**ANNEX 1**

**Cabinet – 10 November 2014**
**Agenda Item 6(a)**

# 2014/15 Financial Management Report to 30 September 2014

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## Section 1.0
## Executive Summary

### Summary

1.1 This is the third report to Cabinet for 2014/15, setting out the Authority's financial position as at the 30 September 2014, the mid point of the financial year.

1.2 This report includes details of the forecast outturn position to the 31 March 2015, highlighting key strategic issues to be managed by the Authority during the year.

### Strategic Management of the Council's Budget

1.3 The budget for 2014/15 was approved by full Council at its meeting of 20 February 2014. The net General Fund revenue budget was set at £168.395m, this included CEI savings (Change Programme) of £16.552m to be achieved.

1.4 The Investment Plan for 2014-18 was approved at £202.644m (£79.419m for 2014/15). Further reprogramming and variations were approved by Cabinet through the budget monitoring and outturn reports (£0.700m on 10 March 2014, £12.877m on 9 June 2014, £2.427m credit on 14 July 2014 and £1.273m on 8 September 2014), taking the total approved Investment Plan for 2014-18 to £215.067m (£91.939m for 2014/15).

1.5 The current forecast outturn for the General Fund revenue budget reflects in-year surplus of £2.740m. The Service teams continue to work to embed plans that will ensure all pressures identified are managed and that the budget remains on target at the end of the year.

1.6 The Housing Revenue Account (HRA) is forecasting an under spend of £0.303m for the year.

1.7 In the period to 30 September 2014, the level of capital spend posted within the General Ledger was £21.495m, which represents 26.7% of the revised Investment Plan for the year, a slight fall on the comparative spend for 2013/14. After taking account the reprogramming reported in the Investment Plan and the level of capital receipts received to date, there is no longer a gap in capital receipts required for 2014/15. As a result of this reprogramming £3.500m of capital receipts will be required in 2015/16 to fund the reprogrammed spend.

1.8 Cabinet are recommended to approve reprogramming of £11.755m and variations of £0.175m to the 2014-18 Investment Plan.

### Strategic Issues

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

Change Improvement and Efficiency Programme (Change Programme)

1.10 The budget for 2014/15 included savings of £16.552m, from the delivery of projects/actions included as part of the Change, Improvement and Efficiency programme (CEI)(Change Programme). The savings are embedded within service budgets and are therefore included within budget monitoring.

1.11 The scale of the financial challenge for the year meant that wide ranging efficiencies and service reconfiguration were required to be implemented during 2014/15. It is important that these savings are monitored as part of the overall financial position of the Authority so the bottom line financial position is known.

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

1.13 Set out in Appendix O are indicators of delivery shown as Red, Amber or Green. Currently there are projects with a value of £9.420m with a green status, £5.879m with an amber status and £1.253m with a red status. The status of the projects is reflected in the budget monitoring position as at 30 September 2014.

**Section 2.0**
**General Fund Income and Expenditure**

2.1 This section of the report details the current budget pressures identified by Services and the expected year-end outturn following mitigating actions taken to reduce those pressures. Table 1 summarises the position and reflects in year surplus of £2.740m.

2.2 Budget monitoring is based on the recorded transactions as at 30 September 2014 and is set out in Table 1 below. Table 1 is supplemented by a summary commentary below, covering the key variances by Service. The detailed **Appendices (A - J)** set out variations by Service Area within the Services.

**Table 1: 2014/15 General Fund Revenue provisional outturn summary to 31 March 2015**

| | | Full Year Budget | Forecast Outturn | Forecast Outturn Variance Sept 2014 | Forecast Outturn Variance July 2014 |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| **Services** | | | | | |
| Business and Economy | Appendix A | 1.622 | 1.547 | -0.075 | -0.037 |
| Chief Executive's Office | Appendix B | 3.214 | 3.281 | 0.067 | 0.051 |
| Finance and Commercial Services | Appendix C | 12.375 | 13.003 | 0.628 | 0.684 |
| Law and Governance | Appendix D | 3.126 | 3.110 | -0.016 | -0.034 |
| Public Health | Appendix E | 0.000 | 0.000 | 0.000 | 0.000 |
| Adult Social Care | Appendix F | 50.940 | 46.439 | -4.501 | -4.525 |
| Children, Young People and Learning | Appendix G | 15.536 | 17.096 | 1.560 | 1.971 |
| Commissioning and Investment | Appendix H | 7.332 | 7.631 | 0.299 | 0.368 |
| Environment and Leisure | Appendix I | 30.597 | 32.044 | 1.447 | 1.593 |
| Housing General Fund | Appendix I | 1.268 | 1.264 | -0.004 | -0.003 |
| Deputy Chief Executive Central Costs | Appendix I | 0.270 | 0.242 | -0.028 | -0.028 |
| Non-Controllable | | 7.297 | 7.297 | 0.000 | 0.000 |
| **Sub Total - Service-Approved Budget** | | **133.577** | **132.954** | **-0.623** | **0.040** |

