ANNEX 1

Cabinet –2016
Agenda Item 6(a)

2016/17 Financial Management Report to 30 September 2016

Section 1.0
Executive Summary

Summary

1.1 This is the third report to Cabinet for 2016/17, setting out the Authority's financial position as at the 30 September 2016.

1.2 This report includes details of the forecast outturn position to the 31 March 2017, highlighting key strategic issues to be managed by the Authority during the year.

Strategic Management of the Council's Budget

1.3 The budget for 2016/17 was approved by full Council at its meeting of 18 February 2016. The net General Fund revenue budget was set at £153.945m, this included CBF savings (Creating a Brighter Future Programme) of £15.757m to be achieved.

1.4 The Investment Plan for 2016-19 was approved at £188.432m (£91.871m for 2016/17). Further changes have been reported through Cabinet giving a revised 2016-19 Investment Plan of £205.289m (£93.293m for 2016/17).

1.5 This is the third monitoring report for 2016/17 and reflects a prudent estimate of the forecast outturn at the end of the financial year. There has been some underlying improvement in the risks associated with the delivery of the 2016/17 budget, however, the headline pressure is only marginally improved. Highlighted below are the key issues driving the forecast pressure, which are as reported to Cabinet in July and September. This pressure continues to be driven by a number of factors the main being:

- Living Wage £2.530m (in excess of the contingency provision), this is the current estimate based on negotiations with Social Care providers and the forecast outturn assumes use of reserves to the value of £2.300m to support this in year pressure;
- Demand Pressures £3.103m (in excess of the contingency provision), this is largely as a result of high cost packages for Looked After Children and Adults with learning disability coming into the system late in 2015/16. Work is in progress to ensure that the assumptions driving the demand pressures are aligned to the actions/plans included in the Creating a Brighter future programme in order to manage down this pressure (further details are set out in section 2 paragraph 2.8);
- Efficiency savings not yet confirmed £1.298m: The scale of the financial challenge for the year meant that wide ranging efficiencies and service reconfiguration are required to be implemented during 2016/17. These savings are monitored as part of the overall financial position of the Authority so the bottom line financial position is known. It is important that these savings are only considered to be achieved once they are assessed as being realisable. There remain risks associated with some of the projects in the plan. The expectation is that the majority of the savings will be delivered as plans are in place and will be closely monitored throughout the year; and,

- Financial pressures within the North Tyneside Clinical Commissioning Group (NTCCG) are forecasted to have an impact on the position of the Authority. The NTCCG ended 2015/16 with a deficit of over £19m. The underlying causes have been identified as a combination of issues including an increased number of patients attending local hospitals and receiving care which is higher than other areas nationally, and a growing elderly population who need additional community-based care for complex health needs. The CCG has developed a financial recovery plan and aspects of this plan impact on the services delivered by the Authority. This has been evident in relation to complex clients where the Authority and the CCG jointly fund packages of care and in relation to Mental Health Aftercare services where the CCG have proposed alternatives to the historic 50/50 split of funding responsibility. The CCG have also been reviewing Intermediate Care services and funding to support the overall infrastructure of community based Mental Health services. The Authority is continuing to work closely with the CCG to ensure that services for vulnerable residents are maintained.

1.6 Actions being taken to mitigate the in-year pressure include:
- ongoing consideration of non essential spend;
- an ongoing review of all demand led projections; and,
- an ongoing review of Investment Programme delivery, including the impact on cash flow and resulting cost of borrowing arising from the reprogramming included in this report.

1.7 The Housing Revenue Account (HRA) is forecasting an under spend of £0.660m for the year.

1.8 In the period to 30 September 2016, the level of capital spend posted within the General Ledger was £24.484m, which represents 31.53% of the revised Investment Plan for the year. Indications are that the Programme is largely on track. The estimated financing of the 2016/17 Investment Plan includes capital receipts of £0.523m for the General Fund. Of this £0.166m has already been secured leaving a balance of £0.357m still to be generated over the rest of the year.

1.9 Cabinet is recommended to approve reprogramming of £15.646m and variations of £0.050m within the 2016-19 Investment Plan.

1.10 As Cabinet are aware the Authority received a dividend of £2.697m from the Airport as part of the Airport refinancing. At this stage it is proposed to hold this in a reserve until the position at year end is confirmed.

Implications for 2017/18 and Following Years

1.11 This is an important report not only because it gives the financial position for the mid-point of this financial year, but also because it forms the starting point for the financial planning process which is underway for 2017/18 and following years. As such, Cabinet needs to be aware of any implications of the report for those future years' budgets. The main issues identified in 2016/17 that will need to be considered in forward financial planning are as follows:

- Living Wage: as noted in paragraph 1.5 we seeing significant pressure with regard to Social Care budgets arising from additional costs that contracted providers are seeking from the authority;
- CBF Programme - as noted in the report (paragraphs 1.5), consideration needs to be given to the impact of any CBF saving not being achieved and actions required to secure savings into 2017/18;
- Demand led pressures - in areas such as Looked after Children and Adult Social Care ;
- The implications for this authority of the CCG's financial recovery plan, and;
- Use of Reserves – currently the 2016/17 budget includes the planned use of reserves of £2.001m. The current forecast for 2016/17 also assumes use of £2.300m to support pressures arising from the National Living Wage. Consideration also needs to be given to the potential impact of a further call on the Strategic Reserve should there be no improvement in the General Fund revenue position for this financial year.

Section 2.0
General Fund Income and Expenditure

2.1 This section of the report details the current budget pressures and the expected year-end outturn following mitigating actions taken to reduce those pressures. Table 1 summarises the position and reflects an in year pressure of £4.744m, an improvement of £0.243m compared to the pressure of £4.987m reported in July.

2.2 Budget monitoring is based on the recorded transactions as at 30 September 2016 and is set out in Table 1 below. Table 1 is supplemented by a summary commentary below, covering the key variances by Service. The detailed **Appendices (A - K)** set out variations by Service Area within the Services.

