ANNEX 1

2015-2018 Financial Planning and Budget Process:

Cabinet's initial Council Tax Requirement and Budget Proposals

24 November 2014

North Tyneside Council

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Part 1

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PART 1

Section 1.0
The Council Plan 2014-2018 Our North Tyneside

1.1 Our North Tyneside Budget – Delivering Services for the Future

As with previous years, reduced core funding and increasing demand for services will mean that the Council has to find between £40m - £46m of efficiencies over the next three years - and £14.245m of this must be achieved in the next 12 months. These savings are in addition to the £28.79m delivered over the last two years.

The requirement to continue to deliver this level of efficiencies led to the development of our Creating a Brighter Future programme, which is described in more detail in section 3 of this report. This longer-term, three-year plan sets out to make a difference for residents by making the Council work smarter, putting people at the centre of what it does and ensuring that the organisation maximises how it uses public money to achieve residents' priorities - including delivering economic success and jobs for the borough.

We know what the public priorities are, as we consulted with people across the borough to develop the 'Our North Tyneside Plan' in 2013 and have reconfirmed those priorities by talking to residents during the summer of 2014.

These budget proposals, shaped by the Creating a Brighter Future programme, will help deliver those priorities by identifying how the council will allocate its money, and make sure the organisation and decision-makers are well prepared for the challenges.

1.2 Policy Framework for the 2015/16 Financial Planning and Budget Process

The Our North Tyneside Plan 2014-2018, which was agreed by the North Tyneside Strategic Partnership on 11 September 2013 and Council on 26 September 2013, provides the policy direction and strategic priorities for the 2015/16 Budget. It will be delivered through a partnership between the Authority, local people, communities, businesses, and local voluntary and public sector organisations.

1.3 Approach to Budget Engagement

The Authority will carry out engagement during the budget and financial planning process to ensure residents and other stakeholder views are considered.
This will supplement both the ongoing engagement by service areas with their users that can support the development of their budget proposals and the ongoing corporate engagement throughout the year, including the Summer out and about engagement programme that has gathered feedback on resident priorities.

Any additional engagement required on the specific budget proposals will begin on 24 November 2014 and continue through to 29 January 2015.

This will include formal focus groups with different stakeholders including: residents, staff, businesses, partner organisations and schools and an opportunity to provide feedback online.

Section 2.0
The Financial Strategy for 2015-2018

2.1 Introduction

At its meeting on 8 September 2014, Cabinet approved the process and timetable to be adopted for the preparation of the draft Financial Plan, 2015/16 revenue budgets in respect of the general fund, dedicated schools grant (DSG) and housing revenue account (HRA), and the 2015-2019 Investment plan, as part of the overall Financial Planning and Budget process for 2015-2018. Cabinet also approved the budget engagement strategy at that meeting.

The Our North Tyneside Plan 2014-2018, which was agreed by Council and the North Tyneside Strategic Partnership in September 2013, provides the policy direction and strategic priorities for the 2015/16 Budget.

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

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

(a) The Provisional and Final Local Government Finance Settlement announcements for 2015/16, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG) (due December 2014 / January 2015);

(b) Police and Crime Commissioner for Northumbria and Tyne and Wear Fire and Rescue Authority Precepts (due 3 February 2015 and 16 February 2015 respectively);

(c) Levies, including the Tyne and Wear element of the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Transport Levy (The North East Combined Authority due January 2015);

(d) Tyne and Wear Joint Service Budgets (due January / February 2015); and

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

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

2.2 Financial Strategy

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

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

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

<u>Creating a Brighter Future Programme</u>

An important element of our overall Financial Strategy is the Authority's approach to changes needed to achieve savings. The Council has developed a new change programme "Creating a Brighter Future" which will redefine, reshape and redesign what North Tyneside Council is and what it will deliver going forward, with reduced resources as previously outlined. The programme sets out to:

- Pursue the right outcomes - irrespective of delivery method and structure - as set out in Our North Tyneside Plan

- Reducing the demand for services - to enable people to be more independent and able to do for themselves

- Change the relationship between the individual and the state - still focusing on safeguarding the vulnerable

- Adopt the role of enabler first (less paternalistic) so residents are doing things for themselves

- Deliver local public services in a more holistic way - with partners

- Build a fundamentally different organisational culture and behaviour, more efficient and agile operating models

- Adopt a more commercially minded approach

- Use intelligence better - ensure that we have a more co-ordinated approach to using the various information and feedback we hold

- Focus on ICT / digital innovation

The focus is to help people help themselves, thereby managing demand for council services, managing our costs, working better with partners and designing services to deliver our customer priorities. The programme has four key service themes:

- Ready for School - This project will focus on reshaping services that benefit 0-5 year olds by providing them and their families with a firm foundation, i.e. well cared for, a healthy start, and ready to learn.

- Ready for Work – This project will look to develop a service model that is not just about making sure our young people have the skills and learning to equip them for apprenticeships, work, and higher level learning, but also focusing on the needs of adults who need to re-enter employment, perhaps rethinking the skills as the world of work changes.

- Great Place to live work and visit - This theme focuses on the services that improve and regenerate the borough and its neighbourhoods, so it is a safe and supportive place where people want to live with their families, that has a successful economy able to attract investment and jobs, and it is a visitor destination that people want to keep coming back to.

- Cared For, Safeguarded and Healthy – The council and its partners must work together to deliver a model of services that enables people to have healthy lives so they need less support later in life, while ensuring the most vulnerable people of all ages – children and adults - are kept safe and cared for.

These four themes are supported by a range of infrastructure projects and a number of cross cutting / enabling projects as follows:

Infrastructure Projects

- Education Review
- Coastal Regeneration
- North Bank / Swans Regeneration
- Affordable Homes
- Quality Homes for Older People

Enablers

- ICT, Digitalisation and Customer Insight

- Procurement, Commercial Capacity & Commissioning
- Workforce & Culture
- Electronic Document Records Management System (EDRMS)
- Community and Voluntary Sector Capacity

2.3 National Context – 2015/16 Local Government Finance Settlement

On 18 December 2013, Brandon Lewis, MP, the Minister for Local Government announced the Provisional Local Government Finance Settlement for 2014/15 to Parliament. At the same time, the Department of Communities and Local Government (DCLG) also issued an illustrative Local Government Finance Settlement for 2015/16. The details of this announcement were set out in the Report to Cabinet on 15 January 2014. The forthcoming financial year, 2015/16 continues the challenging financial agenda for Local Government and we expect that 2015/16 will see the greatest level of funding reductions for North Tyneside Council than for any other single year since the 2010 Spending Review.

On 22 July 2014, the DCLG issued a further Technical Consultation on the 2015/16 Local Government Finance Settlement, with a closing date of 25 September 2014 for responses. The financial implications for North Tyneside Council will be confirmed once the Government issue a response to this Technical Consultation.

2.4 Local Context

The Medium Term Financial Plan is central to achieving our vision. In order to ensure our resources are directed towards the right priorities, we have developed a detailed understanding of the borough and our communities.

North Tyneside borough has a population of 202,200, which is greater than at any other time since 1981. It is estimated to continue to rise to 226,100 by 2037. Not only is the future population expected to increase but it is also expected to include more people aged 65 and over. By 2037 the over 65 age group is expected to have increased by 62% from 2012 levels.

In addition the number of children (0-14 years) is also projected to increase between now and 2037 by 3%, compared to a projected 0% increase for Tyne and Wear and the North East.

