Cabinet – 8 June 2015
Agenda Item 6(a)

2014/15 Provisional Finance Outturn Report

Section 1.0
Executive Summary

Summary

1.1 The Authority's audited Statement of Accounts (the Accounts) for 2014/15 will be presented to full Council for discussion and approval at the end of September 2015. The Accounts are a statutory document which set out the Authority's financial position and performance for the year in a series of formal accounts prepared according to a specific statutory and regulatory framework.

1.2 Successive changes to local government accounting practice have made the Accounts a very technical document. As in previous years, we are taking the opportunity to set out the Authority's financial performance in an outturn report. This reflects the Authority's structure and is set out on a similar basis to the financial management reports presented to Cabinet throughout the year. This report is also the end-point of the Authority's financial management process for the financial year 2014/15.

1.3 The figures contained in this report are provisional until the completion of the Accounts. In accordance with legislation the draft Accounts will be "certified" by the Chief Finance Officer by 30 June 2015 and the audited Accounts will be approved by full Council by 30 September 2015.

1.4 The net effect on General Fund revenue, after taking into account all year end transactions and transfers to and from reserves, is an underspend of £5.135m. It is proposed that this amount is transferred to the Authority's Strategic Reserve. After this final transfer, the General Fund Revenue Account will show spend on budget for 2014/15, with a closing balance on the Strategic Reserve of £13.740m. Further details are given in Section 2 in this Annex and Appendix Q.

1.5 The Housing Revenue Account has year-end balances of £3.732m, which represents an improvement against the budget of £1.083m. This improvement is as a result of an in year improvement against budget of £0.724m and an increase in brought forward balances of £0.359m.

1.6 School balances have increased from £6.647m at the start of the financial year to £7.637m at 31 March 2015. This overall increase has arisen as a result of a general increase across schools to protect against future pressures.

1.7 The initial approved Investment Plan for 2014/15 was £79.419m. Variations and reprogramming arising from 2013/14 and in year took the plan to £72.327m. Capital expenditure for the year was £64.378m, a variation of £7.949m (credit). This includes further reprogramming of £8.841m (credit).

Strategic Management of the Council's Budget

1.8 Whilst statutorily the Authority's budget and Accounts must be prepared by individual financial years, the pressures and opportunities that the Authority faces extend across several accounting periods. Decisions taken in one year will be felt in subsequent periods. One of the benefits of the Authority's regular budget monitoring process is that issues can be identified early in the year and action taken to address them. The outcomes of these actions can then inform both budget setting and final accounts preparation. Budget setting, budget management and final accounts can therefore be seen as related parts of a continuous process of financial management by the Authority. This part of the report sets out some of the key strategic issues managed by the Authority during 2014/15.

General Fund

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

1.10 The Monitoring report up to January 2015 projected a surplus of £3.005m. The final position, before the transfer to the Strategic Reserve, is a surplus of £5.135m.

Change Efficiency and Improvement Programme

1.11 The budget for 2014/15 included savings of £16.552m, from the delivery of projects/actions included as part of the Change, Efficiency and Improvement programme (CEI). The scale of the financial challenge for the year meant that wide ranging efficiencies and service reconfiguration were required to be implemented during 2014/15. These CEI savings have been monitored as part of the overall financial position of the Authority, and regular updates of progress shared with the Mayor and Cabinet members and also reported to Cabinet as part of the bi-monthly Financial Management reports. **Appendix R** shows details of the final year end position.

Redundancies

1.12 In October 2014 the Authority issued a HR1 notice, setting out the potential need to reduce up to 350 posts by June 2016 as a result of the financial challenges facing the Council.

1.13 In previous years the Authority has taken the opportunity to capitalise the statutory costs of redundancy payment. However, costs in 2014/15 fell below the de minimis level for capitalisation, meaning that the option for capitalisation was not available.

1.14 As part of the closure of the 2014/15 accounts a provision of £0.546m has been set aside to meet known redundancy costs. In addition a reserve of £1.675m is held to meet the estimated costs of redundancies in 2015/16.

Proposals for Specific Reserves

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

1.16 **Redundancies reserve £1.500m** – A provision of £0.545m has been created for known redundancies at 31 March 2015. In addition, there has been an increase in the redundancies reserve by a further £0.955m to allow for the cost of redundancies identified in the business cases developed as part of 2015/16 budget setting.

1.17 **Creating a Brighter Future (CBF) reserve £1.000m** –increase to the reserve set up to support the CBF Programme.

1.18 **Service Developments reserve £0.310m** –carry forward of 2014/15 allocation to support developments in 2015/16 including short term support to the Community and Voluntary Sector to ensure support for the Council's priorities are sustained.

1.19 **Affordable Homes reserve £0.178m -** this funding has been identified to support the delivery of Cabinet's Affordable Homes plans. All of the funding has either been committed or identified against particular spend areas over the next 12 months, which will support the creation of appropriate delivery vehicles, and all of the planning and advice required, to lead to an enhanced programme of new build affordable housing in the borough over the next 10 years.

1.20 **European Social Fund (ESF) NEET (Not in Education, Employment and Training) funding reserve £0.117m –** the balance remaining on the existing scheme has been carried forward to enable the continuation of services whilst confirmation of the new scheme is awaited. The final balance available is also subject to a satisfactory audit.

1.21 **Pinch Point funding reserve £0.105m –** this reserve has been created from funds received on the dissolution of the Integrated Transport Authority that is earmarked as a contribution to Four Lane Ends/ A188 corridor project in the Investment Plan. This funding will not be required in the Investment Plan until 2015/16.

1.22 **Training reserve £0.100m** – a proposed reserve to support Organisational Development associated with the Creating a Brighter Future programme during 2015/16.

1.23 **Other reserves £0.148m** – there are also a number of smaller contributions to reserves. Details are shown in Table 1.

1.24 After consideration of the proposals included in paragraphs.1.16 to 1.23 a surplus of £5.135m remains. In the light of the changes the Authority will be required to manage as austerity measures continue, the proposal is to increase the Strategic Reserve, by £5.135m, to £13.740m.