Note the format of Table 1 has been simplified in line with requirements within the Code of Practice on Local Authority Accounting for 2016/17 to improve consistency between in year reporting and the Statutory Accounts. Details of the changes are included within the relevant commentary below.

Table 1: 2016/17 General Fund Revenue Budget Forecast to 31 March 2017

		Full Year Budget	Forecast Outturn	Forecast Outturn Variance Sept 2016	Forecast Outturn Variance July 2016
		£m	£m	£m	£m
Services					
Chief Executive Office	Appendix A	0.136	0.155	0.019	0.023
Business and Economic Development	Appendix B	1.758	1.793	0.035	0.058
Commercial and Business Redesign	Appendix C	1.892	2.015	0.123	0.199
Corporate Strategy	Appendix D	0.942	0.983	0.041	0.073
Finance	Appendix E	0.043	-1.576	-1.619	-1.045
Human Resources and Organisational Development	Appendix F	0.931	1.087	0.156	0.174
Law and Governance	Appendix G	0.248	0.344	0.096	0.117
Health, Education, Care and Safeguarding	Appendix H	67.030	74.042	7.012	6.453
Commissioning and Investment	Appendix I	18.122	18.568	0.446	0.499
Environment, Housing and Leisure	Appendix J	46.239	47.001	0.762	0.755
Corporate and Democratic Core	Appendix K	16.604	16.577	-0.027	-0.019
Sub Total - Service- Approved Budget		**153.945**	**160.989**	**7.044**	**7.287**

Table 1 continued

		Full Year Budget	Forecast Outturn	Forecast Outturn Variance Sept 2016	Forecast Outturn Variance July 2016
		£m	£m	£m	£m
Transfer from Specific Reserves					
Total transfer from reserves		**0.000**	**-2.300**	**-2.300**	**-2.300**
Net forecast pressure/(surplus) after exceptional items		**153.945**	**158.689**	**4.744**	**4.987**

Services

2.3 The main variations are set out in detail below.

2.4 **Commercial and Business Redesign** has a forecast pressure of £0.123m. This is due to supplies and services costs within ICT mainly relating to the delivery of automated customer contacts and internet connectivity. There are also minor staffing cost pressures due to salary protection. There has been an improvement of £0.076m since the July report mainly as a result of commercial discussions in relation to ICT costs which are included within the ENGIE contract. The full analysis is included as **Appendix C.**

2.5 There has been a change in the way the **Finance** Service is reported. In the report to Cabinet on the July position, budgets relating to Corporate Accounting, the unapplied Contingency and Levies were shown as non-delegated items. These budgets have now been included within the Finance Service. Comparative variances for July 2016 have been restated. This has resulted in an under spend of £1.619m which is an improvement of £0.574m from the July position. The improvement is primarily due to further savings in interest payments of £0.500m.

The under spend is due to a combination of factors outlined below;

(a) A forecast saving in Minimum Revenue Provision (MRP) of £0.769m primarily as a result of re-programming during 2015/16;
(b) An anticipated saving of £3.238m in relation to interest charges reflecting 2015/16 reprogramming, the level of temporary borrowing currently held and the continuation of internal borrowing;
(c) £0.400m pressure relating to provision for bad debts;
(d) £1.940m pressure arising mainly with regard to a prudent view that the savings from the Customer Journey project will not be achieved in full during 2016/17. The project is moving forward however further work is required to confirm the level of savings that will be achieved during 2016/17;

(e) The uncommitted contingency budget of £0.702m is shown as an under spend;
(f) The unresolved CEI target from 2014/15 for additional Business Partnership savings of £0.531m. Work continues to agree and develop target savings;
(g) pressure within Revenues and Benefits of £0.149m as a result of an assumed bad debt provision. This has improved since the reported position in July of £0.290m due to a movement in the recovery of overpaid benefits; and,
(h) As part of the recent Airport re-financing the authority received a dividend of £2.697m. This has been transferred to the Strategic Reserve and will be held there until the year end when the position of the General Fund revenue account is finalised.

Further details are shown in **Appendix E.**

2.6 There is a pressure of £0.156m within **Human Resources and Organisational Development**. This results from costs of staff transferred back from ENGIE in 2015/16, vacancy factor and temporary posts supporting transformation projects. This pressure has been partially offset by maternity leave savings. Further details are shown in **Appendix F.**

2.7 The **Law and Governance** Service is showing a pressure of £0.096m arising from the retention of the courier service in addition to staffing pressures in Information Governance. These pressures have been partially mitigated by a reduced forecast in relation to the Coroners service and the Registrars service. Further detail is shown in **Appendix G.**

2.8 The most significant area of pressure across the Council is within **Health, Education, Care and Safeguarding** which is reporting a forecast over spend of £7.012m which has increased by £0.559m from the reported position of £6.453m in July. In addition to its normal complex budget management, the team have been required to deal with a combination of demand led pressures, cost increases resulting from the National Living Wage and reduced income from the NHS largely as a result of the ongoing deficit position of the North Tyneside Clinical Commissioning Group (NTCCG). A full breakdown of this pressure is shown in **Appendix H**

Services for adults with a Learning Disability or Mental Health need are showing a pressure of £3.860m in 2016/17. This area has been subject to historic demand led pressure and is forecasting new external placement costs totalling £1.7m across 2015/16 and 2016/17. This growth arises as a result of transition cases but is also partly due to clients discharged from long stay hospitals under the Winterbourne guidelines. A contingency budget of £1.000m has been applied to offset this demand related pressure. There are additional cost pressures of £1.900m anticipated as a result of care fee increases brought about by the new National Living Wage which came into effect in April 2016. A contingency budget of £0.500m has been applied to mitigate the impact of the National Living Wage increases. It has been assumed at this stage that the remaining £1.400m pressure relating to the National Living Wage will be met in-year by a transfer from reserves.

