Cabinet – 13 June 2016
Agenda Item 6a

2015/16 Provisional Finance Outturn Report

Section 1.0
Executive Summary

Summary

1.1 The Authority's audited Statement of Accounts (the Accounts) for 2015/16 will be presented to full Council for discussion and approval at the end of September 2016. The Accounts are a statutory document which set out the Authority's financial position and performance for the year in a series of formal accounts prepared according to a specific statutory and regulatory framework.

1.2 Successive changes to local government accounting practice have made the Accounts a very technical document. As in previous years, we are taking the opportunity to set out the Authority's financial performance in an outturn report. This reflects the Authority's structure and is set out on a similar basis to the financial management reports presented to Cabinet throughout the year. This report is also the end-point of the Authority's financial management process for the financial year 2015/16.

1.3 The figures contained in this report are provisional until the completion of the Accounts. In accordance with legislation the draft Accounts will be "certified" by the Chief Finance Officer by 30 June 2016 and the audited Accounts will be approved by full Council by 30 September 2016.

1.4 The net effect on General Fund revenue, after taking into account all year end transactions and transfers to and from reserves, is an under spend of £1.573m (which is 1.00% of the net revenue budget and 0.29% of the gross expenditure budget). It is proposed that this amount is transferred to the Authority's Strategic Reserve. After this final transfer, the General Fund Revenue Account will show spend on budget for 2015/16, with a closing balance on the Strategic Reserve of £15.210m. Further details are given in Section 2 in this Annex and **Appendix P.**

1.5 The Housing Revenue Account has a year-end balance of £4.388m, which represents an improvement against the budget of £1.718m. This improvement is as a result of an in year improvement against budget of £1.296m (this represents 1.86% of the gross budget) and an increase in brought forward balances of £0.422m.

1.6 School balances have reduced from £7.637m at the start of the financial year to £6.982m at 31 March 2016. Whilst some individual school balances have increased, the value of individual school deficits has increased which contributes to the reduction in overall balances.

1.7 The initial approved Investment Plan for 2015/16 was £83.752m. Variations and reprogramming of £4.230m credit were approved by Cabinet during 2015/16 to give a revised Investment Plan of £79.522m. Capital expenditure for the year was £65.995m (83.0% of the plan), a variation of £13.527m (credit). This outturn includes further reprogramming of £13.635m (credit) as shown in Section 5 and **Appendix N**.

Strategic Management of the Council's Budget

1.8 Whilst statutorily the Authority's budget and Accounts must be prepared by individual financial years, the pressures and opportunities that the Authority faces extend across several accounting periods. Decisions taken in one year will be felt in subsequent periods. One of the benefits of the Authority's regular budget monitoring process is that issues can be identified early in the year and action taken to address them. The outcomes of these actions can then inform both budget setting and final accounts preparation. Budget setting, budget management and final accounts can therefore be seen as related parts of a continuous process of financial management by the Authority. This part of the report sets out some of the key strategic issues managed by the Authority during 2015/16.

General Fund

1.9 The budget for 2015/16 was approved by full Council at its meeting of 19 February 2015. The net General Fund revenue budget was set at £156.757m, this included Creating a Brighter Future (CBF) savings of £14.158m to be achieved.

1.10 The Monitoring report up to 31 January 2016 projected a surplus of £0.322m. The final position, before the transfer to the Strategic Reserve, is a surplus of £1.573m.

Creating a Brighter Future (CBF) Programme

1.11 The budget for 2015/16 included savings of £14.158m, from the delivery of projects/actions included as part of the CBF Programme. The scale of the financial challenge for the year meant that wide ranging efficiencies and service reconfiguration were required to be implemented during 2015/16. These CBF savings have been monitored as part of the overall financial position of the Authority, and regular updates of progress shared with the Mayor and Cabinet members and also reported to Cabinet as part of the bi-monthly Financial Management reports. **Appendix Q** shows details of the final year end position.

Redundancies

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

1.13 As part of the closure of the 2015/16 accounts an additional provision of £0.243m has been set aside to meet known redundancy costs. In addition there is a requirement to increase the reserve by £1.784m to meet the estimated costs of redundancies during 2016//17.arising from the CBF programme agreed as part of the 2016/19 Budget and Financial Plan Process on 18 February 2016.

Proposals for Specific Reserves

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

1.15 **Redundancies reserve £1.784m** – An additional provision of £0.243m has been created for known redundancies at 31 March 2016. The redundancies reserve has been increased by a further £1.784m to allow for the cost of redundancies identified in the business cases developed as part of the 2016/17 Financial Planning and Budget process.

1.16 **Other reserves £0.080m** – there are also a number of smaller contributions to reserves. Details are shown in Table 1.

1.17 After consideration of the proposals included in paragraphs.1.15 and 1.16 a surplus of £1.573m remains. In the light of the changes the Authority will be required to manage as austerity measures continue, the proposal is to increase the Strategic Reserve, by £1.573m, to £15.210m. This will support the planned use of reserves included in the 2016/17 budget.

Treasury Management

1.18 The level of actual external borrowing (excluding PFI) reduced from £440.539m at 31 March 2015 to £434.752m at 31 March 2016. The level of internal funding remains high at £78.666m at 31 March 2016 (£82.280m at 31 March 2015).

Forward Planning

1.19 It is important that information within this report is taken into account as part of the financial planning process for future years. The main issues identified in 2015/16 that have ongoing implications that require consideration in forward financial planning are:

- CBF Programme – ongoing savings;
- Implications of the summer budget announcements, in particular the impact on the Housing Revenue Account 30 year Business Plan;
- Demand led pressures - in areas such as Looked after Children and Adult Social Care remain for future years; and,
- Use of Reserves.

1.20 Changes in accounting regulations mean that from 2017/18 each authority must publish its accounts by 31 May, a month earlier than is currently required. Work is underway to ensure that the Authority is able to meet the new requirements and reports have been taken to SLT and Audit Committee outlining progress to date and changes that need to be implemented to achieve this. Progress will be reported to Cabinet as part of the Financial Management reports.