**Table 1 continued**

| | | Full Year Budget | Forecast Outturn | Forecast Outturn Variance July 2014 | Forecast Outturn Variance May 2014 |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| Corporate and Democratic Core | Appendix J | 11.520 | 11.520 | 0.000 | 0.000 |
| Corporate Accounting | Appendix J | 3.437 | 1.709 | -1.728 | 0.000 |
| Contingency Budget | Appendix J | 1.955 | 1.205 | -0.750 | -0.750 |
| Levies | Appendix J | 12.754 | 12.754 | 0.000 | 0.000 |
| Utilities | | 0.000 | 0.261 | 0.261 | 0.196 |
| Non-Controllable | | 5.152 | 5.152 | 0.000 | 0.000 |
| **Sub-Total- Non Delegated budgets** | | **34.818** | **32.601** | **-2.217** | **-0.554** |
| | | | | | |
| **Net forecast pressure/(surplus) before exceptional items and transfers to reserves** | | **168.395** | **165.555** | **-2.840** | **-0.514** |
| | | | | | |
| **Exceptional items** | | | | | |
| Land Charges Search Fees Settlement | | 0.000 | 0.100 | 0.100 | 0.100 |
| Remediation Works | | 0.000 | 0.100 | 0.100 | 0.500 |
| Industrial Action | | 0.000 | -0.100 | -0.100 | -0.100 |
| **Total exceptional items** | | **0.000** | **0.100** | **0.100** | **0.500** |
| | | | | | |
| **Net forecast pressure/(surplus) after exceptional items** | | **168.395** | **165.655** | **-2.740** | **-0.014** |
| | | | | | |

**Services**

2.3 The main variations are set out in detail below.

2.4 **Business & Economy** has a forecast under spend of £0.075m (July £0.037m under spend). It is anticipated that £0.272m of the budget for Business and Enterprise will not be committed in year although most of this has been pledged to investors and will be paid to them at the point they can demonstrated that they have created new jobs. At this stage we are assuming that only £0.200m of this under spend would be required to be carried forward to fund these pledges in 2015/16. The full analysis is included as **Appendix A.**

2.5 The **Chief Executive's Office** is forecasting an overall overspend of £0.067m in this Budget Monitoring report. This relates principally to Communications around advertising income shortfalls (£0.077). This pressure was compensated for in 2013/14 by savings within engagement which were offered as permanent savings as part of the budget setting process for 2014/15. The full analysis is included as **Appendix B.**

2.6 The year end position for **Finance and Commercial Services** is currently forecast as an overall pressure of £0.628m. This is further detailed in **Appendix C**. The main factor that gives rise to this is a forecast pressure on Business Partnership CEI target (£0.769m). The proposal was to explore the potential in the further extension of current services provided by Cofely GDF Suez but it was acknowledged it could also require reduction in some service standards (where acceptable). Areas under consideration include the Contact Centre, ICT, Finance, Procurement, Financial Assessment and cashless payment. This work has commenced and options are emerging. It is envisaged this position will improve as we progress through the year.

Other pressures and savings in this Service are detailed in Appendix C but are primarily:

- A forecast shortfall on the income expectation associated with trading income of £0.112m which at present there are no firm plans to meet;
- Savings of £0.106m anticipated on the External Audit fee budget; and,
- A net under spend forecast in relation to Housing benefit subsidy of (£0.262m).

2.7 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 currently ring-fenced and the £0.126m predicted pressure reported in **Appendix E,** mainly as a result of a 12 month extension to the Northumbria Healthcare Foundation Trust contract, will be funded from £0.406m grant brought forward from 2013/14 leaving £0.280m available to carry forward into 2015/16.

2.8 **Adult Social Care** (ASC) is reporting a forecast under spend of £4.501m. As part of the 2014/15 budget setting process was a decision to include £3.225m of the 2013/14 contingency budget as a permanent adjustment to the base budget for Adult Social Care. Cabinet will recall that the service ended 2013/14 with a surplus reflecting the success of the gateway process and on-going reviews of placements to manage costs down. This has continued into the early part of 2014/15 and as such the service does not currently expect to spend the adjusted gross budget. All of the necessary actions have been taken to realise planned savings and, although the service is always at risk to demand-led pressures particularly in Learning Disabilities and Older People Services, we continue to see an underlying improvement in the position following detailed placement reviews. Service redesign continues to go well and is delivering savings in advance of greater pressures anticipated with the implementation of the Care Act. The position for Learning Disabilities and Mental Health Commissioning includes significantly more Mental Health Aftercare income and Resettlement income compared to 2013/14 income in line with section 256 agreements signed with the North Tyneside Clinical Commissioning Group. Of this £1.640m is one off income in 2014/15 only. Within Older People Commissioned services there is also a one-off £0.600m of additional section 117 aftercare income. The full analysis is included as **Appendix F.**

2.9 **Children Young People and Learning** is currently forecasting a budget pressure of £1.560m at year end. A full breakdown of this projection is included in **Appendix G**.

The main underlying cause for the budget pressure in this service is almost entirely Corporate Parenting and Placements which forecasts a budget pressure of £1.525m (£1.622m July 2014).

The area of Corporate Parenting and Placements has historically over spent. The over spends were £1.564m in 2010/11, £0.702m in 2011/12, £0.646m in 2012/13 and £0.673 in 2013/2014. In setting the 2014/15 budget the budget was reduced by £0.500m associated largely with expected reduced placements.

The area of Corporate Parenting and Placements captures a spectrum of provision to meet each individual child's needs, ranging from adoption, foster care, our own North Tyneside residential provision to the most costly individual placements made out of borough. The current forecast pressure of £1.525m is further broken down to: External Placements £1.293m (including £0.060m potential pressure in relation to 1 complex case awaiting placement), in-house fostering £0.331m, Independent Fostering £0.178m, in-house residential homes £0.042m, Care Leavers Teams (£0.130m), offset by saving on Adoption/ Custodianship £0.249m and the application of £0.200m of budget held in corporate contingencies (see Appendix J).

The service is committed to continuing to reduce this pressure as far as possible whilst ensuring the Corporate Parenting responsibilities of the Authority are delivered. A senior officer team are currently working together to tackle this issue by seeking to further understand the interdependencies of this and other services both in terms of how individual children come to require this support and how the Authority's services are connected together to deliver appropriate support.

