ANNEX 1

2015-2018 Financial Planning and Budget Process:

Cabinet's Draft Council Tax Requirement and Budget Proposals

28 January 2015

North Tyneside Council

Contents

*Please note the page numbers above refer to those in the bottom left hand corner of this Annex

Section 1.0
2014-2018 Council Plan - 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 £14.158m 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 2 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

Engagement on the Council's Financial Plan and Budget is an ongoing process to ensure residents and other stakeholder views are considered at all stages of the decision-making process, including in the development of proposals.

The Summer out and about engagement programme engaged with over 3,000 people across the borough and enabled the Authority to gather input on the issues important to them and the areas for improvement. This supplemented the annual programme of Mayor's Listening Events and Community Conversations that provide opportunities for the public to directly engage with the Council.

The Council has also carried out its latest Residents Survey to engage with people by post to gather feedback on their perception of the Council's services and performances. This will provides further valuable insight as part of the Council's decisions on its financial and policy framework.

To ensure that the widest opportunities are made available for stakeholders to feedback their views and ideas on the budget proposals presented to Cabinet a mix of opportunities have been offered.

Four drop-in sessions were held in each of borough's Customer First Centres to ensure every part of the borough was able to have easy access. The session provided both day-time and night time opportunities for the public to attend and to find out more about the proposals as well as feedback via a questionnaire if they wished.

In addition the information has been made available online at the Council's website – www.northtyneside.gov.uk. – until 18 January 2015. Residents have also been offered the opportunity to write to the Council or e-mail directly via the engagement e-mail.

The options for involvement have been promoted via the media, and via social media through the Council's Twitter and Facebook accounts.

Specific stakeholder groups have also been provided with opportunities for more in-depth consideration of the specific budget proposals, including the Residents Panel, the Business Forum, the Staff Panel as well as schools and partner organisations.

In addition service areas are required to carry out engagement on any specific proposals and consider those impacted by the changes.

As the Budget Engagement process will continue beyond the 28 January 2015, any relevant outcomes from budget engagement after the drafting of this Cabinet report will be considered by the Elected Mayor and provided as an Addendum to the report to full Council on 5 February 2015 and 19 February 2015.

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.

On 24 November 2014, Cabinet considered its initial budget proposals and was advised that the level of CEI projects that were already included in the Financial Plan at that stage were sufficient to cover existing committed plans, commercial activities and some allowance for contingencies. Cabinet was further advised at that meeting that given that the 2015/16 Provisional and Final Local Government Finance Settlement announcements were not anticipated to be received until mid December 2014, the budget proposals were necessarily draft at that stage.

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 now presents, for Cabinet's consideration, the estimates of amounts for all aspects of its proposed spending and resource plans for the period 2015 – 2018 and the 2015/16 Council Tax Requirement. The Senior Leadership Team has been fully involved in the financial planning and budget process to date.

Cabinet's estimates of amounts 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 estimates of amounts will therefore need to be subject to further review before they can be confirmed. The information to be assessed and finalised is:

(a) The Final Local Government Finance Settlement announcements for 2015/16, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG) (due February 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.

In addition, as the Budget Engagement process will continue beyond the 28 January 2015, any relevant outcomes from budget engagement after the drafting of this Cabinet report will be considered by the Elected Mayor and provided as an Addendum to the report to full Council on 5 February 2015 and 19 February 2015.

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 2015/16 Provisional Local Government Finance Settlement

2.3.1 Context / National Settlement

On 18 December 2014, Kris Hopkins, MP, the Minister for Local Government announced the Provisional Local Government Finance Settlement for 2015/16 to Parliament. The Settlement outlined was for one year only. A Consultation on the Settlement was issued with a closing date of 15 January 2015.

The national reduction in 'Spending Power' was outlined as 1.8% in 2015/16. Spending Power calculations were introduced in the 2011/12 Local Government Finance Settlement as a calculation of the amount available to each local authority to spend on their core services. The average national 'Spending Power' per dwelling is expected to be £2,083 in 2015/16. The Local Government Association estimate that the 1.8% Spending Power figure translates to a reduction in government grant of around 8.8%, with the result that Councils will have to save £2.6 billion in 2015/16.

The comparative figures for North Tyneside Council are a higher than the national average Spending Power reduction of 2.4%, and a lower Spending Power per dwelling than the national average of £1,996. This reduction in our Spending Power for 2015/16 combined with reductions since the 2010 Spending Review mean that for the five financial years from 2011/12 to 2015/16 North Tyneside Council will have made savings of approximately £76 million.