Section 2.0
General Fund Income and Expenditure

2.1 This section of the report details the provisional outturn figures, as at 31 March 2016, for Services compared to budget. Table 1 below summarises the position with more detailed explanations provided in paragraphs 2.2 to 2.15. The detailed **Appendices (A - K)** set out variations by Service Area.

Table 1: 2015/16 General Fund Revenue provisional outturn summary to 31 March 2016

		Full Year Budget	Provisional Outturn	Provisional Outturn Variance March 2016	Forecast Outturn Variance Jan 2016
		£m	£m	£m	£m
Services					
Chief Executive's Office	Appendix A	0.513	0.487	-0.026	0.014
Business and Economic Development	Appendix B	1.557	1.581	0.024	0.167
Commercial and Business Redesign	Appendix C	4.501	4.584	0.083	-0.019
Corporate Strategy	Appendix D	2.193	2.112	-0.081	-0.049
Finance	Appendix E	3.573	4.444	0.871	0.413
Human Resources and Organisational Development	Appendix F	2.331	2.383	0.052	0.080
Law and Governance	Appendix G	3.200	3.048	-0.152	0.009
Health, Education, Care and Safeguarding	Appendix H	63.652	64.496	0.844	1.600
Commissioning and Investment	Appendix I	8.833	9.012	0.179	0.958
Environment, Housing and Leisure	Appendix J	30.668	29.753	-0.915	-0.592
Non-Controllable		9.328	9.328	0.000	0.000
Sub Total - Service- Approved Budget		**130.349**	**131.228**	**0.879**	**2.581**

Table 1 continued

		Full Year Budget	Provisional Outturn	Provisional Outturn Variance March 2016	Forecast Outturn Variance Jan 2016
		£m	£m	£m	£m
Corporate and Democratic Core	Appendix K	11.376	10.997	-0.379	-0.490
Corporate Accounting	Appendix K	-2.676	-7.469	-4.793	-2.846
Contingency Budget	Appendix K	0.000	0.000	0.000	0.000
Levies	Appendix K	12.556	12.556	0.000	0.000
Utilities		0.000	0.613	0.613	0.433
Non-Controllable		5.152	5.152	0.000	0.000
Sub-Total- Non Delegated budgets		**26.408**	**21.849**	**-4.559**	**-2.903**
Exceptional items					
Redundancy provision		0.000	0.243	0.243	1.580
Total exceptional items		**0.000**	**0.243**	**0.243**	**1.580**
Net pressure/(surplus) after exceptional items before transfer to reserves		**156.757**	**153.320**	**-3.437**	**1.258**
Transfers to/(from) specific reserves					
Redundancy reserve		0.000	1.784	1.784	0.000
Change reserve		0.000	0.000	0.000	-1.580
Mayors fund for activities for NTC residents		0.000	0.003	0.003	0.000
Improving the Homecare service scheme		0.000	0.068	0.068	0.000
Feasibility study works for potential capital projects		0.000	0.003	0.003	0.000
Mayoral priorities including support to voluntary sector		0.000	0.006	0.006	0.000
Total transfers to specific reserves		**0.000**	**1.864**	**1.864**	**-1.580**
Net surplus after exceptional items and transfers to reserves		**156.757**	**155.184**	**-1.573**	**-0.322**

2.2 The main variations are set out in detail below.

2.3 The **Commercial and Business Redesign** service is showing an over spend of £0.083m (January 2016 forecast, under spend of £0.019m). This comprises of an over spend on ICT supplies and services relating mainly to the provision of automated customer contacts and internet connectivity offset by vacancy savings, dividend of £0.100m received from Kier and a surplus on the Kier management fee of £0.031m.

This is detailed in **Appendix C.**

2.4 **Corporate Strategy** is showing an under spend of £0.081m (January 2016 forecast, under spend of £0.049m). This is detailed in **Appendix D.** This is comprised of an under spend in Policy, Performance and Research of £0.111m mainly as a result of restructuring the service. This is offset by over spends in Communications and Engagement, Management and Children's Participation and Advocacy.

2.5 The service area for **Finance** is showing an over spend of £0.871m (January 2016, over spend £0.413m). This is mainly due to an over spend of £0.512m on the Business Partnership CEI target and £0.371m in Revenues and Benefits. The movement on the January position comprises of bad debt provision £0.223m (previously shown in corporate items), lower Bailiffs fees income £0.203m, reduction in overpayment income £0.117m, reduced grant income of £0.126m and a subsidy movement of £0.064m.

Full details are shown in **Appendix E**

2.6 The service area for **Human Resources and Organisational Development** is showing an over spend of £0.052m (January 2016 forecast, over spend of £0.080m). This is mainly due to staffing pressures offset by savings on centralised training budgets.

Details are shown in **Appendix F.**

2.7 **Law and Governance** is showing an overall under spend of £0.152m (January 2016 forecast, over spend of £0.009m). Full details are shown at **Appendix G.** This is due to a strong performance on income within Legal Services (£0.135m) in the last two months of the year.

2.8 The **Health, Education, Care and Safeguarding** Service is showing an overall over spend of £0.844m (January 2016 forecast, over spend of £1.600m). The final year-end position and variance analysis is attached as **Appendix H** to this report.

A forecast budget pressure for Corporate Parenting and Placements has been reported throughout the year with the final position being an over spend of £2.398m. This results from significant demand led pressures leading to overspends in external placements (£1.878m), in-house fostering (£0.093m) and Care Leavers (£0.464m) offset by savings on Adoption services of £0.105m. The service is committed to containing this pressure moving forward, however the budget for Corporate parenting and placements is likely to continue to prove challenging in 2016/17.