This Service Area is planning to deliver savings of £2.450m in 2016/17. Significant progress is being made to deliver against planned milestones and, it is anticipated all savings will be delivered in-year.

The Service is urgently reviewing all aspects of service delivery to identify areas where further savings can be delivered. Staff have been released from other duties to review individual clients to ensure needs are being met appropriately and in the most cost effective manner.

There continues to be a significant pressure of £1.796m in the area of Corporate Parenting and Placements. This Service Area captures a spectrum of provision to meet each individual child's needs, ranging from adoption, foster care, our own North Tyneside residential provision to the most costly individual placements made out of borough.

The pressure of £1.796m is after applying a contingency budget of £2.000m. Savings targets of £0.886m have been applied to this Service Area. The Service is working hard to realise these savings and it is assumed that savings will be delivered in full.

The overall number of Looked After Children (LAC) has reduced significantly compared to April 2015 however the number of external residential placements has increased significantly since the beginning of the last financial year. These are the mostly costly placements with average fees of £0.167m per annum. The Service has been continually reviewing these placements and has been working hard to reduce costs and find suitable alternatives however, many children are at critical stages in their education and it is not appropriate to disrupt settled arrangements.

A reduction in Internal Fostering placements has been offset by an increase in more costly external arrangements.

There is a pressure of £0.135m reported in relation to Special Guardianship Orders. Children accommodated under a Special Guardianship Order are not classed as looked after, but the Special Guardians may be entitled to an allowance payable by the Local Authority. There are currently 92 special Guardians receiving financial support. This has seen a significant increase in recent years, with only 61 Special Guardians in receipt of allowances in June 2013. This equates to a 51% increase in the number of Special Guardians, and an increase in annual cost to the Local Authority of £0.158m, with no corresponding increase in budget.

Table 2 below provides more detail on the movements in numbers of LAC and the associated costs;

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

Placement Type	No of LAC at Apr 2015	No of LAC at Jul 2016	No of LAC at Sep 2016	Average Cost of Placement £m	Pressure at Jul 2016 £m	Pressure at Sep 2016 £m
External Residential	15	22	20	£0.167	£2.205	£2.599
External Fostering	19	26	27	£0.041	£0.471	£0.525
Internal Fostering	208	194	187	£0.016	£0.283	£0.204

Supported Residence	16	10	13	£0.071	£0.486	£0.320
Other *	42	34	32	Various	(£0.086)	(£0.086)
Total LAC	**300**	**286**	**279**		**£3.359**	**£3.562**
Leaving Care Post 18	60	52	54	Various	£0.460	£0.388
Special Guardianship Orders	71	85	92	Various	£0.118	£0.135
Contingencies					(£2.000)	(£2.000)
Assumed savings					(£0.473)	(£0.473)
Net					**£1.464**	**£1.612**

*Other includes Placed for Adoption, Placed with Parents/Parental Responsibility and NTC Children's Homes.

The overall pressure of £1.796m, in addition to the placement overspend of £1.612m outlined above, includes a payment of £0.182m to support the Child and Adolescent Mental Health Service (CAMHS). The Council has served notice to end this contribution in 2017/18.

Services for older people and younger adults with a physical disability are showing a pressure of £1.410m. This is a rise of £0.670m from the reported variance in July of £0.740m. This Service Area has been subject to significant care fee increases as a result of the National Living Wage with estimated additional costs of £1.630m. A contingency budget of £0.500m has been applied to partially mitigate the impact of the National Living Wage increases. It is anticipated that pressure of £0.900m resulting from the National Living Wage will be met in-year by a transfer from reserves. There has also been a reduced forecast for NHS income supporting these clients of £0.382m as the NTCCG implements its recovery plan. Pressures are partially offset by effective demand management continuing into 2016/17 with older people being supported to remain at home where possible.

This Service Area is planning to deliver savings of £1.175m however there is concern about delivery of an income target of £0.900m in relation to the management of Continuing Healthcare on behalf of the CCG and it is now considered prudent to forecast this saving as unachieved. Slippage of £0.300m in relation to this target was reported in July and the change in forecast around the remaining £0.600m is the main reason for the movement in the position of this Service Area.

There are also pressures within the following service areas:-

- Services for Children with Disabilities or Additional Needs are showing a pressure of £0.290m comprised of a shortfall against Health contribution income targets in relation to children with disabilities of £0.200m, pressures relating to staffing and a shortfall in other income of £0.090m;
- Employment and Skills is showing a pressure of £0.209m due to a shortfall of grant income to meet historic targets for contributions to service overheads amounting to £0.164m in addition to staffing

pressures. Options are currently being explored around the renegotiations of service level agreements with schools and the Service Area has been successful in agreeing additional income of £0.084m from the Learning Trust. A review is in progress to establish the appropriate staffing structure to deliver agreed service levels.

- Integrated Services is showing a pressure of £0.093m. There are pressures within Loan Equipment and Adaptations totalling £0.470m and reduced NHS income of £0.100m as a result of the NTCCG implementing its Financial Recovery Plan. Pressures are largely offset by staffing savings across the service. There has been an improvement of £0.110m since the July report as a result of an agreement with the CCG to implement commissioning changes to Intermediate Care over an extended time period.

2.9 The **Commissioning and Investment** Service is reporting a forecast pressure this year of £0.446m.

Facilities and Fair Access is showing a pressure of £0.199m and now includes the Cleaning Service which has transferred from Property with a pressure of £0.080m. Home to School Transport is showing a pressure of £0.119m. Staff are working to restructure routes to reduce costs in addition to exploring alternative ways to deliver these services.

Property related pressures have reduced to £0.146m from an over spend of £0.277m in the previous report as a result of the transfer of Cleaning Services in addition to increased income from the Killingworth site. Remaining pressures are linked to operational buildings (rentals) with a smaller element linked to the Commercial Estate. The Council is currently in negotiation with Capita to determine how these risks will be managed moving forwards.