2.3.2 North Tyneside Council Position

The Settlement Funding Assessment figures provided for North Tyneside Council in the Provisional Local Government Finance Settlement of 18 December 2014 are approximately in line with our resource forecasts. However, the final position can't be confirmed until the Final Local Government Finance Settlement has been released by the Government.

Settlement Funding Assessment (SFA)

A key aspect of the Business Rates Retention (BRR) System is the introduction for each local authority of a Settlement Funding Assessment (SFA), which is a reflection of core income through Business Rates and Revenue Support Grant. The issued SFA for North Tyneside Council for 2015/16 is £83.32 million, which represents a reduction of 14.8%, a £14.5 million reduction on the adjusted 2014/15 figure. Our reduction of 14.8% is above the national average reduction of 13.9%. This information is set out in Table 1 below:

Table 1: Distribution of SFA to North Tyneside Council 2014-2016

	Adjusted SFA 2014/15 £m	Provisional SFA 2015/16 £m
Revenue Support Grant	54.81	39.48
Baseline Funding Level	43.02	43.84
Total Settlement Funding Assessment	**97.83**	**83.32**
Reduction (£)		**-14.51**
Reduction (%)		**-14.8%**

The above table shows the significant reduction in one of the Authority's main sources of income, the Revenue Support Grant (RSG). The 2015/16 Revenue Support Grant for North Tyneside represents a 28% reduction on the adjusted total from last year.

The Baseline funding level is the amount of an individual local authority's Settlement Funding Assessment provided through the local share of the Business Rates. In the case of North Tyneside Council this also includes the Business Rates "Top up" payment, which totals £15.5 million in 2015/16.

The other aspects of the Provisional Local Government Finance Settlement for 2015/16 are set out in more detail in the background papers to this report.

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 2 below:

Table 2: 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.

<u>Key Financial Risks</u>

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 3 – 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 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.

2.7 Outstanding Information

As some external announcements are still to be received, it is recommended that Cabinet authorises the Elected Mayor, in conjunction with the Deputy Mayor, 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.

2.8 Authorisation to amend Cabinet's Estimates of Amounts

With reference to paragraph 2.1 above, it is proposed that the Elected Mayor is authorised to consider any changes that may need to be made to Cabinet's estimates of amounts in light of external information still to be assessed and finalised in relation to:

(a) The Final Local Government Finance Settlement announcements for 2015/16, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG) (due February 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.

In addition, as the Budget Engagement process will continue beyond the 28 January 2015, any relevant outcomes from budget engagement after the drafting of this Cabinet report will be considered by the Elected Mayor and provided as an Addendum to the report to full Council on 5 February 2015 and 19 February 2015.

Section 3.0
Cabinet's draft 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

In discussion with the Elected Mayor and Cabinet Members as part of preparing the draft budget proposals, the budget presented for the General Fund is predicated on a financial planning assumption of accepting the Government's recently announced Council Tax Freeze Grant for 2015/16 and so proposing no increase in Council Tax for the fifth year in succession.

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

Table 4 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 4: 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**	**158.473**	**153.323**
Pay and Price Increases	2.592	1.537	1.537
Demand Led	1.250	3.250	3.250
Corporate	(0.743)	4.930	2.309
Legislative / Changes to Responsibilities	1.137	2.207	0.515
Creating a Brighter Future Programme	(14.158)	(17.074)	(11.238)
Total General Fund Financial Plan	**158.473**	**153.323**	**149.696**

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. Included here is the anticipated saving in the North East Combined Authority (NECA) Transport Levy.

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 5: 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	(5.934)	0.552	(0.915)
Ready for School	(1.415)	(0.258)	(0.001)
Ready for Work	(0.257)	(0.065)	0
Creating a Brighter Future		(16.568)	(9.497)
Total	**(14.158)**	**(17.074)**	**(11.238)**

3.6 Education Funding Settlement

The main funding arrangements for 2015/16 are:

1. The Dedicated Schools Grant (DSG) continues to be issued in 3 separate blocks: Schools Block, Early Years Block and High Needs Block;
2. The per pupil funding for the Schools and Early Years Blocks has been held constant in cash terms from 2014/15;
3. The additional funding for 2 year olds has not yet been confirmed – last year this was included in the funding settlement for 2014/15 (£2.507m), but will now be confirmed in subsequent DSG updates later in 2015;
4. High Needs Block – only provisional figures issued in December 2014; and
5. The overall DSG continues to be ring-fenced – although the 3 blocks are not ring-fenced individually so there remains discretion to move money between the blocks.