These projections will have significant impact on how we provide services and represents a major challenge for the future. These projections have been factored into our financial planning.

2.5 Defining our Financial Strategy

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

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

(b) Financial flexibility;

(c) Driving value for money and efficiency gains;

(d) Joined-up performance management;

(e) Strong financial awareness and budget holder responsibility;

(f) Effective risk management;

(g) More rapid accounts closure;

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

(i) Effective use of technology

The approach to resource planning for 2015-2018 has continued to concentrate on ensuring that all of the above drivers are embedded into the decision-making process for the allocation and re-direction of the Authority's finite resources, financial and otherwise. In addition, there will be the annual detailed review of the current financial plan forecasts and commitments for revenue, capital investment and housing finance. The Financial Strategy will be subject its usual annual review.

Leading on from this, the key components and principles adopted for our 2015-2018 Financial Strategy have been fully reviewed as part of this year's process and are summarised in Table 1 below:

Table 1: Principles adopted for the 2015-2018 Financial Strategy

Financial Themes	**Principles Adopted**
Council Tax	• Provide value for money for the people of North Tyneside • Council tax levels that demonstrate prudence and retain stability in the Authority's finances • Determine a policy for the future take-up of the council tax freeze grant • Council tax collection managed to secure recurrent efficiencies in the Authority's collection fund • Ensure that the financial implications of the Localisation of Council Tax Benefit scheme have been fully considered • Welfare Reform changes are reviewed to ensure that the full implications are taken account of.

Revenue Income Generation	• Encourage a climate / approach where trading and charging powers of the authority are maximised • Continue to manage income and debts to reduce the need to make provision for bad debts • Apply a charging policy consistently across all Authority services
Revenue Expenditure & Budget Strategy	• Annual budget resources aligned and prioritised to meet the Our North Tyneside Plan • Reserves and Balances Policy in line with best practice that is reviewed on at least an annual basis • General unearmarked reserves (general balances) retained at least at a level of £6m at the end of each financial year, subject to a risk assessment as part of budget setting in each of the three years of the financial planning period • Earmarked reserves established appropriately for known and quantifiable (future) liabilities and financial risks • Pay and price inflation forecasts and full payroll costs built into projections and then used as a way to target general efficiency savings across service areas • Continuous challenge of the base budget to secure service efficiency savings • Implementation of Service Plans to demonstrate how our services can achieve value for money in terms of customer satisfaction, quality of services and costs. This is driven through the Creating a Brighter Future Programme. • Specific annual review of those services supported by specific grant in readiness for any further detailed Government announcement(s) in relation to grant changes, and as a direct result of the Finance Settlement • Where external funding is secured for a limited time period, any operational arrangements put in place must not assume that the fall-out of grant will be replaced by mainstream funding automatically • Reduce reliance on reserves supporting the revenue budget in the medium term • The Financial Strategy needs to be flexible enough to manage the changes to the Local Government finance system • Recognise the implications of a move to a

	Business Rates Retention Scheme and the resulting consequences for future finances • Recognise the implications of Housing Revenue Account Self Financing and any changes to the National Rent Restructuring Policy for the Housing 30 year business plan.
Capital Financing and Expenditure	• Development of a four year Investment Plan (including Private Partnerships / Private Finance initiative (PPP/PFI arrangements) ensures financial certainty in relation to infrastructure investment in the borough • Strategic assets reviewed at least annually to maximise the potential to release value into the business for strategic re-investment • Prudential borrowing to support local capital investment priorities or invest to gain schemes that will secure greater revenue efficiencies, in accordance with the Authority's approved Local Prudential Code • Asset management plans updated on at least an annual basis and acknowledging available budget resources • Continuous review of prudential borrowing and its impact on the revenue budgets
Treasury Management	• Treasury Management Strategy to focus on delivering safe stewardship • Strategic options devised, where the market allows, for managing the overall level of borrowing over the medium term.
Risk Management	• Business risk embedded in all decision-making processes of the Authority • Budget resources aligned to reduce any material financial risks to the Authority.

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

2.6 Financial Risk Assessment

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

Key Financial Risks

The key financial risks for the Authority which have been considered as part of the Financial Plan and Budget process are set out in the table below along with mitigating actions.

Table 2 – Key Financial Risks and mitigating actions

Potential Risk	**Initial Response**
There is a risk that the levels of savings and income the Authority has included in the budget proposals are not fully deliverable.	A robust challenge process has taken place to establish the Creating a Brighter Future Programme. This will then be monitored throughout the year to identify any areas which are not delivering savings as planned so corrective action can be taken. This process has already been established with the Change, Efficiency and improvement Programme monitoring during 2014/15.
There is a risk that not all growth pressures have been identified in the 2015/16 proposed budget.	Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand - led pressures exceed budget provision.	Demand - led pressures continue in areas such as Corporate Parenting and Placements, Learning Disabilities and Older People Services and have been taken into consideration as part of these initial budget proposals.
There is a risk that specific factors arising during 2014/15 have not been fully taken into account when preparing the 2015/16 budget.	2014/15 financial position is monitored through bi monthly reporting to Cabinet and monthly reporting to Senior leadership Team. This process ensures factors arising during the year are highlighted.
There is a risk that the contingency provision included in the financial plan for 2015/16 is insufficient.	Increase in contingency for 2015/16 of £1.879m to cover specific identified pressures. Experience of 2014/15 has demonstrated the contingency figure to be sufficient.

There is a risk that there are insufficient levels of reserves and balances.	The Reserves and Balances Policy has been updated and is included as an appendix to this report.
There is a risk that the level of capital receipts included in the budget proposals are not deliverable.	Capital receipts of £3.5m are included in the financing of the 2015-2019 Investment Plan. There are a number of actions being progressed that are expected to realise this requirement.

Section 3.0
Cabinet's initial budget proposals for the 2015/16 Council Tax Requirement including the General Fund Revenue Budget and 2015/16 Financial Plan and the Dedicated Schools Grant

3.1 Introduction

One year ago, we agreed a four-year revenue and Investment Plan that identified a savings target of £65m as a result of the estimated funding cuts and cost pressures we faced over the 2014-15 to 2017-18 period. As part of the work undertaken to develop the Creating a Brighter Future (CBF) Programme, all aspects of the Financial Plan and Budget have been reviewed, and Cabinet's draft proposals set out below are based on estimated funding reductions and growth pressures. This section of the Annex sets out in more detail the General Fund and Dedicated Schools Grant proposals for 2015/16 presented by the themes of the Creating a Brighter Future Programme.

3.2 Council Tax

The Cabinet need to determine what level of Council Tax is to be proposed for 2015/16 within the context of this report and available resources. There remains some outstanding information which needs to be received before the level of Council Tax can be finalised and therefore details of this will be included in the report to Cabinet of the 28 January 2015.

3.3 2015/16 – 2017/18 General Fund Financial Plan

Table 3 below summaries the General Fund Financial Plan for 2015/16 – 2017/18. Details of 2015/16 – 2017/18 financial pressures are included at Appendix A.

