ANNEX 1

2016-2019 Financial Planning and Budget Process:

Cabinet's initial Council Tax Requirement and Budget Proposals

7 December 2015

North Tyneside Council

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PART 1

Section 1.0
The Council Plan 2015-2018 Our North Tyneside / Creating a Brighter Future / Target Operating Model

1.1 Our North Tyneside Plan / Creating a Brighter Future (CBF) / Target Operating Model (TOM)

The Council Plan sets out the overall vision and policy context within which the financial plan and budget proposals are set.

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 202,744, which is greater than at any other time since 1981. It is estimated to continue to rise to 231,300 by 2033. Not only is the future population expected to increase but it is also expected to include more people aged 65 and over. By 2033 the over 65 age group is expected to have increased by 47% from today's level. In addition the number of children (0-14 years) is also projected to increase between now and 2033 by 8.7%, compared to a projected 4.4% increase for Tyne and Wear and 2.8% for the North East. These projections will have a significant impact on how we provide services and represents major opportunities and challenges for the future. These projections have been factored into our financial planning.

This vision and policy context have been developed in partnership through the North Tyneside Strategic Partnership which includes all of the organisations or sectors who work together with the Council to deliver an improved future for the Borough and its residents.

It has also been shaped through consultation and engagement with residents, service users and key stakeholders through: the Big Community Conversation in the summer of this year; phase 1 of the Council Plan and budget consultation in September/October and also at the State of the Area event.

By listening to our residents and others, the Plan provides a clear framework for the Council to move forward. It provides the context for all financial decisions and the operational delivery of services both at Borough level but also increasingly as we work alongside other local authorities through the North East Combined Authority and with businesses through the North East Local Enterprise Partnership.

As well as reflecting what people are telling us they want, the Plan also takes into account the empirical evidence around need across the Borough. A key fact is that in North Tyneside, a baby born today in the most deprived part of the Borough will live 10 years less than a child born in the least deprived part. This inequality is visible throughout a residents life; from babies being born with low birth weight, the differences in educational attainment and employment through to the difference in the quality of health that people can expect in later life.

Taking all of this into account, the Council Plan has at its core, two fundamental policy aims. First, is the need to reduce the inequalities that persist in North Tyneside. Within our borough we continue to have some of the least deprived neighbourhoods in the country but also some of the very most deprived in terms of financial independence, skills, qualifications, health and well-being. This will mean working in a very different way to ensure that resources can be more effectively targeted at the people who need them most to ensure that all residents have a successful, healthy and safe future, no matter where they live in the borough.

The second is to continue to invest in the Borough's future and to create a prosperous economy that will generate income and provide the job and training opportunities that will be essential to successfully tackling these inequalities. We will do this through continued investment in:

- coastal regeneration
- Swans/the North Bank of the Tyne
- town centres
- new and improved schools
- road and other transport improvements
- housing (including affordable homes)
- sheltered accommodation (North Tyneside Living)
- support for businesses
- marketing the Borough to secure more inward investment and generate more visitors as a tourist destination

The Council Plan has three key themes – our people, our places and our economy. These are in line with what our residents and others have told us. For each one there are a set of very clear policy outcomes that we are seeking to deliver as set out below.

Our People will:

- be listened to by responsive, enabling services
- be ready for school - giving them the best start in life
- be ready for work and life - with the skills and ability to achieve their full potential, economic independence and meet the needs of local businesses
- be healthy and well – with information and opportunities to maintain and improve their health, wellbeing and independence
- be cared for and safeguarded if they become vulnerable.

Our Places will:

- be great places to live, and attract others to visit or work here
- offer a good choice of quality housing, including affordable homes
- provide a clean, green, attractive and safe environment.

- have effective transport and physical infrastructure.
- be a popular visitor destination.

Our Economy will:

- grow by building on our strengths, including existing world class companies and our small and growing businesses.
- have the right skills and conditions to support investment and create new jobs, especially apprenticeships.

These outcomes underpin the CBF Change Programme first implemented during 2014/15.

In terms of how we deliver against these outcomes within the financial challenges we face due to reductions in Government funding, the Council will change the way it operates through a “Target Operating Model” (TOM) that will:

- protect the core essential services to deliver what people need

- improve customer service through: getting things right first time; improved information online; providing more accessible services on a 24/7 basis, enabling people to do more for themselves online at a time when it suits them, including supported access in face-to-face community and well-being hub settings

- support changes in behaviour by residents to encourage and enable them to do more for themselves if they can and to rely less on Council services through new communications and marketing campaigns

- modernise how services are delivered and the way in which the Council operates through improved use of technology, innovation and mobile working

- provide a network of front line services via excellent quality community based facilities – a one stop shop approach to provide more services under one roof

- enable our workforce to become more flexible through redesign of structures, teams and roles and a focus on different workforce development

- Seek to maximise the impact partners have, and achieving the outcomes and successful delivery of the Target Operating Model

- reduce costs around how the Council processes payment for services by moving to a non-cash based approach

- review of fees and charges to ensure these remain in line with our charging principles

- manage demand for the most costly care and health services through a more preventative approach for both children and adults

- streamline access to care and disability support services for adults and children

- adopt a new approach to childcare through nursery provision

- move to more community based housing support rather than residential homes or 24 hour wrap around care

- develop a new self-funded approach to support the Borough's schools to continue to perform excellently

- introduce a more targeted and integrated locality based approach for children and family support services that work in a "whole family" way to deal with the full range of issues and challenges that people may be facing rather than each one in isolation

- promote volunteering and to deliver more services in partnership with the local community and voluntary sector organisations or groups

- review how environmental areas are maintained

Our performance management framework will ensure that we monitor delivery against these outcomes and we are starting from a very strong and successful starting point. Over the past two years, the Borough has seen:

- increasing educational achievement with 61% of pupils achieving 5A*-C grades at GCSE, including English and Maths
- more people receiving essential NHS health checks to identify the risk of cardiovascular disease and enabling earlier intervention to prevent significant health problems in later life
- excellent levels of take up for our award-winning Active North Tyneside programme to improve the health and well-being of residents
- the creation of a new and successful way to care for our older residents via the community based Care and Connect service
- 99% of Primary pupils and 87% of Secondary pupils are taught in schools rated Outstanding by Ofsted – one of the top performing Borough's nationally for primary and for secondary we are bucking the trend through continued strong performance
- the lowest number of Job Seeker Allowance claimants in the North East
- 414 net additional new homes provided, including affordable homes – an increase from the previous year
- significant progress with regeneration plans at the Coast and Swans
- excellent levels of resident and customer satisfaction with services and facilities

- 39 schools in total have received investment over the two year period.
- continued 5 star rating for environmental standards
- 3 blue flags and 4 seaside awards for beaches and 5 green flags
- an innovative partnership based approach to drive out anti-social behaviour in Whitley Bay town centre.
- the creation of over 2,700 jobs
- an increased number of new small businesses, major new investment or large scale expansions by a range of different world class companies

What this means for our workforce

In order to continue to deliver specialist services to those who need them most, whilst managing the demand for the other services we provide, we will need to build on the strengths we have and consider the impact upon the shape, size and priorities of our workforce.

We will need a front line workforce, delivering universal services who are flexible and able to help residents to help themselves to access Council services which are non specialist and complex in terms of need. Some of these services will be able to be accessed by the Council's website with ease, and for others our front line workforce will be trained to signpost residents to relevant services depending on need.

Moving towards a model of providing a network of front line services via excellent quality community based facilities – a one stop shop approach to provide more services under one roof, will require multi skilling and generic skills sets from our workforce.

In terms of the more specialist services, we will be working in a different way to ensure that specialist resources can be more effectively targeted at the people who need them most which will require changes to how our workforce are structured, particularly through a preventative rather than a reactive approach.

The offer will be joined up from the Council in terms of services for residents, again which will have an impact, which in certain services will mean teams who are part of a whole family approach, dealing with multiple issues and challenges.

We will inevitably have a smaller workforce but one which is flexible, agile and high performing, which focuses on the right things to achieve our outcomes for the residents.

Building on our strengths, our workforce will be focused upon improving customer service through: getting things right first time; improved information online; providing more accessible services on a 24/7 basis, enabling people to do more for themselves online at a time when it suits them, including supported access in face-to-face community and well-being hub settings and supporting those who need the more specialist services through a preventative approach to service delivery.

1.2 Policy Framework for the 2016/17 Financial Planning and Budget Process

The Our North Tyneside Plan 2015-2018 will provide the policy direction and strategic priorities for the 2016/17 Budget. It will be delivered through a partnership between the Authority, local people, communities, businesses, and local voluntary and public sector organisations.

1.3 Council Plan and Budget Engagement

We arranged a number of ways to capture the views of residents on priorities for the Council Plan and Budget for 2016/17. As stated previously, the Big Community Conversation was held in the summer this year. Nine public meetings were held across the borough in phase one of the Council Plan and Budget Engagement during September and October and the State of the Area Event was held in October. Residents discussed and gave views on a range of potential options to deliver savings in the Council budget.

In addition, information was also shared via social media and the Council's website, for residents to give feedback.