Whilst most of the 2014/15 CEI savings targets are expected to deliver the full budgeted saving in 2014/15 small delays to the staff restructures project have resulted in a likely budget pressure in 2014/15 within Employment & Skills. A fuller analysis is available at **Appendix G.**

2.10 The **Commissioning and Investment** service is reporting a forecast pressure this year of £0.299m.

There is a forecast pressure of £0.200m in relation to the delay in confirming the increased income expectations from Health added in the 2014/15 CEI programme. The £0.100m pressure within Education Capital and Fair Access relates to both staffing and the Home to School Transport position after the application of contingency.

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

2.11 **Environment and Leisure** is reporting a pressure of £1.447m. The major pressure (£0.973m) within this position relates to Property. This includes a predicted continuing pressure at the Swan Hunter site mainly due to the reduction in expected income whilst the regeneration work is underway and a pressure relating to the premises costs of Quadrant. 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.

Transport and Highways are also forecast to overspend by circa £0.347m, where there are some historical pressures associated with the engineering budgets managed by Capita. Forecasts for Planning suggest that there will be a £0.184m pressure mainly from reduced income levels. Again significant work is underway to resolve these matters.

The rates charged through the Transport Account have been realigned to reflect that "sweating the assets" does allow the authority in the short term to reduce its internal recharge rates. As such the large transport overspends in the services and under spends in the Transport account itself are not forecast for 2014/15.

The full analysis is included as part of **Appendix I**

2.12 The following table sets out a summary of revenue grants, which Cabinet are requested to approve, that have been awarded during August and September 2014. The details of these grant changes are set out in **Appendix N.** All new capital grants are included in the capital variations (Tables 4 and 5) of this report.

**Table 2: 2014/15 Revenue Grants awarded during August and September 2014**

| Service | Amount £m |
|---|---|
| Children Young People and Learning | 0.036 |
| Environment and Leisure | 0.360 |
| Total | 0.396 |

## Non Delegated Budgets

2.13 The **Corporate and Democratic Core** is forecasting an under commitment of £0.717m arising from lower than budgeted pension fund contributions. It has been assumed, at this stage, this surplus will be used to help meet the capital receipts requirement for the 2014-18 Investment Plan.

2.14 **Corporate Accounting** is forecasting an under commitment of £3.870m including:

(a) A forecast saving in Minimum Revenue Provision (MRP) of £1.064m primarily as a result of re-programming during 2013/14;

(b) Forecast savings in external interest of £2.142m as a result of lower interest rates than anticipated at budget setting time (due to temporary borrowing), the continued level of internal borrowing and reprogramming;

(c) Forecast Strain on the Fund savings of (£0.645m) based on current and future leavers; and,

(d) £0.300m pressure relating to provision for bad debts, in particular benefits overpayment debtors.

It has been assumed, at this stage, that the forecast savings on external interest of £2.142m will be used to meet the capital receipts requirement for the 2014-18 Investment Plan. This leaves a reported under commitment of £1.728m for Corporate Accounting.

2.15 It has been assumed that an under spend of £0.750m will occur as the **Contingency** budget will not be required for Adult Social Care.

2.16 **Utility Costs** continue to be an issue for the Authority with a forecast pressure of £0.261m for 2014/15. 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.

2.17 **Exceptional items**

(a) A proposed settlement has been agreed in respect of the Land Charges Search fees case. The costs are expected to be in the region of £0.134m, £0.034m of which can be drawn down from a provision held on the Balance Sheet. The impact of the additional £0.100m costs is reflected in Table 1 above. Any subsequent claims raised and settled will be reported through Budget Monitoring as appropriate;

(b) A saving of £0.100m is estimated as a result of the Industrial Action taken in July 2014; and,

(c) Following further investigation work at the Killingworth site the costs of remediation work required have now been estimated at £0.100m (the previous provisional estimate was £0.500m).

## 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 forecast year-end position and variance analysis for September 2014 is attached as **Appendix K** to this report.

3.2 On the 15 January 2014 the Cabinet approved the HRA budget for 2014/15. 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 £0.359m higher than anticipated opening balances i.e. £2.854m as opposed to the budgeted figure of £2.495m, and the in-year position is forecast to be £0.303m better than budgeted.

3.4 The main variations against budget were a shortfall in relation to rent and service charge income projections (£0.258m), which has been offset by savings across Management Cost Centres (£0.159m), and un-allocated contingency and under spends on transitional protection (£0.142m) which more than cover the loss of rental income.

**Rent and Service Charge Income –** shortfall of £0.258m made up of range of factors: Rebasing due to actual opening stock being lower than forecast because of additional Right to Buy's (RTB) in 2013/14 (£0.160m); slightly higher than anticipated level of voids being carried currently (£0.080m); RTB projections for 2014/15 revised to higher than projected (£0.090m); reduction in Temporary Accommodation income due to Housing Benefit caps and impending closure of Alexandra Street (£0.077m); reduction in garage rent projections due to higher void levels (£0.024m); reduction in Sheltered Officer Service Charge Income(£0.028m). These reductions have been partially offset by increased service charge income (£0.200m).

**Capital Financing Charges –** A decrease in estimated Debt Management Expenses (DME) of £0.025m for re-financing of the current loan portfolio and external debt advice. An estimated £0.156m of interest savings being achieved in-year by continuation of policy to take advantage of short-term interest rates.

**Management Costs –** a range of variances against budget are projected across various areas: Treatment of Disturbance Costs as part of the North Tyneside Living project will place an estimated £0.105m pressure on revenue costs, along with some additional costs for Technical Consultants, but this will be more than offset by additional water rate commission, reduced council tax void costs for properties now demolished e.g. Hedley Place, and vacancies within the service, which gives a combined projected under spend of £0.159m.

