ANNEX 1

2013/14 Provisional Finance Outturn Report

North Tyneside Council

Section 1.0
Executive Summary

Summary

1.1 The Authority's audited Statement of Accounts (the Accounts) for 2013/14 will be presented to full Council for discussion and approval at the end of September 2014. The Accounts are a statutory document which set out the Authority's financial position and performance for the year in a series of formal accounts prepared according to a specific statutory and regulatory framework.

1.2 Successive changes to local government accounting practice have made the Accounts a very technical document. As in previous years, we are taking the opportunity to set out the Authority's financial performance in an outturn report. This reflects the Authority's structure and is set out on a similar basis to the financial management reports presented to Cabinet throughout the year. This report is also the end-point of the Authority's financial management process for the financial year 2013/14.

1.3 The figures contained in this report are provisional until the approval of the Accounts. In accordance with legislation the draft Accounts will be "certified" by the Chief Finance Officer by 30 June 2014 and the audited Accounts will be approved by full Council by 30 September 2014.

1.4 The net effect on General Fund revenue, after taking into account all year end transactions and transfers to and from reserves, is an underspend of £2.650m. It is proposed that this amount is transferred to the Authority's Strategic Reserve. After this final transfer, the General Fund Revenue Account will show spend on budget for 2013/14, with a closing balance on the Strategic Reserve of £8.057m. Further details are given in Section 2 in this Annex and Appendix N.

1.5 The Housing Revenue Account has year-end balances of £2.854m, which represents an improvement against the budget of £1.148m. This improvement is as a result of an in year improvement against budget of £0.570m and an increase in brought forward balances of £0.578m.

1.6 School balances have increased from £6.054m at the start of the financial year to £6.647m at 31 March 2014. This overall increase has arisen as a result of a general increase across schools.

1.7 The initial approved Capital Plan for 2013/14 was £55.849m. Variations and reprogramming arising from 2012/13 and in year took the plan to £63.241m. Capital expenditure for the year was £50.354m, a variation of £12.887m (credit). This includes further reprogramming of £12.877m (credit).

Strategic Management of the Council's Budget

1.8 Whilst statutorily the Authority's budget and Accounts must be prepared by individual financial years, the pressures and opportunities that the Authority faces extend across several accounting periods. Decisions taken in one year will be felt in subsequent periods. One of the benefits of the Authority's regular budget monitoring process is that issues can be identified early in the year and action taken to address them. The outcomes of these actions can then inform both budget setting and final accounts preparation. Budget setting, budget management and final accounts can therefore be seen as related parts of a continuous process of financial management by the Authority. This part of the report sets out some of the key strategic issues managed by the Authority during 2013/14.

General Fund

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

1.10 Monitoring reports up to January 2014 projected a financial pressure, the January monitoring report projected a surplus of £1.877m. The final position, before the transfer to the Strategic Reserve, is a surplus of £2.650m.

Change Improvement and Efficiency Programme

1.11 The budget for 2013/14 included savings of £12.240m, from the delivery of projects/actions included as part of the Change, Improvement and Efficiency programme (CEI). The scale of the financial challenge for the year meant that wide ranging efficiencies and service reconfiguration were required to be implemented during 2013/14. These CEI savings have been monitored as part of the overall financial position of the Authority, and regular updates of progress shared with the Mayor and Cabinet and also reported to Overview and Scrutiny Committee.

Redundancies

1.12 At the end of September 2013 the Authority issued a HR1 notice, setting out the potential need to reduce up to 250 posts in light of spending reductions in future years.

1.13 In previous years the Authority has taken the opportunity to capitalise the statutory costs of redundancy payment. However, costs in 2013/14 fell below the de minimis level for capitalisation, meaning that the option for capitalisation was not available.

1.14 There has been a change accounting regulations in 2013/14 that means the timing of the recognition of redundancy costs as a provision is now at a slightly later date than previously. As a result, the provision for redundancy costs required in the 2013/14 accounts is £1.130m.

1.15 In addition, there is an estimated further cost of £0.904m expected to arise during 2014/15 that no longer meets the criteria to be treated as a provision as detailed in paragraph 1.19 below.

Equal Pay

1.16 The Authority's 2012/13 accounts included a provision of £9.080m in respect of Equal Pay. During 2013/14 payments of £5.001m have been made against the provision, mainly relating to tax. This left a balance of £4.079m in the provision.

1.17 The provision required at 31 March 2014 has been reviewed and the revised requirement is an estimated £1.330m. The movement is due to the reduction in the average value of settlement as we only have two years remaining for the majority of claims to be applied. The result of this restatement is a surplus provision of £2.749m. The surplus of £2.749m has been written back to the accounts in 2013/14, with £1.796m to revenue (Corporate Accounting) and £0.953m to capital. This split reflects how the provision was originally established. The result of the reduction in capital will be to reduce the Capital Financing Requirement by £0.953m and so reduce the annual Minimum Revenue Provision by £0.053m from 2014/15.

Proposals for Specific Reserves

1.18 As part of the process carried out to complete the Outturn, consideration has been given to the requirement for reserves for future years. In accordance with the Reserves and Balances Policy the following items have been created from the outturn surplus.

1.19 **Redundancies Reserve £0.904m -** When considering the Business Cases for 2014/15 alongside the current schedule of proposed redundancies there is an estimated further cost of £0.904m expected to arise during 2014/15 that no longer meets the criteria to be treated as a provision. Therefore, it is considered prudent to set aside a reserve to allow for these costs to be met.

1.20 **Non domestic rates (NDR) appeals £2.000m -** Due the nature of specific rating appeals which are outstanding at the 31 March 2014 it is proposed to create a reserve to support the general fund in future years. The timing and value of the appeals are uncertain but are anticipated to have a material impact on the resources available to fund the Authority in future years. The creation of the reserve is aimed at smoothing the impact in the financial plan.

1.21 **Change Programme £3.194m -** Proposed reserve to support the implementation of the change programme.

1.22 **Social Fund (Crisis loans) £0.414m**- 2013/14 saw the transfer of responsibility and funding from the Department of Work and Pensions for the issue of Crisis Loans to individuals in need. During this financial year the call on the funding was lower that anticipated however, there may be increased demand for this support as the impact of welfare reform changes move into the second year. The reserve is to fund any increased demand.

Carry Forwards

1.23 Requests have been received to carry forward the following items in Specific Reserves:

(a) Feasibility Study £0.103m - to allow for feasibility study works to be carried out for the depot rationalisation project, as agreed by the Corporate Property Group; and,

(b) Grounds Maintenance £0.060m – to allow the purchase of 3 grass cutting machines. The purchase of the machines will be brought to Cabinet for approval and inclusion in the 2014/15 Investment Plan as part of the 2014/15 Financial Monitoring process.

1.24 If the carry forwards identified in paragraphs 1.19 to 1.23 are approved this will leave a provisional outturn surplus of £2.650m, which it is proposed to transfer to the Strategic Reserve.