On the Council Plan, the overall feedback was:

- agreement with the priorities, particularly around health and well-being (with a focus on prevention), giving all children the best start in life and creating more job, apprenticeships and skills opportunities for all ages, having a good quality environment with excellent infrastructure

- support for the need to work in partnership with all sectors and with residents/communities

- support for increased use of self-service, the use of technology (including in how we engage with residents) and increased independence

- agreement to the need to target services on those who need them most

- support for reducing any duplication in buildings and the need to be consistent in any charges

On the budget the overall feedback was

- support for increase in Council Tax in order to maintain essential services

- seek to do more to generate more income into the borough through tourism and business investment

- support for a review of Council assets to ensure Value for Money

- agreement that review of environmental services to ensure improved Value for Money would be helpful

For the next phase of engagement there will again be opportunities for residents to have their say online, via social media and at a discussion event. There will also be meetings with key groups of stakeholders to discuss the budget proposals.

Section 2.0
The Financial Strategy for 2016-2019

2.1 Introduction

At its meeting on 14 September 2015, Cabinet approved the process and timetable to be adopted for the preparation of the draft Financial Plan, 2016/17 revenue budgets in respect of the General Fund, Dedicated Schools Grant (DSG) and Housing Revenue Account (HRA), and the 2016-2019 Investment Plan, as part of the overall Financial Planning and Budget process for 2016-2019. Cabinet also approved the Budget Engagement strategy at that meeting and the work to be undertaken to refresh the Our North Tyneside Council Plan.

The Our North Tyneside Plan 2015-2018 will provide the policy direction and strategic priorities for the 2016/17 Budget. It will be delivered through a partnership between the Authority, local people, communities, businesses, and local voluntary and public sector organisations.

This document includes details of Cabinet's initial budget proposals in accordance with the timescales set down in the Authority's Constitution and Budget & Policy Framework Procedure Rules.

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

(a) The Provisional and Final Local Government Finance Settlement announcements for 2016/17, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG) (due December 2015 / January 2016);

(b) Police and Crime Commissioner for Northumbria and Tyne and Wear Fire and Rescue Authority Precepts (due 3 February 2016 and 15 February 2016 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 2016);

(d) Tyne and Wear Joint Service Budgets (due January / February 2016); and

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

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

2.2 Financial Strategy

A Financial Strategy is critical in order to ensure that the Authority makes decisions by focussing on strategic priorities and 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 to deliver 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.

Creating a Brighter Future Programme

An important element of our overall Financial Strategy is the Authority's approach to changes needed to achieve savings. As set out in Section one, the Council continues to deliver its priorities through the "Creating a Brighter Future" change programme and will operate through a new "Target Operating Model".

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 that supports the delivery of the required outcomes;

(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 new technology

The approach to resource planning for 2016-2019 will continue 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 to its usual annual review.

Leading on from this, the key components and principles adopted for our 2016-2019 Financial Strategy have been fully reviewed as part of this year's process and are summarised in Table 1 below:

Table 1: Principles adopted for the 2016-2019 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 • Council tax collection managed to secure recurrent efficiencies in the Authority's collection fund
Housing and Welfare Reform	• Ensure that the financial implications of the Local Council Tax Support Scheme have been fully considered • Welfare Reform changes are reviewed to ensure that the full implications are taken account of • Recognise the implications of Housing Revenue Account Self Financing and the impact of announcements made as part of Summer Budget 2015 on the Housing 30 year business plan.
Commercial Activity	• Consider Trading Opportunities • Options for Service Delivery Mechanisms

	• Ensure that commercial opportunities with our partners are explored
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 • Ensure appropriate use of reserves to support the revenue budget in the medium term • Recognise the implications of the Business Rates Retention Scheme

	• The Financial Strategy needs to be flexible enough to manage the changes to the Local Government finance system
Capital Financing and Expenditure	• Supports the Authorities responsibilities with regard to Heath and Safety for both Staff and our residents and customers • Supports the Authority's aim to promote and stimulate strong and sustainable economic growth leading to wellbeing and prosperity for residents and communities and this will be supported by a planned approach to strategic investment managed through the Authority's Investment programme • Strategic assets reviewed at least annually to maximise the potential to release value into the business for strategic re-investment and to ensure that the asset requirements are aligned to the delivery of services across the borough • 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 • No further additional reliance on land and building capital receipts
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.

2.3 Financial Risk Assessment

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

Key Financial Risks

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

Table 2: Key Financial Risks and mitigating actions

Potential Risk	Initial Response
There is a risk that the levels of savings and income the Authority has included in the budget proposals are not fully deliverable.	A robust challenge process has taken place to establish the Target Operating Model (TOM) and how this enables the Council to deliver its Creating a Brighter Future (CBF) Programme. This programme will then be monitored throughout the year to identify any areas which are not delivering savings as planned so corrective action can be taken. Whilst this process is well established with the Creating a Brighter Future Programme monitoring during 2015/16 a review of governance has taken place to ensure the correct programme management approach is in place
There is a risk that if the Creating a Brighter Future (CBF) programme / Target Operating Model (TOM) are not successfully implemented we may be unable to deliver improved services and meet the increased demand on Council services within reducing resources. This could have the financial impact of the Council not delivering on its budget.	An overall Project Initiation Document and Terms of Reference are in place for all CBF projects which are in varying stages of delivery. This spans all service redesign projects (Ready for School, Work and Life; Cared For, Safeguarded and Healthy; and Great Place to Live, Work and Visit) plus the infrastructure and enabling projects. Heads of Service have ownership for delivering the projects. Monthly Programme Board meetings via SLT take place which help ensure that there is visibility and accountability. It also enables reporting of progress against the plans.

There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2018/19 may be wrong, resulting in changes to the current targeted savings.	There is flexibility within the CBF Programme which will allow us to reconfigure if the assumptions that have been made prove to be incorrect. The Council is involved in National financial networks and works closely with Association of North East Councils (ANEC), regional and sub-regional financial networks to help ensure we are informed and aware of any national developments. The use of Reserves and Balances can be considered to give greater flexibility in delivery of the Budget and Financial Plan.
There is a risk that the financial plans in relation to the Better Care Fund (BCF) do not deliver the anticipated savings.	Governance arrangements are in place to ensure we continue to establish systems around regulations and financial spend. A Turnaround Board has been established which consists of the Chief Executive and representatives from the Clinical Commissioning Group (CCG), it has been established to manage the CCG deficit and look at finances across Health and Social Care.
There is a risk that not all growth pressures have been identified in the 2016/17 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 and Learning Disabilities and have been taken into consideration as part of these initial budget proposals.
There is a risk that specific factors arising during 2015/16 have not been fully taken into account when preparing the 2016/17 budget.	2015/16 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 2016/17 is insufficient.	Increase in contingency for 2016/17 of £4.650m to cover specific identified pressures. Experience of 2015/16 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 £1.4m are included in the financing of the 2016/17 Investment Plan. There are a number of actions being progressed that are expected to realise this requirement.
There is a risk that the Council may be unable to sustain the existing level of rent incomes which will impact on our ability to deliver the 30 year HRA Business Plan. The government plans to reduce the social housing rents by 1% per annum for 4 years will significantly impact income and our ability to deliver our existing 30 year HRA business plan. Welfare Reform may also impact on rent collection levels. This has the potential financial impact of £425m over a 30 year period.	A financial inclusion strategy is being developed which will set out how the Council and its partners will support its residents to better manage their finances and maximise their income. In addition, a review of the way tenants pay their rents will take place, resulting in easier payment methods e.g. the introduction of more direct debit payments, which will ensure that rents are collected. The Council will review the cost and quantity of work within the 30 year Investment Plan to help mitigate the impact of changes.
There is a risk for a small number of schools that increasing budget deficits will result in an unsustainable education offer.	Robust challenge and support arrangements are progressing across a number of schools from both the Local Authority and the wider school community.

Section 3.0
Spending Review and Autumn Statement

3.1 Context / National Funding

On 25 November 2015, the Chancellor of the Exchequer announced the combined Spending Review and Autumn Statement for 2015 to Parliament. The Autumn Statement represents the Government's annual update on their economic plans, while the Spending Review sets out the details of Government Departmental Expenditure plans for the four years from 2016/17 to 2019/20.

The overall reductions to Government departmental spending set out in the Spending Review and Autumn Statement are just over £8 billion less than those set out in the Summer 2015 Budget.

Of particular interest to Local Government are the expenditure plans for the Department of Communities and Local Government (DCLG) Local Government Budget. It was set out that this would reduce by £6.1 billion from £11.5 billion in 2015/16 to £5.4 billion in 2019/20, a 53% reduction as follows:

Table 3: DCLG Local Government Budget 2015-2020

Year	DCLG Local Government
2015/16	£11.5 billion
2016/17	£9.6 billion
2017/18	£7.4 billion
2018/19	£6.1 billion
2019/20	£5.4 billion

The Government noted that Local Government's locally financed expenditure, including Council Tax and Business Rates is expected to increase from £28.8 billion in 2015/16 to £35.1 billion in 2019/20, an increase of £6.3 billion. It has not been possible to derive an exact split of the change here at this stage.