Table 3: 2015/16 – 2017/18 General Fund Financial Plan Summary

	2015/16 £m's	**2016/17 £m's**	**2017/18 £m's**
General Fund Base budget	**168.395**	**158.436**	**155.272**
Pay and Price Increases	2.787	1.537	1.537
Demand Led	1.250	3.250	3.250
Corporate	(0.657)	4.930	2.309
Legislative / Changes to Responsibilities	0.906	3.080	0.519
Creating a Brighter Future Programme	(14.245)	(15.961)	(10.294)
Total General Fund Financial Plan	**158.436**	**155.272**	**152.593**

The pay and price pressures are due to increased costs of property, waste management and transport. The waste management increase reflects the growing pressure from housing growth and contract inflation while the property costs are driven by a review of contracts. The growth in transport costs is required to fund pressures within budgets relating to fleet used by the Council as assets come to the end of their extended useful lives.

An addition to contingencies for the pay award reflects the current pay offer put forward by the Local Government Association.

Demand led pressures relate to an increase in contingencies to cover primarily Corporate Parenting pressures which have been highlighted through budget monitoring reports during 2014/15. In setting the 2014/15 budget the budget was reduced by £0.500m associated largely with expected reduced placements. The service is committed to continuing to reduce this pressure identified during 2014/15 as far as possible whilst ensuring the Corporate Parenting responsibilities of the Authority are delivered. On this basis the decision has been taken to contingency back this potential pressure in 2015/16.

Corporate pressures include the revenue effects associated with the financing of the Investment Plan and revenue contributions to capital along with the cost of funding redundancies arising as part of the Council's Creating a Brighter Future Programme. In addition, corporate changes include an estimated increase in income from the Swans development.

In terms of legislative pressures and changes to responsibilities, the increase in the Adult Social Care expenditure for a variety of pressures including the pooled NHS and Local Authority Better Care Fund, and transfer of Health Visiting and Family Nurse services from NHS to Public Health , are offset by an equivalent increase in the grant funding provided and therefore there is a net effect of zero on the Council's financial plan. There are also a number of changes to grants, including the fall out of the Education Service Grant and Local Welfare Provision Grant. Additional income is also assumed through changes to the exemptions and discounts in relation to the Council Tax support scheme which will be considered by Cabinet.

3.4 Summary of the 2015-2018 Creating a Brighter Future Programme (CBF)

As set out in section 2 of this report, the CBF programme has been developed to ensure that the focus is to help people help themselves, thereby managing demand for council services, managing our costs, working better with partners and designing services to deliver our customer priorities. The table below summarises the proposals arising from the programme. Details of the Creating a Brighter Future Programme are included as Appendix B.

3.5 Summary of the Creating a Brighter Future Programme

Table 4: Creating a Brighter Future Programme

CBF Theme	**2015/16 £m's**	**2016/17 £m's**	**2017/18 £m's**
Great Place to Live, Work & Visit	(0.649)	(0.150)	0
Cared For, Safeguarded and Healthy	(5.903)	(0.585)	(0.825)
Corporate and Enabling including Management savings	(6.021)	0.467	(0.916)
Ready for School	(1.415)	(0.258)	0
Ready for Work	(0.257)	(0.065)	0
Creating a Brighter Future		(15.370)	(8.553)
Total	**(14.245)**	**(15.961)**	**(10.294)**

3.6 Dedicated Schools Grant

Currently the value of each of the DSG blocks for North Tyneside in 2014/15 is shown below:

- Schools Block £114.893m
- Early Years Block £8.366m
- High Need SEN Block £16.437m

The schools block and early years block for 2015/16 will be based upon the same per pupil value as in 2014/15, with the total value updated to reflect the pupil numbers in North Tyneside schools as at the October 2014 pupil census. 2015/16 amounts in relation to Academies will be deducted from the Schools block before it is received by the Authority.

The Pupil Premium for eligible pupils is currently £1,300 per primary school pupil in 2014/15, £935 for secondary pupils (£300 for service children) and is £1,900 per looked after child.

The Education Funding Agency (EFA) are expected to issue Authorities with their 2015/16 settlement including the Schools block, Early years block and further detail on the Pupil Premium on 19th December 2014. Details of this will be included in the report to Cabinet of the 28 January 2015. The EFA are not expected to confirm 2015/16 high needs SEN funding block allocations to Authorities until March 2015.

Section 4.0
Cabinet's initial budget proposals for the 2015-2019 Investment Plan and Prudential Indicators

4.1 Introduction

As part of the 2015/16 budget process, the Investment Programme Board (IPB) has been responsible for the governance of the Investment Plan including the provision of guidance, support and challenge in respect of capital proposals and delivery of capital projects.

On 22 October 2014, IPB met to consider new bids and changes in relation to the 2014-2018 Investment Plan to form the draft 2015-2019 Investment Plan.

All bids were considered in terms of their strategic alignment with the Our North Tyneside Plan.

4.2 Investment Plan 2015-2019

Following the IPB review the draft Investment Plan for 2015-19 has been prepared. Table 5 below shows the current 2015-18 Base Plan approved by Council as part of the 2014/15 budget setting process and the new bids and changes proposed by Cabinet to form the draft 2015-2019 Investment Plan.

Table 5: Summary of Investment Plan 2015-2019

Spend	2015/16 £000's	2016/17 £000's	2017/18 £000's	2018/19 £000's	Total £000's
Base Plan	57,561	42,223	34,889	0	134,673
Proposed new schemes/changes	15,150	14,738	3,835	35,694	69,417
Draft Investment Plan	**72,711**	**56,961**	**38,724**	**35,694**	**204,090**

A schedule of individual projects included in the base plan is attached as Appendix C(i). Appendix C(ii) gives details of the new schemes for consideration, these schemes are indicative and are subject to confirmation of external funding where applicable. The revenue implications of these schemes have been included in the revenue budget.

4.3 Financing

Table 6 below summarises the proposed financing of the draft Investment Plan:

Table 6: Summary of Financing 2015-2019

Resources	2015/16 £000's	2016/17 £000's	2017/18 £000's	2018/19 £000's	Total £000's
General Fund					
Council Contribution:					
Unsupported Borrowing	15,576	12,848	8,274	5,283	41,981
Capital Receipts	3,500	0	0	0	3,500
	19,076	**12,848**	**8,274**	**5,283**	**45,481**
Grants & Contributions	25,201	19,583	5,487	3,867	54,138
Total General Fund Resources	**44,277**	**32,431**	**13,761**	**9,150**	**99,619**
Housing - HRA					
Capital Receipts	3,595	1,439	1,050	1,061	7,145
Revenue Contribution	8,236	7,359	7,972	9,481	33,048
Major Repairs Reserve	13,982	14,661	14,870	14,931	58,444
House Building Fund	1,500	1,071	1,071	1,071	4,713
Grants & Contributions	1,121	0	0	0	1,121
Total Housing - HRA Resources	**28,434**	**24,530**	**24,963**	**26,544**	**104,471**
TOTAL RESOURCES	**72,711**	**56,961**	**38,724**	**35,694**	**204,090**

The draft 2015-2019 Investment Plan for the General fund includes expenditure of £44.277m in 2015/16. Of this expenditure £25.201m (57%) is funded through grants and other external funding contributions.

Capital receipts of £10.645m (£3.500m General Fund and £7.145m Housing) have been assumed in the financing of the draft plan.

Across the life of the draft plan, unsupported borrowing totals £41.981m. The cost of borrowing is included within the General Fund Revenue budget and Financial Plan. The Prudential Indicators arising from the Prudential Code are covered in Appendix C(iii).