The area of Corporate Parenting and Placements captures a spectrum of provision to meet each individual child's needs, covering adoption, foster care, our own North Tyneside residential provision and the most costly individual placements made out of borough. This area has been suffering from demand led pressure for a number of years. This is a national issue with a 13% rise across the country in numbers of Looked After Children (LAC) since 2009. Within North Tyneside there has been an increase of 45% in the same period with 89 more children currently in the service compared to 2009. The rate of LAC in North Tyneside however, remains lower than the regional average at 77.8 per 10,000 population compared to 82 across all North East authorities. The national rate is however lower, at 60 per 10,000 of population.

The table below shows the movements in numbers of LAC by type of placement. Although the overall number of LAC has fallen again in March, there has been an increase in costs since the January report due to additional external residential placements and increased staffing costs in our internal provision. In addition to increased placement costs, there has been less inter-agency fee income than forecasted (£0.058m) due to two adoptions being delayed to 2016/17.

Table 2: Movement in numbers of LAC giving rise to increased costs.

Placement Type	No. LAC at Apr 2015	No. LAC at Jan 2016	No. LAC at Mar 2016	Average Cost of Placement £m	Increase / (Decrease) in Forecast Cost since January £m
External Residential	15	23	25	£0.18	£0.07
External Fostering Placement	19	24	27	£0.04	£0.03
Internal Fostering	208	203	195	£0.02	(£0.10)
Other*	58	50	45	Various	£0.12
Total	300	300	292		£0.12

*Includes internally provided services.

There are also over spends within children's services relating to the Integrated Disability and Additional Needs Service where an income target for contributions from Health has not been achieved leaving a net over spend of £0.244m.

Within services for adults, there is an over spend within Learning Disability services. This service area ended the year with an over spend of £1.204m mainly as a result of external placement costs. The service is continuing its programme of work to ensure clients are being enabled to maximise their independence and receive the appropriate level of service to meet their needs. This service is expected to continue to be subject to demand led pressure in 2016/17.

Over spends across Health Education Care and Safeguarding have been partially offset by under spends in Older People's services and Integrated Services where robust demand management has continued to ensure that people are being supported at home in a cost effective manner.

The Public Health Service budget is ring-fenced. An overspend of £0.116m arose due to a difference between the outstanding prescription charges owing to the Clinical Commissioning Group in relation to previous years, and provision made for this on the balance sheet. This has been offset by under spends in health checks, substance misuse and smoking cessation work as a result of lower than anticipated activity, and the receipt of a Public Health Incentive Grant. Cumulative under spends of £0.255m have been carried forward into 2016/17.

2.9 **Commissioning and Investment** service is reporting an over spend of £0.179m (January 2016, over spend of £0.958m).

Over spends in this service include Trade Union costs and maternity cover relating to education £0.078m. There is continuing pressure within home to school transport budgets resulting in an over spend of £0.124m and on the Schools PFI contract overspent by £0.036m. There has also been an over spend relating to the Property portfolio of £0.153m. The property position has improved by £0.558m since the January report as a result of lower repairs and maintenance costs, increased income generation and the delivery of Capita efficiencies. The remaining over spend has been partially offset by an over recovery of income in Catering Services £0.141m and reduced net costs in Procurement of £0.104m due to higher rebate income and staff savings.

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

2.10 **Environment, Housing and Leisure** is reporting an under spend of £0.915m (January 2016 forecast, under spend of £0.592m). Since January there has been a significant improvement associated with the Transport / Fleet Account, mainly due to lower vehicle maintenance costs within the fleet service (£0.083m improvement), improvement in the Street Environment position (£0.065m) due to mild weather conditions resulting in lower salt usage across the Winter Maintenance Service, and also improvement in the in-year Street-lighting PFI position, due to additional interest payments and reduced spend (£0.076m), albeit significant additional energy costs were incurred which are dealt with centrally. The Libraries and Community Centre budget position improved by £0.088m from January. .Across the entire year the main reason for the improved position for the Service relates to the increased income achieved by the Bereavement service (£0.579m), much of which was due to the closure of Blyth Crematorium which re-opened in December 2015, and hence is not anticipated to re-occur in 2016/17.

Although there are still significant pressures remaining within services managed under the Technical Package, overall in-year the services came in not significantly over budget at £0.047m. Transport and Highways achieved a £0.129m under spend, which was a combination of significant additional income of £0.351m and reduced transport costs of £0.070m, which helped to offset over spends including Civil Enforcement which were over spent by £0.065m and a reduced Gulliksen contribution of £0.060m. Consumer Protection and Building Control were £0.111m over budget mainly due to costs associated with a Trading Standards legal case and Security Services were over budget by £0.043m due to pressure on CCTV lines of £0.030m and lower than anticipated levels of income.

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

Non Delegated Budgets

2.11 The **Corporate and Democratic Core** under spent by £0.379m as a result of lower than budgeted pension contributions.

2.12 **Corporate Accounting** under spent overall by £4.793m. The main areas included within this are:

(a) £0.711m credit due to actual Strain on the Fund payments being lower than forecast associated with the timing of actual redundancies;
(b) £0.385m credit on MRP due to reprogramming of 2014/15 capital spend;
(c) £2.934m credit on interest charges, this reflects 2014/15 reprogramming, the level of temporary borrowing currently held and the continuation of internal borrowing;
(d) £0.200m credit due to increased recharge to the transport account to cover the cost of borrowing;
(e) £0.358m increase in provision for bad debts;
(f) £0.142m credit relating to the release of Equal Pay provision no longer required;
(g) £0.100m over spend relating to Local Ownership;
(h) £0.100m over spend relating to cross cutting income;
(i) £0.088m credit as a result of additional income generated by salary sacrifice schemes;
(j) £0.139m credit relating to the under spend on the Service development Fund;
(k) £0.233m credit in respect of additional section 31 grants;
(l) £0.532m credit for a new grant in relation to the Independent Living Fund closure;
(m) £0.145m credit for property searches new burdens grant; and,
(n) £0.428m over spend relating to management savings.