Taking all of the above items together, it is estimated at this stage, that nationally, core funding from Central Government to Local Government will fall by £4.1 billion or 24% over the next four years.

The current information that has been issued in the Spending Review and Autumn Statement is only at a national level. Whilst information can be extrapolated from this national picture to assess what this could mean for individual local authorities such as North Tyneside Council, our exact position for 2016/17 won't become apparent until the Provisional Local Government Finance Settlement for 2016/17 is issued. This information is expected to be released in mid December 2015.

3.2 Specific Announcements

The Spending Review and Autumn Statement also included a number of specific announcements with implications for Local Government Finance, the details of which are set out below.

Council Tax and Adult Social Care Precept

The Government announced a social care 'precept' of 2%, which can be applied by councils responsible for delivering Adult Social Care, including North Tyneside Council. The Spending Review and Autumn Statement outlined that Local Authorities would be given this additional 2% flexibility on their council tax referendum thresholds, which currently stand at 2%. The amount generated from this additional income will have to be spent entirely for Adult Social Care. In the case of North Tyneside Council, a 2% council tax increase would generate approximately £1.5m.

Business Rates and Funding

On 5 October 2015, the Government announced that by the end of the current Parliament, Local Government would be able to retain 100% of Business Rate revenues, which are currently £26 billion a year. The Spending Review and Autumn Statement failed to provide specific details of how these proposals will be implemented and the exact timeframe. Instead, it was outlined that in preparation for the 100% Business Rates Retention, that the Government would consult on changes to the Local Government Finance System. This consultation will take into account all of the main resources currently available to Local Government, including Council Tax and Business Rates.

The Government re-affirmed some of their other key commitments in relation to business rates, which they outlined in October 2015, namely:

- The Government will abolish the Uniform Business Rate and local authorities will be given the power to cut business rates to boost enterprise and economic activity in their area.

- The current Business Rates Retention Scheme is underpinned by a system of top up and tariffs. The Chancellor set out that this system would be retained, which is an important issue for North Tyneside Council given that we currently receive an annual top up grant in excess of £15m.

- Any area with a city-wide or Metro Elected Mayor will be provided with additional flexibilities to add a business rates premium for spending on local infrastructure projects. In order to levy this premium, support will be needed through a majority vote of the business members of the Local Enterprise Partnership. This power will be limited by a cap.

In addition, the Government outlined the extension of the Small Business Rate Relief Scheme (SBBR) in England, which has been in place since 2010, for another 12 months to April 2017. Around 405,000 of the smallest businesses will continue to receive 100% relief from business rates, with around a further 200,000 benefiting from tapering relief. The Government also confirmed that their review of Business Rates will report at Budget 2016.

Given the Government's intention to move councils to 100% Business Rates Retention, it was confirmed that Revenue Support Grant will be phased out. This announcement was fully expected and accords with previous Government statements on this issue. In 2015/16, North Tyneside Council received £39.8m of Revenue Support grant income, so this clearly will represent a significant loss of income.

The Spending Review and Autumn Statement does not specifically cover Business Rate Appeals, which are, along with many councils, a risk area for North Tyneside Council. The Government consulted in December 2013 on changes to the system for challenging a business rates valuation. The overall view of respondents to that consultation recommended that Government should consider reform of the appeals system within the wider context of the review of business rates administration. The interim findings of this review, published in December 2014, set out proposals for a three-stage system consisting of 'check, challenge, appeal'.

A further consultation paper entitled 'Check, Challenge, Appeal: Reforming Business Rate Appeals' was published on 30 October 2015, which aims to develop these proposals further. The aim of the system overall is to provide a streamlined and efficient system in which the key issues are identified by the ratepayer early, and are resolved as quickly as possible as the case proceeds. There are three stages to the new system: check, challenge, appeal. These stages must be gone through in that order, and the Government's expectation is that the vast majority of cases will be resolved at the earlier stages without the need for an appeal. This consultation closes on 4 January 2016.

Public Health and Social Care Funding

Linked to the announcement around the move to 100% business rates retention, it was outlined that there will be a Government Consultation regarding options to fully fund local authorities public health spending from their retained business rate receipts.

The Spending Review and Autumn Statement set out that the ring-fence on public health spending will be maintained in both 2016/17 and 2017/18.

It was announced that there would be annual real term savings in public health of 3.9% a year, which equates to a cash reduction of 9.6% in addition to the £200m national in year public health reduction for 2015/16 recently confirmed. The national cash public health reductions are as follows:

- 2016/17 – 2.2%
- 2017/18 – 2.5%
- 2018/19 – 2.6%
- 2019/20 – 2.6%

The Government have set the national Public Health National Funding baseline as £3.461 billion, which it's anticipated will reduce to around £3.131 billion by 2019/20.

The current North Tyneside Council public health funding baseline following the 2015/16 in year reductions is £13.4m. Applying the 9.6% reduction to this, and assuming no other changes, our Public Health Budget could potentially reduce to £12.1m by 2019/20. However, the extent this will reduce by 2019/20 will also be dependent on the outcomes announced from the recently closed Public Health Formula grant consultation. This will have different implications for each local authority, but is almost certain to be further detrimental to North Tyneside Council and therefore our Public Health Budget will almost certainly reduce to well below £12.1m by 2019/20. The outcomes from this consultation are expected to be announced in either December 2015 or January 2016.

A specific commitment was given by the Government to make available social care funds of £1.5 billion by 2019/20 for local government, to be included in an improved Better Care Fund. Indications are that this will be funded through the redirection of existing resources.

Schools and Education Funding

The overall headline allocation is that, including childcare, total spending on Education will increase in cash terms in this Spending Review, from £60 billion in 2015/16 to nearly £65 billion in 2020.

Core schools budgets are to be protected in real terms, enabling the per pupil rate for the Dedicated Schools Grant to be protected in cash terms. In addition, the Pupil Premium will be protected at current rates, as will the funding for Universal infant free school meals.

The Government set out plans to introduce a first ever national funding formula for schools, high needs and early years, so that funding is "transparently and fairly linked to children's needs". A detailed consultation will take place in 2016 with a view to implementing the new funding formula from 2017/18. It was outlined that there will be a transitional period to help smooth the implementation of the new formula.

The Spending Review and Autumn Statement set out that the Education changes announced represent the next step towards the government's goal of ending local authorities' role in running schools and all schools becoming an academy. As part of this, it was announced that there would be a £600m national reduction in the Education Services Grant (ESG). This represents approximately a 75% national reduction in this area, though no timescale is specifically mentioned for this reduction. The current level of the North Tyneside Council Education Services Grant is £2.876m.

New Homes Bonus

The current New Homes Bonus Scheme, the aim of which is to provide a financial incentive to local authorities which promote growth, has been in place since 2011/12. The Spending Review and Autumn Statement set out that there will be a Government Consultation on reforming the New Homes Bonus Scheme. This will include ways to increase the incentive to reward communities for additional homes, and will also look at options around reducing the length of the payment from the current six years to four years. The Government have stated that their preferred option is for savings of at least £800m, which can then be used for social care. It is intended that this Consultation will take place as part of the Local Government Finance Settlement in December 2015, which will include proposals to introduce a floor to ensure that no local authority loses out disproportionately.

The current level of the New Homes Bonus grant funding for North Tyneside Council is £2.645m.

Local Government Efficiency

It was outlined that to support local authorities to deliver “more efficient and sustainable services”, that the Government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects. Flexibility to use assets for reform projects are likely to be subject to a number of conditions and further details regarding this will be set out in the Provisional Local Government Finance Settlement in December 2015.

Police Funding

The Government noted an overall protection of Police Funding in real terms over the Spending Review period. In addition, transformation funding will be allocated to support police forces with strong proposals to support efficiency and reform, as part of the transition to new funding arrangements in the future.

Council Tax flexibility will be provided to those police forces with the lowest council tax bills, who will be allowed to raise income from council tax by £5 rather than 2%. This will apply to the Police and Crime Commissioner for Northumbria Precept, which is currently the lowest police precept in the country.

Section 4.0
Cabinet's initial budget proposals for the 2016/17 Council Tax Requirement including the General Fund Revenue Budget and 2016/17 Financial Plan and the Dedicated Schools Grant

4.1 Introduction

One year ago, the Council 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. During 2015/16 as part of the review of the Creating a Brighter Future (CBF) Programme and development of the Target Operating Model (TOM), 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 2016/17 presented by the themes of the Creating a Brighter Future Programme.

4.2 Council Tax

In light of the financial challenge facing the Authority, the current Budget proposals for 2016/17 include an assumption that a 2% "Adult Social Care Precept" is proposed to fund Adult Social Care. The final level of Council Tax cannot be finalised due to the extent of outstanding information, therefore details of this will be included in the report to Cabinet of the 27 January 2016.

4.3 2016/17 – 2018/19 General Fund Financial Plan

Table 4 below summaries the General Fund Financial Plan for 2016/17 – 2018/19. Details of 2016/17 – 2018/19 financial pressures are included at Appendix A.