The Minimum Funding Guarantee (MFG) continues at minus 1.5% per pupil.

A summary of the settlement for North Tyneside's 2015/16 DSG is in Table 6.

Table 6 – Summary of the settlement for North Tyneside 2015/16

	Schools Block	**Early Years Block**	**High Needs Block**	**Total Estimated 15/16 DSG**
Per pupil rate (£)	£4,529.21	£3,234.96		
Pupil numbers	25,372	1,838		
Block value (£m)	£114.915m	£5.946m	£16.764m	
Funding for inducting newly qualified teachers (NQTs) (£m)	£0.038m			
Early Years Pupil Premium (estimate)		£0.160m		
TOTAL (£m)	**£114.953m**	**£6.106m**	**£16.764m**	**£137.823m**

<u>Pupil Premium</u>

In addition to the funds through the DSG, schools may also be eligible to receive Pupil Premium. The Pupil Premium was introduced in 2011 to provide additional school funding for those children classed as having deprived background, those who are looked after (by a local authority) and those children whose parent(s) are, or have since 2011, served in the armed forces.

The Pupil Premium will rise by £20 in 2015/16 to £1,320 per pupil for Primary aged children, and remain constant at £935 for secondary aged children, at £1,900 per looked after child and is expected to remain at £300 for Service children.

Section 4.0
Cabinet's draft budget proposals for the 2015-2019 Investment Plan and 2015-18 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. The IPB also met on 9 December 2014 to consider a number of the projects included in the draft Investment Plan in more detail and review the overall draft plan.

All bids were considered in terms of their strategic alignment with the 2014-2018 Council Plan - Our North Tyneside.

4.2 Investment Plan 2015-2019

Following the IPB review the draft Investment Plan for 2015-2019 has been prepared. Table 7 below shows the draft 2015-2019 Investment Plan.

Table 7: 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
General Fund	50,283	35,191	18,138	8,817	112,429
Housing	29,268	24,530	24,963	26,544	105,305
Total	**79,551**	**59,721**	**43,101**	**35,361**	**217,734**

A schedule of individual projects are included in the draft 2015-2019 Investment Plan which is attached as Appendix C(i).

The following new projects are included in the draft 2015-2019 Investment Plan:

- Backworth Park Primary;
- Depot rationalisation;
- BDUK (Broadband);
- Northumberland Square Townscape Heritage Initiative;
- St Mary's Lighthouse and Visitor Centre;

- North East Local Enterprise Partnership (NELEP) Growth Deal (A1056/A189 Weetslade junction improvements, A19 Employment Corridor access improvements, A191 junction improvements at Coach Lane and Tyneview Park); and,
- Community Led projects.

These schemes are subject to confirmation of external funding where applicable.

The plan shows increased support to existing schemes including Whitley Bay Regeneration and Swan Hunters redevelopment. The majority of the increase is funded from external sources including grant bids for which funding is yet to be confirmed.

The plan also reflects the policy decision to continue to support ongoing projects in: Additional Highways Maintenance, Surface Water Management Improvements and Asset Planned Maintenance whilst an identified need still remains.

4.3 Financing

Table 8 below summarises the proposed financing of the draft 2015-2019 Investment Plan:

Table 8: 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	15,276	12,818	8,244	5,753	42,091
Capital Receipts	3,869	0	0	0	3,869
Revenue contribution	50	0	0	0	50
	19,195	**12,818**	**8,244**	**5,753**	**46,010**
Grants & Contributions	31,088	22,373	9,894	3,064	66,419
Total General Fund Resources	**50,283**	**35,191**	**18,138**	**8,817**	**112,429**
Housing - HRA					
Capital Receipts	4,429	1,439	1,050	1,061	7,979
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	**29,268**	**24,530**	**24,963**	**26,544**	**105,305**
Total Resources	**79,551**	**59,721**	**43,101**	**35,361**	**217,734**

The draft 2015-2019 Investment Plan for the General fund includes expenditure of £50.283m in 2015/16. Of this expenditure, £31.088m (62%) is funded through grants and other external funding contributions.