**North Tyneside Living (PFI) –** Due to a timing issue we have received more PFI credits up-front than anticipated (£0.179m), which offsets the reduction to credits received as a result of a 50:50 sharing of savings on the final deal agreed with Government (£0.046m). The net effect in year of £0.129m will be transferred to the PFI reserve and will have a marginal interest benefit to the project over its 28 year life.

**Contingency and Transitional Protection –** a small contingency was created in 2014/15 from savings realised on insurance premium costs (£0.116m), and transitional protection created for those existing tenants who would otherwise be adversely impacted by the new rents to be set within the North Tyneside Living project will not all be needed because of timing issues, both of these under spends contribute to the overall projected underspend on the account in-year (£0.142m).

## Section 4
## Schools Finance

**2014/15 School budgets**

4.1 Budget monitoring is conducted with all schools during September to October every year. Particular attention is given to the four schools with deficit approval for 2014/15 budgets i.e. Longbenton Community College, Norham High, Marden High and St Bartholomew's CoE Primary. Further follow up meetings regarding these four schools and Finance will be held in the Autumn Term to monitor the specific requirements of their deficit approval. The current forecast position indicates that all schools in North Tyneside are broadly performing in line with their original budget plans.

4.2 Further detail on the deficit position in North Tyneside Schools is set out in a subsequent report to be brought to this meeting.

**Progress in relation to 2015/16 School funding**

4.3 Since the July Cabinet report we have met the Schools Forum in September and held a borough wide consultation with schools on the proposed 2015/16 mainstream school funding formula. Responses to the consultation were discussed at Schools Forum on 15 October 2014 and the proposed formula accepted, before submitting this to the Education Funding Agency by 31 October 2014.

4.4 Members will receive more information on the budget setting process in a subsequent report being brought to this Cabinet meeting.

**Section 5.0**
**Investment Plan Expenditure and Financing**

## Review of Investment Plan - Position Statement

5.1 The Authority's Investment Plan represents the capital investment in projects across all service areas. This report summarises activities up to 30 September 2014.

## Investment Plan Delivery

5.2 Some of the key progress areas to note to 30 September 2014 are as follows:

- All associated external works including the removal of the haul road, a new car park and an external multi use games area has been completed at Southlands School;

- The Guaranteed Maximum Price (GMP) has been agreed and the works have been ordered for the project at Forest Hall Primary;

- St Stephen's and St Bartholomew's Primary Schools have moved into their new premises in late August;

- Ongoing delivery and monitoring of the remaining projects at West Allotment Boys Club and DePaulUK (Whitley Bay);

- Two specialist recycling vehicles have been procured with delivery expected in October 2014. They are to be trialled before being put into full use in November. On street bin covers have been procured and are being installed. New and replacement recycling / litter bins should all be in place by the end of November. Refuse and recycling bins for additional properties have been received in lots as required;

- At Tynemouth Crematorium the external trenching is well underway and is expected to be complete in four weeks. The first fix of the electrics is in place and orders have been placed for fittings. The stonework has commenced and two cremators have been installed;

- The construction of the artificial grass pitches and car park has been completed at Lockey Park, Wide Open. The official opening is scheduled for 18 October 2014. The grass pitch works are due for completion in Spring 2015;

- The asbestos strip out in the former Avenue Pub and High Point Hotel have been completed and the demolition of both properties is underway. The Council currently has an opportunity to secure a more comprehensive redevelopment of the High Point site. Negotiations are currently ongoing. If agreement is not reached there may be a need to underwrite the purchase of the adjacent property and associated costs. Should the need arise to fund these costs in 2014/15, funding is available from the Coastal Regeneration budget as reprogramming has been identified. This is due to further schemes being deferred pending the finalisation of a new master plan for the Whitley

Bay Seafront area, which is to be the subject of Cabinet Member consultation shortly and public engagement in December. Any funding used from the Coastal Regeneration budget would need to be replaced in later years to deliver the master plan proposals. This will be managed through the annual budget setting process;

- Expressions of Interest for marketing of commercial space in the Dome have been completed. A design team has been appointed and a main contractor selected to undertake Coastal Communities Fund works and develop Heritage Lottery Fund Stage 2 submission;

- The Spanish City Dome closed for public events from July. The building is being stripped out and exhibitions removed in preparation for the major restoration project;

- Work has commenced on new café and public toilets at Longsands North;

- Design work has been completed for Trinity Road Seawall Project and works have commenced on site;

- 66 Disabled Facilities Grants have been approved since the start of the financial year;

- HRA Mechanical and Electrical Works – The project is programmed for completion by year end. Phase 1 and Phase 2 are now complete leaving 2 more schemes to be completed;

- HRA Major Refurbishment Works - 6 projects are now complete, 10 on site and a further 8 schemes still to commence. All works are due to complete by year end; and,

- HRA New Build - Works have been completed at Barr Close. Conversion works at Bank Top Cottages Cullercoats and the former Coast Road Library are progressing.

**Variations to the 2014/15 Investment Plan**

5.3 As part of the regular capital monitoring process during August and September 2014 there have been £0.175m of variations and £11.755m reprogramming to the 2014/15 Investment Plan reported.

Table 4 details the changes to the approved 4-year Investment Plan, as agreed at Council on 20 February 2014.