Financing the Investment Plan

1.25 One of the pressures on the Authority's Investment Plan throughout 2014/15 has been the level of capital receipts needed to finance the General Fund plan. The budget approved on 20 February included a requirement of £5.540m General Fund capital receipts. Subsequent variations and reprogramming during 2014/15 gave a revised General Fund receipts requirement at March Cabinet of £1.434m.

1.26 Final available General Fund capital receipts for 2014/15 amounted to £1.906m, which was higher than that eventually required, due to the level of reprogramming. As a result the surplus of capital receipts (£0.842m) will be carried forward into 2015/16 as detailed in paragraph 5.16. The capital receipts requirement for 2015/16, after adjusting for reprogramming and receipts carried forward, is £3.382m.

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

Treasury Management

1.28 The level of actual external borrowing (excluding PFI) reduced from £446.815m to £440.539m. The level of internal funding remains high (£82.280m at 31 March 2015 compared to £68.937m at 31 March 2014).

Forward Planning

1.29 The outturn position for 2014/15 has allowed provision to be made to support the changes the Authority will be required to make over the coming years. This will include continuing financial pressures which are set to be a feature of reducing Local Government settlements for the next few years, pressures in demand led areas such as Social Care and managing the risks associated with integration with our Health partners. The experience of 2014/15, once again, reinforces the crucial importance of detailed forward planning, a strong balance sheet, close management of the core budget, a regular monitoring and reporting process and a flexible approach to managing uncertainty.

Section 2.0
General Fund Income and Expenditure

2.1 This section of the report details the provisional outturn figures, as at 31 March 2015, for Services compared to budget. Table 1 below summarises the position with more detailed explanations provided in paragraphs 2.2 to 2.21. The detailed **Appendices (A - M)** set out variations by Service Area.

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

		Full Year Budget	Provisional Outturn	Provisional Outturn Variance March 2015	Forecast Outturn Variance Jan 2015
		£m	£m	£m	£m
Services					
Chief Executive's Office	Appendix A	3.802	3.993	0.191	0.341
Business and Economic Development	Appendix B	1.601	1.818	0.217	0.370
Commercial and Business Redesign	Appendix C	3.713	3.883	0.170	0.270
Corporate Strategy	Appendix D	1.896	1.905	0.009	0.035
Digital Strategy	Appendix E	3.836	3.925	0.089	0.039
Human Resources and Organisational Development	Appendix F	2.008	1.963	-0.045	-0.031
Law and Governance	Appendix G	4.014	3.831	-0.183	-0.082
Public Health	Appendix H	0.002	0.002	0.000	0.000
Adult Social Care	Appendix I	51.094	46.368	-4.726	-4.782
Children, Young People and Learning	Appendix J	15.642	16.062	0.420	0.998
Commissioning and Investment	Appendix K	7.275	7.646	0.371	0.306
Environment and Leisure	Appendix L	30.824	31.113	0.289	1.102
Housing General Fund	Appendix L	1.276	1.090	-0.186	-0.009
Deputy Chief Executive Central Costs	Appendix L	0.270	0.217	-0.053	-0.039
Non-Controllable		7.297	7.297	0.000	0.000
Sub Total - Service- Approved Budget		**134.550**	**131.113**	**-3.437**	**-1.482**

Table 1 continued

		Full Year Budget	Provisional Outturn	Provisional Outturn Variance March 2015	Forecast Outturn Variance Jan 2015
		£m	£m	£m	£m
Corporate and Democratic Core	Appendix M	11.520	10.660	-0.860	0.000
Corporate Accounting	Appendix M	3.437	-0.272	-3.709	-2.229
Contingency Budget	Appendix M	0.982	0.000	-0.982	-0.750
Levies	Appendix M	12.754	12.754	0.000	0.000
Utilities		0.000	0.115	0.115	0.256
Non-Controllable		5.152	5.152	0.000	0.000
Sub-total- non delegated budgets		**33.845**	**28.409**	**-5.436**	**-2.723**
Net pressure/(surplus) before exceptional items and transfers to reserves		**168.395**	**159.522**	**-8.873**	**-4.205**
Exceptional items					
Land Charges Search Fees Settlement		0.000	0.213	0.213	0.100
Remediation Works		0.000	0.067	0.067	0.100
Redundancies provision		0.000	1.500	1.500	1.000
Total exceptional items		**0.000**	**1.780**	**1.780**	**1.200**
Net pressure/(surplus) after exceptional items before transfers to reserves		**168.395**	**161.302**	**-7.093**	**-3.005**
Transfers to specific reserves					
Commercial Waste		0.000	0.040	0.040	0.000
Affordable Homes Policy		0.000	0.178	0.178	0.000
ESF - NEET		0.000	0.117	0.117	0.000
Feasibility Study		0.000	0.040	0.040	0.000
Pinch Point Funding		0.000	0.105	0.105	0.000
Contribution for Older People's Activities		0.000	0.008	0.008	0.000
Organisational Development		0.000	0.100	0.100	0.000
Business and Economic Development		0.000	0.060	0.060	0.000
Service Developments		0.000	0.310	0.310	0.000
Creating a Brighter Future Reserve		0.000	1.000	1.000	0.000
Total transfers to specific reserves		**0.000**	**1.958**	**1.958**	**0.000**
Net pressure/(surplus) after exceptional items and		**168.395**	**163.260**	**-5.135**	**-3.005**

transfers to reserves					

2.2 The main variations are set out in detail below.

2.3 The **Chief Executive's Office** has an overall overspend of £0.191m (January 2015 forecast, over spend of £0.341m). This is mainly due to pressure of £0.661m on the Business Partnership CEI target offset by an under spend in Revenues and Benefits due to an increase in overpayment income of £0.299m. There are also savings against the External Audit fee budget of £0.130m and staffing savings of £0.087m. The full analysis is included as **Appendix A.**

2.4 The year end position for **Business and Economic Development** was an overall over spend of £0.217m (January 2015 forecast, over spend of £0.370m). This is further detailed in **Appendix B**.

The main factors that gave rise to this over spend were a pressure relating to the Swan Hunter site as a result of reduced income (£0.296m) and additional supplies and services costs (£0.116m). This was offset by an under spend on Job Creation budgets of £0.168m within Business and Enterprise.