4.4 Capital Allocations 2015/16

A number of capital allocations (grants) are announced by central government as part of the local government settlement. These include Education Funding (Basic Need, Capital Maintenance and Devolved Formula Capital) (Department for Education) and the Local Transport Plan (Department for the Environment). As the allocations for 2015/16 have not yet been made figures will be included in subsequent reports.

4.5 Prudential Indicators

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

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

4.6 Annual Minimum Revenue Provision (MRP) Statement

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

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

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

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

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

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

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

The effects of the MRP policy have been built into the current revenue budget projections.

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

Section 5.0
Treasury Management Statement and Annual Investment Strategy 2015/16

5.1 Background

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

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

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

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

5.2 Reporting Arrangements

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

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

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

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

5.3 Treasury Management Strategy for 2015/16

The proposed strategy for 2015/16 in respect of the following aspects of the treasury management function is based upon the treasury management officers' view on interest rates, supplemented with market forecasts provided by the Authority's treasury advisor, Capita Asset Services. This strategy covers:

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

5.4 Current Treasury Portfolio Position

The Authority's debt and investment position at 5 November 2014 is set down in Table 7 below. This has been compared with the comparable position as at 7 November 2013.

Table 7: Current Treasury Portfolio Position as at 5 November 2014

	Principal Outstanding	**Average Rate**	**Principal Outstanding**	**Average Rate**
	(05 Nov 2014) £m	**%**	**(07 Nov 2013) £m**	**%**
Fixed Rate Funding				
PWLB*	235.650	5.82	264.750	5.70
PWLB – (HRA Self Financing)	128.193	3.49	128.193	3.49
Market Loans	20.000	4.35	20.000	4.35
Temp Loans	35.854	0.63	28.173	0.54
Total External Debt	**419.697**		**441.116**	
Less **Investments**				
(UK) DMO**	4.400	0.25	14.900	0.25
Total Investments	**4.400**		**14.900**	
Net Position	**415.297**		**426.216**	

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

5.5 Prospects for Interest Rates

The Authority has appointed Capita Asset Services as its external treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 8 below sets out Capita Asset Services professional view of forecast interest rates.

Table 8: Capita Asset Services forecast interest rates – **5 November 2014**

	Bank Rate %	**5 year PWLB %**	**25 year PWLB %**	**50 year PWLB %**
Dec 2014	0.50	2.50	3.90	3.90
Mar 2015	0.50	2.70	4.00	4.00
Jun 2015	0.75	2.70	4.10	4.10
Sep 2015	0.75	2.80	4.30	4.30
Dec 2015	1.00	2.90	4.40	4.40
Mar 2016	1.00	3.00	4.50	4.50
Jun 2016	1.25	3.10	4.60	4.60
Sep 2016	1.25	3.20	4.70	4.70
Dec 2016	1.50	3.30	4.70	4.70
Mar 2017	1.50	3.40	4.80	4.80
Jun 2017	1.75	3.50	4.80	4.80
Sep 2017	2.00	3.50	4.90	4.90
Dec 2017	2.25	3.50	4.90	4.90
Mar 2018	2.50	3.50	5.00	5.00

5.6 Economic Outlook

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

- Concerns that the Eurozone is heading for a triple dip recession for the first time since 2008; Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;

- Borrowing interest rates have been volatile during 2014 as alternating aspects of good and bad news have promoted optimism, and then pessimism, in financial markets. The policy of avoiding new borrowing by running down cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

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

5.7 Borrowing Strategy

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

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

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

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

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

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

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

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Chief Finance Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet or full Council, as appropriate, at the next available opportunity. Such circumstances include a situation where:

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

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

5.8 Policy on borrowing in advance of need

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

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

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

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

- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;

- Consider the merits and demerits of alternative forms of funding;

- Consider the alternative interest rate bases available, the most appropriate periods to fund the repayment profiles to use; and,

- Consider the impact of borrowing in advance temporarily increasing investment cash balances and the consequent increase in exposure of counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

5.9 Debt Rescheduling

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

In order to generate the most attractive debt rescheduling opportunities, it is proposed that the strategy for 2015/16 should remain flexible. The reason for any rescheduling to take place may include:

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

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

5.10 Annual Investment Strategy

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

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

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

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

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

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

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

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

The Bank Rate is forecast to remain unchanged at 0.50% before starting to rise from quarter 2 of 2015. Table 9 below sets out Bank Rate forecasts for financial year ends (March) as follows:

Table 9: Bank Rate Forecast for Financial Year Ends

Year End (March)	Bank Rate Forecast (%)
2015/16	1.00
2016/17	1.50
2017/18	2.50

There is a downside risk to these forecasts (i.e. the start of increases in the Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

The strategy for 2014/15 agreed on 19 February 2014 was set in a background of uncertainty and a prudent approach was taken with nearly all investments being made on an overnight basis. In the current economic climate it is essential that a prudent approach is maintained. This will primarily be achieved through investing with selected banks and funds which meet the Authority's credit rating criteria, set out in Appendix D.

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

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

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

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

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

5.11 Creditworthiness

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

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

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

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

5.12 Policy on the use of external service providers

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

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

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

Section 6.0
Provisional Statement to Council by the Chief Finance Officer

6.1 Background

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

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

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

The intention would be to make a full Statement as part of the report to the Council meeting on 19 February 2015, when all outstanding information should be available as detailed in paragraph 2.1 of this document.

6.2 Provisional Statement

Robustness of Estimates

In assessing the robustness of estimates, the Chief Finance Officer has considered the following issues:

- The general financial standing of the Authority;
- The underlying budget assumptions from the financial strategy;
- Future budget pressures and growth proposals, including the impact of prudential borrowing for the 2015-2019 Investment Plan;
- The adequacy of the budget monitoring and financial reporting arrangements in place;
- The adequacy of the Authority's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2013/14 Statement of Accounts, presented to full Council on 25 September 2014;

- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority; and,

- The implications of the Local Government Finance Settlement on the Authority's financial plan.

The level of contingencies will be £3.874m as pressures incurred during 2014/15 have been recognised as part of the 2015/16 Financial Planning and Budget process.

The Chief Finance Officer is satisfied that due attention has been given to the 2015-2018 Financial Planning and Budget process and in particular the Council Tax Requirement ,and budget setting element of that process for 2015-2018 to enable a positive statement to be made.

The Cabinet is aware it must keep under review its medium-term Financial Strategy and three year Financial Plan, in the context of the 2014-2018 'Our North Tyneside' Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2015/16 in isolation to future years' needs and pressures. Each year's budget must continue to be considered within the context of the three-year Financial Plan, the four-year Investment Plan, the Financial Strategy and the global economic position prevailing at the time.

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

6.3 Adequacy of Financial Reserves

There is currently no planned use of reserves to support the 2015/16
The current Financial Plan, maintains the Strategic Reserve at least the planned level of £5.000m over the life of the financial plan. This is in line with the Authority's agreed Reserves and Balances Policy. Any unplanned use of the Strategic Reserve over the 2015-2018 financial plan may take the level outside of this boundary and corrective action would be needed to demonstrate how the £5.000m agreed level would be restored.

Guidance on Local Authority Reserves and Balances is given in Accounting Bulletin LAAP (Local Authority Accounting Practice) 77. This states that *“Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short term option”,* and so the proposed 2015/16 budget does not contradict the issued guidance. The Bulletin does then go on to say *that “It is not normally prudent for reserves to be deployed to finance current expenditure”*. The 2015-2018 financial plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long term reliance on reserves.