There is also a remaining savings target of £0.045m in the Commissioning service which is not certain of being achieved and a pressure of £0.042m in Procurement.

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

2.10 **Environment, Housing and Leisure** is reporting a pressure of £0.762m. The simplification of reporting has resulted in energy and rates variances being included within each Service's position. Previously these variances were shown corporately. The restated position in July for this Service was a pressure £0.755m including energy and rates.

There is pressure within Street-lighting of £0.701m. This is due to energy costs of £0.472m in addition to amounts currently in dispute with the PFI provider and inflationary increases built into the contract.

There are pressures totalling £0.350m relating to libraries and community centres where energy and rates costs, cleaning costs, shortfalls against rental income and Libraries ICT costs are the main concerns. The Service is actively reviewing its supplies and services expenditure plans to identify where any discretionary spend can be reduced. In addition, a review of vacancies is being undertaken to establish if recruitment can be delayed to reduce forecasted costs whilst maintaining service delivery.

There are pressures totalling £0.127m within Arts, Tourism and Heritage services, mainly reflecting lower than anticipated ticket sales income from the Mouth of the Tyne Festival. Sport and Leisure is showing an over spend of £0.131m due to energy and rates costs. Planning and Security and Community Safety are showing pressures of £0.160m and £0.156m respectively due mainly to shortfalls in income.

Pressures are offset by under spends within Fleet (£0.512m), Transport and Highways (£0.123m), Street Environment (£0.121m), and Bereavement (£0.078m).

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

2.11 The following table sets out a summary of revenue grants, which Cabinet are requested to approve, that have been awarded during August and September 2016. The details of these grant changes are set out in **Appendix O.** Any new capital grants are included in the capital variations (Tables 4 and 5) of this report.

Table 3: 2016/17 Revenue Grants awarded during August and September 2016

Service	Amount £m
General Fund Housing	0.222
Total	0.222

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 forecast year-end position and variance analysis for September 2016 is attached as **Appendix L** to this report.

3.2 On the 14 January 2016 Cabinet approved the HRA budget for 2016/17. This included a reduction in housing rents of 1%, in line with the Government's requirements contained in the Welfare Reform and Work Act 2016, that Local Authorities should reduce their rents by 1% per annum for the next four years. This replaces the previous policy introduced for 2015/16 which was to base the rent increase on the Consumer Prices Index (CPI) for the next 10 years.

3.3 The HRA started the year with opening balances £0.787m higher than anticipated i.e. £4.388m as opposed to the budgeted figure of £3.601m, and the in-year position is now forecast to be £0.660m better than budgeted.

3.4 The main forecast variations against budget are an overachievement in relation to rent and service charge income projections (£0.296m), which has been enhanced by increased commercial and other rental income (£0.014m), significant savings from continuation of the policy around debt, i.e. to borrow short-term and re-finance long-term as late in the year as possible to realise in-year savings (£0.400m), this is partially offset by increased management costs (£0.114m), linked mainly to the North Tyneside Living PFI scheme where project delivery has led to higher than anticipated levels of Council Tax Void charges, and anticipated savings from contingency, bad debt provision and transitional protection budgets (£0.070m).

Rent and Service Charge Income – overall projecting £0.296m better than budget, mainly due to Service Charge income – still forecasting strong performance mainly around furniture packs (£0.168m). In addition rental income from council dwellings (£0.100m) and temporary accommodation (£0.028m) is also forecast better to outperform budget assumptions. This performance will need to continue to be closely monitored pending proposed changes to benefits proposed by Government under recent legislation. Garage rent income appears to be performing slightly below budget (£0.002m) following rebasing as part of the budget.

Capital Financing Charges – Consistent with the wider Authority position, we are continuing to pursue the policy of taking advantage of the current low trends in interest rates when looking at Treasury Management issues within the HRA. Hence, upon maturity, loans needing re-financing are taken out short-term, with a view to longer-term refinancing being undertaken as late in the financial year as possible. In addition, due to the additional debt set aside realised in 2015/16 as a result of RTB sales, when added to budgeted debt set aside means that the first loan maturing in-year (HRA share £5.700m) will not need re-financing at all, saving the HRA over £0.100m per annum. It is estimated that the combination of these approaches will save the HRA at least £0.400m in interest charges in 2016/17, but this may change depending on movements in interest rates over the course of the year.

Management Costs – forecast variance of a £0.114m overspend due mainly to an increase in the anticipated level of in-year Council Tax Void payments because of the revised delivery programme for the North Tyneside Living PFI project, this when added to a range of small under and over-spends across other budget heads leads to the projected overspend.

Section 4.0
Schools Finance

2016/17 School budgets

4.1 Budget monitoring is being conducted with all schools during September and October with particular attention being focussed on the eight schools with deficit approval for 2016/17 budgets.

4.2 As part of the deficit approval process, additional governance arrangements and monitoring meetings have been put in place with the relevant schools. School Improvement, HR and Finance officers meet with Head Teachers and Governing Body representatives to monitor the specific requirements of each individual school's deficit approval. This will include a further review of Monkseaton High and Norham High Schools, who were previously issued with provisional deficit approvals, so that updated final deficit letters can be issued.

4.3 The current forecast position indicates that all schools in North Tyneside are broadly performing in line with their original budget plans, with all areas of potential concern being investigated fully by the Finance team.

4.4 Further detail on the deficit position in North Tyneside Schools and the process for setting the 2017/18 Dedicated Schools Grant funding formula will be set out in a subsequent report to be brought to this meeting.