Details are shown in **Appendix K.**

2.13 The following table shows the grant received from various organisations. Cabinet is requested to approve receipt of these grants. Further details are shown in **Appendix O.** Any new capital grants are reflected in **Appendix N**.

Table 3: 2015/16 Revenue Grants awarded in February and March 2016

Service	**Amount £m**
Environment, Housing and Leisure	0.028
Finance	0.024
Corporate Strategy	0.013
Total	**0.065**

2.14 The over spend on **Utility Costs** is £0.613m of which £0.324m relates to Street Lighting PFI scheme

2.15 **Exceptional items** – Table 1 shows a requirement to set aside an additional £2.027m in the 2015/16 accounts to recognise the expected costs of redundancies that form part of the restructuring of services. This cost is made up of a provision of £0.243m and contribution to reserve of £1.784m (as detailed in paragraph 1.15).

Section 3.0
Housing Revenue Account Income and Expenditure

3.1 This section of the report provides an update on the financial position for the Authority's Housing Revenue Account (HRA). The provisional year-end position and variance analysis for March 2016 is attached as **Appendix L** to this report.

3.2 On the 15 January 2015 the Cabinet approved the HRA budget for 2015/16. This included an average increase in housing rents of 2.2% in line with the Government's declared new rent policy for the next 10 years from 2014/15, based on the Consumer Prices Index (CPI) plus 1% per annum.

3.3 The HRA started the year with what was £0.422m higher than anticipated opening balances i.e. £3.732m as opposed to the budgeted figure of £3.310m, and the final in-year position was £1.296m better than budgeted.

3.4 The main significant variations against budget were:

- Reduced overall rent and service charges in-year totalling £0.081m; Increased Other Rental Income (£0.058m) due mainly to lease of part of Purley Close to Children's Services;
- Interest charges relating to HRA debt continue to be minimised by undertaking temporary borrowing at low interest rates to generate savings (£0.495m under-spend);
- Bad debt provision was under-spent by £0.090m on £0.638m in-year, so that although arrears increased significantly in-year (£0.404m), the level of write-offs was down on previous years (£0.152m), which reduced the overall in-year provision required to top up the overall provision on the HRA Balance Sheet;
- There were under-spends on Management Contingency (£0.170m) and Transitional Protection budgets (£0.085m), linked mainly to the delivery of the North Tyneside Living project;
- Depreciation was £0.495m over budget due to the impact of the non-dwelling assets charge which cannot be reversed unlike the HRA dwelling charge, increased charge offset by reducing Revenue Contributions we make to finance Capital spend (£0.437m);
- Significant under spends across a range of Management cost centres (£0.531m) reflecting a range of issues including:- increased Council Tax Void payments (£0.165m) mainly due to PFI delays; offset by - windfall income re Water Rate Income collection (£0.085m), General Office Expenses (£0.050m); Court Cost Income recovery (£0.039m); savings in energy costs relating to PFI scheme delays (£0.127m), savings in additional pension costs (£0.100m), Training Cost savings (£0.052m), Pay Award contingency unallocated (£0.036m), Postage cost saving (£0.020m), reduced IT maintenance support costs (£0.022m); various under-spends across a range of other cost centres including vacancy savings pending re-structure (£0.165m).

Treasury and Debt Management - an additional £0.479m of interest savings were achieved in-year, from a combination of some temporary borrowing at low interest rates, and the interest benefit from having additional debt set aside from extra Right to Buy (RTB) sales in 2014/15. In addition some small savings were achieved in Debt Management Expenses (DME), and discounts received from previous debt restructuring (which took place in 2006/07 and 2007/08). These savings have significantly improved the overall position on the HRA for 2015/16, and will help mitigate the considerable future challenges that will be faced by the HRA.

North Tyneside Living PFI Scheme – Overall the project includes the construction of 10 new build sites and sees a further 16 refurbished and re-modelled sites through to March 2017. There have been a range of issues across the project due to the complexity of some of the works and complications with statutory services, however, works are moving forward with the aim of completing all bar one scheme by the end of the 2016/17 financial year. 2015/16 saw the Authority receiving PFI credits totalling £7.693m, with total actual expenditure of £9.470m representing in-year total Unitary charge payments (£4.950m), contribution to PFI Reserve(£4.561m), Interest on Reserve (£0.082m), Contract Monitoring Costs (£0.086m) and Other Contributions of £0.045m. The balance on the reserve (£10.250m) acts to smooth longer-term expenditure and interest flows.

3.5 **Impact of Welfare Reform**

We continue to monitor closely the impact of the Government's Welfare Reforms which, to-date have been impacted by what became known as the "bedroom tax". This policy currently affects 2,125 tenants on Housing Benefit, of whom 1,166 are in arrears totalling £0.392m up from £0.040m from the previous year. Overall current arrears have increased by £0.268m to £1.949m. Former tenant arrears have also increased by £0.137m to £1.346m, these changes to-date have been mitigated for by the increased bad debt provision that has been made in the budget over the past few years. We will continue to monitor this position, the continued impact of the bedroom tax, and as Universal Credit (UC) starts to gather pace in its introduction, we are now starting to see a roll-out of the policy on a limited basis impacting some of our tenants in the Borough, and also from people who have moved into the area who were already on UC.

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

This fund was set up in 2012/13 as agreed by full Council, to help fund the cost of new build housing and environmental works. The opening balance on the fund was £2.788m of which £2.550m was allocated to help finance the Housing Investment Plan in 2015/16. Due to re-programming this sum has not been drawn down in year, and will be carried forward against the 2016/17 plan. In addition, a further contribution of £1.071m has been made to the fund as per 2015/16 budgets. Hence the closing balance on the HBF for 2015/16 totals £3.859m of which £3.621m is earmarked to finance the 2016/17 Investment Plan, with the balance available for future identified need.