Financing the Capital Plan

1.25 One of the pressures on the Authority’s Capital Plan throughout 2013/14 has been the level of capital receipts needed to finance the General Fund plan. The budget approved on 5 March 2013 included a requirement of £8.914m General Fund capital receipts. Subsequent variations and reprogramming during 2013/14 gave a revised General Fund receipts requirement at March Cabinet of £3.361m. This then reduced further at year end following additional reprogramming.

1.26 Final available General Fund capital receipts for 2013/14 amounted to £3.882m, which was higher than that eventually required, due to the level of reprogramming. This has enabled the surplus of capital receipts (£2.751m) to be used in place of borrowing and so defer this borrowing until 2014/15 with a resultant temporary saving, of approximately £0.110m, in Minimum Revenue Provision (MRP) required in 2014/15.

1.27 Moving forward the position with regard to the General Fund capital receipts remains a risk to the Authority and continues to be closely monitored. In recognition of this, in recent years there has been no additional General Fund capital receipts requirement included in the financing of the Capital Plan.

Treasury Management

1.28 The level of actual external borrowing (excluding PFI) reduced from £451.281m to £446.815m. This reflects the level of internal funding.

Forward Planning

1.29 As illustrated above, 2013/14 was a challenging year in terms of the financial pressures that the Authority faced. However, through prudent financial management the Authority was able to manage these issues.

1.30 The outturn position for 2013/14 has allowed provision to be made to support the changes the Authority will be required to make over the coming years as continuing financial pressures are set to be a feature of Local Government settlements for the next few years. The experience of 2013/14, once again, reinforces the crucial importance of detailed forward planning, a strong balance sheet, close management of the core budget, a regular monitoring and reporting process and a flexible approach to managing uncertainty.

Section 2.0
General Fund Income and Expenditure

2.1 This section of the report details the provisional outturn figures, as at 31 March 2014, for Services compared to budget. Table 1 below summarises the position with more detailed explanations provided in paragraphs 2.2 to 2.15. The detailed **Appendices (A - J)** set out variations by Service Area.

Table 1: 2013/14 General Fund Revenue provisional outturn summary to 31 March 2014

		Full Year Budget	Provisional Outturn	Provisional Outturn Variance March 2014	Forecast Outturn Variance Jan 2014
		£m	£m	£m	£m
Services					
Business and Economy	Appendix A	0.795	0.786	-0.009	-0.037
Chief Executive's Office	Appendix B	3.592	3.543	-0.049	-0.056
Finance and Commercial Services	Appendix C	13.758	12.323	-1.435	-0.004
Law and Governance	Appendix D	3.340	3.225	-0.115	0.009
Public Health	Appendix E	0.000	0.000	0.000	0.000
Adult Social Care	Appendix F	52.322	51.474	-0.848	-0.817
Children, Young People and Learning	Appendix G	18.009	18.135	0.126	0.339
Commissioning and Fair Access	Appendix H	7.140	7.482	0.342	0.361
Environment and Leisure	Appendix I	33.002	33.830	0.828	0.408
Housing General Fund	Appendix I	0.951	0.913	-0.038	-0.031
Deputy Chief Executive Central Costs	Appendix I	0.282	0.209	-0.073	-0.079
Non-Controllable		7.682	7.682	0.000	0.000
Sub Total - Service-Approved Budget		**140.873**	**139.602**	**-1.271**	**0.093**

Table 1 continued

			Full Year Budget	Provisional Outturn	Provisional Outturn Variance March 2014	Forecast Outturn Variance Jan 2014
			£m	£m	£m	£m
3	Corporate and Democratic Core	Appendix J	9.838	10.144	0.306	0.349
4	Corporate Accounting	Appendix J	3.339	-2.659	-5.998	-4.598
5	Contingency Budget	Appendix J	4.324	0.000	-4.324	-0.528
6	Levies	Appendix J	13.076	13.076	0.000	0.000
7	Utilities		0.000	0.432	0.432	0.472
8	Staff Capitalisation		0.000	0.400	0.400	0.400
9	Non-Controllable		5.682	5.682	0.000	0.000
Sub-total- non delegated budgets			**36.259**	**27.075**	**-9.184**	**-3.905**
Net pressure/(surplus) before exceptional items and transfers to reserves			**177.132**	**166.677**	**-10.455**	**-3.812**
Exceptional items						
10	Redundancies provision		0.000	1.130	1.130	1.650
Total exceptional items			**0.000**	**1.130**	**1.130**	**1.650**
Net pressure/(surplus) after exceptional items before transfers to reserves			**177.132**	**167.807**	**-9.325**	**-2.162**
Transfers to specific reserves						
11	Redundancies reserve		0.000	0.904	0.904	0.000
12	NDR Appeals		0.000	2.000	2.000	0.000
13	Support for Change Programme		0.000	3.194	3.194	0.000
14	Social Fund (Crisis Loans)		0.000	0.414	0.414	0.000
15	Feasibility Study		0.000	0.103	0.103	0.000
16	Grounds Maintenance		0.000	0.060	0.060	0.000
Total transfers to specific reserves			**0.000**	**6.675**	**6.675**	**0.000**
Net pressure/(surplus) after exceptional items and transfers to reserves			**177.132**	**174.482**	**-2.650**	**-2.162**
11	Transfer to reserves – Airport Dividend		0.000	0.000	0.000	0.285
Net Forecast pressure/(surplus) after exceptional items			**177.132**	**174.482**	**-2.650**	**-1.877**

Services

2.2 The main variations are set out in detail below.

2.3 The **Chief Executive's Office** has an overall under spend of £0.049m (January 2014 underspend of £0.056m) absorbing a pressure of £0.088m which reflects the decision to appoint a new full-time Chief Executive who took up the position early in November 2013. The previous interim Chief Executive stayed until his contract ended at the end of November to provide continuity. There is a £0.118m pressure relating to Communications mainly around advertising income shortfalls (£0.089m), which is more than compensated for by planned underspends within Policy and Partnerships, Engagement and Management and Mayoral Support. There is a £0.180m under spend within Engagement which relates to the Big Society and Widening Horizons along with savings on supplies and services. There is also a saving within Human Resources (£0.006m) from reduced working hours and some maternity leave savings. The full analysis is included as **Appendix B**

2.4 The year end position for **Finance and Commercial Services** was an overall under spend of £1.435m. This is further detailed in **Appendix C**.

The main factors that gave rise to this under spend were:

- An under spend on Discretionary Housing payments (DHP) £0.498m (reported throughout the year)
- Year end analysis of benefit overpayments and recovery £0.501m
- Recent central government guidance to all Local Authorities regarding treatment of some council tax overpayments made in 2012/13 £0.207m.
- Recently received receipts in respect of shared audit service with Northumberland County Council £0.140m.
- Saving on the external audit fee against budget of £0.102m

Throughout the year we have reported that we have been monitoring the position regarding the processing of housing benefit claims and monitoring the level of overpayments and how this may impact upon the subsidy we receive from the Department of Work and Pensions (DWP). Whilst at this point in the year the position is not fully complete and audited we have assumed that we will be in receipt of the full subsidy payment.