Section 5.0
Investment Plan Expenditure and Financing

Review of Investment Plan - Position Statement

5.1 The Authority's Investment Plan represents the capital investment in projects across all service areas.

Investment Plan Delivery

5.2 Some of the key highlights of the Investment Plan due to be delivered during 2016/17 are summarised below:

Affordable Homes New Build and Conversion Works:

There are currently 3 projects that will complete during 2016/17, these include:

- The demolition of Alexandra Street and the former Police Station to construct 41 new units in Wallsend Town Centre. All work was completed in June 2016 (phased completion);
- The conversion of Bedford Avenue Shops into 5 new affordable homes. Work commenced in February 2016 and will complete in October 2016; and,
- The conversion of a former respite facility at West Farm Road, Howdon to a facility that can be used for vulnerable clients. This is being developed in conjunction with ASC and will include 24 hour supported living care provision for 4 clients. Work will commence in October 2016 and complete in December 2016.

In addition to these projects there will be a number of other schemes progressed through the design, planning and procurement process with some physical starts on site during 2016/17 that will subsequently complete in future financial years.

Housing Investment Work:

The Housing Capital delivery programme will see the following works delivered across the borough during 2016/17:

- Kitchens and bathrooms to 566 homes;
- Heating upgrades to 800 homes;
- Boundary improvements to 714 homes;
- External refurbishment to 1,869 homes;
- Roof replacements to 336 homes;
- External works to 210 homes; and,
- Insulation / Structural works to 119 Non-traditional homes

Education Investment Works:

- Delivery of an initial 28 priority condition related projects across the school estate; and,
- Priority Schools Building Programme (Off Balance Sheet):

- Completion of all external works for the new build Whitehouse Primary School and associated demolition of the former school building;
- The new build projects for both Longbenton and Marden High Schools were completed at the end of August 2016. Works will now commence on the external works and demolition of the ‘old’ school buildings;
- The new build project for John Spence High School continues to progress with a planned completed and handover date of early November 2016; and,
- Finalise solution and establish timescales for development works at Cullercoats Primary School. A meeting has now been held with the Education Funding Agency (July 2016) to further review and discuss the design solution for this project. It is expected that the Council will receive a formal decision on the final investment arrangements by January 2017. It is indicated that the procurement would follow with a view to commencing construction in October 2017.

Highways and Infrastructure Works

- Ongoing delivery of the Local Transport Plan resurfacing programme and additional Highway Maintenance projects;
- A1058 Coast Road Improvements – completion of Phase 1 (Beach Road widening) and commencement of Phase 2 (signalisation of Billy Mill roundabout) and Phase 3 (reconstruction of Norham Road bridge);
- Completion of redesign and new planning application for Phase 2 of Central Promenade Reconstruction Scheme following a value for money exercise:
- Completion of the A191 Tyne View Park major highways scheme;
- Construction of the A1056 Weetslade / Indigo Park major highways scheme from May 2016; and,
- Construction of major drainage improvements at Monkseaton and Shiremoor.

Regeneration Works

- Commence work on Spanish City Dome; the permission to start from HLF was granted in September. An enabling works package was already underway on site, demolition of extensions and the westerly wing is due to begin shortly and development of the hotel has commenced;
- Commencement of public realm work on Northern Promenade;
- Completion of phase 2 of dredging at Swans;
- Infrastructure works completed and further refurbishment of the Swans Quay;
- Commencement of work on one or more of the development plots on Swans; and,
- Facilitate development solution for Tyne Brand site at the Fish Quay

ICT Works

BDUK (broadband)

- BT have now provided initial High Level delivery plan;
- 85 BT cabinets in scope affecting 9,000 premises, of which 62 are included in phase 1 taking place July to December 2016; and,

- Updated forecast is that by the end of the roll out (2017/18), NTC will have 100% superfast broadband coverage. This will be the best in the North East Region.

Variations to the 2016-19 Investment Plan

5.3 As part of the regular capital monitoring process during August and September 2016 there has been £0.050m variations (£0.050m in 2017/18) and reprogramming of £15.646m reported.

Table 4 details the changes to the approved 3-year Investment Plan, as agreed at Council on 18 February 2016.

Table 4: 2016 - 19 Investment Plan changes identified

	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
Approved Investment Plan – Council 18 February 2016	**91.871**	**56.027**	**40.534**	**188.432**
Previously Approved Reprogramming/Variations				
Cabinet 13 June 2016	13.634	0	0	13.634
Cabinet 11 July 2016	(3.049)	1.208	2.199	0.358
Cabinet 12 September 2016	(9.163)	12.726	(0.698)	2.865
Approved Investment Plan – Cabinet 12 September 2016	**93.293**	**69.961**	**42.035**	**205.289**
August/September Reprogramming	(15.646)	15.646	0	0
August/September Variations	0	0.050	0	0.050
Revised Investment Plan	**77.647**	**85.657**	**42.035**	**205.339**

5.4 The variations on the individual schemes are shown in **Appendix M. Appendix N** details the whole of the revised Investment Plan, taking into account the reported changes.

Details of changes to the 2016-19 Investment Plan

5.5 Total variations to the end of September 2016 of £0.050m have been identified. The details of the changes are shown below:

(a) **EV054 Central Promenade Reconstruction £0.050m (2017/18)** – Redesign works have now been completed which have resulted in a substantial reduction from the previous estimated cost (as outlined in the report to Cabinet on 12 September 2016). An allocation of £0.662m is required from Contingencies to complete the project. This allocation includes provision for the reinstatement of the balustrades and footway enhancements. Additional funding of £0.050m has been agreed by

Northumbria Water Limited (giving a total NWL contribution to the project of £0.900m); and,

(b) **HS049 Northumberland Square £0.220m credit** – A request is being made for a virement of £0.220m from this budget to fund initial development and planning work on the Avenue and Whisky Bends (DV063 Coastal Properties). In addition, there is reprogramming of £0.500m reported as the works are expected to start early in the new financial year; and,

(c) **GEN03 Contingencies £0.622m (2017/18)** – an allocation of £0.662m from contingencies in 2017/18 has been agreed to fund EV054 Central Promenade Reconstruction (see 5.5(a) above).