**Table 3: 2014 - 2018 Investment Plan changes identified**

| | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m | Total £m |
|---|---|---|---|---|---|
| **Approved Investment Plan – Council 20 February 2014** | **79.419** | **46.113** | **42.223** | **34.889** | **202.644** |
| **Previously Approved Reprogramming/Variations** | | | | | |
| Cabinet 10 March 2014 | 0.700 | 0 | 0 | 0 | 0.700 |
| Cabinet 9 June 2014 | 12.877 | 0 | 0 | 0 | 12.877 |
| Cabinet 14 July 2014 | -2.330 | -0.097 | 0 | 0 | -2.427 |
| Cabinet 8 September 2014 | 1.273 | 0 | 0 | 0 | 1.273 |
| Total | 12.520 | -0.097 | 0 | 0 | 12.423 |
| **Approved Investment Plan – Cabinet 8 September 2014** | **91.939** | **46.016** | **42.223** | **34.889** | **215.067** |
| August/September Reprogramming | -11.755 | 11.755 | 0 | 0 | 0 |
| August/September Variations | 0.385 | -0.210 | 0 | 0 | 0.175 |
| **Revised Capital Plan** | **80.569** | **57.561** | **42.223** | **34.889** | **215.242** |

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

**Details of changes to the 2014/15 Investment Plan**

5.5 For 2014/15, total variations to the end of September 2014 of £0.175m have been identified. The details of the main changes are shown below:

(a) **EV074 Trinity Road Seawall, £0.135m** – Environment Agency grant has been accepted to fund seawall improvements;

(b) **HS036 Warm Zones, £0.500m credit (£0.210m credit 2015/16)** – The External Partner funding was shown in the Investment Plan but this is to be paid direct by the partner. This leaves the Council Contribution element only in the plan;

(c) **DV058 Swan Hunters Redevelopment, £0.400m** – A capital receipt has been received in relation to the long term lease of land. This has been incorporated into the funding of the project;

(d) **ED075 Devolved Formula Capital, £0.338m** – To reflect the use of Section 106 monies to expand the educational provision in Willington Quay (Stephenson Memorial Primary, Denbigh Primary, Holy Cross Primary and Churchill Community College). Each school will receive one quarter of the S106 monies to manage directly;

(e) **CO064 Community Capacity Grant, £1.000m** – Grant of £1.000m has been allocated to the Affordable Homes Programme with the remaining balance to be used within the Adult Social Care service. This variation has a neutral impact on the Investment Plan; and,

(f) **CO070 Annitsford Pavilion, £0.025m** – A request has been received from a Community Group for up to £0.025m funding to enable the completion of a community facility at Annitsford Pavilion. At it's meeting on 22 October 2014 the Investment Programme Board agreed to recommend approval of this request, up to a maximum of £0.025m, to Cabinet. The contribution is to be funded from savings identified in the Investment Plan.

5.6 For 2014/15, reprogramming to the end of September 2014 of £11.755m has been identified. The details of the main changes are shown below:

(a) **DV058 Swan Hunters Redevelopment, £5.900m** – The outcome of the Regional Growth Fund will not be known until 2015/16. The quay edge repair and dredging works have also been retendered. This will delay a large part of these works and therefore the associated costs into 2015/16;

(b) **HS044 HRA New Build, £1.587m** - Delays in the proposed start dates for Wallsend Town Centre, the former Bude Court Site, the former Somervyl Court Site and Edwin Grove;

(c) **CO064 Community Capacity Grant, £1.316m** – Reprogramming of £0.993m relates to Adult Social Care ICT and £0.323m for the Affordable Homes Programme (former Somervyl Court Site) referred to in section 5.5 (e);

(d) **EV071 Pinch Point – Four Lanes Ends/A199 Corridor, £0.729m** – Construction work is expected to be completed by May 2015. The conditions of the Pinch Point grant require spend by 31 March 2015, therefore the Integrated Transport element of funding is to be reprogrammed to 2015/16;

(e) **ED075 Devolved Formula Capital, £0.700m** – Spend is at the discretion of the individual schools. Reprogramming of funding is allowed over a three year period;

(f) **EV055 Surface Water Management Improvements, £0.600m** – The complexity of some of the larger drainage schemes means that construction will now take place later than first estimated;

(g) **EV034 Local Transport Plan, £0.220m** – A number of parking and traffic schemes have been delayed due to objections and extended consultation;

(h) **EV054 Central Promenade Reconstruction, £0.193m** – The detailed design and appointment of a contractor is expected by end of March 2015 with construction ready to commence in 2015/16;

(i) **EV073 A1058 Coast Road Improvements, £0.200m** - Scope of advance construction work required by third parties has still not been determined and so any diversion work will not be complete in-year;

(j) **DV046 Wallsend North Bank of Tyne, £0.160m** - Following the listing of the former Wallsend Library, the demolition cannot now commence before 2015/16. Reprogramming of £0.160m is proposed at this stage, with the remaining funding being retained to allow for further feasibility work to be undertaken;

(k) **DV059 Investment fund to tackle empty properties, £0.100m** – Two initial projects were identified but only one is proceeding. Further exploration of suitable projects is underway, however, this will delay project delivery into 2015/16; and

(l) **DV060 Rosehill Regeneration, £0.050m** - Significant progress has been made with acquisitions during 2014/15 but there are a small number of properties still to be acquired. Taking into account the lead in time for utility disconnections it is expected that demolition will now commence in 2015/16;

Details of all the variations and reprogramming are shown in **Appendix L**

5.7 The impact of these changes on Capital Financing is shown in Table 4 below.

**Table 4: Impact of variations on Capital financing**

| | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m | Total £m |
|---|---|---|---|---|---|
| **Approved Investment Plan – Cabinet 8 September 2014** | **91.939** | **46.016** | **42.223** | **34.889** | **215.067** |
| Unsupported Borrowing – General Fund | -0.091 | 0.103 | 0 | 0 | 0.012 |
| Capital Receipts – General Fund | -3.112 | 3.500 | 0 | 0 | 0.388 |
| Capital Receipts – Housing Revenue Account | -1.587 | 1.587 | 0 | 0 | 0 |
| Grants and Contributions | -6.580 | 6.355 | 0 | 0 | -0.225 |
| **Total Financing Variations** | **-11.370** | **11.545** | **0** | **0** | **0.175** |
| **Revised 2014/15 Investment Plan** | **80.569** | **57.561** | **42.223** | **34.889** | **215.242** |

**Capital Receipts – General Fund**

5.8 There were no General Fund Capital Receipts brought forward at 1 April 2014.

5.9 The capital receipts approved by Council on 20 February 2014 to finance the 2014/15 Investment Plan were £5.540m. The reprogramming and variations reported to 10 March 2014 Cabinet, 9 June 2014 Cabinet and 8 September Cabinet together with the £3.500m reprogramming and £0.338m variations leaves a revised General Fund requirement of £0.934m.