Table 4: 2016/17 – 2018/19 General Fund Financial Plan Summary

	2016/17	**2017/18**	**2018/19**
	£m	**£m**	**£m**
General Fund Base Budget	156.757	152.721	147.266
Pay and Price Increases	0.834	1.770	1.487
Demand Led	4.650	6.750	6.750
Corporate	6.102	5.485	1.935
Legislative / Changes to Responsibilities	0.131	0.515	0.100
Creating a Brighter Future Programme	-15.753	-19.975	-15.522
Total General Fund Financial Plan	**152.721**	**147.266**	**142.016**

The pay and price pressures are due to inflationary pressures for property, waste management and transport. The waste management increase reflects the growing pressure from housing growth and contract inflation, and an obligation on the authority to provide for additional landfill tax. A contingency provision for the anticipated level of the pay award has also been made. The proposals here include a forecast reduction in the Combined Authority Transport Levy of £0.397m in 2016/17.

Demand led pressures relate to an increase in contingencies to cover the Living Wage announced in the Government's Summer 2015 Budget, where it was outlined that a new minimum wage of £7.20 will apply from April 2016 for all working people aged 25 or over. In addition, anticipated pressures around Looked After Children and the Learning Disability Service, where demand continues to increase, as well as a contingency amount to cover any potential financial pressures that may arise have been provided for.

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. The increase in Employer's National Insurance Contributions arising from changes in pension legislation resulting in Council employees being "contracted in" for National Insurance purposes is reflected here. The Electronic Documents Record Management System is a key enabler for the improvements the Council wants to make in information governance (IG) and for the Creating a Brighter Future (CBF) Change programme. The implementation has already started to allow us to have a Council-wide platform for information management and process improvement. The amounts included here reflect the cost of managing and maintaining the system once implemented.

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. The main change to grants is an assumed 10% annual reduction in the Local Council Tax Support and Housing Benefit Administration Subsidy.

4.4 Summary of the 2016-2019 Creating A Brighter Future Programme (CBF)

As set out in Section 1 of this report, the CBF programme has been developed to ensure that the focus of the Council is to help people to 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.

4.5 Summary of the Creating a Brighter Future Programme (CBF)

Table 5: Creating a Brighter Future Programme (CBF)

CBF Theme	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**
Great Place to Live, Work & Visit	-1.349	-0.015	-0.015
Cared For, Safeguarded and Healthy	-7.910	-2.667	-0.237
Corporate and Enabling	-5.014	0.028	-0.115
Ready for School & Work	-1.480	-0.570	0.000
Creating a Brighter Future	0.000	-16.751	-15.155
TOTAL	-15.753	-19.975	-15.522

4.6 Dedicated Schools Grant (DSG)

Currently the value of each of the DSG blocks for North Tyneside in 2015/16 is shown below:

- Schools Block £114.953m
- Early Years Block £6.106m
- High Need SEN Block £16.764m

Indications are that the schools block and early years block for 2016/17 will be based upon the same per pupil value as in 2015/16, with the total value updated to reflect the pupil numbers in North Tyneside schools as at the October 2015 pupil census. 2016/17 amounts in relation to Academies will be deducted from the Schools block before it is received by the Authority.

The Pupil Premium for eligible pupils is currently £1,320 per primary school pupil in 2015/16, £935 for secondary pupils (£300 for service children) and is £1,900 per looked after child.

The Education Funding Agency (EFA) are expected to issue authorities with their 2016/17 settlements including the Schools block, Early years block and further detail on the Pupil Premium on 18th December 2015. Details of this will be included in the report to Cabinet of the 27 January 2016. The EFA are not expected to confirm 2015/16 high needs SEN funding block allocations to authorities until March 2016.

Section 5.0
Cabinet's initial budget proposals for the 2016-2019 Investment Plan and Prudential Indicators

Introduction

5.1 Capital Investment generally relates to spending on physical assets that have a useful life of more than one year. This can be new assets, improvements to existing assets, or loans to third parties for a capital purpose. It can also, with the express permission of the Secretary of State, cover revenue expenditure on items such as equal pay claims or statutory redundancy costs.

5.2 Investment of this nature plays an important role in ensuring the Authority meets its Health and Safety responsibilities, it also plays an important role in improving economic opportunities across all parts of the borough. Whilst some investment directly contributes to economic development, all has an indirect impact by providing stimulus to the economy, creating employment opportunities, supporting skills and development or contributing to confidence.

5.3 The investment programme has been developed with a strong focus on delivery of the Council Plan outcomes. In addition, some of the projects have been developed with the aim of helping to deliver revenue savings to assist the Authority in managing the financial pressure it faces.

5.4 The new governance process for capital investment that was introduced during 2014/15 has been maintained during 2015/16. This process ensures that all investment follows a structured gateway process, and is challenged by Members and senior officers, from the initial ideas stage, through the delivery stage and finally to post implementation. All proposals are considered in terms of their strategic alignment with the Our North Tyneside Plan, Creating a Brighter Future programme and the Target Operating Model.

5.5 The Investment Programme Board (IPB) meets on a monthly basis and, as part of its monthly meetings, receives an update on all ongoing projects included in the approved Investment Plan (currently 2015-2019).

5.6 As part of the 2016/17 budget process, the IPB also received bids for new projects and changes to existing projects. All bids were considered and, following a thorough challenge and review, a number of changes were suggested for approval by Cabinet, and are now included within the draft Investment Plan. The new projects include:

(a) **Depot Rationalisation £12.961m**: This investment is required to deliver proposals in respect of a new centralised depot for Council services. This has been considered in light of the investment required to bring the existing provision to appropriate health and safety standards, and efficient and effective service delivery. This project has been in discussion for some time with Lead Members and the review of the proposal is expected to continue into next year before the project is given the go ahead to progress fully;

(b) **ICT Citizen Interaction and Self Serve £3.367m**: This investment is required to deliver key aspects of the proposed Target Operating Model in respect of how our residents, customers and stakeholders interact with the Authority, and the implementation of the digital strategy which will enable the Authority to become more efficient and effective; and,

(c) **Northumberland Square £2.500m:** this investment will bring 14 to 16 Northumberland Square into use with the proposal being to convert it into homes for sale on the open market.

Investment Plan 2016-2019

5.7 Table 6 below shows the draft 2016-2019 Investment Plan.

Table 6: Summary of Investment Plan 2016-2019

Spend	2016/17 £000's	2017/18 £000's	2018/19 £000's	Total £000's
General Fund	65,131	32,813	15,860	113,804
Housing	24,859	23,085	23,366	71,310
Total	**89,990**	**55,898**	**39,226**	**185,114**

5.8 A schedule of the individual projects included in the draft plan is attached as Appendix C (i). A number of projects are currently indicative and are subject to the relevant gateway approvals to ensure compliance with the governance requirements. In addition, where applicable, confirmation of external funding will also be required before projects are able to proceed.

5.9 The estimated revenue implications of these schemes have been included in the revenue budget.

Financing

5.10 Table 7 below summarises the proposed financing of the draft Investment Plan:

Table 7: Summary of Financing 2016-2019

Spend	2016/17 £000's	2017/18 £000's	2018/19 £000's	Total £000's
General Fund				
Council Contribution:				
Unsupported Borrowing	29,137	16,091	10,618	55,846
Capital Receipts	1,415	0	380	1,795
Revenue contribution	66	0	0	66
	30,618	16,091	10,998	57,707
Grants & Contributions	34,513	16,722	4,862	56,097
Total General Fund Resources	**65,131**	**32,813**	**15,860**	**113,804**
Housing - HRA				
Capital Receipts	132	2,573	2,746	5,451
Revenue Contribution	5,909	4,593	5,280	15,782
Major Repairs Reserve	14,370	14,848	15,340	44,558
House Building Fund	3,621	1,071	0	4,692
Grants & Contributions	827	0	0	827
Total Housing - HRA Resources	**24,859**	**23,085**	**23,366**	**71,310**
TOTAL RESOURCES	**89,990**	**55,898**	**39,226**	**185,114**

5.11 The draft 2016-2019 Investment Plan for the General Fund includes expenditure of £65.131m in 2016/17. Of this expenditure £34.513m (53%) is funded through grants and other external funding contributions.

5.12 Capital receipts of £7.246m (£1.795m General Fund and £5.451m Housing) have been assumed in the financing of the draft plan.

5.13 Across the life of the draft plan, unsupported borrowing totals £55.846m. 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).

Capital Allocations 2016/17

5.14 A number of capital allocations (grants) are announced by central government as part of the local government settlement. These include Education Funding (Capital Maintenance and Devolved Formula Capital) (Department for Education) and the Local Transport Plan (Department for the Environment). Indicative figures, based on 2015/16 announcements, are currently included in the plan. These will be updated as soon as 2016/17 figures are available and will be included in subsequent reports.

Prudential Indicators

5.15 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.

5.16 The proposed Prudential Indicators for North Tyneside are included as Appendix C (ii) to this report.

Annual Minimum Revenue Provision (MRP) Statement

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

5.18 The MRP is the amount that is set aside to provide for the prepayment of debt (principal repayment). The regulations require the Authority determines an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to 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. The guidance provides recommended options for the calculation of a prudent provision but it does not rule out other methods.