2.5 The **Public Health** Service within the Local Authority came into existence for the first time in 2013/14 following the transfer of responsibilities from the National Health Service on the dissolution of the Primary Care Trust. The budget is ring-fenced. Under spends in budgets from staffing, recharges for NHS Health Checks by GPs (where demand has been less than in previous years) and the extension of the Community Alcohol Service pilot scheme into 2013/14 are being used to offset pressures from charges for contracts via GPs for nicotine replacement treatment and the contraceptive device fitting service. The Department of Health have confirmed that Local Authorities are responsible for these costs. The final year-end position and variance analysis is attached as **Appendix E** to this report.

2.6 **Adult Social Care** (ASC) is reporting an under spend of £0.848m (January forecast £0.817m underspend). This under spend is after the transfer of a further £1.710m of contingency budget back to the central contingency budget line. All of the necessary actions have been taken to realise planned savings and, although the service did experience the anticipated demand-led pressures particularly in Learning Disabilities and Mental Health Services, there has continued to be an underlying improvement in the position following detailed placement reviews. In addition, the costs for a number of Independent Supported Living packages have been successfully managed down with providers to reduce the number of support hours required and consolidating a small number of costly void places. The position also reflects an improved position on Older People's Commissioned Services as a result of a reduction in permanent admissions to residential care. There is an under spend of £0.414m on the Local Welfare Provision Scheme. The full analysis is included as **Appendix F**

2.7 A forecast budget pressure for **Children Young People and Learning** Service has been reported since early in the year. This steadily reduced from the £0.724m pressure reported in November, to £0.339m in January and finally to £0.126m by year end.

The main underlying causes for the budget pressure in this service remain Corporate parenting and placements (£0.673m) and grant income targets (£0.308m). It has not proved possible to reduce these budget pressures and the year end position is in line with the forecasts reported in previous reports. The base budget for grant income has been corrected for 2014/15 as part of the 2014/15 budget setting process (reducing it from £1.025m to £0.275m), however the budget for Corporate parenting and placements is likely to continue to prove challenging in 2014/15.

Despite these two stubborn budget pressures the overall service budget position continued to improve towards the year end due to further savings across other areas in the service: These have been:

- Vacant posts held across the service but particularly in children's social care, early help and vulnerable families and school improvement. The majority of these savings were captured in the budget changes for 2014/15;
- Additional scrutiny over non staff spend e.g. savings in staff training, car allowances etc; and,
- Increased income from school improvement and the continued achievement of performance related Troubled Families targets.

A full analysis included as part of **Appendix G.**

2.8 The forecast budget pressure for **Commissioning and Fair access** service reported in January as £0.361m reduced slightly by year end to £0.342m.

The main two budget pressures in this service, reported throughout the year, have been Catering services and Children's Disability Services (mainly Home to school transport).

The budget for Catering services has proved very challenging to meet. The forecast budget pressure in Catering Services continued to decrease however since last reported from a previous forecast in January of £0.391m to 0.279m. This was primarily due to continued tight financial management. The base budget for this service has been corrected for 2014/15 with a £0.250m increase in budget agreed as part of the 2014/15 budget setting.

The final year end position for Children's Disability Services (mainly Home to school transport) rose slightly at year end from £0.100m reported at January to £0.137m.

The other main savings in this service area over the year relate to a number of staff savings e.g. the Director of CYPL, Children's Participation and Advocacy team, and the Commissioning team. These savings were captured and will be sustained in 2014/15 as they are part of the 2014/15 CEI programme.

A full analysis is included as part of **Appendix H.**

2.9 **Environment and Leisure** is reporting a pressure of £0.828m (January £0.408m). The major pressure (£1.065m) within this position relates to Property. This includes a pressure of £0.175m relating to a Non-Domestic Rates (NDR) rebates income target that has not been achieved in the current round of rating revaluations during 2013/14, a pressure at the Swan Hunter site (£0.292m) mainly due to the reduction in expected income whilst the regeneration work is underway and a backdated rent liability for Quadrant West (£0.111m). In addition there are pressures associated with the properties managed by Capita. These include policy choices made by the Authority that have altered their planning assumptions and historic shortfalls associated with our property budgets. Significant work is underway to resolve these matters for 2014/15.

In previous budget monitoring reports the Bereavement service forecast outturn has been based on the assumption that any additional bereavement income generated was ring-fenced to support the capital costs of replacing the cremators and upgrading the Tynemouth crematorium (as agreed by Cabinet 20 May 2013). The design costs will now be funded from capital contingencies, meaning that there is an improvement of £0.106m against budget within Bereavement Services.

The Transport Account is showing an under spend of £0.517m mainly due to decisions taken to extend the effective lifetime of the vehicles. This is compensated for by overspends mainly within Street Environment and Waste.

Reduced waste disposal costs through the transfer station have facilitated a reduction in the drawdown of the Weekly Collection Support Grant in 2013/14.

There continue to be some residual pressures within Leisure Services from the operating model savings introduced in 2012/13 and 2013/14 which have not as yet proved possible to deliver for community centres and some other community assets but these have been compensated for the main part by an improved trading position in Sports and Leisure especially in the final two months of the year. The full analysis is included as part of **Appendix I**

2.10 The **Housing Services (General Fund)** delivered savings of £0.038m as a result of increased income and staff savings within General Fund Housing and Housing Strategy which has transferred, this was offset by a small overspend on Community Safety the budget for which also transferred as part of the restructure, from Business and Employment. The full analysis is included as part of **Appendix I.**

Non Delegated Budgets

2.11 The **Corporate and Democratic Core** over spent by £0.306m as a result of the authority, as guarantor, being required to contribute to pension shortfalls in respect of Childcare Enterprises (£0.149m) and Wallsend Memorial Hall (estimated £0.200m).

2.12 **Corporate Accounting** under spent overall by £5.998m. The main areas included within this are:

(a) Equal Pay provision of £1.796m that is no longer required has been written back as explained in paragraphs 1.16 and 1.17;
(b) A saving in Minimum Revenue Provision (MRP) of £1.137m as a result of re-programming during 2012/13 and a review of asset lives assumed for 2012/13 capital spend;
(c) Savings in external interest of £2.077m also largely as a result of re-programming, lower interest rates than anticipated at budget setting time (due to temporary borrowing) and the continued level of internal borrowing;
(d) A pressure of £0.184m relating to a shortfall in savings from the Review of Terms and Conditions;
(e) The Feasibility Study budget of £0.103m was not used during 2013/14. However, a request has been made to carry this forward in a specific reserve to fund a feasibility study on depot rationalisation as outlined in paragraph 1.23;
(f) Airport Dividend received of £0.285m;
(g) additional Strain on the Fund savings of £0.453m due to the timing of staff leaving;
(h) Small Business Rates Relief grant of £0.745m; and,
(i) an additional £0.303m has been provided for bad debts as a result of an increase in benefits debtors.

2.13 The **Contingency** budget under spent by £4.324m due to a reduced requirement from services, mainly Adult Social Care. Details of the final allocations are shown in **Appendix J.**

2.14 **Utility Costs** remained an issue for the Authority during 2013/14 with the final pressure being a total of £0.432m. Projects are continuing to help support services as they take action to reduce consumption of both gas and electricity, but rising unit costs continue to negate the impact of those actions.

