ANNEX 1

2017-2020 Financial Planning and Budget Process:

Cabinet’s Draft Council Tax Requirement and Budget Proposals

25 January 2017

North Tyneside Council

1. Introduction

This Annex sets out North Tyneside Council's Draft Council Tax Requirement and Budget Proposals for the financial year 2017/18, together with indicative plans for the next 2 years. This follows on from the initial Cabinet Budget proposals of 28 November 2016, which formed the basis on which we have sought the views of residents, tenants and partners.

The report explains the context, challenges and opportunities facing the Authority and the Borough, what we can control and change and where our choices are constrained, how we raise and spend money now and how this will change over the next three years.

The plans are ambitious and, as in previous years, they involve difficult decisions to live within budgets imposed by Central Government and cost pressures arising from unfunded growth.

The Council is legally required to set a balanced budget for the General Fund to meet statutory duties and provide services such as social care and environmental services.

2. Engagement Approach

North Tyneside Council is committed to being a resident-focused and listening Authority and this commitment includes giving residents and other key stakeholders an opportunity to be involved in helping to shape decision making in relation to the Financial Planning and Budget process.

The Authority's overall approach to engagement ensures that the public have opportunities to have their say throughout the year, through a series of different methods, including engaging with the Elected Mayor, Cabinet and ward members through the Mayor's Listening Events and Community Conversations as well as a broad range of both on-line and face to face engagement or consultation exercises on different key issues such as the Resident's Survey.

Between June and September 2016, there has been an extensive programme of engagement out-and-about across the Borough through the Big Community Conversation. The feedback from this programme and other activity throughout the year informed the initial Cabinet budget proposals presented to Cabinet on 28 November 2016.

During the Big Community Conversation residents gave their views about their experience as a resident and a customer of the Council together with their suggestions for future improvement. Overall, 1,232 questionnaires were completed in 94 different visits at a variety of locations and events in every ward across the Borough. Each ward was visited at least three times.

From the Big Community Conversation feedback, residents had very clear priorities around transport issues, the maintenance of roads and pavements and keeping North Tyneside clean, tidy and safe. These priorities were reflected in Cabinet's initial budget proposals.

Further engagement on Cabinet's initial budget proposals has taken place from 29 November 2016 to January 2017 as set out below.

As with all of its engagement activity, the Authority is committed to ensuring that residents with protected characteristics, as set out in the 2010 Equality Act, are able to participate. Further information on this aspect of the engagement approach can be found in the Equality Impact Assessment on the Budget Engagement Strategy, which is available on request.

Every year Ipsos Mori carries out the Residents' Survey on behalf of the Authority. The survey is sent to around 4,300 households, which are selected via a random sample. The data is weighted to ensure that the results reflect the profile of the local population.

Target Audiences

The engagement approach aims to reach different sectors of the population through a targeted approach. The approach delivers both universal engagement as well as engagement with particular groups e.g. carers, people who are deaf or hard of hearing.

Specific external audiences are:

- Residents of North Tyneside
- Service users
- Children and young people
- Older people
- North Tyneside Strategic Partnership
- Business community
- Schools
- Voluntary and community sector (including faith groups)
- Carers
- Tenants

Internal audiences are:

- Elected Members
- Staff
- Strategic Partners (Kier, Engie and Capita)
- Trade Unions

Approach

Our approach aims for maximum reach by offering a range of different opportunities for people to have their say. In line with the Authority's Engagement Strategy principles, these opportunities are:

- Inclusive : making sure that everyone is able to engage in the process

- Clear : being clear on the aims of each engagement activity at the outset and the extent to which residents can be involved
- Integrated : ensuring that engagement activities are joined up with the relevant decision making processes
- Tailored : aiming to better understand our audience and using different methods appropriately to enable and encourage people to be involved
- Feedback : giving feedback through agreed channels when engagement activity is completed
- Timely : aiming to give sufficient notice to make opportunities available to all and taking into account those times when it is more appropriate to engage depending on our target audience.

Budget Engagement Programme

Information about the Budget proposals was provided on the Authority's website www.northtyneside.gov.uk . This included a short video to explain the context and set out the proposals. This was accompanied by a questionnaire to provide opportunities for people to give their feedback either via the website, e-mail or through social media.

Four events (one in each of the four areas of the Borough) were held throughout December 2016 to enable people to listen to the proposals and to provide feedback face-to-face. Recognising that different times of the day suit different groups of residents, two of the events were held during the day and two during the evening. Residents could attend whichever event suited them best; they did not have to live in that particular part of the Borough.

Further targeted events were held for key stakeholder groups including: Residents Panel, Staff Panel, businesses, schools, young people, community and voluntary sector, trade unions, North Tyneside Strategic Partnership, older people and carers.