Section 4.0
Schools Finance

4.1 Schools have concluded their 2015/16 accounts closure exercise in line with the Local Scheme for Financing schools and the Authority's closure timetable. Collective school balances in North Tyneside maintained schools reduced from £7.637m at the start of the financial year to £6.982m by 31 March 2016. This is the balance reported in the Authority's statutory accounts and is before any commitments are taken into account.

4.2 As well as school balances reducing overall, some schools continue to face significant financial challenges. During the year, the Authority and Schools Forum paid particular attention to those schools with approved deficit budgets. There were 6 schools with a deficit approval for 2015/16; Longbenton Community College, Marden High, Monkseaton High, Norham High, Seaton Burn College and St Bartholomew's Primary.

4.3 Schools Forum and senior officers worked closely with these 6 schools during the year, which contributed to improved outturn figures compared to the approved deficit budgets. Schools Forum approved the distribution of £0.100m "headroom" funding (funding set aside through de-delegation within the Dedicated Schools Grant (DSG) to assist schools in financial difficulty).
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4.4 In addition, two of the schools with deficit approval (Longbenton Community College and Monkseaton High) were eligible to receive an allocation from the Falling Rolls fund. In total five schools received a share of this fund. Wallsend Jubilee Primary, Westmoor Primary and Wellfield Middle also met the required criteria for this funding. Schools Forum agreed that only £0.200m of the £0.250m fund would be allocated in 2015/16, with the remaining £0.050m being carried forward to 2016/17.

4.5 Table 4 below shows the financial position for the six schools with approved deficit budgets, including the additional DSG support (headroom and falling rolls) allocated in the year. Draft outturn figures saw an improvement compared to the approved budget for 5 of the 6 schools. Officers continue to work with the schools to manage the deficit position moving forward.

Table 4: Schools with approved deficit budgets

School	2015/16 Approved budget £m	Additional financial allocation £m	2015/16 draft outturn £m
St Bartholomews Primary	-0.019	0	0.008
Longbenton Community College	-0.508	0.107	-0.345
Marden High	-0.268	0.013	-0.236
Monkseaton High	-0.796	0.120	-0.626
Norham High	-0.700	0.026	-0.445
Seaton Burn College	-0.169	0.008	-0.184

4.6 As in previous years, the details of these balances will be reported to the Department for Education (DfE) through the Consistent Finance reporting (CFR) return. This return will be co-ordinated by the Local Authority and submitted by the deadline in July 2016. The CFR data is then used to pre-populate part of the Section 251 return that is submitted to the DfE by the end of August 2016 and verified in September. Full details of each individual school's balance will then be reported to Cabinet.

4.7 Overall, and after allowing school allocations, the DSG in 2015/16 of £127.689m (after removing Academies) under spent by £0.642. This was mainly in relation to the profile of planned expenditure regarding early year's education, although some areas of the DSG are experiencing financial pressures. As the DSG is a ring-fenced grant, any under or overspends are carried forward into the next financial year in order to be addressed within the following year's ringfenced grant. This DSG under spend has therefore been carried forward into 2016/17.

Section 5.0
Investment Plan Expenditure and Financing

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

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

2015/16 Capital Expenditure

5.3 The initial 2015/16 Investment Plan budget was £83.752m (£54.484m General Fund and £29.268m Housing). Further variations to the Plan and reprogramming were agreed by Cabinet during the year as part of the Financial Monitoring process to give an approved plan at the year-end of £79.522m (£51.564m General Fund and £27.958m Housing). Table 5 below summarises these changes.

Table 5: 2015/16 Investment Plan – Summary of changes to budget

	£m
Investment Plan approved by Council – 19 February 2015	83.752
Reprogramming from 2014/15	17.469
Reprogramming to 2016/17 and future years	-20.986
Other variations (net)	-0.713
Revised Investment Plan approved by Cabinet – 14 March 2016	79.522

5.4 Actual capital expenditure in 2015/16 totalled £65.995m (£64.378m in 2014/15), comprising General Fund expenditure of £38.877m and £27.118m on Housing Schemes.

5.5 Not all of the expenditure relates to the creation or improvement of fixed assets for the Authority. £1.979m relates to spend on other items, with £0.869m spent on Disabled Facilities grants, £0.683m Homeloss payments and £0.181m relating to spend in respect of Trust schools.

5.6 Table 6 below compares the actual capital expenditure with the revised budget for the year, as well as the actual spend for 2014/15.

Table 6: Comparison of Capital Expenditure to Revised budget for 2015/16

Actual Capital Expenditure 2014/15 £m		Revised Capital budget 2015/16 £m	Actual Capital Expenditure 2015/16 £m	Variation from budget over (+) / under (-) £m
44.522	General Fund	51.564	38.877	-12.687
19.856	Housing	27.958	27.118	-0.840
64.378	Total	79.522	65.995	-13.527

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

5.8 Across all capital projects, further reprogramming of £13.635m has been identified and it is requested that Cabinet approve the carry forward of this amount into the 2016/16 Investment Plan. A detailed breakdown of this amount is included in **Appendix N**. It should be noted that some of this reprogramming includes the carry forward of grants where value engineering has resulted in savings on projects thus enabling savings to be used to fund new projects in 2016/17 eg Schools Capital Maintenance.

5.9 The major achievements delivered as part of the capital investment programme in 2015/16 include:

Affordable Homes New Build and Conversion Works:

5 projects completed during 2015/16, these include:

- The conversion of Victoria Terrace Customer Service Centre into 5 new affordable homes. Works were completed as planned by end of May 2015;
- The construction of 32 new affordable homes at Blandford Road, North Shields. Works were complete as planned in November 2015;
- The construction of 9 new units on the former Bude Court Sheltered site in Battlehill. Works were completed in January 2016;
- The construction of 7 x 2 bedroom homes and 2 bespoke respite units on the former Somervyl Court site in Longbenton. Work was complete in March 2016; and,
- Work is now complete on the conversion of a former ASC facility at Bamburgh Crescent, Shiremoor into 3 new affordable homes.