2.5 The service area for **Commercial and Business Redesign** is showing a pressure of £0.170m (January 2015 forecast, over spend of £0.270m). This is detailed in **Appendix C.** The pressure results from the streetlighting contract and is due to delays in implementing savings schemes (£0.114m). In addition there is an income target of £0.100m for Trading Activities which has not been met. These pressures have been offset by staff savings, interest received and savings in supplies and services.

2.6 **Corporate Strategy** is showing a small over spend of £0.009m (January 2015 forecast, over spend of £0.035m). This is detailed in **Appendix D.** This is comprised of an over spend in Communications and Engagement of £0.110m mainly as a result of an unachieved advertising income target. This is offset by under spends in Policy and Partnerships, Management and Mayoral Support and Children's Participation and Advocacy.

2.7 The service area for **Digital Strategy** is showing a pressure of £0.089m (January 2015, over spend £0.039m). Full details are shown in **Appendix E**

This is due to expenditure on Customer Service helplines, broadband charges and customer automated payment facilities in excess of budget.

2.8 The service area for **Human Resources and Organisational Development** is showing an under spend of £0.045m (January 2015 forecast, under spend of £0.031m). This is mainly due to reduced spending on training. Details are shown in **Appendix F.**

2.9 **Law and Governance** is showing an overall under spend of £0.183m (January 2015 forecast, under spend of £0.082m). Full details are shown at **Appendix G.** This is due to a strong performance on income within Legal Services (£0.068m) and within Internal Audit and Risk (£0.104m) offset by a pressure on net contract payments to the North East Purchasing Organisation (NEPO) totaling £0.053m.

2.10 The **Public Health** Service budget is ring-fenced. A pressure of £0.395m has arisen due to a 12 month extension to the Northumbrian Healthcare Foundation Trust pending restructuring of these services. This has been offset by under spends in contraceptive services, substance misuse and smoking cessation work as a result of lower than anticipated activity, of £0.017m. Cumulative under spends of £0.423m have been carried forward into 2015/16. The final year-end position and variance analysis is attached as **Appendix H** to this report.

2.11 **Adult Social Care** is reporting an under spend of £4.726m (January 2015 forecast £4.782m under spend). There has been a one off increase in income from the NHS of £1.950m in relation to s256 agreements for Mental Health Aftercare recharges and Mental Health Resettlement funding corresponding to a reduction in this income in 2013/14. All of the necessary actions were taken to realise planned savings and, although the service did experience the anticipated demand-led pressures particularly in Learning Disabilities and services for younger adults with a physical disability, costs have continued to be contained by a combination of detailed placement reviews and ongoing negotiations with providers. In particular, the costs for a number of Independent Supported Living packages have been successfully managed down to reduce the number of support hours required and by consolidating a small number of costly void places. The position also reflects reduced spend on Older People's Commissioned Services as a result of a reduction in permanent admissions to residential care. The full analysis is included as **Appendix I.**

2.12 A forecast budget pressure for **Children Young People and Learning** Service has been reported since early in the year. This steadily reduced from the £1.250m pressure reported in November, to £0.998m in January and finally to £0.420m by year end.

The main underlying causes for the budget pressure in this service remain Corporate parenting and placements with an over spend of £1.656m. This results from significant demand led pressures in external placements (£1.149m), in-house fostering (£0.323m) and Care Leavers (£0.286m) offset by savings on Adoption services. The service is committed to containing this pressure, however the budget for Corporate parenting and placements is likely to continue to prove challenging in 2015/16.

The overall service budget position continued to improve towards the year end due to further savings across other areas notably Early Life Support and Prevention (£0.465m) as a result of increased childcare income and within Safeguarding and Looked After Children (£0.348m) mainly as a result of staffing vacancies

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

2.13 The forecast budget pressure for **Commissioning and Investment** service reported in January as £0.306m increased slightly by year end to £0.371m.

The main budget pressures in this service have been Trade Union costs and maternity cover relating to education, which have exceeded the amounts charged to schools by £0.144m and the increase of £0.085m in these costs since January is the reason for the reported position. There is continuing pressure within home to school transport budgets (£0.036m) and staffing costs within Fair Access (£0.084m). There has also been a pressure relating to an unachieved income target for increased contributions from the Clinical Commissioning Group in relation to care for children with disabilities (£0.199m).

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

2.14 **Environment and Leisure** is reporting a pressure of £0.289m (January 2015 forecast, pressure of £1.102m). Since January there has been a significant improvement in income within Bereavement (£0.205m) and within the Security service (0.068m). There have also been reductions in expenditure across a number of areas; within Fleet largely in relation to fuel savings (£0.068m), Street Environment mainly in relation to grounds maintenance contracts (£0.100m) and within services supporting the leisure, arts and cultural offer within the Borough (£0.022m). There has also been a reduction in pressure within services managed under the Technical Package of £0.218m with the main area of reduced expenditure being Property.

Significant pressures remain within services managed under the Technical Package. Although reduced from the January position, Property finished the year at £0.635m overspent mainly as a result of rent liability at Quadrant of £0.499m in addition to repairs and maintenance expenditure (£0.086m) and cleaning income shortfalls. There is also an over spend in Transport and Highways of £0.420m across a range of supplies and services and staff costs in addition to an under achievement of the additional package savings target of £0.334m.

There are also smaller pressures in Consumer Protection (£0.093m).

The significant overspends with the services managed under the Technical Package are offset by under spends across Street Environment, Waste, Fleet and Security, Bereavement and Sport and Leisure.

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

2.15 The **Housing Services (General Fund)** delivered savings of £0.186m. In addition, the service has requested that £0.178m is transferred to a specific reserve to support the affordable homes delivery project in 2015/16 (as explained in paragraph 1.19 and shown in Table 1).

The full analysis is included as part of **Appendix L.**

2.16 **The Deputy Chief Executive Central Costs area** under spent by £0.053m as a result of reduced spend on supplies and services.