2.15 **Exceptional items** - As outlined in paragraph 1.14 a provision of £1.130m has been set up in the 2013/14 accounts to recognise the expected costs of known redundancies that form part of the restructuring of services. This cost has been reflected in Table1.

Section 3.0
Housing Revenue Account Income and Expenditure

3.1 This section of the report provides an update on the financial position for the Authority's Housing Revenue Account (HRA). The provisional year-end position and variance analysis for March 2014 is attached as **Appendix K** to this report.

3.2 On the 16 January 2013 the Cabinet approved the HRA budget for 2013/14. This included an average increase in housing rents of 6.31% in line with the requirements of rent restructuring, which aimed for rent convergence by 2015/16. This target has of course now been superseded by the Government's plans to change the basis of rent increases for the next 10 years, from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) after 2014/15.

3.3 The HRA started the year with what was £0.578m higher than anticipated opening balances i.e. £2.200m as opposed to the budgeted figure of £1.622m, and the final in-year position was £0.570m better than budgeted.

3.4 The main significant variations against budget were in relation to the interest charges incurred on the Authority's HRA debt portfolio (£0.109m underspend), reflecting the impact of Treasury Management decisions and Right to Buy (RTB) sales on related costs, bad debt provision in relation to rent arrears (£0.369m under spend), repairs spend impacted by the continued delays and implications of the Quality Homes for Older People project (North Tyneside Living) (£1.022m under spend), which had a positive knock-on impact on the level of contribution to the House-building Fund (£0.858m above budget contribution), as well as an impact on the level of depreciation accounted for (additional £0.554m), and there was also a reduction in the Revenue Support to the Capital Programme (£0.352m underspend), reflecting the need to provide for depreciation on Non-Dwelling Assets.

Treasury and Debt Management - an additional £0.109m of interest savings were achieved in-year, from a combination of some temporary borrowing at low interest rates, and the interest benefit from having additional debt set aside from extra Right to Buy (RTB) sales in 2013/14. This saving will help increase the transfer to the House-building Fund at year-end once the final HRA accounts for 2013/14 have been closed.

Quality Homes for Older People (QHfOP)(North Tyneside Living) – this project achieved financial close on 26 March 2014, this had a major impact on the HRA in-year as the budget had provided for the project to commence earlier in the financial year. Hence there was a significantly reduced call on the in-year contributions required from the affordability and unitary charge budgets, which were held in the repairs budget totalling £1.085m, partially offset by an increased depreciation charge on HRA dwellings of £0.202m, which reflected the assumption that the authority was still responsible for the major repairs elements of the sheltered stock until project commencement. The overall net saving of £1.085m, confirmed upon financial close, was split between an additional contribution to the House-building Fund (£0.685m) and an additional year-end contribution to the PFI reserve (£0.400m) to provide a hedge against future inflation rises over and above those included in the PFI financial model and the HRA Business Plan.

3.5 **Impact of Welfare Reform**

The main changes introduced under the Government's Welfare Reforms in 2012/13 related to what became known as the "bedroom tax". This policy currently affects around 2,153 of our tenants on Housing Benefit, of whom 1,174 are in arrears totalling £0.304m. This is a slight reduction of approximately £0.005m from the start of the year, and overall current arrears have increased by around £0.111m to just over £1.399m. There has also been an increase in the amount of former arrears, which have increased in-year by £0.138m. These changes to-date are more than mitigated for by the increased bad debt provision that was made in the budget for this year, the call on the bad debt provision overall is £0.369m less than budgeted for in-year. This reflects a much reduced level of bad debt write-off, and the maintenance of an excellent overall collection rate considering the level of in-year rent increase. It also reflects the continued delay in the introduction of Universal Credit (UC) and the direct payment of benefits to tenants, which is expected to have a much more significant impact on rent arrears. Implementation of UC is starting to be rolled out in more areas of the country, but on a very controlled and phased basis, hence we are not likely to see the full impact in North Tyneside for some time.

3.6 **House-building Fund**

As agreed by Council on 15 February 2012 a new House-building Fund was set up in 2012/13, to help fund the cost of new build housing and environmental works. The initial contribution to this fund came from the £0.065m budget, created as a result of estimated interest savings from the final self-financing settlement figure, which dropped from £129.834m to £128.193m. It was also agreed that any savings from the overall debt portfolio against budget would be added to the fund once the final accounts for the year had been audited, these were converted into a permanent additional budget contribution of £0.650m per annum, and in addition in 2013/14 a £0.100m saving on insurance premiums was also added to the budget in-year, leading to an overall budgeted contribution of £0.834m for 2013/14. As explained above in addition extra contributions were generated from savings generated from the PFI delay, as well as a small under-spend on the HRA Grounds Maintenance budget, totalling £0.858m. Hence, the overall total contribution to the fund for 2013/14 is £1.692m. Of this sum, £1.025m has already been committed towards HRA new build spend in 2014/15 as part of phase 1 and 2 of the Affordable Homes project. The remainder will be available to help fund spend in future years.

Section 4.0
Schools Finance

4.1 Schools have concluded their 2013/14 closure exercise in line with the Local Scheme for Financing schools and the Authority's closure timetable. Collective school balances in North Tyneside maintained schools increased from £6.054m at the start of the financial year to £6.647m by 31 March 2014. This increase is in despite of the fact that the balances for Priory school (included at the start of the year) were removed from the year end position as the school ceased to be a Local Authority maintained school.

4.2 Whilst overall school balances are strengthening it remains the case that there are some individual schools facing financial challenges. During the year the Authority and Schools Forum pay particular attention to those schools with approved deficit budgets. There were 4 schools with a deficit approval for 2013/14. i.e. Longbenton Community College, Norham High, St Bartholomews RC Primary and Monkhouse Primary.

4.3 Following close work with these schools during the year, and with the support of North Tyneside Schools Forum, the position improved for 3 out of these 4 schools. In line with the agreement with Schools Forum we were able to allocate £0.119m of de-delegated Dedicated school grant (DSG) to 3 of these schools. The draft year end position for these 4 schools is shown below:

School	2013/14 Approved budget £m	Additional financial allocation £m	2013/14 draft outturn £m
Longbenton Community College	-0.204	0	-0.393
Norham High	-0.211	0.074	-0.010
St Bartholomews RC Primary	-0.062	0.029	-0.022
Monkhouse Primary	-0.016	0.006	0.001

4.4 Supporting individual schools in temporary financial difficulty and enabling them to return to a balanced budget will remain a priority for North Tyneside over the coming years.

4.5 As in previous years, the details of these balances will be reported to the Department for Education (DfE) through the Consistent Finance reporting (CFR) return. This return will be co-ordinated by the Local Authority and submitted by the deadline in July 2014. The CFR data is then used to pre-populate part of the Section 251 return that is submitted to the DfE by the end of August 2014 and verified in September. Full details of each individual school's balance will then be reported to Cabinet.