5.10 To date, £0.934m receipts have been received in 2014/15. This includes the grant of a long term lease for land at Swan Hunters, £0.400m. Due to the reported reprogramming there is no longer a requirement to generate receipts to fund the 2014/15 investment plan, although there is now a requirement of £3.500m to finance the 2015/16 plan. Any further receipts generated before the 31 March 2015 will be allocated to this requirement, unless specifically ring-fenced.

**Table 5: Capital Receipt Requirement 2014/15 – General Fund**

| | General Fund £m |
|---|---|
| Requirement reported to 8 September 2014 Cabinet | 4.046 |
| Reprogramming and Variations | -3.112 |
| **Revised Requirement** | **0.934** |
| Useable Receipts Brought Forward | 0.000 |
| Useable Receipts Received | -0.934 |
| **Balance to be generated** | **0.000** |

**Capital receipts – Housing**

5.11 Housing Capital Receipts brought forward at 1 April 2014 were £6.500m. The Housing receipts are committed against projects in the 2014-18 Investment Plan.

5.12 Reprogramming of £1.587m has been identified in the 2014/15 Housing Investment Plan leaving capital receipts required of £2.571m. To date, £1.633m of receipts have been received in 2014/15 of which £0.349m has been pooled as part of the quarterly returns to Central Government. In total, subject to future pooling, this leaves a surplus balance of £5.213m to be carried forward to fund future years.

**Table 6: Capital Receipt Requirement 2014/15 - Housing**

| | Housing £m |
|---|---|
| Current Requirement | 2.571 |
| Receipts Brought Forward | -6.500 |
| Receipts Received | -1.633 |
| Receipts Pooled to Central Government | 0.349 |
| **Surplus Balance to fund future years (subject to further pooling)** | **-5.213** |

5.13 The final figure for useable receipts and pooled receipts in year will depend on the final number of Right to Buy properties sold during 2014/15.

**Investment Plan Monitoring Position to 30 September 2014**

5.14 Actual expenditure in the General Ledger was £21.495m (26.7%) of the total revised Investment Plan as at 30 September 2014.

**Table 7: 2014/15 Total Investment Plan Budget and Expenditure to 30 September 2014**

| | 2014/15 Revised Investment Plan £m | Actual Spend to 30 September 2014 £m | Spend as % of Total Revised Capital Budget % |
|---|---|---|---|
| General Fund | 56.636 | 16.297 | 28.8 |
| Housing | 23.933 | 5.198 | 21.7 |
| **TOTAL** | **80.569** | **21.495** | **26.7** |

5.15 Comparative figures for 2013/14 to the end of September 2013 were 28.2% (General Fund 25.5% and Housing 35.4%).

# Section 6.0
# Treasury Management

Treasury Management Strategy Statement and Annual Investment Strategy

**Mid-Year Review Report 2014/15**

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

6.2 The primary requirements of the Code are as follows:

a) forecast the likely activity for the forthcoming year (in the Annual Treasury Management Strategy Report);

b) a mid-year review report; and,

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

6.3 This section of the document contains the required mid-year review report for 2014/15.

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

- An economic update for the first six months of 2014/15;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15;
- A review of the Authority's investment portfolio for 2014/15;
- A review of the Authority's borrowing strategy for 2014/15; and,
- A review of compliance with Treasury and Prudential Limits for 2014/15 (detailed in Section 7 paragraphs 7.13 and 7.14).

**Economic Performance and Outlook**

**<u>United Kingdom</u>**

6.5 After strong Gross Domestic Product (GDP) quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in quarter 1 and 0.9% in quarter 2 2014 (annual rate 3.2% in quarter 2), it appears likely that strong growth will continue through 2014 and 2015 as forward surveys for the construction sector, are very encouraging and business investment is also recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent performance. This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) in August 2013, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at comparatively poor levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak during 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

6.6 There has been the sharp fall in inflation Consumer Price Index (CPI), reaching 1.5% in May and July 2014, the lowest rate since 2009. Forward indicators are that inflation is likely to fall further in 2014 to possibly near to 1%. Overall, markets are expecting that the MPC will be cautious in raising of the Bank Rate as it will want to protect heavily indebted consumers from too early an increase in the Bank Rate at a time when inflationary pressures are also weak. A first increase in the Bank Rate is therefore expected in quarter 1 or quarter 2 2015 and it is expected that increases after that will be at lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

6.7 The return of strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the March 2014 Budget – which also forecast a return to a significant budget surplus, (of £5bn), in 2018/19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

**United States**

6.8 In September, the Federal Reserve continued with its monthly $10bn reductions in asset purchases, which started in December 2013. Asset purchases have now fallen from $85bn to $15bn and are expected to stop in October 2014, providing strong economic growth continues. First quarter

GDP figures for the United States were depressed by exceptionally bad winter weather, but growth rebounded very strongly in quarter 2 to 4 (annualised).

6.9 The United States faces similar debt problems to those of the U.K, but due to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions.

**Eurozone**

6.10 The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all Eurozone countries and includes some countries with negative rates of inflation. Accordingly, the European Central Bank (ECB) took some rather limited action in June 2014 to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked yet on full quantitative easing.