The full analysis is included as part of **Appendix L.**

Non Delegated Budgets

2.17 The **Corporate and Democratic Core** under spent by £0.860m as a result of lower than budgeted pension contributions.

2.18 **Corporate Accounting** under spent overall by £3.709m. The main areas included within this are:

(a) A saving in Minimum Revenue Provision (MRP) of £1.126m as a result of re-programming of 2013/14 capital spend to 2014/15 and a review of asset lives assumed for 2013/14 capital spend;
(b) Savings in external interest of £2.871m largely due to the continued level of internal and temporary borrowing, lower than anticipated interest rates and reprogramming;
(c) A £0.696 saving on Strain on the Fund based on estimates of current and future leavers;
(d) Additional TWEDCO income of £0.091m on dissolution of the company;
(e) A refund of reserves of £0.079m from the Integrated Transport Authority (ITA);
(f) A refund of Business Rates in respect of the Quadrant buildings following a revaluation of the accommodation of £0.443m;
(g) Additional Business Rates Grant of £0.116m;
(h) Salary sacrifice savings of £0.116m; and,
(i) An additional £1.797m has been provided for bad debts.

Details are shown in **Appendix M**

2.19 The **Contingency** budget under spent by £0.982m due to a reduced requirement from Adult Social Care and the pay award. Details of the final allocations are shown in **Appendix M.**

2.20 **Utility Costs** have become a reduced issue for the Authority with the final pressure being a total £0.115m compared to £0.432m in 2013/14.

2.21 **Exceptional items** – Table 1 shows a requirement to set aside an additional £1.500m in the 2014/15 accounts to recognise the expected costs of known redundancies that form part of the restructuring of services. This cost is made up of a provision of £0.545m and increase in reserve of £0.955m (as detailed in paragraph 1.16 above). There are also costs for Land Charges fee settlement of £0.213m and remediation works in relation to asbestos at the Killingworth site of £0.067m.

Section 3.0
Housing Revenue Account Income and Expenditure

3.1 This section of the report provides an update on the financial position for the Authority's Housing Revenue Account (HRA). The provisional year-end position and variance analysis for March 2015 is attached as **Appendix N** to this report.

3.2 On the 15 January 2014 the Cabinet approved the HRA budget for 2014/15. This included an average increase in housing rents of 2.2% in line with the Government's new rent policy for the next 10 years from 2014/15, which is based on the Consumer Prices Index (CPI) plus 1% per annum.

3.3 The HRA started the year with what was £0.359m higher than anticipated opening balances i.e. £2.854m as opposed to the budgeted figure of £2.495m, and the final in-year position was £0.724m better than budgeted.

3.4 The main significant variations against budget were:

- Reduced overall rent and service charges in-year (£0.367m);
- Interest charges relating to HRA debt continue to be minimised by undertaking temporary borrowing at low interest rates to generate savings (£0.153m under-spend);
- Bad debt provision was overspent by £0.002m on £0.638m reflecting an upward trend in rent arrears;
- Contingency budgets were under spent by £0.116m in total;
- Repairs budget was slightly overspent (£0.017m) which reflects issues around the Working Roots scheme and pressure on Responsive Repair and Voids budgets generally;
- Depreciation was £0.377m over budget due to impact of non-dwelling assets charge which cannot be reversed unlike HRA dwelling charge, increased charge offset by reducing Revenue Contributions we make to finance Capital spend (£0.347m);
- Significant under spends across a range of Management cost centres (£0.735m) reflecting general vacancies across the service, some as a result of pending restructures (£0.262m), windfall income re Water Rate Income collection (£0.216m), pay award and Head of Service departure (£0.120m), saving on pension costs (£0.122m), offset by pressures on PFI Consultancy costs and Council Tax Voids(£0.056m).

Treasury and Debt Management - an additional £0.153m of interest savings were achieved in-year, from a combination of some temporary borrowing at low interest rates, and the interest benefit from having additional debt set aside from extra Right to Buy (RTB) sales in 2013/14 and 2014/15. These savings have helped improve the overall position on the HRA for 2014/15 and mitigate for the loss of rent suffered by the increased RTB sales.

North Tyneside Living PFI Scheme – this project reached financial close on 26 March 2014, and despite some early delays is now on the ground moving at pace to achieve the transformation of the sheltered estate in North Tyneside to match Cabinet and our current and future tenants' aspirations. The deal sees the Council receiving annual PFI credits totalling £7.693m, with total actual expenditure of £9.553m representing in-year total Unitary charge payments

(£4.738m) and contribution to the PFI Reserve(£4.785m). The balance in the reserve acts to smooth longer-term expenditure and interest flows.

3.5 **Impact of Welfare Reform**

We continue to monitor closely the impact of the Government's Welfare Reforms which to-date have been impacted by what became known as the "bedroom tax". This policy currently affects 2,134 tenants on Housing Benefit, of whom 1,203 are in arrears totalling £0.352m. This is an increase of approximately £0.060m from the start of the year, and overall current arrears have increased by £0.282m to £1.682m. Former tenant arrears have reduced slightly by £0.007m to £1.209m, these changes to-date have been mitigated for by the increased bad debt provision that was made in the budget over the past few years, but the in-year budgeted bad debt provision was fully called upon. This position will need to be closely monitored for the continued impact of the bedroom tax, and as Universal Credit (UC) starts to gather pace in its introduction, we have now seen the first few cases impacting in the Borough from people who have moved into the area who were already on UC.

3.6 **House-building Fund (HBF)**

This fund was set up in 2012/13 as agreed by full Council, to help fund the cost of new build housing and environmental works. The opening balance on the fund was £1.717m of which £1.050m was allocated to help finance the Housing Investment Plan in 2014/15. Due to re-programming this sum has not been drawn down in year, and will be carried forward against the 2015/16 plan. In addition a further contribution of £1.071m has been made to the fund from 2014/15 budgets. Hence the closing balance on the HBF for 2014/15 totals £2.788m of which £2.550m is earmarked to finance the 2015/16 Investment Plan, with the balance available for future identified need.