Engagement with service users or their representatives was via existing networks. The engagement programme was advertised via the press and social media and at key outlets and facilities including libraries, customer first centres, community centres, leisure centres.

The views of our residents and partners are important as we have an opportunity to plan for transformational change in services. Central Government has made an offer that councils which set out an efficiency plan of how they can balance their budget by 2020 will, in return, receive certainty over the level of Revenue Support Grant for the next 3 years. This 3 year plan forms the basis of the Authority's Budget. This approach gives us time to work with our residents and partners to develop new and innovative approaches to deliver reduced budgets by 2020.

3. Our North Tyneside Plan

The Our North Tyneside Plan 2016-2019 (Council Plan) sets out the overall vision and policy context within which the Financial Plan and Budget proposals are set.

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

By listening to our residents, businesses and visitors, the Plan provides a clear framework for the Authority to plan its use of resources. It provides the context for all financial decisions and the operational delivery of services both at Borough level but also increasingly as we work alongside other local authorities across the region, statutory partners and with business through the North East Local Enterprise Partnership.

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

Our People will:

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

Our Places will:

- Be great places to live, and attract others to visit or work here.
- Offer a good choice of quality housing appropriate to need, including affordable homes.
- Provide a clean, green, healthy, attractive and safe environment.
- Have an effective transport and physical infrastructure - including our roads, cycle ways, pavements, street lighting, drainage and public transport.

Our Economy will:

- Grow by building on our strengths, including our existing world class companies, and small and growing enterprises.
- Have the right skills and conditions to support investment, and create and sustain new good quality jobs and apprenticeships for working age people.

<u>Evidence of Need</u>

The evidence of need that drives the redirection of the Authority's resources is set out in a number of key documents. The North Tyneside's Joint Strategic Needs

Assessment (JSNA) summarises some of the key population health and well being issues in the Borough. Whilst North Tyneside is one of the least deprived boroughs in the region there remain pockets of deprivation where significant health and social care challenges need to be addressed. Key issues being:

- Health life expectancy is not increasing at the same rate as life expectancy leaving a large number of people living the later stages of their lives in poor health
- Relative deprivation in the Borough is improving, but wide inequalities remain across the Borough with persistent deprivation in some wards
- A child born in the most deprived part of the Borough is expected to live 10 years less than a child born in the least deprived
- One fifth of children are living in poverty which increases to nearly half in the most deprived part of the Borough
- The Borough has a high number of people who are unemployed and claiming Employment and Support Allowance due to mental health or behaviour disorders
- There are increasing numbers of young people with special educational needs
- Rates of young people not in education, employment or training (NEET) at 18 are similar to England, but North Tyneside has higher rates of under 25s who are unemployed
- There are growing numbers of adults with learning disabilities and complex disabilities
- North Tyneside's population is getting older and there are more people aged over 85 than ever before
- There are growing numbers of older people with multiple long term conditions and frailty
- More than 1 in 10 of the adult population has a caring responsibility and an estimated 14% of people over 65yrs+ are caring for someone
- The number of people aged over 75 living alone is predicted to rise by 44.44% by 2030

The latest population projections from the Office of National Statistics predict an increase of 15,800 people between 2014 and 2032. The population of North Tyneside in 2032 is expected to be 218,500. The Local Plan is the second key strategic element that drives the direction of resources in the Borough and North Tyneside Council approved the Pre-Submission Draft Local Plan in October 2015. The Pre-Submission Draft has been shaped by a comprehensive development process, including significant public consultation. The Local Plan sets out how the Borough can be a thriving, prosperous and attractive place to live and work. The

Pre-Submission Draft detailed how the Borough will require 10,500 new homes (in addition to about 5,000 new homes that already have planning permission) and at least 12,700 new jobs. That draft has now been subject to public examination and, following technical consultation on the final modifications, is likely to be finalised later this year.

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

The second is to continue to invest in the Borough's future and to create a prosperous economy that will generate income and provide the jobs and training opportunities that will be essential to successfully tackling these inequalities. The key areas of investment being:

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

These outcomes underpin the Creating a Brighter Future Change Programme (CBF) first implemented during 2014/15. This programme has ensured that the Authority has continued to successfully respond to the financial pressures in Local Government, managing with significantly reduced resources while re-designing services to reflect changing needs and priorities.

4. <u>Financial Strategy</u>

A Financial Strategy is critical in order to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term. This Financial Strategy needs to support delivery of the Our North Tyneside Plan 2016-2019 which is the key driver of our resources allocation. The Budget setting process helps the Authority respond appropriately to responsibilities and duties placed upon Local Government through legislative requirements and the Government's drive to deliver savings.

Whilst decisions around Budget setting are approved on an annual basis, the

Authority must demonstrate medium-term financial and resource planning. Annual budget decisions should be taken in the context of the overall Financial Strategy that looks at all Authority services and takes into account the Government's Local Government finance agenda.