Housing Investment Work:

This investment programme delivers the essential improvement works required to maintain our properties at the Decent Homes Standard, delivers on tenants priorities, and forms part of our 30 year stock investment plan.

The delivery of these works will help provide quality, decent and affordable housing, and help ensure that its housing estates are well maintained to create environments that are safe and desirable places in which to live.

The following works have been delivered across the borough during 2015/16:
- 502 replacement kitchens and bathrooms;
- 595 central heating upgrades;
- 249 replacement roof coverings;
- 967 replacement fencing / boundary walls;
- 242 properties to receive external brickwork repairs;
- 12 non-traditional properties to receive external structural and insulation works; and,
- 2,701 properties receiving external redecoration.

Education Investment Works:

- Delivery and completion of 33 condition related projects across the school estate;
- Completion of the new pedestrian ramp now installed at Whitfield Drive Longbenton to provide a safe cycle route for the pupils attending St Stephen's and St Bartholomew's Primary Schools from south of the metro line;
- Completion of the Basic Need Investment works at Forest Hall Primary School; and,
- Priority Schools Building Programme (Off Balance Sheet)
  - Completion of Whitehouse Primary School new Build; and,
  - Continued delivery of the new build works at Longbenton College, John Spence and Marden High Schools.

Highways and Infrastructure Works:

- Completion of the 2015/16 LTP road resurfacing programme, footway improvement programme and additional Highway Maintenance projects;
- Completion of the LTP Integrated Transport programme including various parking, road safety and cycling schemes, e.g. new crossing on Station Road, Wallsend and Broadway cycling and walking improvements, Tynemouth;
- Four Lane Ends/A188 Corridor improvement scheme was completed in September 2015;
- A1058 Coast Road improvements – construction work on Beach Road widening commenced in early 2016 and utility diversion works were carried out at Norham Road bridge;
- Phase 1 of Central Promenade Reconstruction (demolition) was completed in October 2015; and
- a number of schemes to reduce flood risk at sites in the borough were completed in 2015/16, e.g. Wellfield culvert refurbishment.

Regeneration Works:

- HLF grant application for the Dome was successful;
- Completion of new café and toilets at Long Sands North;
- Installation of new accessible toilet at Cullercoats Bay North;
- Complete phase 1 infrastructure works including roads , dredging and quay walls as part of Swan Hunter redevelopment works;
- Wallsend Forum phase 1 new development commenced. Completion of Ritz bingo refurbishment for JD Weatherspoons; and,
- Commenced scoping for North Shields regeneration.

ICT Works:

- Corporate Unix Server refresh: new infrastructure in place to deliver performance improvements on major applications including BMS, Social Care, UNIform and Revenues, Benefits and Housing;
- Network refresh project delivered service improvements and significant revenue savings; and,
- Dell KACE purchased to provide estate wide device management and replace the Microsoft System Center Configuration Manager 2007 (SCCM), which is no longer supported.

EDRMS

- EDRMS release 5 went 'live' week commencing 14th December 2015

Capital Financing

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

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

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

5.13 The total capital expenditure of £65.995m has been financed as shown in Table 7 below.

Table 7: 2015/16 Capital Financing

	2015/16 Capital Financing £m
Authority Contribution	
Prudential (Unsupported) Borrowing – General Fund	9.051
Capital Receipts -General Fund	3.751
Capital Receipts – HRA	3.737
Direct Revenue Funding - General Fund	0.616
Direct Revenue Funding – HRA	7.908
Major Repairs Allowance	14.344
	39.407
External funding	
Specific Government Grants	12.595
European Regional Development Fund (ERDF)	5.968
Capital Grants and Contributions	8.025
	26.588
	65.995

5.14 Total Prudential borrowing for the General Fund was £9.051m.

5.15 The budget approved by Council on 19 February 2015 included an estimated use of £3.869m General Fund capital receipts. This reduced to £2.859m following variations and reprogramming reported through the Financial Monitoring process, including outturn reprogramming.

5.16 Total receipts received for General Fund was £2.909m. This balance plus the receipts brought forward of £0.842m (total £3.751m) have been used in the financing of capital spend. The forecast Prudential Borrowing for 2016/17 will be reduced by £0.892m to reflect the final capital receipts achieved for 2015/16.

5.17 For Housing, capital receipts of £6.137m were received during 2015/16, of which £1.906m were pooled and paid across to central government leaving a balance of £4.231m available for financing. This balance plus the brought forward receipts of £6.597m gave an available balance of £10.828m. Of this £3.737m was used to finance 2015/16 capital spend and £2.616m was set aside to repay debt.

5.18 Table 8 below shows the movement in capital receipts during 2015/16 including receipts received during 2015/16 (identified in paragraphs 5.16 and 5.17 above), receipts brought forward at 1 April 2015, receipts used to finance the

2015/16 Investment Plan, receipts set aside to repay debt and receipts carried forward at 31 March 2016.

Table 8: Movement in Capital Receipts during 2015/16

	Receipts brought forward 1 April 2015 £m	Net Useable Receipts received £m	Receipts used for financing £m	Receipts set aside for repayment of debt £m	Receipts carried forward 31 March 2016 £m
General Fund	0.842	2.909	-3.751	0.000	0
Housing	6.597	4.231	-3.737	-2.616	4.475
Total	7.439	7.140	-7.488	-2.616	4.475

5.19 The Authority also received £12.595m of funding through specific Government grants. These grants included:

- £3.477m Schools Capital Maintenance;
- £0.796m Schools Basic Need;
- £0.641m Schools Devolved Capital;
- £3.208m Department for Transport;
- £2.226m Homes and Communities Agency;
- £0.790m Disabled Facilities;
- £0.775m Environment Agency; and,
- £0.323m Community Capacity

5.20 Capital Grants and Contributions of £8.025m used in the year included:

- £3.599m Growing Places Fund ;
- £2.079m North East Local Enterprise Partnership (NELEP);
- £1.004m Coastal Communities Fund; and,
- £0.333m Section 106 contributions

5.21 As part of the introduction of self financing for Housing an assessment was made by DCLG in respect of the Major Repairs Allowance that would be required to finance ongoing works to Council Dwellings. There is a requirement for the Major Repairs Allowance to continue under self financing. This contribution is now financed from within the HRA (i.e. it is self financed) and so appears as part of the Authority's contribution shown in Table 7 above.