Section 4.0
Schools Finance

4.1 Schools have concluded their 2014/15 accounts closure exercise in line with the Local Scheme for Financing schools and the Authority's closure timetable. Collective school balances in North Tyneside maintained schools increased from £6.647m at the start of the financial year to £7.637m by 31 March 2015. This increase includes the balance for the Moorbridge Pupil Referral Unit, which was not previously included in the schools balances as at 31 March 2014 due to a reclassification of the school for statutory reporting purposes.

4.2 Whilst overall school balances are strengthening it remains the case that there are some individual schools facing financial challenges. During the year the Authority and Schools Forum paid particular attention to those schools with approved deficit budgets. The following four schools had a deficit budget approved for 2014/15; Longbenton Community College, Norham High, Marden High and St Bartholomew's Primary.

4.3 Schools Forum and senior officers worked closely with these schools during the year, which, together with the actions taken by the schools, contributed to an improved outturn figures compared to the approved deficit budgets. As part of the assistance to these schools, Schools Forum approved the distribution of £0.100m "headroom" funding (funding set aside through de-delegation within the Dedicated Schools Grant (DSG) to assist schools in financial difficulty). 2014/15 also saw the introduction of a new factor within the DSG funding formula, to support schools with falling rolls. A further £0.250m was allocated to three schools in the borough who met the required criteria for this funding, two of which also received headroom funding.

4.4 The table below shows the financial position for the four schools with approved deficit budgets, along with the level of additional DSG support (headroom and falling rolls) allocated in the year. In addition, Ivy Road Primary School received £0.003m of falling rolls funding.

School	2014/15 Approved budget £m	Additional financial allocation £m	2014/15 draft outturn £m
Longbenton Community College	-0.891	0.191	-0.368
Norham High	-0.233	0.022	-0.119
Marden High	-0.312	0.123	-0.078
St Bartholomews RC Primary	-0.041	0.010	-0.015

4.5 Supporting individual schools in temporary financial difficulty and enabling them to return to a balanced budget will remain a priority for North Tyneside over the coming years. The financial sustainability of schools is a key aspect in the support to schools through the on-going Education Review.

4.6 As in previous years, the details of these balances will be reported to the Department for Education (DfE) through the Consistent Finance reporting (CFR) return. This return will be co-ordinated by the Local Authority and submitted by the deadline in July 2015. The CFR data is then used to pre-populate part of the Section 251 return that is submitted to the DfE by the end of August 2015 and verified in September. Full details of each individual school's balance will then be reported to Cabinet.

4.7 Overall the DSG in 2014/15 for North Tyneside maintained schools was £128.156m (after removing Academy recoupment) and it under spent by £2.424m. This was mainly in relation to the profile of planned expenditure regarding early year's education, although some areas of the DSG are experiencing financial pressures. As the DSG is a ring-fenced grant, any under or overspends are carried forward into the next financial year in order to be addressed within the following year's ring-fenced grant. This DSG under spend has therefore been carried forward into 2015/16.

Section 5.0
Investment Plan Expenditure and Financing

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

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

2014/15 Capital Expenditure

5.3 The initial 2014/15 Investment Plan budget was £79.419m (£55.483m General Fund and £23.936m Housing). Further variations to the Plan and reprogramming were agreed by Cabinet during the year as part of the Financial Monitoring process to give an approved plan at the year-end of £72.327m (£50.014m General Fund and £22.313m Housing). Table 2 below summarises these changes.

Table 2: Investment Plan 2014/15 – Summary of changes to budget

	£m
Investment Plan approved by Council – 20 February 2014	79.419
Reprogramming from 2013/14	13.577
Reprogramming to 2015/6 and future years	-21.218
Other variations (net)	0.549
Revised Investment Plan approved by Cabinet – 9 March 2015	72.327

5.4 Actual capital expenditure in 2014/15 totalled £64.378m (£50.354m in 2013/14), comprising General Fund expenditure of £44.522m and £19.856m on Housing Schemes.

5.5 Not all of the expenditure relates to the creation or improvement of fixed assets for the Authority. £3.115m relates to spend on other items, with £2.314m given as regeneration and improvement grants and £0.801m relating to spend in respect of Trust schools and Academies.

5.6 Table 3 below compares the actual capital expenditure with the revised budget for the year, as well as the actual spend for 2013/14. This demonstrates an increase in the level of spend year on year and a variation against budget of £7.949m credit.

Table 3: Comparison of Capital Expenditure to Revised budget for 2014/15

Actual Capital Expenditure 2013/14 £m		Revised Capital budget 2014/15 £m	Actual Capital Expenditure 2014/15 £m	Variation from budget over (+) / under (-) £m
33.045	General Fund	50.014	44.522	-5.492
17.309	Housing	22.313	19.856	-2.457
50.354	Total	72.327	64.378	-7.949

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

5.8 Across all capital projects, further reprogramming of £8.841m has been identified and it is requested that Cabinet approve the carry forward of this amount into the 2015/16 Investment Plan. A detailed breakdown of this amount is included in **Appendix P**. It should be noted that some of this reprogramming includes the carry forward of grants where value engineering has resulted in savings on projects thus enabling savings to be used to fund new projects in 2015/16 eg schools Capital Maintenance.

5.9 The major areas of activity during 2014/15 include:

Children Young People & Learning

(a) **ED075 Devolved Capital (spend £1.015m)** - School led minor capital projects, including ICT. This funding is allocated direct via the Department for Education for all schools and is spent at the discretion of individual schools. Funding can be saved up over a period of 3 years at the schools discretion;

(b) **ED120 Basic Need (spend £1.383m)** - This funding has been used to address Basic Need issues across the school estate to improve school accommodation and help remove mobile accommodation to replace with new buildings. The grant covers investment in several schools including:
- Southlands School – construction of 5 new classrooms, internal modifications;
- St Bernadette's RC Primary School – construction of 6 new classrooms, demolition of 5 old temporary mobile units;
- Forest Hall Primary School – construction of 4 new classrooms and internal modifications to existing school, demolition of 6 old temporary mobile units;

(c) **ED132 Capital Maintenance (spend £2.184m)** - The projects under this budget relate to works associated with improving the condition of schools such as new windows, new roofs and replacement heating systems. In addition this budget supports the delivery of Disability Discrimination Act Improvements to individual schools including supporting pupils with visual and hearing difficulties and pupil movement. Over the 2014/15 financial year 37 projects were undertaken within schools;