6.11 Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

**China and Japan**

6.12 Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth. Government action in China in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has raised fresh concerns. There are also major concerns as to the creditworthiness of bank lending to corporate and local government during the post 2008 credit expansion period and whether recent significant house price increases is sustainable going forward.

### Interest Rate Forecasts

6.13 Capita Asset Services, the Authority's treasury advisors, have provided their current Interest Rate Forecast, which is detailed in **Table 8** below:

**Table 8: Interest Rate Forecast**

| | Sep 2014 (%) | Dec 2014 (%) | Mar 2015 (%) | Jun 2015 (%) | Sep 2015 (%) | Dec 2015 (%) | Mar 2016 (%) | Jun 2016 (%) | Sep 2016 (%) |
|---|---|---|---|---|---|---|---|---|---|
| Bank Rate | 0.50 | 0.50 | 0.75 | 0.75 | 1.00 | 1.00 | 1.25 | 1.25 | 1.50 |
| 5yr PWLB* | 2.70 | 2.70 | 2.80 | 2.90 | 3.00 | 3.00 | 3.10 | 3.20 | 3.30 |
| 10yr PWLB | 3.40 | 3.50 | 3.60 | 3.70 | 3.80 | 3.90 | 4.00 | 4.10 | 4.10 |
| 25yr PWLB | 4.00 | 4.10 | 4.20 | 4.30 | 4.40 | 4.50 | 4.60 | 4.70 | 4.80 |
| 50yr PWLB | 4.00 | 4.10 | 4.20 | 4.30 | 4.40 | 4.50 | 4.60 | 4.70 | 4.80 |

*Public Works Loan Board

6.14 Capita Asset Services undertook a review of its interest rate forecasts in mid August, after the Bank of England's Inflation report. By the beginning of September, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, had caused a further movement into safe havens like gilts and reduced PWLB rates further. However, there is much volatility in rates as news varies in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 1 of 2015.

6.15 Capita Asset Services forecasts are based around a balance of risks. However, there are potential upside risks, especially for longer term PWLB rates, as follows:-

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds and into equities; and,
- United Kingdom inflation being significantly higher than in the wider European Union and United States, causing an increase in the inflation premium inherent to gilt yields.

6.16 Downside risks currently include:

- The situation over Ukraine poses a major threat to the Eurozone and world growth if it was to deteriorate into economic warfare between the West and Russia resorted to using its control over gas supplies to Europe;

- United Kingdom strong economic growth is currently dependant on consumer spending and the unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014;
- A weak rebalancing of United Kingdom growth to exporting and business investment causing a weakening of overall economic growth beyond 2014;
- Weak growth or recession in the United Kingdom's main trading partners – the European Union and United States, inhibiting economic recovery in the United Kingdom;
- A return to weak economic growth in the United States, United Kingdom and China causing major disappointment in investor and market expectations;
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis;
- Recapitalisation of European banks requiring more government financial support;
- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis; and,
- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.

**Treasury Management Strategy Statement and Annual Investment Strategy update**

6.17 The Treasury Management Strategy Statement (TMSS) for 2014/15 was approved by Council on 20 February 2014. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Authority's investment priorities as follows:

- Security of capital; and,
- Liquidity

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

6.19 A breakdown of the Authority's investment portfolio at 30 September 2014 is shown in Section 6.27 of this report.

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

6.21 As outlined in Section 6.5 above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the United Kingdom. In this context, it is considered that the strategy approved on 20 February 2014 is still fit for purpose in the current economic climate.

**Investment Portfolio 2014/15**

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

6.23 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a rating 'uplift' due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these 'uplifts', making the Support, Financial Strength and Viability ratings redundant. This process may commence during this financial year. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

6.24 As a result of these credit rating changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories.

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

6.26 The Authority currently uses the Government's Debt Management and Deposit Facility (DMADF) for investments, the maximum rate available from the facility is currently 0.25%. This situation of maintaining shorter term, high quality investments will continue until sufficient strength has returned to banks globally and that there are signs of significantly renewed strength in the UK and global economy.

6.27 Investments held as at 30 September 2014 are summarised in **Table 9** below:

**Table 9: Investments 2014/15**

| **Investments** | **30 Sept 2014 £m** | **Average Rate of Return %** |
|---|---|---|
| Debt Management Office | 25.900 | 0.25 |

6.28 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2014/15.

### Borrowing

6.29 The Authority's estimated Capital Financing Requirement (CFR) to 31 March 2015 is £613.535m (including Private Finance Initiative (PFI) and Finance Leases). The CFR denotes the Authority's underlying need to borrow for capital purposes. If the CFR is positive the Authority may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

6.30 Total external debt at 30 September 2014 was £435.613m as shown in **Table 10** below.

**Table 10: Total external debt at 30 September 2014**

| Principal £m | |
|---|---|
| | External borrowing |
| 372.943 | Public Works Loans Board (PWLB) |
| 20.000 | Lender Option Borrower Option (LOBO) |
| 42.670 | Other Local Authorities |
| 435.613 | Total |
| | Other external debt |
| 58.580 | PFI and Finance Leases (as at 1 April 2014) |
| 494.193 | TOTAL EXTERNAL DEBT |
| | Split of external borrowing: |
| 282.148 | Housing Revenue Account |
| 153.465 | General Fund |
| 435.613 | Total |

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

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

6.33 As at 30 September no new or replacement long term borrowing has taken place during 2014/15.

6.34 Short term borrowing rates for periods up to 1 year continue at relatively low levels. The Authority's borrowing strategy this year has been to borrow short term where possible, to take advantage of these lower rates. As at 30 September 2014 the Council had £42.670m of temporary loans from other Local Authorities (as seen in Table 10 above), at an average rate of 0.61%.