PART 2

Section 7.0
Cabinet's initial proposals for the Housing Revenue Account (HRA) Business Plan and budget for 2015-2018

7.1 Housing Revenue Account (HRA)

North Tyneside Homes is responsible for the management of just over 15,000 properties on behalf of the Council. The funding of these properties is required by law to be entirely separate from the rest of the Council's finances within what is known as the HRA. Thus the council tax payer cannot subsidise those in social housing but nor can the rents and service charges paid by the tenants be used to fund unrelated council services.

Under the Local Government and Housing Act 1989, it is illegal for a council to budget for a deficit on its HRA. In April 2012 the self-financing regime for council housing finance was introduced. Following the introduction of these reforms, the financial outlook for the HRA has improved, and this has enabled further resources to be identified for capital investment in the existing stock, and to continue a programme of new build council housing, which has already seen a number of schemes completed producing the first new council housing in the Borough for over 25 years.

As Cabinet will be aware the HRA budget will be formally received for agreement and approval by Cabinet on 15 January 2015. At that meeting Cabinet will be asked to approve the HRA Business Plan and Budget for 2015/16, including the housing rent, garage rent and service charge increases and the Housing Investment Plan.

This report revisits the major issues impacting on the HRA budget, in particular in relation to Government policy on rent, the treatment of debt, and the future investment needs of the stock, where they are relevant to the future of the Business Plan, and the decision-making process as we move into the fourth year of self-financing.

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

- Welfare Reform – particularly the introduction of the charge for tenants under-occupying their properties from April 2013, and the introduction of Universal Credit – now not planned to be fully rolled out before 2017, where rolling a range of benefits into one direct payment for our tenants will create budget management issues for some, and income collection pressures for the Authority in collecting monies which are currently paid directly into Authority's rent collection arrangements through the housing benefit system; and,

- Right to Buy (RTB) – the Government's revised scheme announced in 2012 increasing the discounts available to Council tenants, coupled with a national advertising campaign has revived interest in the RTB option for our tenants. Self-financing assumed a relatively modest level of RTB over 30 years. This report provides an update on further actual and proposed changes which could cause resource problems for the HRA.

This report sets out the efficiencies, financial and service pressures on the HRA identified through the financial planning process. Cabinet will wish to take these into account when it considers the draft HRA financial plan for 2015/16 to 2017/18 and the associated 4-year Investment Plan and 30-year HRA Business Plan.

Cabinet will be pleased to note that the 2015/16 budget proposals also provide for the continuation of a programme of new build Council Housing. 2013/14 saw the completion of new homes at Station Road (re-named Swan Close), and 2014/15 continued this progress with the Byrness Court scheme (to be re-named Barr Close), along with a number of conversions to bring existing properties back into use. The approach to the building of these homes was approved by Cabinet in the 13 August 2012 report "Building Council homes", and developed by the 14 October 2013 report "Delivering Affordable Homes", to fulfil Cabinet's aspiration to undertake a much more extensive programme of new build, as part of an ambitious plan to develop and help deliver up to 3,000 affordable homes in the borough in the next 10 years. The HRA Business Plan identifies over £50m of additional resources available over the next 10 years to support council house new build as part of those ambitions.

Cabinet will be aware that a long-term view of the HRA financial position is regularly taken. For the purposes of the current Financial Planning and Budget process a three-year revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that the second and third year projections are only indicative at this stage. As part of the self-financing process the Authority has continued to develop its 30-year plans to ensure the long-term viability of the HRA.

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

Setting the rent is still crucial to the HRA budget-setting process. The Chancellor's Spending Review statement in June 2013 included proposals to effectively end rent convergence a year early, and set a new social rent policy for the next 10 years. From 2015/16 rent increases for the next 10 years will be based on the Consumer Prices Index (CPI) inflation measure plus 1%, instead of RPI plus ½%. This represents a fundamental change to some of the basic assumptions within the self-financing model, which considered alongside changes to the RTB scheme and Welfare Reform changes, provide a challenge to maintaining the resource base within the plan. Based on CPI at September 2014 of 1.2%, the recommended average rent increase for 2015/16 for North Tyneside will be 2.2%.

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

- As feared CPI and RPI have diverged as measures of inflation. The gap was 0.5% a year ago but now stands at 1.1% as RPI in September 2014 was 2.3% compared to CPI at 1.2%. The Office of Budget Responsibility (OBR) had predicted this divergence but what they hadn't estimated was that both measures would be so low. The Government target measure for CPI was 2%; and,

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

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

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

Section 7.2
Strategic Planning

7.2.1 Decent Homes Standard Progress

The 2014/15 HRA budget including the Business Plan and 2014-2018 Housing Investment Plan, which were approved by Cabinet as part of the 2014/15 Financial Planning and Budget process, allowed for the Decent Homes Standard to be maintained for most of the General Needs Housing and non-traditional build properties owned by the Authority.

7.2.2 North Tyneside Living Project (formerly Quality Homes for Older People)

After a long road travelled Financial Close on the North Tyneside Living project was finally achieved on 26 March 2014. From that date we have seen a significant programme of refurbishment and new build sheltered accommodation commence with our Private Finance Initiative (PFI) partner S4NT (Solutions 4 North Tyneside). The Department for Communities and Local Government (CLG) approved a final allocation of Private Finance Initiative (PFI) credits of £108.634m for the redevelopment and refurbishment of the authority's sheltered accommodation units, which equates to annual PFI credit payments of £7.370m. The project has been, and will continue to be, reviewed for Value for Money by CLG. This project will mean that the Authority should see its sheltered accommodation brought up to the Decent Homes Standard over the next two years.

The budget proposals included within the Council's 2015-2018 HRA Plan ensure that the Council meets its obligations to ensure the successful delivery of the construction phase of the scheme, and the transition to the full and successful operation of the sheltered estate upon completion.

7.2.3 Asset Management

The minimum over-riding future objective is to ensure that the housing stock is maintained at the Decent Homes Standard (DHS). The Asset Management Strategy is currently being refreshed as 2014/15 is the final year of the strategy agreed in the "Better Homes – Better Lives" 2010-2015 report, approved by full Council on 9 September 2010. That report led to a new stock condition survey being undertaken to update the Investment Plan and ensure the future needs of the stock were fully identified. The results of the survey were fed into the Keystone Asset Management system. These figures are regularly reviewed and updated, to reflect the identified needs of the stock, and where possible build in the key priorities of our tenants represented via the Tenant Panels.

The implications of the survey work, along with the outcomes of the consultation processes, are fed into an updated Investment Plan. This Plan estimates the base capital need over the next four years will total £77.241m, with £1.245 billion needed over the next 30 years, excluding any assumptions on new build. If the assumptions in this report are agreed in setting the HRA rent and budget for 2015/16 and beyond, then an estimated £25.643m can be released for spend on new build homes in the next 4 years, and up to £215m could be released to build homes over the next 30 years, assuming the HRA can identify or acquire enough suitable land and there are not significant changes in the key assumptions within the plan. Given the identified need for one and two bed-roomed properties tied to the Welfare Reform changes and the potential for people to "downsize", Cabinet may wish to consider the size and types of homes it wants to see built under any proposals that come forward.