(d) **ED166 Primary Capital Strategy (spend £2.697m)** - The funding under this initiative supported the new build Voluntary Aided Primary Schools for both St Stephen's and St Bartholomew's Primary Schools built in partnership with the diocesan authorities. The new schools were built on the site of the former Goathland Primary School in Longbenton. Works commenced in July 2013 and were completed in July 2014 with the new schools becoming fully operational in September 2014;

Highways and Engineering

(e) **EV034 Local Transport Plan (spend £4.696m)** - This programme of work is the Authority's primary support for transport-related projects such as road resurfacing, maintenance of bridges and infrastructure, and road safety schemes. There were 180 schemes ranging from minor traffic and parking schemes through to road resurfacing and bridge repairs. This included the resurfacing of 55 streets, the provision of 7 new pedestrian crossing facilities and the upgrading of 6 existing pedestrian / cycling routes. 11 public transport schemes were also delivered including the provision of new camera enforcement equipment enforcement equipment at Benton Lane, Salters Lane and High Flatworth;

(f) **EV055 Surface Water Management (Flooding) (spend £1.281m) -** This programme of work to reduce the risk of flooding to homes saw a number of projects successfully delivered in 2014/15 including Green Lane major culvert diversion, Astley Drive culvert renewal, Fairfield Green Phase 1, Shiremoor Phase 1 and Otterburn Close / Rocket Way. The main focus of 2015/16 will be a large integrated drainage scheme which will provide wider flood protection for Murton, Shiremoor and Fairfield Green;

(g) **EV056 Additional Highways Maintenance (spend £2.295m)** - This programme of additional highway maintenance work included the resurfacing of around 100 streets between May and October 2014. A similar number will be done in 2015/16;

(h) **EV054 Central Promenade Reconstruction** – This multi agency scheme involves the demolition of Lower Central Promenade and the construction of a new sea wall and landscaped embankment. This scheme is vital in terms of sea defence and for the wider regeneration of Whitley Bay sea front. Design work was completed in 2014/15 with construction commencing in June 2015;

(i) **EV074 Trinity Road** – This multi agency scheme saw the successful construction of a new sea wall at St Mary's Island headland which will protect the access road for the next 120 years;

(j) **EV071 Pinch Point Four Lane Ends (Spend £2.825m)** – Works to improve traffic flow at the Four Lane Ends junction and the A188 corridor including the remodelling of junctions are nearing completion;

Regeneration

(k) **DV019 Whitley Bay Regeneration (spend £0.897m)** - £2.000m Coastal Communities Fund grant has been received towards restoration work and the Stage 2 bid process is progressing in consultation with the Heritage Lottery Fund. Planning and Listed Building Consents have been granted for restoration of the Dome and all outstanding land ownership matters have been resolved;

(l) **DV058 Swan Hunters redevelopment (spend £5.537m)** - This budget comprises of a number of capital infrastructure works to the Swans site and adjacent roads funded from external sources. It also includes work that is underway in respect of the Swan Hunter Centre for Innovation – this is a £1.900m refurbishment scheme to provide a new office hub for small businesses. Planned completion is for Summer 2015;

(m) **DV054 Coastal Regeneration (spend £1.226m)** – The £1.200m Spanish City Plaza has been completed. The preparation of the Whitley Bay Seafront Master Plan stretching from Southern Lower Promenade to St Mary's Lighthouse has also been completed;

(n) **CO061 Excellent Parks (spend £3.887m)** – The Heritage Lottery Funded restoration of the historic Tynemouth Park was reopened to the public in February 2015. The scheme included the restoration of historical features and installation of a new pavilion;

Other

(o) **IT020 – ICT Strategy (spend £1.208m)** – Major investment has been made in Network upgrades and linked projects to ensure the efficient operation of the Council's ICT provision;

(p) **IT024 Electronic Document and Records Management System (EDRMS) (spend £1.969m)** - The Programme is to be rolled out over 5 releases. Release 2 has now gone live;

(q) **CO068 Tynemouth Cremator and building works (spend £2.676m)** - This project includes the extension of the existing Chapel to increase seating capacity from 58 to 88, the installation of two new cremators and associated mercury abatement equipment (completed in February 2015) and the refurbishment of public toilets adjacent to the Garden of Remembrance;

(r) **HS004 Disabled Facilities grants (DFG) (spend £0.942m)** - This project provides means tested assistance in the form of a grant (a maximum of £0.030m) to those that have an assessed need. 135 applications were completed in 2014/15, in addition another 138 smaller minor adaptation type grants were completed;

(s) **BS026 Asset Planned Maintenance (Spend £2.023m) –** The projects supported by this budget include the White Swan Lift replacement, War memorials refurbishments, improvements at High Borrans, the Stagline building window replacements, school kitchen refurbishments and also projects that cover the whole asset portfolio including LED retro lighting refit and fixed wire test;

(t) **EV069 Transport review (Spend £1.725m)** – A number of vehicles have been purchased during 2014/15 including 7 refuse vehicles, 2 used and 4 new sweeping machines and buy out of leased vehicles (refuse vehicles and gritters).

Housing

(u) **HS002 - Housing projects (spend £19.856m)** – investment ensuring well maintained homes with improved facilities. Work included updating 586 kitchens and bathrooms, approximately 1,000 heating upgrades, 311 new roofs, over £1.000m of disabled adaptations along with asbestos management and fire risk assessment works; and

(v) HS044 HRA New Build/Conversions – 18 new homes have been completed.