5.6 Reprogramming of £15.646m has been identified. The details of the main changes are shown below:

(a) **HS044 HRA New Build, £2.487m** – Due to a revised delivery profile across a number of schemes there is a requirement to reprogramme £2.487m of budget into 2017/18. This includes £0.225m at Chapelville, £0.882m at Dudley and Weetslade, £0.380m at Perth Gardens along with £1.000m that was in the original plan to deliver affordable homes at the Meadowell Centre that is no longer required due to the sale of the premises;

(b) **HS049 Northumberland Square, £0.500m** – As well as the virement request referred to in section 5.5(b) above, there is also reprogramming of £0.500m reported. Work continues to develop a design and cost plan for the rear of the site. This has resulted in a start on site date of 2017/18;

(c) **EV076 Depot Rationalisation, £0.450m** – Briefing sessions to discuss project delivery and options have been delivered. It is anticipated the asbestos remediation works at the Killingworth site will not be completed until 2017/18;

(d) **CO064 Community Capacity (Adult Social Care), £1.000m** - The tender for the implementation of the systems has been awarded. The contractual situation, implementation plan and payment milestones will be agreed in October. Therefore, is anticipated that the scheme will continue into 2017/18;

(e) **GEN03 Contingencies, £0.971m** -This includes £0.662m to be allocated to the Central Promenade Reconstruction scheme, to be used in 2017/18, as outlined in paragraph 5.5 above;

(f) **DV054 Coastal Regeneration, £4.500m** – Due to the late receipt of the permission to start from Heritage lottery and on the timing of receiving tender prices back, there is a requirement to reprogramme this project;

(g) **EV054 Central Promenade, £0.688m** – Due to the redesign of the scheme works are now due to be completed in 2017/18;

(h) **EV034 Local Transport Plan, £0.650m** – Delays in works to the Wallsend Road Bridge scheme has resulted in reprogramming of £0.650m;

(i) **Citizen Interaction and Self Service, £1.400m** – Reprogramming due to expected delivery timeframe; and,

(j) **DV058 Swan Hunters Regeneration, £3.000m** – Following further investigative work the anticipated cost to in-fill the Wet Berth is higher than originally planned for. In light of this and further consideration of the key outcomes of this programme a request is being made to the funding provider to make alternative use of the funding. The budget has been reprogrammed pending the outcome of the discussions.

Details of all the variations and reprogramming are shown in **Appendix M**

5.7 The impact of these changes on Capital Financing is shown in Table 5 below.

Table 5: Impact of variations on Capital financing

	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
Approved Investment Plan – Cabinet 12 September 2016	**93.293**	**69.961**	**42.035**	**205.289**
Council Contribution	(7.339)	7.339	0	0
Grants and Contributions	(5.820)	5.870	0	0.050
Reserves – House Building Fund	(2.487)	2.487	0	0
Total Financing Variations	**(15.646)**	**15.696**	**0**	**0.050**
Revised Investment Plan	**77.647**	**85.657**	**42.035**	**205.339**

Capital Receipts – General Fund

5.8 There were no General Fund Capital Receipts brought forward at 1 April 2016. All receipts received in 2015/16 were applied to finance capital expenditure. This included additional receipts received of £0.892m that were over and above the revised figure for receipts required during 2015/16. This effectively meant that unsupported borrowing could be deferred until 2016/17 as the extra receipts were, temporarily, used in its place.

5.9 The capital receipts requirement for 2016/17 approved by Council on 18 February 2016 was £1.415m (£1.795m for 2016-19). This has been reduced by £0.892m receipts received in 2015/16, described in paragraph 5.8 above, to give a revised capital receipts requirement for 2016/17 of £0.523m.

5.10 To date, £0.166m receipts have been received in 2016/17. This leaves a balance of receipts to be generated for the General Fund of £0.357m as shown in table 6 below. No receipts have been received during August and September.

Table 6: Capital Receipt Requirement – General Fund

	General Fund 2016/17 £m
Requirement reported to 18 February 2016 Council	1.415
Variation to reflect additional receipts received in 2015/16	(0.892)
Revised Requirement	**0.523**
Useable Receipts Brought Forward	0
Useable Receipts Received	(0.166)
Balance to be generated	**0.357**

Capital receipts – Housing

5.11 Housing Capital Receipts brought forward at 1 April 2016 were £4.475m. The Housing receipts are committed against projects included in the 2016-19 Investment Plan.

5.12 The approved Capital Receipt requirement for 2016/17 was £0.132m. This, together with the reprogramming reported to 13 June 2016 Cabinet gives a requirement of £1.004m. To date, £2.569m receipts have been received in 2016/17 of which £0.473m has been be pooled as part of the quarterly returns to Central Government. In total, subject to future pooling, this leaves a surplus balance of £5.567m to be carried forward to fund future years.

Table 7: Capital Receipt Requirement 2016/17 - Housing

	Housing £m
Current Requirement	1.004
Receipts Brought Forward	(4.475)
Receipts Received	(2.569)
Receipts Pooled to Central Government	0.473
Surplus Balance to fund future years (subject to further pooling)	**(5.567)**

5.13 The final figure for useable receipts and pooled receipts in year will depend on the final number of Right to Buy properties sold during 2016/17.

Investment Plan Monitoring Position to 30 September 2016

5.14 Actual expenditure in the General Ledger was £24.484m (31.53%) of the total revised Investment Plan as at 30 September 2016.

Table 8: 2016/17 Total Investment Plan Budget and Expenditure to 30 September 2016

	2016/17 Revised Investment Plan £m	Actual Spend to 30 September 2016 £m	Spend as % of Total Revised Capital Budget %
General Fund	54.379	16.820	30.93
Housing	23.268	7.664	32.94
TOTAL	**77.647**	**24.484**	**31.53**

Section 6.0
Treasury Management

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-Year Review Report 2016/17

6.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by the Council on 1 March 2012. The Code stipulates that the Chief Finance Officer should set out in advance the Treasury Management Strategy for the forthcoming financial year, and subsequently report the treasury management activities during that year.