The assumptions used in relation to the Housing Investment Plan are fully reflected in the budget proposals outlined in this report. It is assumed that the Authority's Joint Venture partner (Kier North Tyneside Limited) will deliver the majority of the works identified for the current stock within the Investment Plan needed in order to maintain Decent Homes. A full review of Council-owned land stocks has been taking place over the last 12 months, and, as agreed by Cabinet, the plan assumes a proportion of Right to Buy (RTB) receipts, over those assumed for self-financing, will be set aside to repay debt to help maintain the viability of the HRA business plan. Any set aside will have to comply with the RTB agreement signed with Government, where the Authority agreed to use additional RTB receipts as a 30% contribution towards new build. Given the proposed new build programme, this should not be an insurmountable problem as we should be able to match spend to any targets, unless sales rose significantly, at which point the plan would have much broader problems.

2013/14 saw 122 RTB sales with total capital receipts of £4.957m, an average sale price of £0.041m compared to £0.062m had the system not been changed an with an additional retained capital receipt of £0.906m which requires new build spend of £3.019m within 3 years. There have been 40 sales to the end of September in 2014/15 with a total receipt £1.613m but with no additional "retained" receipt to-date. The increased numbers of RTB sales has been reflected in the revised Business Plan profile for stock numbers.

The proposed Investment programme for 2015/16, excluding new build works but including currently identified re-programming from 2014/15, totals £18.092m. This compares to the last year of the backlog Decent Homes Programme in 2010/11 which saw £35.699m of capital works being delivered, completed spend of £15.272m in 2013/14 and forecast spend of £18.103m in 2014/15, all excluding new build. Under self-financing the debt settlement provided for an increase in funding available for major repairs. This, coupled with a steady increase in the level of revenue contributions available from 2014/15, makes it possible to plan for the long-term to ensure that not only are all existing stock needs met, but that the Authority can, subject to the restrictions that may be placed by changes in Government policy, meet Cabinet's and our tenants' aspirations and begin building new council homes in earnest as part of the Affordable Homes plans. Further details on the Housing element of the Investment Plan and capital financing arrangements are included in Section 7.4 of this report.

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

1 April 2012 saw the introduction of self-financing and the end of the old subsidy regime, allowing the authority to retain all rents raised locally and no longer make any subsidy payments to Central Government. The “price” of this freedom was a “one-off” re-allocation of national housing debt. In effect each authority either bought itself out of the system, or was bought out of the system. The debt settlement figure for North Tyneside was £128.193m, with an overall HRA Capital Financing Requirement (CFR) of £270.585m. This overall CFR represents the “cap” on any future borrowing. This authority had a subsidy HRA CFR of £142.392m at 31 March 2012, but an actual HRA CFR of £162.631m. The difference is because the authority borrowed significantly to finance the Decent Homes Programme. The Government agreed that any authority whose HRA CFR exceeds their subsidy CFR will have their “cap” adjusted to reflect the higher figure, otherwise we would have immediately exceeded the cap.

Hence, £290.824m was the total initial debt that the HRA had to manage within the business plan over the next 30 years. Cabinet and full Council chose to follow the recommendations of the Cabinet report “Housing Revenue Account Self-financing” (28 November 2011) re the treatment of HRA debt, that the Authority should follow the Chartered Institute of Public Finance and Accountancy’s (CIPFA), recommendation that the HRA is treated as having a separate debt pool from the General Fund. There are three elements to this:

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

   These loans are directly attributed to the HRA, and are easily managed as such. The interest rates offered by PWLB for self-financing were at a “one-off” “premium” against what were already historically low interest rates. Hence it made prudent financial sense to finance these sums long-term. The average interest rate achieved on these loans was 3.49%, equating to annual interest of £4.477m and an estimated £0.652m below the figure budgeted for 2012/13. As such an equivalent sum is transferred to a House-building Reserve annually as agreed by full Council following final accounts agreement. The funds in this reserve are being used to help fund the programme of HRA new build and conversions approved by Cabinet under its Affordable Homes ambitions;

2) Existing Debt – the HRA’s share of the Authority’s pre-self-financing debt portfolio was valued at £162.631m as at 31 March 2012. To create a separate portfolio of existing debt for the HRA each long-term loan was split proportionally with the General Fund. At the point each loan reaches maturity, there is a separate consideration for the General Fund and HRA re whether they re-finance the loan, either long-term or short-term, or repay the debt using debt set aside. The HRA strategy agreed by Cabinet was that existing loans should be repaid where prudent and affordable. So opportunities to undertake short-term borrowing at current low rates, when loans reach maturity, has enabled some additional short-term savings to be made. These have been identified in the Treasury Management Plan, and built into the assumptions for the HRA Business Plan. For 2015/16 estimated interest payments due on existing debt will total £5.997m, a reduction of

£1.874m on the current year's budgeted charges, with a debt set aside of £1.620m. The debt set aside was reduced due to additional resources being used to fund new build and debt set aside is being built up again over the next few years of the plan;

3) New HRA Debt (short-term and long-term) – as already described, any new HRA borrowing, whether re-financing of existing loans or genuine new borrowing (currently restricted because of the debt cap), will be done via new loans which will be easily attributed to the HRA. For 2015/16 there will be re-financing of £14.389m of long-term loans and temporary borrowing of £20.488m in total with current annual interest charges of £0.658m.

It can be seen that a truly separate portfolio of HRA debt will be established with differing strategic considerations to the General Fund, albeit within the Authority's Treasury Management Strategy, as ultimately the debt is the Authority's. For 2015/16 the overall impact of the debt portfolio approach will be total estimated interest of £11.132m and a set aside cost of £1.620m, giving total estimated financing payments of £12.752m. Original budgets for 2014/15 with interest costs totalled £12.605m and set aside was £0.750m with an estimated overall cost of £13.355m. Currently it is forecast that actual costs for 2014/15 will be in the region of £13.103m realising an increased saving due to more temporary borrowing. These costs are of course now exposed to interest rate risks in the market but in the current climate represent the best estimate of the implications going forward. Although the HRA has taken on significant debt, close control of the costs of that debt will realise true benefits to the HRA over time compared to a subsidy system where payments to Government were rising exponentially.

The HRA is also restricted by the imposition of the "uplifted" debt cap at £290.824m, with current actual debt estimated to be at £280.308m by 31st March 2015. The Authority's total borrowing cannot exceed its cap at any future financial year end. However, North Tyneside Council are in a small group of authorities for whom this premise will be flexed, and that is due to the Authority's North Tyneside Living PFI Scheme. Over the build period of up to 2-3 years, significant capital costs will be incurred, which will be recognised in the Authority's Capital Financing Requirement (CFR), hence if the Authority was not allowed to break the cap to reflect the Capital spend, it would be in breach of the self-financing regulations. Written assurance has been sought and received from the Department for Communities and Local Government (CLG) that they will work with us to ensure that the cap is flexed appropriately to reflect this. It is effectively a technical adjustment and the cap will reduce over the 28 year life of the scheme, as the debt is notionally written down.

The Authority continues to closely monitor the Treasury Management position and the impact on the HRA, and consult with the Mayor and Cabinet to ensure the best results are achieved for the HRA and our tenants. The Authority's current approach to Treasury Management is set out in the Treasury Management Strategy in Section 5 of this report, and any decisions on HRA debt are made within the context of that overall strategy, seeking to ensure that the risks and impact on the HRA business plan are minimised whilst providing flexibility in terms of future investment and potential additions to the stock.