5.19 Under the previous Local Government Finance system grant funding for repayment of debt through the Revenue Support Grant was received at a rate of 4% for debt that had been granted as Supported Borrowing. This was then used to repay debt via the Minimum Revenue Provision. More recently, under the new system for Revenue Support Grant, those direct linkages have disappeared and Revenue Support Grant is projected to be cut substantially in the coming years. To maintain the level of debt repayment at 4% (£4.508m) in the light of these reductions would not be prudent and would lead to cuts in operational services that could be avoided. It is proposed, therefore, that the level of debt repayment be reduced to 2% (£2.254m) as a more reasonable provision. This is the level previously used for the repayment of debt on housing properties until the Local Government Act 2003 when the repayment of any debt for Housing became discretionary. This proposal will result in a revenue saving of £2.254m in 2016/17 and a reducing ongoing saving of around £2m per annum. This will, in turn, impact on the Capital Financing Requirement (CFR), in that the supported borrowing element of the debt will take longer to repay, so the CFR will reduce more slowly.

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

(a) Existing assets pre 1 April 2007 – MRP will be charged at 2% per annum;

(b) Supported Borrowing – MRP will be charged at 2%;

(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.

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

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

Section 6.0
Treasury Management Statement and Annual Investment Strategy 2016/17

6.1 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 (Investment) 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."

6.2 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.

6.3 Treasury Management Strategy for 2016/17

The proposed strategy for 2016/17 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;
- The investment strategy;
- Creditworthiness; and,
- Policy for the use of external service providers.

6.4 Current Treasury Portfolio Position

The Authority's debt and investment position at 6 November 2015 is set down in Table 8 below. This has been compared with the comparable position as at 5 November 2014.

Table 8: Current Treasury Portfolio Position as at 6 November 2015

	Principal Outstanding	**Average Rate**	**Principal Outstanding**	**Average Rate**
	(06 Nov 2015) £m	**%**	**(05 Nov 2014) £m**	**%**
Fixed Rate Funding PWLB* PWLB – (HRA Self Financing) Market Loans Temp Loans	 196.650 128.193 20.000 72.896	 4.98 3.49 4.35 0.65	 235.650 128.193 20.000 35.854	 5.82 3.49 4.35 0.63
Total External Debt	**417.739**		**419.697**	
Less **Investments** (UK) DMO**	 18.905	 0.25	 4.400	 0.25
Total Investments	**18.905**		**4.400**	
Net Position	**398.834**		**415.297**	

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

6.5 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 9 below sets out Capita Asset Services professional view of interest rates.

Table 9: Capita Asset Services forecast interest rates – (2 November 2015)

	Bank Rate %	5 year PWLB %	25 year PWLB %	50 year PWLB %
Nov 2015	0.50	2.30	3.60	3.50
Mar 2016	0.50	2.40	3.70	3.60
Jun 2016	0.75	2.60	3.80	3.70
Sep 2016	0.75	2.70	3.90	3.80
Dec 2016	1.00	2.80	4.00	3.90
Mar 2017	1.00	2.80	4.10	4.00
Jun 2017	1.25	2.90	4.10	4.00
Sep 2017	1.50	3.00	4.20	4.10
Dec 2017	1.50	3.20	4.30	4.20
Mar 2018	1.75	3.30	4.30	4.20
Jun 2018	1.75	3.40	4.40	4.30
Sep 2018	2.00	3.50	4.40	4.30
Dec 2018	2.00	3.50	4.40	4.30
Mar 2019	2.00	3.60	4.50	4.40

6.6 Economic Outlook

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

- Investment returns are likely to remain relatively low during 2016/17 and beyond;

- Borrowing interest rates have varied during 2015, due to fluctuations in financial markets. Gilt yields have continued to remain at historically low levels during 2015. 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.

6.7 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. 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 maintain 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.

Municipal Bond Agency – It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the PWLB. This Authority intends to explore the options of this new source of borrowing as and when appropriate.

In addition to the above mentioned Municipal Bond Agency source of borrowing, the Authority will look to explore the general use of Bonds as part of the Treasury Management Strategy, in consultation with the Authority’s treasury advisor, Capita Asset Services.

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, 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 2016/17 treasury operations. The Head of Finance 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 increase 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 start date of the rate rise and in the rate of increase in central rates in the United States of America (USA) and the United Kingdom (UK), an increase in world economic activity or a sudden increase in inflation risks. If this is the case, 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.

6.8 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.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

6.9 Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term interest 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 current treasury position and the size of the cost of debt repayment (premiums incurred). 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 2016/17 should remain flexible. The reason for any rescheduling to take place may include:

- the generation of cash savings and / or discounted cash flow 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.

6.10 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 applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentrated risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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 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 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.

Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

Table 10: Bank Rate Forecast for Financial Year Ends

Year End (March)	Bank Rate Forecast (%)
2016/17	1.00
2017/18	1.75
2018/19	2.00

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

The strategy for 2015/16 agreed on 19 February 2015 was set against a background of uncertainty and a prudent approach was taken with nearly all investments being made on a short term 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 Head of Finance 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 Head of Finance 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.

6.11 Creditworthiness

Changes to the credit rating methodology - The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a rating uplift due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these uplifts with the timing of the process determined by the regulatory progress at a national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have netted each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of the credit assessment process now focuses solely on the Short and Long Term ratings of an institution. The other key elements of their process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, local authorities typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodology in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean they are suddenly less credit worthy than they were formally. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the support phase of the financial crisis.

Credit ratings will continue to be monitored regularly. 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. 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.

6.12 Policy on the use of external service providers

The Authority uses Capita Asset Services, Treasury solutions 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 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 her 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 18 February 2016, 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 2016-2019 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 2014/15 Statement of Accounts, presented to full Council on 24 September 2015;

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

- The implications of the Government's National Summer Budget of 8 July 2015 and the Government announcements of 21 July 2015 which set out the date of the Spending Review of 25 November 2015 and that the Chief Secretary to the Treasury would write to government departments asking them to draw up plans to deliver the remaining required fiscal consolidation of £20 billion required by 2019/20;

- The outcome of the Spending Review and Autumn Statement 2015 of 25 November 2015 and the implications for North Tyneside Council; and,

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

The level of contingencies will be £4.650m as pressures incurred during 2015/16 have been recognised as part of the 2016/17 Financial Planning and Budget process.

The Chief Finance Officer is satisfied that due attention has been given to the 2016-2019 Financial Planning and Budget process and in particular the Council Tax Requirement, and budget setting element of that process for 2016-2019 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 2015-2018 'Our North Tyneside' Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2016/17 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 three-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

The 2016/17 Budget assumes the use of £0.321m of reserves to support the 2016/17 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 2016-2019 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 2016/17 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 2016-2019 financial plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long term reliance on reserves.

PART 2

Section 8.0
Cabinet's initial proposals for the Housing Revenue Account (HRA) Business Plan and budget for 2016-2019

8.1.1 Housing Revenue Account (HRA) - Background

North Tyneside Council is responsible for the management of around 15,000 council houses, the funding for which is required by law to be kept entirely separate from the rest of the Authority's finances within what is known as the HRA. The council tax payer cannot subsidise those living in social housing and the rents and service charges paid by the tenants cannot be used to fund unrelated council services.

Under the Local Government and Housing Act 1989, it is also illegal for an authority to budget for a deficit in its HRA.

Section 1 of this Annex sets out clearly the overall vision of the Council Plan, and policy content within which the HRA financial plan and budget proposals are set.

The financial challenges the HRA faces in delivering the desired outcomes from the Council Plan are no less challenging than those of the General Fund.

As part of preparing the draft HRA financial plan for 2016/17 to 2018/19 which includes a 30-year HRA Business Plan and the associated Capital Investment Plan, the potential impact of two pieces of Government legislation that are currently progressing through Parliament (the Welfare Reform and Work Bill and the Housing and Planning Bill) are acknowledged.

Both of these have significant implications for the future resourcing of the HRA Business Plan at a time when we are also facing the continued roll-out of Universal Credit, and a whole raft of new changes proposed by the above draft legislation.

In April 2012 the self-financing regime for council housing finance was introduced with the aim of localising responsibility for council housing. Initially these reforms saw an improvement in the HRA financial position with additional resources identified in the 30 year Business Plan for capital investment in the existing stock and new build. In 2013/14 the Authority started a programme of new build, which is delivering the first new council housing in the Borough for over 25 years.

This report also sets out the financial and service pressures on the HRA identified through the financial planning process and the draft proposals to balance the plan.

The final HRA budget will be presented to Cabinet on 14 January 2016. At that meeting Cabinet will be asked to approve the HRA Business Plan and Budget for 2016/17, including the housing rent, garage rent and service charge changes and the Housing Investment Plan.