4.6 Overall, and after allowing school allocations, the DSG in 2013/14 of £129.089m (after removing Academies) under spent by £2.969m. This was mainly in relation to the profile of planned expenditure regarding early years education and the Learning Trust. As the DSG is a ring-fenced grant, any under or overspends are carried forward into the next financial year in order to be addressed within the following year's ringfenced grant. This DSG under spend has therefore been carried forward into 2014/15.

Section 5.0
Capital Plan Expenditure and Financing

5.1 The Capital Plan represents the Authority's capital investment programme in projects across all service areas, including General Fund and HRA activities.

5.2 Delivery of the Capital Plan year by year, through both physical on site development and capital spend, is key to the successful attainment of the Authority's objectives.

2013/14 Capital Expenditure

5.3 The initial 2013/14 Capital Plan budget was £55.849m (£38.424m General Fund and £17.425m Housing). Further variations to the Plan and reprogramming were agreed by Cabinet during the year as part of the Financial Monitoring process to give an approved plan at the year-end of £63.241m (£44.399m General Fund and £18.842m Housing). Table 2 below summarises these changes.

Table 2: Capital Plan 2013/14 – Summary of changes to budget

	£m
Capital Plan approved by Council – 5 March 2013	55.849
Reprogramming from 2012/13	20.591
Reprogramming to 2014/15	-16.131
Other variations (net)	2.932
Revised Capital Plan approved by Cabinet – 10 March 2014	63.241

5.4 Actual capital expenditure in 2013/14 totalled £50.354m (£40.582m in 2012/13), comprising General Fund expenditure of £33.045m and £17.309m on Housing Schemes.

5.5 Not all of the expenditure relates to the creation or improvement of fixed assets for the Authority. £8.078m relates to spend on other items, with £1.626m given as regeneration and improvement grants and £6.452m relating to spend in respect of Trust schools.

5.6 Table 3 below compares the actual capital expenditure with the revised budget for the year, as well as the actual spend for 2012/13. This demonstrates an increase in the level of spend year on year and a variation against budget of £12.887m credit.

Table 3: Comparison of Capital Expenditure to Revised budget for 2012/13

Actual Capital Expenditure 2012/13 £m		Revised Capital budget 2013/14 £m	Actual Capital Expenditure 2013/14 £m	Variation from budget over (+) / under (-) £m
23.318	General Fund	44.399	33.045	-11.354
17.264	Housing	18.842	17.309	-1.533
40.582	Total	63.241	50.354	-12.887

5.7 Included within the appendices is further information on the Capital Plan and activities in the year. **Appendix L** shows the final expenditure, and how that expenditure was financed, with **Appendix M** showing a comparison of expenditure against budget for each individual project. The reasons for these variations have been analysed as reprogramming and other variations.

5.8 Across all capital projects, further reprogramming of £12.877m has been identified and it is requested that Cabinet approve the carry forward of this amount into the 2014/15 Investment Plan. A detailed breakdown of this amount is included in **Appendix M.**

5.9 The major areas of activity during 2013/14 include:

Schools

(a) ED075 – Devolved Capital (spend £0.625m) - School led minor capital projects, including ICT. This funding is allocated direct via the DfE for all schools and is spent at the discretion of individual schools. Funding can be saved up over a period of 3 years at the schools discretion;

(b) ED120 – Basic Need (spend 3.476m) - This funding has been used to address Basic Need issues across the school estate to improve school accommodation and help remove mobile accommodation to replace with new build. It covers investment in 10 schools and has been split between 2013/14 and 2014/15. Projects completed to date include works at:

- Whitley Lodge First School
- Battle Hill Primary School
- Whitley Bay High School
- Marden High School
- Sir James Knott Nursery
- Ivy Road Primary School
- Woodlawn Special School

Works are currently ongoing at both Southlands School and St Bernadette’s RC Primary School with the design for a project at Forest Hall Primary currently being costed;

(c) ED132 - Capital Maintenance (spend £2.194m)- The projects under this budget relate to works associated with improving the condition of schools such as new windows, new roof and replacement heating systems. In addition this budget supports the delivery of DDA (physical) Improvements to individual schools including supporting pupils with visual and hearing difficulties and pupil movement. Over the 2013/14 financial year 32 projects were undertaken across 19 schools;

(d) ED166 – Primary Capital Strategy (spend £3.406m) - The funding under this initiative is supporting the new build Voluntary Aided Primary Schools for both St Stephen's and St Bartholomew's Primary Schools on the site of the former Goathland Primary School in Longbenton. Works are currently ongoing with a planned completion date of July 2014 with the new schools opening to all pupils in September 2014;

Highways

(e) EV034 – Local Transport Plan (spend £3.248m)- This programme of work is the Authority's primary support for transport-related projects such as road resurfacing, maintenance of bridges and infrastructure, and road safety schemes. Maintenance schemes carried out include A191 crash barrier renewal scheme and surfacing of main classified roads such as A193 Albion Road. Safety schemes included a pedestrian refuge at Linskill Terrace, traffic calming at Front Street Annitsford and new signalised crossings at Monkseaton;

(f) EV055 – Surface Water Management (Flooding) (spend £0.823m)- Implementation of a 3-year programme of work associated with the Flood Risk Implementation Plan to reduce the risk of flooding in the borough. In 2013/14 there were around 30 live projects, mainly at the design and feasibility stage eg Shiremoor and Green Lane, Dudley. A number of smaller schemes were constructed on the ground eg Marden High School flood protection scheme;

(g) EV056 – Additional Highways Maintenance (spend £0.739m) and DV048 Roads and Pavements (spend £1.031m) - Additional funding to improve the condition of North Tyneside's roads and pavements and assist in dealing with the backlog of highway repairs by means of a 4 year rolling programme. The Additional Highways Maintenance budget was mainly used to improve estate roads eg. Howdon estate, Camperdown estate. The Roads and Pavements budget enabled the resurfacing of roads as selected by residents at the former Area Forums eg. Rayleigh Drive estate, Richardson Street estate, Marine Avenue.;

Regeneration

(h) DV019 – Whitley Bay Regeneration (spend £2.153m) - £1.125m Coastal Communities Fund grant has been awarded and Stage 1 approval secured for £3.600m Heritage Lottery Fund grant. The Stage 2 process is currently underway. The acquisition of 3 seafront properties was completed and reprogramming required for contribution towards demolition costs to be undertaken by the previous owner as a condition of the acquisition;

(i) DV058 – Swan Hunters redevelopment (spend £2.075m) - This budget comprises a number of capital infrastructure works to the Swans site and adjacent roads funded from external sources. The projected spend for 2013/14 has been adjusted following detailed feasibility and design studies thereby requiring reprogramming into 2014/15. Work is still on target to be completed within the funders timetables;

(j) ST014 – North Shields Customer First Centre (spend £1.454m) - Refurbishment of the Central Library building to provide a new Customer First Centre was completed on time during 2013/14. This budget also included funding to upgrade the nearby Camden Street car park but this work has been deferred pending a decision to market the site for housing;

(k) CO061 – Excellent Parks (spend £2.249m) - To date this has funded the restoration of the three Wallsend Parks which included: restoring the lake and watercourses, extensions to the park lodge and park pavilion including the provision of a café, a new park compound, resurfaced and repositioned paths, boundary improvements, restoration of the bandstand and major tree works and replanting. The fund is also being used to restore Northumberland Park which is halfway through it's capital programme, to date the lake restoration, refurbishment of the bowls pavilion and new bowls pavilion is nearly complete, the parks pavilion is under construction and the tree works are well underway.

