of budgets for union costs & rates costs at White Swan Centre;	15	0	0	0
i) Additional Pension Fund Contributions, Pension Fund Deficit Contributions & Strain on the Fund costs;	230	31	32	33
j) Furniture Pack Service – budget for revenue costs of service, covered by service charges;	30	0	0	0
k) Affordable Homes Project – HRA contribution towards project costs;	50	0	0	0
l) Sheltered Housing Officers – Elected Mayor's pledge;	87	0	0	0
TOTAL Pressures and Growth	**4,194**	**4,112**	**1,561**	**2,464**

9.3.3 Change, Efficiency and Improvement Programme

As part of the 2014-2018 Financial Planning and Budget process, proposals have been made for additional income, grant and efficiency opportunities. These include:

1. The proposed rent increase brought about by rent restructure changes and rebasing of rent income collectable;

2. Service charge income, garage rents and other rent income;

3. Savings in interest charges on re-financing of existing loans via temporary borrowing and long-term re-financing;

4. Savings and efficiencies in relation to management and repairs budgets;

5. Savings from Quality Homes for Older People scheme re project and procurement costs; and,

6. The continued implications of the fallout of Supporting People Transitional Protection, and the introduction of protection for existing Sheltered tenants against significant increases in rent brought about by moving into New Build or significantly refurbished accommodation.

Table 25: 2014-2018 Change, Efficiency and Improvement Programme

Change, Efficiency and Improvement Programme	**2014/15 £000's**	**2015/16 £000's**	**2016/17 £000's**	**2017/18 £000's**
1) Income from Rent Increase;	-3,041	-1,870	-1,646	-2,289
2) Garage Rents, Service Charge & Other Income;	-80	-67	-65	-68
3) HRA Existing Debt – Interest savings from refinancing & temporary borrowing;	-599	-1,873	-681	-533
4) Management & Repairs savings (including Capital Fees re New Build);	-660	-86	-28	-32
5) Quality Homes for Older People – project & procurement costs;	-200	-50	-37	-163
6) Supporting People Transitional Protection.	35	65	60	-20
TOTAL Change, Efficiency and Improvement Programme	**-4,545**	**-3,881**	**-2,397**	**-3,105**

9.3.4 HRA Reserves and Contingencies

The proposed draft budget for 2014/15 includes a contribution to reserves of £0.153m. It is proposed to create a contingency budget of £0.282m to recognise relevant issues including any increases in inflation and any pay award for 2014/15.

Table 26: 2014–2018 Housing Revenue Account Reserves and Contingencies

HRA Revenue Balances	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's
Increase in Contingencies	282	389	470	537
Contribution to/(from) Balances	153	-467	-101	3
TOTAL Change in Reserves and Contingencies	**435**	**-78**	**369**	**540**

9.3.5 2014-2018 Draft Housing Revenue Account – Movement on Reserves

Table 27 below summarises the draft Housing Revenue Account movement on balances for 2014-2018, after taking account of the information and details included in Sections 9.3.2. to 9.3.4 above:

Table 27: 2014–2018 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's
Opening Reserve Balance	(2,422)	(2,575)	(2,108)	(2,007)
<u>Add</u>:				
Original Contributions (to) / from balances	(84)	(153)	467	101
Change in contributions (to) / from Balances	(69)	620	(366)	(104)
Predicted Reserve Balance Carried Forward	**(2,575)**	**(2,108)**	**(2,007)**	**(2,010)**

The budget monitoring position for 2013/14 to 30 September 2013, reported to Cabinet on 11 November 2013, shows projected year-end balances of £2.422m. Hence, a net contribution to balances from the HRA of £0.153m is projected in 2014/15 to give a year-end balance of £2.575m as at 31 March 2015. The budget proposals presented here ensure that approximately £2m is retained in HRA revenue balances each financial year covering the four years of the Council Financial Plan, to ensure some measure of contingency and financial stability. These proposals as they currently stand also balance the plan over the longer 30-year period, which is what the Government requires us to demonstrate as part of the self-financing proposals. Table 28 below summarises the Housing Revenue Account forecast plan for 2014–2018, after taking account of the information and details included in Sections 9.3.2 to 9.3.5 above:

Table 28: 2014–2018 Housing Revenue Account Financial Plan

HRA Forecast Expenditure Plan	**2014/15 £000's**	**2015/16 £000's**	**2016/17 £000's**	**2017/18 £000's**
2014/15 Base Budget	0	0	0	0
Add:				
Pressures and Growth	4,194	4,112	1,561	2,464
Change, Efficiency and Improvement Strategy	-4,545	-3,881	-2,397	-3,105
Reserves and Contingencies	351	-231	836	641
Net Forecast Expenditure Variation	**0**	**0**	**0**	**0**

A four-year financial forecast for the Housing Revenue Account is attached at Appendix D for information and the Housing Capital Plan at Appendix B (i).

Section 9.4
The Elected Mayor and Cabinet's Proposals for the 2014-18 Housing Capital Plan

As outlined in paragraph 9.2.3 above the final target year for completion of the Decent Homes Programme was 2010/11. The over-riding objective for future years is to ensure that Housing stock is maintained to at least Decent Homes Standard as laid out in the Housing Asset Management Strategy approved by full Council on 9 September 2010, to be refreshed by an updated 2015-19 Housing Asset Management Strategy in due course. On top of this if resources allow, there is the added intention of responding to tenant priorities around issues such as fencing and landscaping.

This Capital Plan also provides for the Authority to continue a programme of new build council housing from 2014/15 building on "pilot" work that is being completed in 2013/14, and assuming that enough suitable HRA-owned land can be identified or acquired, and planning issues addressed, with the potential for up to £170m worth of new build expenditure over the next 30 years in total, and specifically up to £7.124m of new build works in 2014/15. This is reflected in the proposed Housing Capital Plan 2014-2018 attached as Appendix B (i). Some of the main elements of work planned in 2014/15 include:

(a) Decency Refurbishments of £6.522m;

(b) Central Heating and Rewire programme totalling £2.892m;

(c) Disabled adaptations of £1.409m;

(d) Cyclical / Decoration works of £0.884m;

(e) Capital of Major Repairs £1.173m;

(f) Furniture Pack scheme of £0.494m;

(g) Asbestos Works of £0.150m;

(h) Environmental Improvement & Energy Efficiency of £0.300m;

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

(j) Fencing & External Works - £1.947m;

(k) PFI Homeloss payments (re-programmed) - £0.609m;

(l) Garages and Communal Lifts - £0.182m;

(m) New Build Council Housing - £7.124m.

Table 29 below summarises the 2014-2018 Housing Capital Plan and financing, including potential resources available to fund new builds.

Table 29: Summary of Proposed Housing Capital Expenditure and Financing 2014–2018

Resources	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's	Total £000's
Housing Capital Expenditure	**23,936**	**25,427**	**24,303**	**24,731**	**98,397**
Current Need	**16,812**	**18,518**	**19,518**	**19,814**	**74,662**
Potential New Build	**7,124**	**6,909**	**4,785**	**4,917**	**23,735**
HRA Capital Financing					
Major Repairs Reserve/Depreciation	13,399	13,870	14,409	14,533	56,211
Revenue Contributions (HRA)	6,913	9,351	8,309	8,937	33,510
Capital Receipts (RTB & Other Land Sales)	2,574	1,489	868	544	5,475
House-building Fund	1,050	717	717	717	3,201
Total Resources	**23,936**	**25,427**	**24,303**	**24,731**	**98,397**