8.1.2 Key Headlines and Objectives for the Housing Service

The over-riding objectives for the housing service are, as far as possible within financial constraints, to:-

1. Ensure the application of the principles of the Target Operating Model;
2. Continue to invest in the existing stock to maintain the Decent Homes Standard;
3. Maintain and develop effective engagement with tenants;
4. Work with Private Landlords to refurbish stock where appropriate;
5. Undertake environmental improvements to estates to ensure that they are clean and safe;
6. Support the delivery of Affordable Homes across the borough.

The key headlines for the HRA budget for 2016/17 are as follows:-

<u>HRA Revenue planning assumptions</u>

The key headlines for the HRA budget for 2016/17 are as follows:-

1. Implement proposed Government rent reduction of 1% for 2016/17 (and the following 3 years);
2. Freeze service charges for 2016/17;
3. Increase garage rent of 2% for 2016/17;
4. Sustain working HRA balances at circa £2.5m.
5. PFI properties have a rent reduction in line with the 1% reduction for 2016/17 (and the following 3 years);

<u>HRA Capital Investment Plan – assumptions</u>

1. Overall Housing Investment Plan spend of £92.3m over the next 4 years and £1.179 billion over the next 30 years;
2. Spend for 2016/17 of £24.859m including £5.000m for the continuation of a new build council house programme. Some of this funding is reprogramming from 2015/16;
3. Total current estimated spend allocated for new build over 30 years totalling £113m (including client fees).

Cabinet will be pleased to note that the plan includes provision for the continuation of the new build programme for the duration of the 30 year Business Plan.

The current programme of new build during 2015/16 saw the completion of 32 new affordable homes at Blandford Road delivered by Galliford Try. These homes were funded in part by Social Housing Grant under the Government's Affordable Homes Programme. 41 new houses in Wallsend Town Centre are being built by our Joint Venture partners Kier North Tyneside, on the site of the former Alexandra Street Homeless Unit and Wallsend Police Station. Both of these schemes reflect Cabinet's desire to see an extensive programme of new build within the Borough, as part of an ambitious plan for up to 3,000 new affordable homes over a ten year period. The 30 year HRA Business Plan developed as part of the 2016/17 budget process identifies around £25m of additional resource available over the next 10 years within the HRA to support council house new build and £113m over the next 30 years.

8.1.3 Overall Budget Context

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

8.1.4 Proposals for Legislative Change

The Chancellor announced in his summer budget statement of 8 July 2015, his intention to require authorities to reduce social rents by 1% for the next 4 years. This proposal was confirmed with the release in July 2015 of the Welfare Reform and Work Bill. Combined with the Housing and Planning Bill 2015. There are a number of changes that will impact on all social landlords including stock retaining authorities.

8.1.5 Welfare Reform and Work Bill

The Bill is complex but contains a number of clauses with the potential to impact on the HRA, relating mainly to:

- Welfare Benefits;
- Social Housing Rents.

<u>Welfare Reform</u>
The main measures are:

- Working-age benefits, including tax credits and Local Housing Allowance, will be frozen for four years from 2016/17;
- The household benefit cap will be reduced to £20,000 outside London;
- Support through Child Tax Credit will be limited to two children for children born from April 2017;
- Those aged 18 to 21 on Universal Credit will have to apply for an apprenticeship or traineeship, gain work-based skills, or go on a work placement six months after the start of their claim;
- There will be reductions to tax credits for people on low incomes.

All of these measures have the ability to impact on different groups of tenants, but the detail required to fully assess the impact will only become clearer as they are implemented through new or amended regulations. We will continue to advise Cabinet of the impact of these changes as the details emerge.

Social Housing Rents
From April 2016 the Government is proposing to require authorities to reduce rents by 1% in real terms for the next 4 years.

The current proposed change reduces rental income by an estimated £26.9m over the next 4 years, and takes an estimated £493m out of the 30 year Business Plan. It is a change that will significantly impact on the Authority's ability to manage and maintain properties to a high standard and to develop new properties. The impact of these changes and any mitigating options are discussed in the Strategic Planning section of the report below.

8.1.6 Housing and Planning Bill

The bill was published in October 2015 and contains details of the following key Proposals:

- Extension of Right to Buy (RTB) to housing association tenants;
- The sale of "vacant" high value council homes;
- An obligation for tenants on higher incomes to pay higher rents.

The Bill gives ministers the power to implement the detailed policies via subsequent regulation, therefore much of the detail has still to be determined.

However some of the issues are already starting to become clearer:-

- **RTB** – Housing associations have now signed a voluntary deal with the Government, which maintains their independent status and which, they hope will guarantee them "full compensation" at market value for the properties they have to sell to tenants;
- **Sale of High Value Council Assets (HVA)** – There will be a duty placed on authorities to consider selling high value vacant social housing. The details are still being worked on, but it is unlikely that the Authority will be required to hand over actual sales proceeds;
- **Pay to Stay** – This introduces a requirement for authorities to charge tenant households earning over £30,000 a year an increased rent closer to market rent and to give the additional money to the Treasury. This will require the creation of a legal obligation on tenants to declare their income and/or powers for authorities to receive information from HM Revenues and Customs. Although housing associations will also be asked to apply the "pay to stay" legislation they will be able to keep the money to fund more affordable housing. The additional administrative burden on authorities as a result of this policy could be significant as we will need to maintain earnings data on tenants and ensure we have current data on potential market rents for all properties.

Government intends to introduce these policies to be implemented from April 2017, Further reports will be brought to Cabinet when appropriate. At this stage many of the potential implications on the HRA Business Plan of the above Bills are unknown and hence have not been included in the proposed figures presented within these budget proposals. Given the scale and nature of the national policy changes being proposed for the HRA, we will need to ensure that we re-model and revise our plans as details become clearer for this and any other future proposals.

Section 8.2
Strategic Planning

8.2.1 HRA Rent

As described in 8.1.5 Government is proposing a significant change in rent policy, and, for at least the next 4 years from April 2016, proposes to remove entirely the link between rent and inflation, requiring authorities and housing associations to reduce rents by 1% per annum. This leads to an estimated "gap" in HRA funding of £493m over the next 30 years. CPI as at September 2015, which would otherwise have been the base point for the rent increase, was -0.1%. Under the previous CPI + 1% policy this would have meant an average increase of 0.9% against an assumed 3% average yearly increase, which would have removed £56m from the plan as a result of that single year change.

In terms of longer-term planning over the next 30 years the Government has indicated that the policy after 4 years will return to CPI + 1% and our modelling assumes this. However there are some factors that Cabinet should be aware of:

1) The Authority has been given indications that it is not intended to break the link where properties become vacant and we move the rent to formula (target) rent, so although the target rent will also be subject to the 1% reduction we can continue to move rents to "target" as agreed by Cabinet last year;

2) PFI properties can be exempted from the rent reduction at Cabinet's discretion as they are tied to a Government-funded scheme. Cabinet therefore needs to decide if it wishes to treat this group of tenants differently from all others. For the purposes of the current plan it has been assumed that rents on PFI properties will also be subject to the reduction. The financial impact of this on the Authority is dependant on future actual inflationary trends but, as an indication, if rent would have increased by CPI + 1% (and CPI was assumed to be 2% per annum over 30 years) the financial effect could be up to £15m over the 30 years of the business plan;

3) A full review of the service charges attached to the North Tyneside Living schemes will also need to be undertaken as the schemes move towards completion to ensure consistency and accurate charging for the services being provided.

4) As Service Charges are supposed to be tied to actual costs they are also exempt from the reduction. For the purposes of the current plan it has been assumed that these are frozen for the next 4 years, excluding any potential new charges. This assumption is based on indications that CPI is likely to remain close to zero over this time period. Service charges on affordable rent properties are not exempt, as the 80% of market rent calculation includes any service charges;

5) Garage rents are linked purely to an assessment of demand for the asset with no link to rent policy, hence the plan proposes the long-term government CPI target of 2% increases per annum as being reasonable. The income is impacted by 4 main issues:

   - level of voids experienced across the stock;
   - availability across popular locations;
   - condition of garages and repair implications;
   - level of disabled relief given for a service choice that is not deemed to be allowable for benefit calculations.

6) The plan assumes continuation of the policy agreed by Cabinet last year to protect existing North Tyneside Living tenants from excessive rent increases due to the works undertaken within the PFI schemes. All new tenancies would commence at the newly calculated rents. It is estimated that this protection will cost in the region of £0.170m in 2016/17 after which point it will start to steadily reduce.

In addition to the issues above we continue to monitor the implications of any changes arising from benefit changes and the continued roll-out of Universal Credit (UC). It is not anticipated that the UC scheme will be fully rolled-out across all areas of the country until 2020/21. If there are any significant changes to the timetable for implementation, Cabinet will be asked to consider revised proposals.

8.2.2 Asset Management Strategy (AMS)

The over-riding future asset management objective is to ensure that the housing stock is maintained at the Decent Homes Standard (DHS) as a minimum. As part of the AMS approved by Full Council under the "Better Homes – Better Lives" 2010-2015 report in September 2010 a new stock condition survey was undertaken to help inform the Investment Plan. During 2015/16 the AMS was refreshed to help ensure that the future needs of the stock are fully identified. The results of the refresh and the updated stock condition survey were fed into the Keystone Asset Management system, and, along with the key priorities of our tenants obtained from the Tenant panels, this data contributed to the updated Investment Plan.