Other

(l) IT020 – ICT Strategy (spend £1.018m) – Major investment in CITRIX, Storage and Microsoft Server environment All hardware is installed with the project currently in the process of migrating to the new infrastructure;

(m) HS004 – Disabled Facilities grants (DFG)(spend £0.889m) - This project provides means tested assistance in the form of a grant (a maximum of £30k) to those that have an assessed need. 417 DFG works were completed in 2013/14; and,

Housing

(n) HS002 - Housing projects (spend £17.309m) – improvements to 4,188 properties including the installation of 528 kitchens, 503 bathrooms, 1,034 heating replacements, 503 fencing replacements and 1,709 properties receiving external works.

Capital Financing

5.10 Local authorities can finance capital expenditure from a variety of sources: grants; external contributions; capital receipts; borrowing; and contributions from revenue. This section of the report considers how the Capital Plan has been financed.

5.11 Under the Prudential System for capital financing, the Council can decide to borrow to fund capital expenditure, known as prudential (or unsupported) borrowing. There are associated revenue costs (interest and Minimum Revenue Provision (MRP)) which must be met from the Authority's own resources, i.e funded by Council Tax payers. MRP is a charge included in the Council's accounts that effectively spreads the cost of capital expenditure over a period that generally equates to the period in which the asset is used. When deciding whether to take out additional borrowing, the Council must consider whether the Capital Plan is affordable, sustainable and prudent.

5.12 When determining how to finance the Council-funded element of the Capital Plan, the Council's MRP Policy is used to maximise the effectiveness of borrowing in relation to individual schemes in the Capital Plan. Those schemes with longer asset lives (eg major building works) are financed using prudential borrowing, thereby spreading the MRP charges over a longer period, whilst those with shorter asset lives (eg equipment) are financed using capital receipts.

5.13 The total capital expenditure of £50.354m has been financed as shown in Table 4 below.

Table 4: 2013/14 Capital Financing

	2013/14 Capital Financing £m
Council Contribution	
Prudential (Unsupported) Borrowing – General Fund	9.746
Capital Receipts -General Fund	3.905
Capital Receipts - HRA	0.580
Direct Revenue Funding - General Fund	0.608
Direct Revenue Funding - HRA	1.284
Reserves - HRA	1.204
Major Repairs Allowance	14.164
	31.491
External funding	
Specific Government Grants	14.689
European Regional Development Fund (ERDF)	0.409
Capital Grants and Contributions	3.765
	18.863
	50.354

5.14 Total Prudential borrowing for the General Fund was £9.746m.

5.15 The budget approved by Council on 5 March 2013 included an estimated use of £8.914m General Fund capital receipts. This reduced to £3.361m following variations and reprogramming reported through the Financial Monitoring process.

5.16 The final position for General Fund receipts, of £3.882m, was higher than that eventually required, due to the level of reprogramming. This has enabled the surplus of capital receipts (£2.751m) to be used in place of borrowing and so defer this borrowing until 2014/15 with a resultant temporary saving, of approximately £0.110m, in Minimum Revenue Provision (MRP) required in 2014/15.

5.17 For Housing, capital receipts of £5.500m were received during 2013/14, of which £1.531m were pooled and paid across to central government. This leaves a balance of £3.969m useable receipts received in 2013/14.

5.18 Table 5 below shows the movement in capital receipts during 2013/14 including receipts received during 2013/14 (identified in paragraphs 5.16 and 5.17 above), receipts brought forward at 1 April 2013, receipts used to finance the 2013/14 Capital Plan, receipts set aside to repay debt and receipts carried forward at 31 March 2014.

Table 5: Movement in Capital Receipts during 2013/14

	Receipts brought forward 1 April 2013 £m	Net Useable Receipts received £m	Receipts used for financing £m	Receipts set aside for repayment of debt £m	Receipts carried forward 31 March 2014 £m
General Fund	0.023	3.882	-3.905	0.000	0.000
Housing	5.164	3.969	-0.580	-2.053	6.500
Total	5.187	7.851	-4.485	-2.053	6.500

5.19 The Council also received £14.689m of funding through specific Government grants. These grants included:

- £3.026m Schools Basic Need;
- £2.285m Schools Capital Maintenance;
- £1.519m Schools Primary Capital Strategy;
- £0.625m Schools Devolved Capital;
- £3.192m Local Transport Plan;
- £1.128m Homes and Communities Agency;
- £0.622m Disabled Facilities; and,
- £0.781m Growth Fund

5.20 Capital Grants and Contributions of £3.765m used in the year included:

- £1.339m Coastal Communities Fund; and,
- £1.005m Heritage Lottery

5.21 As part of the introduction of self financing for Housing an assessment was made by DCLG in respect of the Major Repairs Allowance that would be required to finance ongoing works to Council Dwellings. There is a requirement for the Major Repairs Allowance to continue under self financing. This contribution is now financed from within the HRA (ie it is self financed) and so appears as part of the council contribution shown in Table 4 above.

5.22 An analysis of the overall capital financing is also shown in **Appendix M**.

IFRS adjustments to Capital Expenditure in 2013/14

5.23 Under IFRS any expenditure incurred relating to PFI schemes and finance leases is classed as capital expenditure and the resulting assets are added to the Authority's balance sheet.

5.26 During 2013/14 spend of £0.214m was incurred under the PFI contract as part of the ongoing replacement of street lighting across the borough. In addition, initial costs of £4.782m were incurred by the contractor on the North Tyneside Living Housing PFI scheme.

Section 6: Treasury Management

6.1 The Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2013/14. This section of the report meets the requirements of both the CIPFA Code of Practice on Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities.

6.2 The primary reporting requirements of the Code are as follows:

a) Forecast the likely activity for the forthcoming year (in the Annual Treasury Management Strategy Report);
b) A mid – year review report; and
c) Review actual activity for the preceding year, including a summary of performance.

Treasury Position as at 31 March 2014

6.3 The Authority's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

6.4 The Authority's debt and investment position at the beginning and the end of 2013/14 is shown in Table 6 below:

Table 6: Treasury Management Position

	31 March 2014 Principal £m	Rate/Return %	31 March 2013 Principal £m	Rate/Return %
Fixed Rate Funding: -*PWLB long - term	244.750	5.95	264.750	5.70
(HRA-Self Financing)	128.193	3.49	128.193	3.49
-Market **(LOBO's)	20.000	4.35	20.000	4.35
-Temporary	53.872	0.59	38.338	0.40
Total External Debt	**446.815**		**451.281**	
Investments: - In-house	(18.000)	0.25	(5.700)	0.25
Total Investments	**(18.000)**		**(5.700)**	

Net Position	**428.815**		**445.581**	

*Public Works Loan Board
**Lender Option Borrower Option

Performance Measurement

6.5 One of the key requirements in the Treasury Management Code was the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide, as incorporated in Table 6 above.