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

International Financial Reporting Standards (IFRS) adjustments to Capital Expenditure in 2015/16

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

5.24 During 2015/16 spend of £0.226m was incurred under the street lighting PFI contract. In addition, costs of £31.545m were incurred on the North Tyneside Living Housing PFI scheme.

Section 6:
Treasury Management

6.1 The Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This section of the report meets the requirements of both the CIPFA Code of Practice on Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities.

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

6.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by members.

Treasury Position as at 31 March 2016

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

6.5 The Authority's debt and investment position at the beginning and the end of 2015/16 is shown in Table 9 below:

Table 9: Treasury Management Position

	31 March 2016 Principal £m	**Rate/Return %**	**31 March 2015 Principal £m**	**Rate/Return %**
Fixed Rate Funding: -*PWLB long - term	208.850	4.69	226.650	5.67
(HRA-Self Financing)	128.193	3.49	128.193	3.49
-Market **(LOBO's)	20.000	4.35	20.000	4.35
-Temporary	77.709	0.66	65.696	0.70
Total External Debt	**434.752**		**440.539**	
Investments: **-** In-house	(14.200)	0.25	(13.900)	0.25
Total Investments	**(14.200)**		**(13.900)**	
Net Position	**420.552**		**426.639**	

*Public Works Loan Board
**Lender Option Borrower Option

Performance Measurement

6.6 One of the key requirements in the Treasury Management Code was the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide, as incorporated in Table 9 above.

The Strategy for 2015/16

6.7 The expectation for interest rates within the strategy for 2015/16 anticipated a low but rising Bank Rate, starting in quarter 1 of 2016, and gradual rises in both medium and longer term fixed borrowing rates during 2016/17. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

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

6.9 The movement in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central bank rates have been pushed back.

The Economy and Interest Rates

6.10 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to a number of concerns including China's weak economic growth; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties. These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate remained unchanged at 0.5% for the seventh successive year. Gross Domestic Product (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

6.11 The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and as a result expectations of increases in central bank rates have been pushed back. In addition, several banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

6.12 The European Central Bank (ECB) commenced a quantitative easing (QE) programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.

6.13 The economy in America has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since then there has been a return to caution of further increases due to concerns around the risks to world growth.

Borrowing Rates in 2015/16

6.14 Table 10 to this report shows the PWLB maturity borrowing rates for a selection of maturity periods, the high and low points in rates, the average rates and individual rates at the start and end of the financial year.

Table 10: PWLB Borrowing Rates 2015/16 for 1 to 50 years

	1Year %	5 Year %	10 Year %	25 Year %	50 Year %
01/04/2015	1.13	1.90	2.49	3.15	3.11
31/03/2016	1.13	1.61	2.28	3.11	2.92
LOW	1.01	1.47	2.10	2.98	2.81
DATE	11/02/16	11/02/16	11/02/16	11/02/16	11/02/16
HIGH	1.35	2.35	3.06	3.66	3.58
DATE	05/08/15	14/07/15	14/07/15	02/07/15	14/07/15
Average	1.21	2.00	2.65	3.35	3.22

Borrowing Outturn for 2015/16

6.15 Replacement of Long-term borrowing was undertaken during the year for the Housing Revenue Account (HRA) as detailed in Table 11 below

Table 11: Replacement HRA PWLB Loans 2015/16

Principal £m	Interest Rate %	Start Date	Maturity Date
6.100	2.89	30 March 2016	28 September 2033
6.100	2.94	30 March 2016	28 September 2034

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

6.17 Maturing long – term loans of £30m were repaid in 2015/16 as detailed in Table 12 below:

Table 12: Maturing Long Term Loans repaid during 2015/16

Principal £m	Interest Rate %	Date Repaid
5.000	9.75	01 April 2015
15.000	10.000	16 May 2015
5.000	10.375	4 August 2015
5.000	11.000	19 August 2015

6.18 Maturing short – term loans of £99.488 were repaid in 2015/16 as detailed in Table 13 below:

Table 13: Maturing Short Term Loans repaid during 2015/16

Principal £m	Interest Rate %	Date Repaid
4.000	0.38	20 August 2015
3.000	0.42	20 August 2015
3.170	0.65	09 October 2015
5.000	0.65	12 October 2015
5.000	0.65	02 November 2015
2.600	0.34	10 November 2015
4.000	0.35	20 November 2015
3.000	0.35	20 November 2015
2.600	0.35	23 November 2015
3.016	0.69	30 November 2015
5.000	0.70	11 December 2015
4.802	0.69	14 December 2015
5.000	0.70	15 December 2015
5.000	0.67	15 December 2015
5.000	0.70	15 December 2015
2.000	0.70	18 December 2015
5.000	0.75	21 December 2015
5.000	0.80	22 December 2015
5.000	0.75	23 December 2015
3.000	0.78	24 December 2015
4.500	0.70	25 January 2016
2.600	0.43	09 February 2016
3.000	0.45	19 February 2016
4.000	0.42	19 February 2016
2.600	0.48	23 February 2016
1.000	0.43	09 March 2016
1.600	0.48	09 March 2016

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

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

Investment Rates in 2015/16

6.21 The Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of the monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start to rise.

6.22 Table 14 below shows the money market investment rates for the year.

Table 14: Money Market Investment Rates for 2015/16.