Once the Business Plan was rebased for stock numbers and rolled forward a year and the rent assumptions were updated for the government proposals, the identified overall "gap" in the plan stood at £425m over 30 years. The Authority cannot allow its revenue plan to go into deficit. If the gap was to be purely filled from a reduction in Capital spend the likely impact would be as follows:

- Reduction in Funds available for Decent Homes programme - £228m;
- Reduction in Funds available for New Build programme - £197m;

- **Total current "gap" identified in HRA Business Plan -£425m.**

<u>Decent Homes Investment Plan Programme</u>
The Authority needs to consider how it would close the £228m "gap" in the Investment Plan for maintaining the existing stock. A fundamental review of all the

elements contained in the Housing Investment Plan has been undertaken in consultation with the Cabinet Member for Housing and Transport to consider options for reducing costs or doing things differently within the overall plan. This has led to a suite of options which include:

Table 11: Housing Investment Plan – Options to Consider

Element	**Description of Change**	**Variance (£m)**	**Overall Reduction (£m)**
Review of property numbers & element costs	Re-base number of properties & review all cost elements using Final Account figures / Kier rates etc		(117)
External redecoration	Change cycle from 7 years to 8 years	36 to 32	(4)
Roof covering replacements	Change cycle from 60 years to 70 years	156 to 134	(22)
Building Structure (Brickwork)	Change cycle from 60 years to 70 years	101 to 87	(14)
Boundary Fencing / Walls	Additional cost added to improve scope of works	16 to 29	13
Internal Work Elements	Removal of nice to haves, Non-DHS work eg plasterwork, doors, architraves, skirting etc reduced & pushed back from 2023 to 2031	89 to 28	(61)
Insulation	Extended lifecycle of replacement insulation 2031 instead of 2027	27 to 15	(12)
Parking	Reduce money in plan to deal with hot spot parking areas and provision of off-street parking	39 to 28	(11)
TOTAL			**(228)**

As can be seen in the table above, the Authority has considered the above options to amend the Investment Plan programme to meet the financial challenge whilst still meeting the fundamental needs of the existing stock. Work continues to confirm the viability of these options and their profiling in the 30 year Business Plan. It is not envisaged that the Decent Homes programme would be adversely impacted in the first 3 years of the plan covered by this budget report, as the reduction in proposed funding for Decent Homes does not start to reduce until 2019/20. There would however, potentially be implications for future revenue maintenance costs, as delaying or removing planned works could lead to increased repair costs as stock ages.

The Investment Plan needs for existing stock over the 4 years of this plan have been identified at £79.423m with £1.067 billion needed over the next 30 years.

<u>2016/17 Investment Plan Programme (excluding new build) assumptions</u>

Based on the changes discussed above the proposed Investment Plan Programme for 2016/17 totals £19.859m including re-programming. This compares to actual spend of £19.856m in 2014/15 and forecast spend of £18.940m in 2015/16, all excluding new build. Further details on the Housing element of the Investment Plan and capital financing arrangements are included in Section 8.4 of this report.

8.2.3 New Build

If this report is agreed an estimated £11.4m can be released for spend on new build homes in the next 3 years, and up to £113m could be released to build homes over the next 30 years.

The assumptions used in relation to the Housing Investment Plan are fully reflected in the budget proposals outlined in this report. It is assumed that the Authority's Joint Venture partner (Kier North Tyneside Limited) will deliver the majority of the works identified for the current stock within the Investment Plan to maintain Decent Homes. We continue to review Authority-owned land stocks, and, as agreed by Cabinet, the plan assumes that part of the Authority's share of Right to Buy (RTB) receipts assumed under self-financing will be set aside to repay debt to help maintain the viability of the HRA business plan.

8.2.4 Right to Buy Sales

RTB sales in 2014/15 at 100 were down on the previous year (122) as was the average sale price of £0.039m which, compared to average valuations of £0.083m, was also down due to increased discounts, and the mix of property types sold. Under the RTB agreement signed with Government, we have to use any additional "retained" receipt within 3 years as a 30% new build contribution. The reduction in sales and increased assumed sales under self-financing has seen this requirement drop substantially. Hence as a result of sales in 2014/15 we have to spend £0.591m on new build within 3 years, down from £3.019m within 3 years required because of 122 sales in 2013/14. There have been 48 sales to the end of September in 2015/16 (40 at same point last year) with a total receipt of £2.001m but with no additional "retained" receipt to-date that would require the Authority to spend additional funds on providing new homes. The trend in the numbers of RTB sales has been reflected in the revised Business Plan profile for stock numbers, with 100 assumed for 2016/17. These trends may of course be impacted to some degree by the proposed legislative change currently going through Parliament.

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

Cabinet will be aware of the implications of self-financing in terms of the amount of additional debt that the Authority took on from 1 April 2012.The debt settlement figure for North Tyneside was £128.193m, with an overall HRA Capital Financing Requirement (CFR) of £290.824m.

It was agreed by Cabinet and full Council that the HRA should effectively have a separate debt pool from the General Fund. There are three elements to this pool:

1) Self-financing debt – the £128.193m payment to the Government funded by 25 separate loans for £5.000m each, and one loan for the balance of £3.193m with maturity periods ranging from 24 to 50 years. These loans are directly attributed to the HRA, and are easily managed as such. The interest rates offered by PWLB for self-financing were very advantageous. The average interest rate on these loans is 3.49%, equating to annual interest of

£4.477m, an estimated £0.652m below the figure budgeted for 2012/13. As such an equivalent sum is transferred to a House-building Reserve annually as agreed by full Council. The funds in this reserve are being used to help fund the programme of HRA new build and conversions approved by Cabinet to meet the Authority's Affordable Homes ambitions;

2) Existing Debt – the HRA's share of the Authority's pre-self-financing debt portfolio was valued at £162.631m as at 31 March 2012. To create a separate portfolio of existing debt for the HRA each long-term loan was split proportionally with the General Fund. At the point a loan reaches maturity, there is a separate consideration for the General Fund and HRA as to whether the loan is re-financed, either long-term or short-term, or repaid using debt set aside. The HRA strategy agreed by Cabinet was that existing loans should be repaid where prudent and affordable. Opportunities to undertake short-term borrowing at current low rates when loans reach maturity have enabled some additional short-term savings to be made. These have been identified in the Treasury Management Plan, and built into the assumptions for the HRA Business Plan. For 2016/17 estimated interest payments due on existing debt will total £5.316m, a reduction of £0.681m on the current year's budgeted charges, with a debt set aside of £2.760m. The debt set aside was reduced due to additional resources being used to fund new build and this is being built up again over the next few years of the plan as resources allow;

3) New HRA Debt (short-term and long-term) – as already described, any new HRA borrowing, whether re-financing of existing loans or genuine new borrowing (currently restricted because of the debt cap), will be done via new loans which will be easily attributed to the HRA. For 2016/17 there will be re-financing of £13.342m of long-term loans, once assumed debt repayments have been accounted for, and temporary borrowing of £20.488m with estimated interest charges of £1.096m in 2016/17.

We have created a truly separate portfolio of HRA debt, which has differing strategic considerations to the General Fund. The portfolio is managed as part of the overall Treasury Management Strategy. For 2016/17 interest payments are budgeted at £10.888m (2015/16 - £11.132m), with a set aside cost of £2.760m (2015/16 - £1.620m), giving total estimated financing payments of £13.570m (2015/16 - £12.682m). The current forecast for 2015/16 is for total costs of £12.456m, reflecting increased savings due to temporary borrowing. These costs are of course now exposed to interest rate risks in the market but in the current climate represent the best estimate of the implications going forward. The HRA has taken on significant debt, and although close control of costs realises benefits to the HRA, the future challenges are significant.

It is estimated that actual debt will be £273.739m by 31 March 2017. The Authority closely monitors the Treasury Management position and the impact on the HRA, to ensure the best results are achieved for the HRA and our tenants. The Authority's current approach to Treasury Management is set out in the Treasury Management Strategy in Section 6.0 of this report and any decisions on HRA debt are made within the context of that overall strategy, seeking to ensure that the risks and impact on the HRA business plan are minimised whilst providing flexibility in terms of future investment and potential additions to the stock.

8.2.6 HRA Self-Financing and Depreciation

There has not been any significant change in relation to the position for provision of depreciation within HRA Business Plans. Under self-financing CLG proposed to ensure that authorities make proper provision for the future investment needs of the stock by introducing a true charge for depreciation. As explained in previous reports the Government came up with a 5-years “transitional” solution, where a calculation based on the old Major Repairs Allowance (MRA) from subsidy could be used as a “proxy”, with any revaluations and impairment charges being reversed out of the accounts, whilst the Government worked on a longer-term solution.

It did appear during 2015/16 that the Government might be proposing that the transitional arrangement roll-on indefinitely. However just in the last month it appears that CLG are still working on a solution. 2016/17 is the final year of the original transitional arrangements so the Government proposals need to be agreed very soon to enable authorities to make appropriate plans.