**Debt Rescheduling**

6.35 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. Therefore, no debt rescheduling was undertaken during the first six months of 2014/15.

# Section 7.0
# Prudential Indicators

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

7.2 The following part of the report shows the current 2014/15 estimates compared to the budgeted indicators approved by Council on 20 February 2014.

**Prudential Indicators for Capital**

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

7.3 These PIs show the estimated ratio of financing costs to net revenue streams for the 2014/15 budget and current estimate. The 2014/15 current estimates are lower than the original budgets due to re-programming, lower interest rates than anticipated at budget setting time and the continued level of internal borrowing as outlined in paragraph 2.14 above. The HRA indicator has reduced due to reprogramming of the Housing PFI scheme and lower interest rates than anticipated at budget setting time.

**Table 11: Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)**

| | 2014/15 Budget | 2014/15 Estimate |
|---|---|---|
| General Fund | 16.19% | 14.53% |
| HRA | 27.54% | 22.36% |

The following indicator is a local indicator that shows the proportion of the budget that is spent on prudential (unsupported) borrowing. As above the 2014/15 current estimates are lower than the original budgets due to re-programming, lower interest rates than anticipated at budget setting time and the continued level of internal borrowing as outlined in paragraph 2.14 above.

**Table 12: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream (PIs 1 and 2)**

| | 2014/15 Budget | 2014/15 Estimate |
|---|---|---|
| General Fund | 8.53% | 7.96% |
| HRA | 4.35% | 3.58% |

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

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

**Table 13: Impact on Council Tax and Housing Rents (PIs 3 and 4)**

| | 2014/15 Budget | 2014/15 Estimate |
|---|---|---|
| For the Band D Council Tax | £5.97 | £5.97 |
| For average weekly housing rents | £6.80 | £7.47 |

The Council Tax indicator has remained unchanged as estimated borrowing is unchanged from that budgeted. The housing rent indicator has increased due to the increase in properties sold under the Right to Buy scheme.

**Net Borrowing and the Capital Financing Requirements (PI5)**

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

7.6 This indicator includes all debt (PFI schemes and finance leases) rather than purely borrowing. The Authority's gross debt is set out below together with the estimated capital financing requirement (i.e. the Authority's underlying need to borrow for capital purposes) projected to 31 March 2015.

- Estimated Gross Debt as at 31 March 2015: £546.890m
- Capital Financing requirement to 31 March 2014: £613.535m.

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

**Capital Expenditure (PIs 6 and 7)**

7.8 The estimated capital expenditure that will be incurred in 2014/15 compared to original budget is as follows. An analysis of the movements is shown in Table 3 of paragraph 5.3 above:

**Table 14: Capital Expenditure (PIs 6 and 7)**

| | 2014/15 Original Budget £m | 2014/15 Current Revised Budget £m |
|---|---|---|
| General Fund | 55.483 | 56.636 |
| HRA | 23.936 | 23.933 |

| | | |
|---|---|---|
| **Total** | **79.419** | **80.569** |

7.9 The variations between the original budget and the revised budget have been identified in the Financial Management reports to Cabinet and Council comprise £1.822m reprogramming and £0.672m credit other variations.

**Capital Financing Requirement (PIs 8 and 9)**

7.10 Estimates of the capital financing requirement at 31 March 2015 compared to the original budget is as follows:

**Table 15: Capital Financing Requirement (PIs 8 and 9)**

| | **2014/15 Budget £m** | **2014/15 Estimate £m** |
|---|---|---|
| General Fund | 300.481 | 300.563 |
| HRA | 316.904 | 312.972 |
| TOTAL | 617.385 | 613.535 |

7.11 The capital financing requirement (CFR) measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, North Tyneside Council does not associate borrowing with particular items or types of expenditure. The HRA CFR is projected to be lower than budget at 31 March 2015 to reflect the timing of works on the Housing PFI project and the set aside of money during 2013/14 to repay debt.

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

**Table 16: Capital Financing Requirement for Prudential (Unsupported) Borrowing (PIs 8 and 9)**

| | **2014/15 Budget £m** | **2014/15 Estimate £m** |
|---|---|---|
| General Fund | 145.962 | 146.985 |
| HRA | 38.943 | 38.943 |
| **Total** | **184.905** | **185.928** |

**Prudential Indicators for Treasury Management**

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

7.14 During the financial year to date the Authority has operated within the treasury limits and Prudential Indicators set out in the Authority's Treasury Management Strategy Statement and in compliance with the Authority's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Table 17 below.

**Table 17: Prudential Indicators for 2014/15**

| **PRUDENTIAL INDICATOR** | **2014/15** | **2014/15** |
|---|---|---|
| **TREASURY MANAGEMENT PRUDENTIAL INDICATORS** | **Budget £m** | **Estimate £m** |
| Authorised limit for external debt - | | |
| borrowing | 1,050 | 1,050 |
| other long term liabilities | 140 | 140 |
| TOTAL | 1,190 | 1,190 |
| Operational boundary for external debt - | | |
| borrowing | 525 | 525 |
| other long term liabilities | 120 | 120 |
| TOTAL | 645 | 645 |
| Upper limit for fixed interest rate exposure | 100% | 100% |
| Upper limit for variable rate exposure | 50% | 50% |
| Upper limit for total principal sums invested for over 364 days | 25% | 25% |

| **Maturity structure of fixed rate borrowing during 2014/15** | **upper limit** | **lower limit** |
|---|---|---|
| under 12 months | 50% | 0% |
| 12 months and within 24 months | 50% | 0% |
| 24 months and within 5 years | 50% | 0% |
| 5 years and within 10 years | 75% | 0% |
| 10 years and above | 100% | 25% |