	7 Day %	1 Month %	3 Month %	6 Month %	1 Year %
01/04/15	0.361	0.381	0.445	0.559	0.843
31/03/16	0.361	0.386	0.463	0.615	0.878
HIGH	0.372	0.389	0.468	0.635	0.959
LOW	0.349	0.377	0.441	0.557	0.842
Average	0.361	0.383	0.456	0.609	0.902

Investment Outturn for 2015/16

6.23 The Authority's investment policy is governed by Communities and Local Government (CLG) guidance, which was implemented in the annual Investment Strategy approved by the Council on 19 February 2015. The policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

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

Section 7:
Prudential Indicators

Introduction

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

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

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

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

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

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

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

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

7.8 In total there are fifteen prudential indicators, covering:

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

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

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

7.11 The following part of the report shows the actual 2015/16 Prudential Indicators at year-end compared to the estimated indicators approved by Cabinet in the September Financial Monitoring report on 9 November 2015.

Prudential Indicators for Affordability

Ratio of financing costs to net revenue stream

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

7.13 The actual figures for 2015/16 are set out in Table 15 below together with the estimated 2015/16 position at September 2015 and the 2014/15 final figure:

Table 15: Ratio of Financing Costs to Net Revenue Stream

	2014/15	2015/16	2015/16
	Actual	Estimate	Actual.
General Fund	13.76%	14.77%	14.55%
HRA	22.92%	23.21%	21.49%

7.14 The above indicator reflects costs for all borrowing, both supported and unsupported. It also includes the financing costs of PFI schemes (including the North Tyneside Living PFI scheme) and finance leases. To enhance the information available for decision-making we have also provided a local indicator to show the percentage of the budget that is spent on unsupported borrowing. This is shown in Table 16 below:

Table 16: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream

	2014/15	2015/16	2015/16
	Actual	Estimate	Actual.
General Fund	7.18%	8.20%	8.20%
HRA	4.65%	4.70%	4.74%

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

7.15 This indicator represents the incremental impact of new capital investment decisions, approved as part of 2015/16 budget setting, on the annual Council Tax (Band D) and weekly housing rents.

Table 17: Incremental impact of new 2015/16 capital investment decisions on Council Tax (Band D) and weekly housing rents

	General Fund	HRA
estimate	£2.87	£0.07
actual	£1.64	£0.07

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

Prudential Indicators for Prudence

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

Gross debt and Capital Financing Requirement (CFR)

7.18 This key indicator shows that gross debt does not exceed the total CFR at 31 March 2016.

Table 18: Gross external debt less than CFR

	2015/16 Actual
	£m
Gross External Borrowing	435.052
Other Liabilities (including PFI and Finance Leases)	110.872
Total Gross debt	545.905
Capital Financing requirement	621.578

Prudential Indicators for Capital Expenditure

Capital expenditure

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

Table 19: Capital Expenditure

	2014/15	2015/16	2015/16
	Actual £m	Estimate £m	Actual £m
General Fund	44.522	52.429	38.877
HRA	19.856	27.958	27.119
Total	64.378	80.387	65.995

Capital Financing Requirement (CFR)

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

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

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

Table 20: Capital Financing Requirement

	2014/15 Actual £m	2015/16 Estimate £m	2015/16 Actual £m
General Fund	296.568	297.026	290.338
HRA	304.756	341.335	331.240
Total	**601.324**	**638.361**	**621.578**

7.23 The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 21 below:

Table 21: Capital Financing Requirement for Unsupported Borrowing

	2014/15 Actual £m	2015/16 Esimate £m	2015/16 Actual £m
General Fund	142.455	148.830	142.176
HRA	40.016	38.396	38.396
Total	**182.471**	**187.226**	**180.572**

Prudential Indicators for External Debt

Authorised limit for total external debt

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

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

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

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

Table 22: Authorised Limit for External Debt

	2015/16 £m
Borrowing	1,070.000
Other Long Term Liabilities	150.000
Total	**1,220.000**

7.28 The Authorised Limit for External Debt was not breached during 2015/16.

Operational Boundary for total external debt

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

Table 23: Operational Boundary for External Debt

	2015/16 £m
Borrowing	535.000
Other Long Term Liabilities	130.000
Total	**665.000**

7.30 Actual borrowing remained within the Operational Boundary during 2015/16.

HRA limit on indebtedness

7.31 Under the reforms of housing finance the Government published *Limits on Indebtedness Determination 2012* which set out the maximum amount of housing debt the Authority could have outstanding at any one time. The limit for North Tyneside was £290.824m. The HRA Capital Financing Requirement excluding the North Tyneside Living PFI scheme should be within the cap set. The table below confirms that the HRA adjusted debt at 31 March 2016 is lower than the cap set.

Table 24: HRA limit on indebtedness

	2015/16	2015/16
	Estimate £m	Actual £m
Gross HRA capital financing requirement	341.335	331.240
Less HRA PFI schemes	64.849	58.170
Adjusted HRA capital financing requirement	276.486	273.070
HRA limit on indebtedness	290.824	290.824

Prudential Indicators for Treasury Management

Adoption of the CIPFA Code of Practice for Treasury Management

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

Upper limits on interest rate exposure 2015/16

7.33 Full Council set an upper limit on its fixed interest rate exposures for 2015/16 of 100% of its net outstanding principal sums. Borrowing remained within this limit during 2015/16.

7.34 Full Council set an upper limit on its variable interest rate exposures for 2015/16 of 50% of its net outstanding principal sums. Borrowing remained within this limit during 2015/16.

7.35 Upper and lower limits for the maturity structure of the Authority's borrowings were set as shown in Table 25 below. Borrowing remained within these limits during 2015/16.

Table 25: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate

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

7.36 Full Council agreed the indicator for exposure of investments in excess of 364 days at no more than 25% of the portfolio. Investments were within this limit during 2015/16.