6.2 The primary 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 This section of the document contains the required mid-year review report for 2016/17.

6.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first six months of 2016/17;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17;
- A review of the Authority's investment portfolio for 2016/17;
- A review of the Authority's borrowing strategy for 2016/17; and,
- A review of compliance with Treasury and Prudential Limits for 2016/17 (detailed in Section 7 paragraphs 7.32 to 7.36).

Economic Performance and Outlook

United Kingdom (UK)

6.5 Gross Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% in quarter 1 of 2016 before bouncing back again to +0.7% in quarter 2. During most of 2015, exporters encountered difficulties from the appreciation during the year of sterling against the Euro, and weak growth in the European Union, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate stock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid "flat lining", growth will be weak through the second half of 2016 and in 2017.

6.6 The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing of growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the European Union (EU) single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Philip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

6.7 The Inflation Report includes a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. Consumer Price Index (CPI) has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year. In addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the Monetary Policy Committee (MPC) is expected to look through a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of increasing core inflationary price pressures within the UK economy.

United States of America (USA)

6.8 The American economy performance in 2015 was variable with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The US Federal Reserve (Fed) embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, subsequent news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

Eurozone (EZ)

6.9 In the Eurozone, the European Central Bank (ECB) commenced in March 2015 its €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60 billion per month, this was intended to run initially to September 2016 but was extended to March 2017 at its December meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.5% to zero. At its March 2016 meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 of 2016 but slowed to +0.3% in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in their economies and economic growth.

China and Japan

6.10 Japan is causing considerable concern with suppressed growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakened and medium term risks have been increasing.

Interest Rate Forecasts

6.11 Capita Asset Services, the Authority's treasury advisors, have provided their current Interest Rate Forecast, which is detailed in **Table 9** below:

Table 9: Interest Rate Forecast

	Dec 2016 (%)	Mar 2017 (%)	Jun 2017 (%)	Sep 2017 (%)	Dec 2017 (%)	Mar 2018 (%)	Jun 2018 (%)	Sep 2018 (%)	Dec 2018 (%)
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
5yr PWLB*	1.00	1.00	1.10	1.10	1.10	1.10	1.20	1.20	1.20
10yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70
25yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50
50yr PWLB	2.10	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.30

*Public Works Loan Board (PWLB)

6.12 Capita Asset Services undertook a quarterly review of its interest rate forecasts after the Monetary Policy Committee (MPC) meeting of 4th August 2016 cut the Bank Rate to 0.25% and gave forward guidance that it expected to cut the Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increases to 0.50% until a year later. Mark Carney (Governor of the Bank of England) has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

6.13 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. Capita Asset Services PWLB rate forecasts are based on the Certainty Rate which has been accessible to most authorities since 1st November 2012.

6.14 The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reform, fiscal policy and investment expenditure;
- Weak capitalisation of some European banks;
- A resurgence of the Eurozone sovereign debt crisis;
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows;
- Emerging country economies, currencies and corporate destabilised by falling commodity prices and / or Fed. Rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than we currently anticipate; and,
- Weak growth or recession in the UK's main trading partners – the EU and USA.

6.15 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:-

- The pace and timing of increases in the Fed. Funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities; and,
- UK inflation returning to significant higher levels than in the wider EU and USA, causing an increase in the inflation premium inherent to gilt yields.

Treasury Management Strategy Statement and Annual Investment Strategy update

6.16 The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by Council on 18 February 2016. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Authority's investment priorities as follows:

- Security of capital; and,
- Liquidity

6.17 The Authority will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term.

6.18 A breakdown of the Authority's investment portfolio at 30 September 2016 is shown in Section 6.24 of this report.

6.19 Investments and borrowing during the first six months of the year have been in line with the strategy, and there have been no deviations from the strategy.

6.20 As outlined in Section 6.13 above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 18 February 2016 is still fit for purpose in the current economic climate.

Investment Portfolio 2016/17

6.21 In accordance with the Code, it is the Authority's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Authority's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate. The continuing potential for a re-emergence of an EZ sovereign debt crisis together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

6.22 The Authority's counterparty list details the approved banks that the Authority may lend to either directly or through the Money Markets, on a temporary basis. Due to the downturn in the global economy, many financial institutions have been removed from the counterparty list. A continuous review of the Authority's counterparty list is undertaken.

6.23 The Authority currently uses the Government's Debt Management and Deposit Facility (DMADF) for investments, the maximum rate available from the facility is currently 0.15%. This situation of maintaining shorter term, high quality investments will continue until sufficient strength has returned to banks globally and that there are signs of significantly renewed strength in the UK and global economy.

6.24 Investments held as at 30 September 2016 are summarised in **Table 10** below:

Table 10: Investments 2016/17

Investments	**30 Sept 2016 £m**	**Average Rate of Return %**
Debt Management Office Deposit	11.650	0.15

6.25 The Head of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2016/17.

Borrowing

6.26 The Authority's estimated Capital Financing Requirement (CFR) to 31 March 2017 is £652.194m (including Private Finance Initiative (PFI) and Finance Leases). The CFR denotes the Authority's underlying need to borrow for capital purposes. If the CFR is positive the Authority may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

6.27 Total external debt at 30 September 2016 was £530.049m as shown in **Table 11**below.

Table 11: Total external debt at 30 September 2016

Principal £m	
	External borrowing
312.043	Public Works Loans Board (PWLB)
20.000	Lender Option Borrower Option (LOBO)
89.846	Other Local Authorities
421.889	Total
	Other external debt
108.160	PFI and Finance Leases (as at 1 April 2016)
530.049	TOTAL EXTERNAL DEBT
	Split of external borrowing:
270.306	Housing Revenue Account
151.583	General Fund
421.889	Total

6.28 Following the introduction of Self Financing for the Housing Revenue Account from 1 April 2012, loans were split between General Fund and Housing. However, decisions on borrowing for both General Fund and Housing will continue to be made within the overall Treasury Management Strategy and will be reported jointly.