Capital Financing

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

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

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

5.13 The total capital expenditure of £64.378m has been financed as shown in Table 4 below.

Table 4: 2014/15 Capital Financing

	2014/15 Capital Financing £m
Authority Contribution	
Prudential (Unsupported) Borrowing – General Fund	20.024
Capital Receipts -General Fund	1.064
Capital Receipts – HRA	0.602
Direct Revenue Funding - General Fund	0.475
Direct Revenue Funding - HRA	6.566
Major Repairs Allowance	12.679
	41.410
External funding	
Specific Government Grants	16.130
European Regional Development Fund (ERDF)	2.604
Capital Grants and Contributions	4.234
	22.968
	64.378

5.14 Total Prudential borrowing for the General Fund was £20.024m.

5.15 The budget approved by Council on 20 February 2014 included an estimated use of £5.540m General Fund capital receipts. This reduced to £1.064m following variations and reprogramming reported through the Financial Monitoring process, including outturn reprogramming.

5.16 Total receipts received for General Fund was £1.906m, of this £1.064m was applied to finance capital spend. The remaining balance £0.842m is to be carried forward to fund the following ring-fenced schemes:-

- Swan Hunters Redevelopment £0.205m
- Industrial Estate Strategy £0.637m

5.17 For Housing, capital receipts of £3.967m were received during 2014/15, of which £1.667m were pooled and paid across to central government and an additional £1.601m was set aside to repay debt and £0.602m was used to finance 2014/15 capital spend.

5.18 Table 5 below shows the movement in capital receipts during 2014/15 including receipts received during 2014/15 (identified in paragraphs 5.16 and 5.17 above), receipts brought forward at 1 April 2014, receipts used to finance the 2014/15 Investment Plan, receipts set aside to repay debt and receipts carried forward at 31 March 2015.

Table 5: Movement in Capital Receipts during 2014/15

	Receipts brought forward 1 April 2014 £m	Net Useable Receipts received £m	Receipts used for financing £m	Receipts set aside for repayment of debt £m	Receipts carried forward 31 March 2015 £m
General Fund	0	1.906	-1.064	0.000	0.842
Housing	6.500	2.300	-0.602	-1.601	6.597
Total	6.500	4.206	-1.666	-1.601	7.439

5.19 The Authority also received £16.130m of funding through specific Government grants. These grants included:
- £1.159m Schools Basic Need;
- £2.184m Schools Capital Maintenance;
- £2.039m Growing Places Fund
- £0.587m Schools Devolved Capital;
- £4.947m Department for Transport;
- £2.200m Pinch Point Funding;
- £0.692m Disabled Facilities; and
- £0.701m Weekly Waste Collection

5.20 Capital Grants and Contributions of £4.234m used in the year included:
- £0.606m Coastal Communities Fund; and,
- £1.722m Heritage Lottery

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

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

International Financial Reporting Standards (IFRS) adjustments to Capital Expenditure in 2014/15

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

5.26 During 2014/15 spend of £1.016m was incurred under the street lighting PFI contract (£0.796m on works required to allow the installation of the Mayflower devices to street lighting columns and £0.220m as part of the ongoing replacement of street lighting across the borough). In addition, costs of £23.034m were incurred on the North Tyneside Living Housing PFI scheme.

Section 6: Treasury Management

6.1 The Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2014/15. This section of the report meets the requirements of both the CIPFA Code of Practice on Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities.

6.2 The primary reporting requirements of the Code are as follows:
a) Forecast the likely activity for the forthcoming year (in the Annual Treasury Management Strategy Report);
b) A mid – year review report; and
c) Review actual activity for the preceding year, including a summary of performance.

Treasury Position as at 31 March 2015

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

6.4 The Authority's debt and investment position at the beginning and the end of 2014/15 is shown in Table 6 below:

Table 6: Treasury Management Position

	31 March 2015 Principal £m	**Rate/Return %**	**31 March 2014 Principal £m**	**Rate/Return %**
Fixed Rate Funding: -*PWLB long - term	226.650	5.67	244.750	5.95
(HRA-Self Financing)	128.193	3.49	128.193	3.49
-Market **(LOBO's)	20.000	4.35	20.000	4.35
-Temporary	65.696	0.70	53.872	0.59
Total External Debt	**440.539**		**446.815**	
Investments: **-** In-house	(13.900)	0.25	(18.000)	0.25
Total Investments	**(13.900)**		**(18.000)**	

Net Position	**426.639**		**428.815**	

*Public Works Loan Board
**Lender Option Borrower Option

Performance Measurement

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

The Strategy for 2014/15

6.6 The expectation for interest rates within the strategy for 2014/15 anticipated a low but rising Bank Rate and gradual rises in both medium and longer term fixed borrowing rates over 2014/15. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

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

6.8 The actual movement in gilt yields meant that PWLB rates saw little overall change during the first four months of the year but there was then a downward trend for the rest of the year with a partial reversal during February 2015.

The Economy and Interest Rates

6.9 The original market expectation for 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May 2014, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August 2014 the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependant on buoyant consumer demand.

6.10 Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears that Greece could be heading for an exit from the euro. Another downward pressure on gilt yields was the announcement in January 2015 that the European Central Bank (ECB) would start a major programme of quantitative easing, purchasing Euro Zone government and other debt in March 2015. The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling in the second half of that year and continuing into 2014/15.

Borrowing Rates in 2014/15

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

Table 7: PWLB Borrowing Rates 2014/15 for 1 to 50 years

	1Year %	5 Year %	10 Year %	25 Year %	50 Year %
01/04/2014	1.24	2.65	3.63	4.29	4.27
31/03/2015	1.11	1.86	2.45	3.11	3.08
HIGH	1.49	2.87	3.66	4.30	4.28
LOW	1.08	1.71	2.18	2.85	2.82
Average	1.27	2.36	3.08	3.74	3.72

Borrowing Outturn for 2014/15

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

6.13 Maturing long – term loans of £18.100m were repaid in 2014/15 as detailed in Table 8 below:

Table 8: Maturing Long Term Loans repaid during 2014/15

Principal £m	Interest Rate %	Date Repaid
9.100	9.25	01 October 2014
9.000	9.75	13 December 2014

6.14 Maturing short – term loans of £62.186m were repaid in 2014/15 as detailed in Table 9 below:

Table 9: Maturing Short Term Loans repaid during 2014/15

Principal £m	Interest Rate %	Date Repaid
2.000	0.50	31 July 2014
3.000	0.50	31 July 2014
5.000	0.50	24 September 2014
1.000	0.50	29 September 2014
3.170	0.55	10 October 2014
5.000	0.55	14 October 2014
5.000	0.60	22 October 2014
5.000	0.60	27 October 2014
5.000	0.55	27 October 2014
5.000	0.35	03 November 2014
2.000	0.59	17 November 2014
3.000	0.60	17 November 2014

3.016	0.38	01 December 2014
5.000	0.62	12 December 2014
5.000	0.48	16 December 2014
5.000	0.33	18 March 2015

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

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

Investment Rates in 2014/15

6.17 The Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of the monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year, primarily due to the effects of the Funding for Lending Scheme.