7.2.5 HRA Self-Financing and Depreciation

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

A true depreciation charge would need to be very carefully calculated and analysed to ensure that the HRA business plan remained sustainable. There is also a requirement to move towards assessing the different components of assets with differing lifecycles (e.g. kitchens and bathrooms), under International Financial Reporting Standards (IFRS), which could also lead to variations in depreciation charges previously used. There is also the issue of impairment to reflect the Social Use Value (SUV), which we use to value our assets which would be a bottom line charge under normal depreciation rules. To manage those concerns, and following further work and consultation with CIPFA, CLG came up with an interim solution; to allow an up-rated MRA figure to be used as a proxy again for up to five years whilst a workable long-term option is developed. It has proposed various alternative treatments including one based on a discounted cash-flow valuation. As recommended in the self-financing report, this budget assumes that the Authority will move towards calculating a true depreciation charge, but will use the MRA proxy as a fall-back position for up to five years, whilst this issue is resolved fully. This is still a difficult issue nationally on which there has not been a lot of movement, and it is something on which CIPFA and the Chartered Institute of Housing (CIH) are still struggling to reach a consensus with CLG. 2015/16 will be the fourth year of the transition phase, and the Authority continues to work towards a workable and affordable solution for the HRA.

Using the proxy MRA figure for 2015/16 means that the transfer to the Major Repairs Reserve that will be required in 2015/16 will increase from £14.226m to approximately £14.649m. The sums that are transferred to the Major Repairs Reserve to reflect depreciation can only be used to either pay off debt or fund major repairs. They cannot be used to balance the HRA business plan.

7.2.6 HRA Rent

Under the self-financing HRA system it was assumed that authorities would follow the Government’s rent restructuring policy through to a conclusion in 2015/16. The Government has now changed this policy and moved from an RPI to a CPI based calculation. The new rent proposals see rent based for the next 10 years on CPI + 1% as the average rent increase from 2015/16, meaning effectively, that rent restructuring ends a year early, and most of our properties rents will not converge with any target rent figures. In addition the business plan will lose an estimated £1.4m in rental income in 2015/16 and over £50m over the life of the plan.

The September 2014 CPI inflation rate of 1.2% indicates an average rent increase for our tenants of 2.2% from April 2015. For the following two years CPI is assumed to return to the government target of 2% which would see increases estimated at 3% for 2016/17 and 2017/18. Using the convergence formula the rent increase for

2015/16, based on RPI + 0.5% + £2 per week, would have been an average of 4.8% (RPI of 2.3% in September 2014).

In effect the Business Plan has lost the flexibility of the additional resource brought about by the £2 a week convergence element, and the difference between RPI + 0.5% and CPI + 1%, which is 0.6% based on September's inflation rates ((2.3% + 0.5%) – (1.2% + 1%)). If Cabinet wished to try and mitigate some of the impact of the change in government policy re rent increases from RPI to CPI from 2015/16, there are options that Cabinet could look at:

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

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

3) Ignoring rent restructuring deadlines and continuing along an assumed path to convergence.

The first option of moving the convergence deadline would lead to an average rent increase for 2015/16 of 5.88%. This would bring significant additional resource into the Business Plan over 30 years, but needs to be considered against the impact on tenants in the current economic climate, the level of inflation, and the potential for the government to bring in some form of penalty, as this is not a policy they endorse;

The second option involves moving all new tenancies upon re-let directly to target rent, except those tenants subject to protection e.g., sheltered tenants. Based on historical figures there are as many as 1,300 voids per annum, and it is estimated that following this policy would realise an additional £0.100m in 2015/16, and up to £60m over 30 years, more than compensating for the loss due to the ending of rent re-structuring a year early. The down side of this option could be that two neighbours in the same street in identical properties could end up paying different rents, but there are already precedents for this. Some authorities have already gone down this route: it is relatively painless and does not impact on existing tenants. Furthermore this approach is endorsed by government and hence is unlikely to be subject to any retrospective action to reduce resources. It is recommended that Cabinet endorse this option, and agree to its implementation from 1 April 2015 for void properties.

The third option is somewhere between the other two, effectively ignoring the government removal of the deadline, and calculating rents based on the old formula. Based on current inflation this would lead to 4.8% average rent increases in 2015/16 and would put back the £50m estimated loss in resources. However, again this approach is not endorsed by government, and could lead to some form of retrospective action to impose rent controls.

As mentioned above, the North Tyneside Living project will see new rents calculated for all new build and refurbished properties. It was proposed and agreed last year to provide protection for existing tenants, who would otherwise see significant increases in their rents, equivalent to any amount over and above the normal annual increase based on the current social rent they are paying in their existing property. All new tenancies would commence at the newly calculated rents. It is estimated that this protection will cost in the region of £0.110m in 2015/16 rising to a maximum of approximately £0.170m per annum in 2016/17, which will then steadily reduce.

In addition to the rent increase above, it is also assumed that Service Charges and Garage Rents increase in line with September 2014 CPI, i.e. 1.2% subject to any benefit restrictions. These changes would also be subject to any implications of the Government's Universal Credit Regulations. The Government is proposing to accelerate the single claimants' element of the changes from 2015 and, if that is successful, it will look to accelerate roll-out of future phases but we have no definitive revised programme at the moment. If there are any significant changes to the timetable for implementation, Cabinet may be asked to consider revised proposals. A full review of the service charges attached to the North Tyneside Living schemes will also need to be undertaken as the schemes move towards completion, to ensure consistency and accurate charging for the services being provided.

Additional income from the rent, service charge, and garage rent increases is included in the budget proposals for 2015/16 and the next two years. The assumptions around CPI + 1% and a move to target rent on voids have been built into the plan figures for the next three years.

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

7.2.7 Major Issues and Risks to the HRA

Significant risks to the HRA, such as exposure to the interest markets and changes to RTB, which impact on HRA cost and income streams, have already been highlighted. Last year's budget report also discussed at length the potential implications of welfare reform and these will continue to be monitored closely to enable sensitivities to be run on the HRA Business Plan to ensure it can cope with the majority of risks.

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

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

Section 7.3
Elected Mayor and Cabinet's Proposals for the Housing Revenue Account Business Plan and Budget for 2015-18

7.3.1 Overview

Paragraphs 7.3.2 to 7.3.5 below provide the build up of the financial picture for the next three years reflecting:

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

7.3.2 Pressures and Growth

Table 10 below summarises the major unavoidable pressures and variations faced by the HRA currently built into the budget. These include:-

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

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

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

d) The implications in revenue of the North Tyneside Living (PFI) project;

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

f) Pension Fund Deficit Contributions & Strain on the Fund Costs;

g) Bad debt provision;

h) Transitional Protection – for existing tenants in the North Tyneside Living Scheme.