The Strategy for 2013/14

6.6 The expectation for interest rates within the strategy for 2013/14 anticipated low but a rising Bank Rate with similar gradual rises in both medium and longer term fixed borrowing rates over 2013/14. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

6.7 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and reduce counterparty risk.

6.8 The actual movement in gilt yields meant that PWLB rates were on a sharply rising trend during 2013 as markets anticipated the start of tapering of asset purchases by the US Federal Reserve. This duly started in December 2013 and the Federal Reserve, adopted a future course of monthly reductions of $10bn, meaning the asset purchases were likely to stop by the end of 2014. However, volatility set in during the first quarter of 2014 as fears around emerging markets, various vulnerabilities in the Chinese economy, the increasing danger for the Eurozone to drop into a deflationary spiral, and the situation in the Ukraine, caused rates to dip down, reflecting a move to quality into UK gilts.

The Economy and Interest Rates

6.9 The original expectation for 2013/14 was that Bank Rate would not rise during the year and for only to start gently rising from quarter 1 2015. This forecast rise has now been pushed back to a start in quarter 3 2015.

6.10 Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014. The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling in the second half of that year and continuing into 2013/14. The part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

Borrowing Rates in 2013/14

6.11 Table 7 to this report shows the PWLB maturity borrowing rates for a selection of maturity periods, the high and low points in rates, the average rates and individual rates at the start and end of the financial year.

Table 7: PWLB Borrowing Rates 2013/14 for 1 to 50 years

Years	1 %	1-1.5 %	2.5-3 %	3.5-4 %	4.5-5 %	9.5-10 %	24.5-25 %	49.5-50 %
02/04/2013	1.120	1.150	1.350	1.530	1.750	2.840	4.080	4.230
30/09/2013	1.300	1.420	1.870	2.190	2.500	3.660	4.450	4.480
HIGH	1.450	1.630	2.230	2.620	2.970	4.100	4.670	4.700
LOW	1.100	1.120	1.250	1.410	1.610	2.580	3.780	4.070
Average	1.305	1.421	1.853	2.164	2.469	3.584	4.427	4.467

Borrowing Outturn for 2013/14

6.12 Due to investment concerns, both counterparty risk and low investment returns, no long-term borrowing was undertaken during the year.

6.13 Maturing long – term loans of £20.000 million were repaid in 2013/14 as detailed in Table 8 below:

Table 8: Maturing Long Term Loans repaid during 2013/14

Principal £m	Interest Rate %	Date Repaid
20.000	2.62	27 January 2014

6.14 Maturing short – term loans of £51.790 million were repaid in 2013/14 as detailed in Table 9 below:

Table 9: Maturing short Term Loans repaid during 2013/14

Principal £m	Interest Rate %	Date Repaid
5.000	0.34	15 April 2013
5.000	0.34	19 April 2013
3.170	0.35	19 April 2013
1.450	0.55	23 May 2013
5.000	0.42	20 June 2013
5.000	0.30	28 June 2013
5.000	0.50	29 July 2013
5.000	0.45	30 August 2013
5.000	0.50	30 September 2013
5.000	0.35	15 October 2013
3.170	0.35	21 October 2013
4.000	0.45	31 March 2014

6.15 Short term savings were achieved during the year by internally financing new capital expenditure and replacing maturing debt by running down existing cash balances, which were only earning minimal rates of interest due to the fact that the Bank Rate was kept at 0.5% all year. Lower cash balances also meant lower counterparty risk on the investment portfolio.

6.16 No rescheduling of debt was carried out during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Investment Rates in 2013/14

6.17 The Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. Market expectations as to the timing of the start of the monetary tightening ended up almost unchanged at around the end of 2014 and the start of 2015. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014.

6.18 Table 10 below shows the money market investment rates for the year.

Table 10: Money Market Investment Rates for 2013/14.

	Overnight %	7 Day %	1 Month %	3 Month %	6 Month %	1 Year %
01/04/13	0.361	0.365	0.371	0.382	0.478	0.784
31/03/14	0.321	0.342	0.363	0.397	0.497	0.786
HIGH	0.361	0.368	0.371	0.403	0.498	0.790
LOW	0.258	0.338	0.357	0.379	0.457	0.734
Average	0.347	0.354	0.364	0.391	0.475	0.762

Investment Outturn for 2013/14

6.19 The Authority's investment policy is governed by Communities and Local Government (CLG) guidance, which was implemented in the annual investment strategy approved by the Council in March 2013. The policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

6.20 The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties. The treasury management team on a daily basis carefully monitor credit ratings.

Section 7: Prudential Indicators

Introduction

7.1 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Authority's underlying capital appraisal systems.

7.2 Within this overall prudential framework there is an impact on the Authority's treasury management activity as it will directly impact on borrowing and investment activity. Section 6 above provides a review of the Authority's activity during 2013/14.

7.3 The Prudential Code requires the following matters to be taken into account when setting or revising the prudential indicators:

a) Service Objectives – e.g. strategic planning for the Authority
b) Stewardship of assets – e.g. asset management strategy
c) Value for money – e.g. options appraisal
d) Prudence and sustainability – e.g. implications of external borrowing
e) Affordability – e.g. impact on Council Tax
f) Practicality – e.g. achievability of the forward plan

7.4 Matters of affordability and prudence are primary roles for the Prudential Code.

7.5 The revenue consequences of capital expenditure, particularly unsupported capital expenditure, must to be paid for from the Authority's resources.

7.6 Capital expenditure can be paid for through capital receipts, grants etc, but if these resources are insufficient then any residual capital expenditure will add to the Authority's borrowing need.

7.7 The key risks to the plans are that the level of external funding has been estimated in some projects and therefore may change. Similarly some estimates for other sources of funding, such as capital receipt levels, may change as capital receipts are reliant on an active property market.

7.8 In total there are fifteen prudential indicators, covering:

- Affordability;
- Prudence;
- Capital expenditure;
- External debt; and
- Treasury management.

7.9 Prudential indicators are required to be set by full Council as part of the Financial Planning and Budget process. Any revisions must be reported through the financial management process.

7.10 The prudential indicators for the forthcoming and future years must be set before the beginning of the forthcoming year. They may be revised at any time, following due processes and must be reviewed, and revised if necessary, for the current year when the prudential indicators are set for the following year.

7.11 The following part of the report shows the actual 2013/14 Prudential Indicators at year-end compared to the estimated indicators approved by Cabinet in the September Financial Monitoring report on 11 November 2013.

Prudential Indicators for Affordability

Ratio of financing costs to net revenue stream

7.12 This indicator shows the annual total cost of financing capital investments (that have been made over time) as a percentage of the Authorities total spend for both General Fund and the HRA.