Capital receipts of £11.848m (£3.869m General Fund and £7.979m Housing) have been assumed in the financing of the draft plan.

Across the life of the draft plan, unsupported borrowing totals £42.091m. 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(ii).

4.4 Capital Allocations 2015/16

A number of capital allocations (grants) were announced by central government as part of the local government settlement, namely, Integrated Transport and Highways Maintenance (Local Transport Plan), Social Care Capital (Community Capacity) and Better Care Fund (Disabled Facilities Grant). These grants are now included in the draft 2015-2019 Investment Plan. The announcement of the Education Funding (Capital Maintenance and Devolved Formula Capital) is expected shortly. The outcome of the bids for Local Authority Priority Schools Building Programme Two (PSBP2) is expected in late January 2015.

4.5 2015-2018 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 2015-2018 Prudential Indicators are included as Appendix C(ii) 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 9 January 2015 is set down in Table 9 below. This has been compared with the comparable position as at 6 January 2014.

Table 9: Current Treasury Portfolio Position as at 9 January 2015

	Principal Outstanding	**Average Rate**	**Principal Outstanding**	**Average Rate**
	(09 Jan 2015) £m	**%**	**(06 Jan 2014) £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	70.488	0.68	43.170	0.58
Total External Debt	**454.331**		**456.113**	
Less **Investments** (UK) DMO**	25.200	0.25	18.900	0.25
Total Investments	**25.200**		**18.900**	
Net Position	**429.131**		**437.213**	

***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 10 below sets out Capita Asset Services professional view of forecast interest rates.

Table 10: Capita Asset Services forecast interest rates – (5 January 2015)

	Bank Rate %	5 year PWLB %	25 year PWLB %	50 year PWLB %
Now 2015	0.50	2.00	3.30	3.30
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

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; and

- 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 Investment Plan 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 4 of 2015. Table 11 below sets out Bank Rate forecasts for financial year ends (March) as follows:

Table 11: Bank Rate Forecast for Financial Year Ends

Year End (March)	Bank Rate Forecast (%)
2015/16	**0.75**
2016/17	**1.25**
2017/18	**2.00**

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
Response to the Overview, Scrutiny and Policy Committee Recommendations

6.1 Summary

This section of the document proposes how to consider responding to any recommendations made by the Overview, Scrutiny and Policy Committee following its scrutiny and challenge of the 2015-2018 Financial Planning and Budget process.

The Cabinet must formally respond to any recommendations made by the Overview, Scrutiny and Policy Committee in considering its final budget proposals. It is therefore proposed that Cabinet consider any recommendations in relation to the general fund budget, the 2015-2019 Investment Plan, and the treasury management statement and annual investment strategy for 2015/16 at this meeting of 28 January 2015 prior to approving this report.

The meeting of the Overview, Scrutiny and Policy Committee on the 5 January 2015 considered a report by the Budget sub-group in relation to the initial budget proposals for 2015/16. The Budget sub-group had considered all the 2015-2018 Creating a Brighter Future business cases by the following themes:

- Cared for, safeguarded and healthy;
- Ready for school;
- Ready for work;
- Great place to live, work and visit;
- Enabling;
- Pressures; and
- Investment Plan.

It was noted by the Budget sub-group that they understood that to ensure the Council was in a position to deliver the priorities of its residents / business and the Our North Tyneside Plan, it was critical that it becomes even more commercially focused and business like in these difficult times. It was noted that the Group was provided with comprehensive information and that to ensure the publics expectations are met it was important to be clear to what services can and cannot be provided.

The group agreed the Ready for School entitlement was an excellent tool that would identify where children and families need support and thought that it was encouraging that strategies were being investigated to ensure that those most in need were supported by the relevant professionals.

The Overview, Scrutiny and Policy Committee noted that the Budget sub-group had concluded that the budget proposals were ambitious and were encouraged that the delivery of this budget would ensure that service delivery would improve for those most in need and further develop cross departmental working. It is a budget to develop greater resilience for those who can do things for themselves within a shrinking public purse.

Section 7.0
Provisional Statement to Council by the Chief Finance Officer

7.1 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.

7.2 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.

7.3 Adequacy of Financial Reserves

There is currently no planned use of reserves to support the 2015/16 budget. The current Financial Plan, maintains the Strategic Reserve at 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.