6.29 The difference between the CFR and external borrowing is known as internal borrowing. The level of internal borrowing is determined, within the Treasury Management Strategy, by a number of factors including market conditions for investments and the level of the Authority's reserves and balances.

6.30 Maturing PWLB long term loans of £25m have been repaid since 1 April 2016 as detailed in **Table 12 below**:

Table 12: Maturing long term loans repaid since 1 April 2016

Principal £m	Interest Rate %	Date Repaid
10.000	2.71	16 May 2016
5.000	10.375	4 August 2016
10.000	1.96	19 August 2016

As at 30 September no new or replacement long term borrowing has taken place during 2016/17.

6.31 Short term borrowing rates for periods up to 1 year continue at relatively low levels. The Authority's borrowing strategy this year has been to borrow short term where possible, to take advantage of these lower rates. As at 30 September 2016, the Authority had £89.846m of temporary loans (as seen in Table 11 above) at an average rate of 0.63%. **Table 13** below compares the average rate at September 2015 and at 31 March 2016:

Table 13: Temporary Loans Average Rate

Date	Principal £m	Average Rate %
30 September 2015	77.896	0.65
31 March 2016	77.709	0.66

Debt Rescheduling

6.32 Debt rescheduling opportunities have been limited in the current economic climate and the consequent structure of interest rates. Therefore, no debt rescheduling was undertaken during the first six months of 2016/17.

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 to date during 2016/17.

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; and,
(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 must be reviewed, and may be revised at any time, following due processes.

7.11 The following part of the report shows the estimated 2016/17 Prudential Indicators as at 30 September 2016 compared to the indicators approved by Council on 18 February 2016 as part of the budget setting process.

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 budgeted figures for 2016/17 are set out in Table 14 below together with the estimated 2016/17 position at September 2016:

Table 14: Ratio of Financing Costs to Net Revenue Stream

	2016/17	2016/17
	Budget	Estimate
General Fund	16.89%	13.67%
HRA	28.38%	27.46%

The current forecast is lower than that budgeted reflecting the savings in the cost of borrowing, for 2016/17, reported for both the General Fund (paragraph 2.5) and Housing (paragraph 3.4).

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 15 below:

Table 15: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream

	2016/17	2016/17
	Budget	Estimate
General Fund	9.71%	7.83%
HRA	6.28%	6.22%

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 2016/17 budget setting, on the annual Council Tax (Band D) and weekly housing rents.

Table 16: Incremental impact of new 2016/17 capital investment decisions on Council Tax (Band D) and weekly housing rents

	General Fund	HRA
budget	£7.92	(£2.31)
estimate	£2.26	(£1.76)

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. The current forecast is lower than that budgeted reflecting the savings in the cost of borrowing, for 2016/17, reported for both the General Fund (paragraph 2. 5) and Housing (paragraph 3.4).

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). 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 is not expected to exceed the total CFR at 31 March 2017. Gross debt is expected to be lower than budgeted reflecting both the continued use of internal borrowing and reprogramming during 201617.

Table 17: Gross external debt less than CFR

	2016/17 Budget	2016/17 Estimate
	£m	£m
Gross External Borrowing	514.058	493.379
Other Liabilities (including PFI and Finance Leases)	133.469	129.342
Total Gross debt	647.527	622.721
Capital Financing requirement	672.471	652.194

Prudential Indicators for Capital Expenditure

Capital expenditure

7.19 This indicator reflects the expected level of capital spend as shown in section 5 of this annex.

Table 18: Capital Expenditure

	2016/17	2016/17
	Budget £m	Estimate £m
General Fund	67.012	54.379
HRA	24.859	23.268
Total	91.871	77.647

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 19: Capital Financing Requirement

	2016/17 Budget £m	2016/17 Estimate £m
General Fund	313.406	303.224
HRA	359.065	348.970
Total	**672.471**	**652.194**

The estimated CFR is lower than that budgeted due to reprogramming during 2015/16.

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 20 below:

Table 20: Capital Financing Requirement for Unsupported Borrowing

	2016/17 Budget £m	2016/17 Estimate £m
General Fund	169.067	158.372
HRA	35.636	35.636
Total	**204.703**	**194.008**

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 21: Authorised Limit for External Debt

	2016/17 £m
Borrowing	1,080.000
Other Long Term Liabilities	160.000
Total	**1,240.000**

7.28 All transactions are expected to be within the Authorised Limit for External Debt for 2016/17.

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 22: Operational Boundary for External Debt

	2016/17 £m
Borrowing	540.000
Other Long Term Liabilities	140.000
Total	**680.000**

7.30 All transactions are expected to be within the Operational Boundary during 2016/17.

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 2017 is expected to be lower than the cap set.

Table 23: HRA limit on indebtedness

	2016/17	2016/17
	Budget £m	Estimate £m
Gross HRA capital financing requirement	359.065	348.970
Less HRA PFI schemes	85.339	78.660
Adjusted HRA capital financing requirement	273.726	270.310
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 2016/17

7.33 Full Council set an upper limit on its fixed interest rate exposures for 2016/17 of 100% of its net outstanding principal sums. Borrowing is expected to remain within this limit during 2016/17.

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 is expected to remain within this limit during 2016/17.

7.35 Upper and lower limits for the maturity structure of the Authority's borrowings were set as shown in Table 23 below. Borrowing is expected to remain within these limits during 2016/17.

Table 24: 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 are expected to remain within this limit during 2016/17.