Using the proxy MRA figure for 2016/17 means that the transfer to the Major Repairs Reserve that will be required in 2016/17 will increase from £14.226m to approximately £15.170m. The sums that are transferred to the Major Repairs Reserve to reflect depreciation can only be used to either pay off debt or fund major repairs. They cannot be used to balance the HRA business plan.

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

The NTL Project means that the Authority should see its sheltered accommodation brought up to the Decent Homes Standard by 2017. Significant progress is being made on delivery of the construction and refurbishment stages of the NTL project in conjunction with our Private Finance Initiative (PFI) partner (S4NT) (Solutions 4 North Tyneside). At the time of writing this report a total of nine schemes have been completed:

- 5 New Build schemes including bungalows at Clifton Walk;
- 4 Refurbishment schemes,

In addition, a further 13 sites are now live:

- 6 New Build;
- 7 Refurbishment.

This leaves only 4 sites where no works have as yet commenced.

The scheme was awarded £108.634m of Private Finance Initiative (PFI) credits by the Department for Communities and Local Government (CLG) when signed off in March 2014, which equates to annual PFI credit payments of £7.370m. The project continues to be reviewed for Value for Money by CLG.

The budget proposals included within the Authority's 2016-2019 HRA Plan assume that the Authority will successfully deliver the construction phase of the scheme, and continue the transition to the full and successful operation of the sheltered estate upon completion.

8.2.8 Major Issues and Risks to the HRA

The Authority continues to take a cross-authority approach in co-ordinating a reasoned approach to risks. Significant risks to the HRA, such as exposure to the interest markets and changes to RTB which impact on HRA cost and income streams have already been highlighted. The implications of welfare reform will continue to be monitored closely to enable sensitivities to be run on the HRA. These risks are set out in Table 2 section 2.3 in terms of the overall Financial Risk Assessment prepared for the Authority.

Section 8.3
Housing Revenue Account Business Plan and Budget for 2016/17-2018/19

8.3.1 Overview

Paragraphs 8.3.2 to 8.3.5 below provide the build up of the financial picture for the next three years reflecting:

(a) Pressures and Growth;
(b) The Creating a Brighter Future Programme; and
(c) Reserves and Contingency Proposals.

8.3.2 Pressures and Growth

Table 12 below summarises the major unavoidable pressures and variations faced by the HRA currently built into the budget. These are shown below:-

Table 12: 2016-2019 Pressures and Growth

Pressures and Growth	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**
a) Rent Reduction & Rebasing – 1% per annum;	1,102	347	929
b) Service Charge Income – Rebasing;	25	25	25
c) Transitional Protection re North Tyneside Living rents;	60	(20)	(25)
d) Debt set aside – Minimum Revenue Provision (MRP);	1,140	1,130	(2,275)
e) Major Repairs Allowance (MRA) / Depreciation;	522	478	492
f) Housing Investment Plan - Revenue Effects;	(2,327)	(1,316)	687
g) North Tyneside Living – Unitary Charge Payments & Contributions to/from Reserves;	40	74	68
h) HRA New Debt / Debt Management Expenditure (DME) / Premiums Discounts;	429	436	330
i) Pension Fund Deficit Contributions;	32	33	35
j) Bad Debt Provision	119	23	23
TOTAL Pressures and Growth	**1,142**	**1,210**	**289**

8.3.3 Creating a Brighter Future Programme

As part of the 2016-2019 Financial Planning and Budget process, proposals have been made for additional income, grant and efficiency opportunities. These are summarised in Table 13 below and include:

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

2. Rebasing garage rents, garage rent increase and other rental income;

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

4. Savings and efficiencies in relation to repairs budgets;

5. Management Costs – Staff Structure Savings & Efficiencies;

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

7. Removal of Contribution to House-building Fund as part of overall strategy to Balance the Business Plan;

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

Table 13: 2016-2019 Creating a Brighter Future Programme

Creating a Brighter Future Programme	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**
1) Income from Rent Increase re-basing & voids to target;	(163)	(132)	(116)
2) Garage Rents – rebasing, rent increase & Other Income;	11	(9)	(13)
3) HRA Existing Debt – Interest savings from refinancing & temporary borrowing;	(682)	(534)	(319)
4) Repairs Stock reduction & VFM savings;	(200)	(64)	(71)
5) Management Costs – structure & efficiency savings;	(250)	0	0
6) North Tyneside Living – project procurement & monitoring costs;	2	(48)	(77)
7) House-building Fund Contribution;	0	(1,071)	0
8) Council Tax Void Scheme	55	(100)	(50)
TOTAL Creating a Brighter Future Programme	**(1,227)**	**(1,958)**	**(646)**

8.3.4 HRA Reserves and Contingencies

The proposed draft budget for 2016/17 includes a contribution from reserves of £0.686m. It is proposed to create additional contingency budgets of £0.131m to recognise relevant issues including any increases in inflation and any pay award for 2016/17.

Table 14: 2016–2019 Housing Revenue Account Reserves and Contingencies

HRA Revenue Balances	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**
Increase in Contingencies	131	270	212
Contribution to/(from) Balances	(46)	478	145
TOTAL Change in Reserves and Contingencies	**85**	**748**	**357**

8.3.5 2016-2019 Draft Housing Revenue Account – Movement on Reserves

Table 15 below summarises the draft Housing Revenue Account movement on balances for 2016-2019, after taking account of the information and details included in Sections 8.3.2 to 8.3.4 above:

Table 15: 2016–2019 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**
Opening Reserve Balance	(3,285)	(2,599)	(2,391)
Add:			
Original Contributions (to) / from balances	640	686	208
Change in contributions (to) / from Balances	46	(478)	(145)
Predicted Reserve Balance Carried Forward	**(2,599)**	**(2,391)**	**(2,328)**

The budget monitoring position for 2015/16 to 30 September 2015, reported to Cabinet on 9 November 2015, shows projected year-end balances of £3.285m. A net contribution from balances to the HRA of £0.686m is projected in 2016/17 to give a year-end balance of £2.599m as at 31 March 2017. The budget proposals presented here ensure that a minimum of £2.000m is retained in HRA revenue balances each financial year covering the three years of the Authority's Financial Plan, to ensure some measure of contingency and financial stability. These proposals as they currently stand also balance the plan over the longer 30-year period, which is what the Government requires us to demonstrate as part of the self-financing proposals. Table 16 below summarises the Housing Revenue Account forecast plan for 2016–2019, after taking account of the information and details included in Sections 8.3.2 to 8.3.4 above:

Table 16: 2016–2019 Housing Revenue Account Financial Plan

HRA Forecast Expenditure Plan	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**
2016/17 Base Budget	0	0	0
Add:			
Pressures and Growth	1,142	1,210	289
Creating a Brighter Future Programme	-1,227	-1,958	-646
Reserves and Contingencies	85	748	357
Net Forecast Expenditure Variation	**0**	**0**	**0**

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

Section 8.4
2016-2019 Housing Investment Plan

8.4.1 2016-2019 Housing Investment Plan

The 2016-2019 Housing Investment Plan is included as part of the overall 2016-2019 Investment Plan set out in section 5 of this report. The Housing element of the Investment Plan is set out below for completeness.

The over-riding objective for future years for the Housing Investment Plan is to ensure that the existing Housing stock is maintained to at least the Decent Homes Standard, as laid out in the Housing Asset Management Strategy, refreshed as part of the 2015/16 budget process. On top of this, as resources allow, there is the intention of responding to tenant priorities around issues such as fencing and landscaping, and to deliver Decent Homes plus standards.

This Investment Plan also provides for the Authority to continue the programme of new build council housing started in 2013/14 and builds on some of the successful schemes that have already been delivered, mainly with our JV partner Kier, but also with various social housing providers including where appropriate Galliford Try and Gentoo, often to take advantage of various grant funding opportunities to reduce cost and increase Value for Money. Assuming that enough suitable HRA owned land can be identified or acquired, and planning issues addressed, there is the potential for up to £113m worth of new build expenditure over the next 30 years in total, and specifically £5.000m (including Client fees) of new build works in 2016/17.

Full details of the proposed Housing Investment Plan 2016-2019 are attached as Appendix E(ii) but Table 17 below shows a summary:

Table 17: Summary of Proposed Housing Investment Expenditure and Financing 2016–2019

Resources	2016/17 £000's	2017/18 £000's	2018/19 £000's	Total £000's
Housing Investment Expenditure	**24,859**	**23,085**	**23,366**	**71,310**
Current Stock Need	**19,859**	**19,335**	**20,748**	**59,942**
Potential New Build (including fees)	**5,000**	**3,750**	**2,618**	**11,368**
Financing				
Major Repairs Allowance / Depreciation	14,370	14,848	15,340	44,558
Revenue Contributions (HRA)	5,909	4,593	5,280	15,782
Government Grants	827	0	0	827
Capital Receipts (RTB & Other Land Sales)	132	2,573	2,746	5,451
House-building Fund	3,621	1,071	0	4,692
Total Resources	**24,859**	**23,085**	**23,366**	**71,310**