Table 10: 2015-2018 Pressures and Growth

Pressures and Growth	2015/16 £000's	2016/17 £000's	2017/18 £000's
a) Debt set aside – MRP;	870	1,140	1,130
b) MRA / Depreciation;	423	433	275
c) Housing Investment Plan - Revenue Effects;	1,323	(877)	613
d) North Tyneside Living – Unitary Charge Payments & Contributions to/from Reserves;	86	40	74
e) HRA New Debt / DME / Premiums & Discounts;	401	578	436
f) Pension Fund Deficit Contributions & Strain on the Fund costs;	31	32	33
g) Bad Debt Provision	0	119	23
h) Transitional Protection – for Rents re North Tyneside Living project;	55	60	(20)
TOTAL Pressures and Growth	**3,189**	**1,525**	**2,564**

7.3.3 Creating a Brighter Future Programme

As part of the 2015-2018 Financial Planning and Budget process, proposals have been made for additional income, grant and efficiency opportunities. These include:

1. The proposed rent increase brought about by following the government's new 10 year social rent policy based on the Consumer Prices Index (CPI);

2. Increased rental income from introducing policy of re-letting new tenancies based on moving direct to Target Rent;

3. Service charge income, garage rents and other rental income;

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

5. Savings and efficiencies in relation to repairs budgets;

6. Savings from North Tyneside Living Project re project and procurement costs;

7. Increased income earned from Interest on Balances;

8. Council Tax Void Scheme – savings as North Tyneside Living scheme moves to completion and voids reduce as a result;

Table 11: 2015-2018 Creating a Brighter Future Programme

Creating a Brighter Future Programme	2015/16 £000's	2016/17 £000's	2017/18 £000's
1) Income from Rent Increase, re-basing & voids to target;	(609)	(1,554)	(2,242)
2) Income from Voids to Target;	(100)	(173)	(151)
3) Garage Rents, Service Charge & Other Income;	9	(25)	(26)
4) HRA Existing Debt – Interest savings from refinancing & temporary borrowing;	(1,874)	(681)	(533)
5) Repairs Stock reduction & VFM savings;	(115)	(35)	(39)
6) North Tyneside Living – project procurement & monitoring costs;	(20)	4	(117)
7) Interest on Balances			
8) Council Tax Void Scheme	(20)	0	0
	(55)	(25)	(100)
TOTAL Creating a Brighter Future Programme	**(2,784)**	**(2,489)**	**(3,208)**

7.3.4 HRA Reserves and Contingencies

The proposed draft budget for 2015/16 includes a contribution from reserves of £0.640m. It is proposed to create a contingency budget of £0.386m to recognise relevant issues including any increases in inflation and any pay award for 2015/16.

Table 12: 2015–2018 Housing Revenue Account Reserves and Contingencies

HRA Revenue Balances	2015/16 £000's	2016/17 £000's	2017/18 £000's
Increase in Contingencies	386	463	533
Contribution to/(from) Balances	(640)	(140)	(27)
TOTAL Change in Reserves and Contingencies	**(254)**	**323**	**506**

7.3.5 2015-2018 Draft Housing Revenue Account – Movement on Reserves

Table 13 below summarises the draft Housing Revenue Account movement on balances for 2015-2018, after taking account of the information and details included in Sections 7.3.2 to 7.3.5 above:

Table 13: 2015–2018 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	**2015/16 £000's**	**2016/17 £000's**	**2017/18 £000's**
Opening Reserve Balance	(3,310)	(2,670)	(2,530)
Add:			
Original Contributions (to) / from balances	(153)	640	140
Change in contributions (to) / from Balances	793	(500)	(113)
Predicted Reserve Balance Carried Forward	**(2,670)**	**(2,530)**	**(2,503)**

The budget monitoring position for 2014/15 to 30 September 2014, reported to Cabinet on 10 November 2014, shows projected year-end balances of £3.310m. Hence, a net contribution from balances to the HRA of £0.640m is projected in 2015/16 to give a year-end balance of £2.670m as at 31 March 2016. The budget proposals presented here ensure that a minimum of £2m is retained in HRA revenue balances each financial year covering the three years of the Council Financial Plan, to ensure some measure of contingency and financial stability. These proposals as they currently stand also balance the plan over the longer 30-year period, which is what the Government requires us to demonstrate as part of the self-financing proposals. Table 14 below summarises the Housing Revenue Account forecast plan for 2015–2018, after taking account of the information and details included in Sections 7.3.2 to 7.3.4 above:

Table 14: 2015–2018 Housing Revenue Account Financial Plan

HRA Forecast Expenditure Plan	**2015/16 £000's**	**2016/17 £000's**	**2017/18 £000's**
2015/16 Base Budget	0	0	0
Add:			
Pressures and Growth	3,189	1,525	2,564
Creating a Brighter Future Programme	-2,784	-2,489	-3,208
Reserves and Contingencies	-405	964	644
Net Forecast Expenditure Variation	**0**	**0**	**0**

A three-year financial forecast for the Housing Revenue Account is attached at Appendix E (i) for information and the Housing Investment Plan at Appendix E(ii).

Section 7.4
The Elected Mayor and Cabinet's Proposals for the 2015-2018 Housing Investment Plan

7.4.1 2015-2018 Housing Investment Plan

As outlined previously the final target year for completion of the Decent Homes Programme was 2010/11. The over-riding objective for future years is to ensure that Housing stock is maintained to at least Decent Homes Standard as laid out in the Housing Asset Management Strategy approved by full Council on 9 September 2010, to be refreshed by an updated 2015-2019 Housing Asset Management Strategy in due course. On top of this, as resources allow, there is the intention of responding to tenant priorities around issues such as fencing and landscaping.

This Investment Plan also provides for the Authority to continue the programme of new build council housing started in 2013/14 and 2014/15 building on the "pilot" work that has been completed at Swan Close and Barr Close, and assuming that enough suitable HRA-owned land can be identified or acquired, and planning issues addressed, with the potential for up to £215m worth of new build expenditure over the next 30 years in total, and specifically up to £8.550m of new build works (including client fees and re-programming from 2014-15) in 2015/16. This is reflected in the proposed Housing Investment Plan 2015-2019 attached as Appendix E(ii). Some of the main elements of work planned in 2015/16 (including fees) include:

(a) Decency Refurbishments of £6.182m;

(b) Central Heating and Rewire programme totalling £3.505m;

(c) Disabled adaptations of £1.000m;

(d) Cyclical / Decoration works of £1.721m;

(e) Capitalisation of Major Repairs £1.184m;

(f) Furniture Pack scheme of £0.474m;

(g) Asbestos Works of £0.253m;

(h) Environmental Improvement & Energy Efficiency of £0.201m;

(i) Other Capital Works – covering ICT Strategy; Water Pipe renewals; Garages and Communal Lifts and Fire Damage reinstatement of £0.279m;

(j) Fencing, Landscaping & Other External Works - £0.926m;

(k) Non-Traditional properties - £1.288m;

(l) PFI Homeloss payments, demolitions and sprinklers - £1.079m;

(m) New Build Council Housing - £10.342m;

Table 15 below summarises the 2015-2019 Housing Investment Plan and financing, including potential resources available to fund new builds.

Table 15: Summary of Proposed Housing Investment Expenditure and Financing 2015–2019

Resources	2015/16 £000's	2016/17 £000's	2017/18 £000's	2018/19 £000's	Total £000's
Housing Investment Expenditure	**28,434**	**24,530**	**24,963**	**26,544**	**104,471**
Current Stock Need	**18,092**	**19,066**	**19,335**	**20,748**	**77,241**
Potential New Build (including fees)	**10,342**	**5,464**	**5,628**	**5,796**	**27,230**
HRA Investment Financing					
Major Repairs Reserve/Depreciation	13,982	14,661	14,870	14,931	58,444
Revenue Contributions (HRA)	8,236	7,359	7,972	9,481	33,048
Government Grants	1,121	0	0	0	1,121
Capital Receipts (RTB & Other Land Sales)	3,595	1,439	1,050	1,061	7,145
House-building Fund	1,500	1,071	1,071	1,071	4,713
Total Resources	**28,434**	**24,530**	**24,963**	**26,544**	**104,471**