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

Table 10: Money Market Investment Rates for 2014/15.

	7 Day %	**1 Month %**	**3 Month %**	**6 Month %**	**1 Year %**
01/04/14	0.338	0.362	0.402	0.497	0.783
31/03/15	0.358	0.378	0.445	0.559	0.841
HIGH	0.362	0.384	0.445	0.596	0.951
LOW	0.334	0.360	0.400	0.496	0.772
Average	0.352	0.374	0.429	0.556	0.868

Investment Outturn for 2014/15

6.19 The Authority's investment policy is governed by Communities and Local Government (CLG) guidance, which was implemented in the annual investment strategy approved by the Council on 19 February 2014. The policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

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

Section 7: Prudential Indicators

Introduction

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

7.2 Within this overall prudential framework there is an impact on the Authority's treasury management activity as it will directly impact on borrowing and investment activity. Section 6 above provides a review of the Authority's activity during 2014/15.

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

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

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

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

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

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

7.8 In total there are fifteen prudential indicators, covering:

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

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

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

7.11 The following part of the report shows the actual 2014/15 Prudential Indicators at year-end compared to the estimated indicators approved by Cabinet in the September Financial Monitoring report on 10 November 2014.

Prudential Indicators for Affordability

Ratio of financing costs to net revenue stream

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

7.13 The actual figures for 2014/15 are set out in Table 11 below together with the estimated 2014/15 position at September 2014 and the 2013/14 final figure:

Table 11: Ratio of Financing Costs to Net Revenue Stream

	2013/14	2014/15	2014/15
	Actual	Estimate	Actual.
General Fund	13.45%	14.53%	13.76%
HRA	29.82%	22.36%	22.92%

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

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

	2013/14	2014/15	2014/15
	Actual	Estimate	Actual.
General Fund	6.57%	7.96%	7.18%
HRA	10.11%	3.58%	4.65%

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

7.15 This indicator represents the incremental impact of new capital investment decisions, approved as part of 2014/15 budget setting, on the annual Council Tax (Band D) and weekly housing rents.

Table 13: Incremental impact of new 2014/15 capital investment decisions on Council Tax (Band D) and weekly housing rents

	General Fund	HRA
estimate	£5.97	£7.47
actual	£4.36	£7.50

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

Prudential Indicators for Prudence

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

Gross debt and Capital Financing Requirement (CFR)

7.18 This key indicator shows that gross debt does not exceed the total CFR at 31 March 2015.

Table 14: Gross external debt less than CFR

	2014/15 Actual
	£m
Gross External Borrowing	440.539
Other Liabilities (including PFI and Finance Leases)	81.534
Total Gross debt	522.073
Capital Financing requirement	601.324

Prudential Indicators for Capital Expenditure

Capital expenditure

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

Table 15: Capital Expenditure

	2013/14	2014/15	2014/15
	Actual £m	Estimate £m	Actual £m
General Fund	33.045	56.636	44.522
HRA	17.309	23.933	19.856
Total	50.354	80.569	64.378

Capital Financing Requirement (CFR)

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

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

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

Table 16: Capital Financing Requirement

	2013/14 Actual £m	2014/15 Estimate £m	2013/14 Actual £m
General Fund	288.506	300.563	296.568
HRA	285.827	312.972	304.756
Total	**574.333**	**613.535**	**601.324**

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

Table 17: Capital Financing Requirement for Unsupported Borrowing

	2013/14 Actual £m	2014/15 Esimate. £m	2014/15 Actual £m
General Fund	128.387	146.985	142.455
HRA	39.693	38.943	40.016
Total	**168.080**	**185.928**	**182.471**

Prudential Indicators for External Debt

Authorised limit for total external debt

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

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

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

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

Table 18: Authorised Limit for External Debt

	2014/15 £m
Borrowing	1,050.000
Other Long Term Liabilities	140.000
Total	**1,190.000**

7.28 The Authorised Limit for External Debt was not breached during 2014/15.

Operational Boundary for total external debt

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

Table 19 Operational Boundary for External Debt

	2014/15 £m
Borrowing	525.000
Other Long Term Liabilities	120.000
Total	**645.000**

7.30 Actual borrowing remained within the Operational Boundary during 2014/15.

HRA limit on indebtedness

7.31 Under the reforms of housing finance the Government published *Limits on Indebtedness Determination 2012* which set out the maximum amount of housing debt the Authority could have outstanding at any one time. The limit for North Tyneside was £290.824m. This limit has been flexed to allow headroom for the North Tyneside Living PFI scheme. The table below shows the HRA debt at 31 March 2015 compared to the cap set.

Table 20: HRA limit on indebtedness

	2014/15
	Actual £m
HRA limit on indebtedness	290.824
HRA capital financing requirement	304.756

Prudential Indicators for Treasury Management

Adoption of the CIPFA Code of Practice for Treasury Management

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

Upper limits on interest rate exposure 2014/15

7.33 Full Council set an upper limit on its fixed interest rate exposures for 2014/15 of 100% of its net outstanding principal sums. Borrowing remained within this limit during 2014/15.

7.34 Full Council set an upper limit on its variable interest rate exposures for 2014/15 of 50% of its net outstanding principal sums. Borrowing remained within this limit during 2014/15.

7.35 Upper and lower limits for the maturity structure of the Authority's borrowings were set as shown in Table 21 below. Borrowing remained within these limits during 2014/15.

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

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

7.36 Full Council agreed the indicator for exposure of investments in excess of 364 days at no more than 25% of the portfolio. Investments were within this limit during 2014/15.