7.13 The actual figures for 2013/14 are set out in Table 11 below together with the estimated 2013/14 position at September 2013 and the 2012/13 final figure:

Table 11: Ratio of Financing Costs to Net Revenue Stream

	2012/13	2013/14	2013/14
	Actual	Est.	Actual.
General Fund	13.32%	13.41%	13.45%
HRA	22.93%	29.68%	29.82%

7.14 The above indicator reflects costs for all borrowing, both supported and unsupported. It also includes the financing costs of PFI schemes (including the North Tyneside Living PFI scheme) and finance leases. To enhance the information available for decision-making we have also provided a local indicator to show the percentage of the budget that is spent on unsupported borrowing. This is shown in Table 12 below:

Table 12: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream

	2012/13	2013/14	2013/14
	Actual	Est.	Actual.
General Fund	6.75%	6.70%	6.57%
HRA	3.94%	10.07%	10.11%

Incremental impact of new capital investment decisions on council tax and housing rents

7.15 This indicator represents the incremental impact of new capital investment decisions, approved as part of 2013/14 budget setting, on the annual Council Tax (Band D) and weekly housing rents.

Table 13: Incremental impact of new 2013/14 capital investment decisions on Council Tax (Band D) and weekly housing rents

	General Fund	HRA
estimate	£2.96	£1.99
actual	£2.96	£1.68

7.16 These figures are notional and in practice the incremental costs of borrowing for the capital programme are incorporated into the calculations for the revenue budget build up along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability.

Prudential Indicators for Prudence

7.17 A key indicator of prudence is that, over the medium term, gross debt will only be used for a capital purpose. Under the Code the underlying need to borrow for a capital purpose is measured by the Capital Financing Requirement (CFR). Following changes to the CIPFA Prudential Code gross debt includes external borrowing and also other liabilities including PFI schemes and Finance Leases.

Gross debt and Capital Financing Requirement (CFR)

7.18 This key indicator shows that gross debt does not exceed the total CFR at 31 March 2014.

Table 14: Gross external debt less than CFR

	2013/14 Actual
	£m
Gross External Borrowing	446.815
Other Liabilities (including PFI and Finance Leases)	61.502
Total Gross debt	508.317
Capital Financing requirement	574.333

Prudential Indicators for Capital Expenditure

Capital expenditure

7.19 This indicator reflects the actual level of capital spend shown in section 5 above.

Table 15: Capital Expenditure

	2012/13	2013/14	2013/14
	Actual £m	Estimate £m	Actual £m
General Fund	23.318	50.089	33.045
HRA	17.264	18.615	17.309
Total	40.582	68.704	50.354

Capital Financing Requirement (CFR)

7.20 The CFR can be understood as the Authority's underlying need to borrow money long term for a capital purpose. The underlying need is the expenditure remaining to be financed after allowing for capital funding from capital receipts, grants, third party contributions and revenue contributions. It reflects the cumulative amount of borrowing required for capital purposes less the annual Minimum Revenue Provision (MRP)(the amount set aside to repay debt).

7.21 In accordance with best professional practice the Authority does not associate borrowing with particular items or types of expenditure. The Authority has a number of daily cashflows, both positive and negative, and manages its Treasury position in terms of its borrowing and investments in accordance with the approved Treasury Management Strategy. In day to day cash management no distinction can be made between revenue cash and capital cash. Over the long term external borrowing may only be incurred for capital purposes.

7.22 The CFR has been calculated in line with the methodology required by the relevant statutory instrument and the guidance to the Prudential Code. It incorporates the actual borrowing impacts of the Authority's capital projects, PFI programmes and Finance Leases.

Table 16: Capital Financing Requirement

	2012/13 Actual £m	2013/14 Est. £m	2013/14 Actual £m
General Fund	292.043	295.248	288.506
HRA	287.011	288.634	285.827
Total	**579.054**	**583.882**	**574.333**

7.23 The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 17 below:

Table 17: Capital Financing Requirement for Unsupported Borrowing

	2012/13 Actual £m	2013/14 Est. £m	2013/14 Actual £m
General Fund	124.130	134.173	128.387
HRA	43.593	39.693	39.693
Total	**167.723**	**173.866**	**168.080**

Prudential Indicators for External Debt

Authorised limit for total external debt

7.24 For the purposes of this indicator the authorised limit for external debt is defined as the authorised limit for borrowing plus the authorised limit for other long term liabilities.

7.25 The authorised limit represents the maximum amount the Authority may borrow at any point in time in the year. It has to be set at a level the Authority considers is "prudent" and has to be consistent with the plans for capital expenditure and financing.

7.26 This limit is based on the estimate of the most likely, but not worse case, scenario with additional headroom to allow for operational management, for example unusual cash movements.

7.27 The following limits were set by full Council as part of the budget setting process.

Table 18: Authorised Limit for External Debt

	2013/14 £m
Borrowing	1,070
Other Long Term Liabilities	110
Total	**1,180**

7.28 The Authorised Limit for External Debt was not breached during 2013/14.

Operational Boundary for total external debt

7.29 The operational boundary represents a key management tool for in year monitoring by the Chief Finance Officer. Within the operational boundary, figures for borrowing and other long term liabilities are identified separately.

Table 19: Operational Boundary for External Debt

	2013/14 £m
Borrowing	535
Other Long Term Liabilities	90
Total	**625**

7.30 Actual borrowing remained within the Operational Boundary during 2013/14.

HRA limit on indebtedness

7.31 Under the reforms of housing finance the Government published *Limits on Indebtedness Determination 2012* which set out the maximum amount of housing debt the Authority could have outstanding at any one time. The limit for North Tyneside was £290.824m. This limit will be required to flex to allow headroom for the North Tyneside Living PFI scheme. The table below demonstrates that HRA debt at 31 March 2014 was within the cap set.

Table 20: HRA limit on indebtedness

	2013/14
	Actual £m
HRA limit on indebtedness	290.824
HRA capital financing requirement	285.827

Prudential Indicators for Treasury Management

Adoption of the CIPFA Code of Practice for Treasury Management

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

Upper limits on interest rate exposure 2013/14 to 2015/16

7.33 Full Council set an upper limit on its fixed interest rate exposures for 2013/14 of 100% of its net outstanding principal sums. Borrowing remained within this limit during 2013/14.

7.34 Full Council set an upper limit on its variable interest rate exposures for 2013/14 of 50% of its net outstanding principal sums. Borrowing remained within this limit during 2013/14.

7.35 Upper and lower limits for the maturity structure of the Authority's borrowings were set as shown in Table 21 below. Borrowing remained within these limits during 2013/14.

Table 21: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate

	Upper Limit	Lower Limit
Under 12 months	50%	0%
12 months to 2 years	50%	0%
2 years to 5 years	50%	0%
5 years to 10 years	75%	0%
10 years to 20 years	100%	25%
20 years to 30 years	100%	25%
30 years to 40 years	100%	25%
40 years to 50 years	100%	25%

7.36 Full Council agreed the indicator for exposure of investments in excess of 364 days at no more than 25% of the portfolio. Investments were within this limit during 2013/14.