The detailed Financial Strategy was approved by Cabinet on 12 September 2016 and is a background paper as part of this report.

5. Provisional Local Government Finance Settlement 2017/18

National Headlines

On 15 December 2016, the Secretary of State for Communities and Local Government announced the Provisional Local Government Finance Settlement for 2017/18 to Parliament. A Settlement Consultation was published with a closing date of 13 January 2017. Some of the key national headlines are set out below:

Efficiency Plan

It was announced that 97% of councils have taken up the long term efficiency plan offer. This meant that only 10 councils haven't signed up to this 4 year Settlement offer.

100% Business Rates Retention

It was outlined that pilots of 100% Business Rates Retention will begin in April 2017 in Greater Manchester, the Liverpool City Region, West of England, Cornwall and the West Midlands. As part of the move to 100% Business Rates Retention, a Fair Funding Review is also to be undertaken.

New Homes Bonus

The Government published its response to the "New Homes Bonus: Sharpening the Incentive" consultation which closed in March 2016. There were a total of 287 responses to the consultation, including from North Tyneside Council. This consultation and the Settlement outlined a number of significant changes to the New Homes Bonus scheme, which include:

a) A national baseline for housing growth of 0.4% for 2017/18 will be introduced. Below this, the New Homes Bonus will not be paid.

b) The Government confirmed its intention to implement its preferred option in the New Homes Bonus consultation which closed in March 2016, namely to reduce the number of years for which payments are made from 6 years to 5 years in 2017/18, and to 4 years from 2018/19.

c) The above changes mean that the New Homes Bonus national funding allocation reduces by £241 million in 2017/18, funding which is being used to fund a new Adult Social Care Support Grant.

d) From 2018/19 the Government announced that it is considering withholding New Homes Bonus payments from local authorities that they consider “are not planning effectively, by making positive decisions on planning applications and delivering housing growth”.

e) The Government are also considering withholding payments for homes that are built following an appeal. It was announced in respect of this that a consultation will take place “in due course”.

Adult Social Care and Council Tax

It was confirmed that the indicative allocations of the Improved Better Care Fund are as published last year.

There is to be a new dedicated £241m Adult Social Care Support Grant in 2017/18, distributed according to the Adult Social Care Relative Needs Formula. This is to be a one-off grant for 2017/18 only.

Councils will be granted the flexibility to raise the Social Care precept from 2% a year for 3 years, to by up to 3% in 2017/18 and 2018/19. Only a total increase of 6% can be applied from 2017/18 to 2019/20.

Settlement Funding Assessment

There are changes to National Settlement Funding Assessment figures, which are explained in the North Tyneside Council position below.

North Tyneside Council Position

Adult Social Care and Council Tax

In the first instance, there are no changes to our Better Care funding allocations in any year from those published in February 2016.

The main grant change we see is for the new Adult Social Care Support Grant for 2017/18 only. The North Tyneside Council allocation is £1.036m.

North Tyneside Council is able to take up the flexibility granted to raise the Social Care precept from 2% a year for 3 years to by up to 3% in 2017/18 and 2018/19. This opportunity has been taken by the Council which has resulted in additional budgeted income of £0.750m in 2017/18 from that reported to Cabinet on the 28 November 2016 (total budgeted income £2.25m in 2017/18). Only a total increase of 6% can be applied from 2017/18 to 2019/20.The core Council Tax referendum principles stay unchanged for us at 2%, so the maximum Council Tax increase that we can levy in 2017/18 is now 5%.

New Homes Bonus

From the national reduction of £241m, our New Homes Bonus allocation reduces by £0.438m. We therefore gain £0.598m in 2017/18 between the New Homes Grant and the Adult Social Care Support Grant, due to distributional factors. There are marginal changes to our New Homes Bonus figures for 2018/19 and 2019/20 but these figures are only indicative at this stage and are subject to change.

Settlement Funding Assessment / Business Rates

There are no changes to our Revenue Support Grant figures as a result of signing up to the 4 year Settlement.

There is a marginal change to Settlement Funding Assessment (SFA) in 2017/18, with more significant changes in 2018/19 and 2019/20, as shown in the Table below. The changes here reflect updated top up grant and retained Business Rates calculations, and the increased allocations reflect that inflation is higher than forecast in 2017/18. The same applies to inflation forecasts for 2018/19 and 2019/20.

Spending Power and Overall Summary of Our Changes

The Government have updated our 2016/17 Council Tax figures, which changes our Spending Power figures for future years, so this, with the other changes explains our changes in Core Spending Power.

Previously our Spending Power was showing as a £2.9m increase or a 1.8% increase from 2015/16 to 2019/20. The figures in our new Spending Power Calculation are now showing as a nil increase over this period.

Taking all of the above into account, the Table below the changes from the February 2016 Settlement for North Tyneside Council.

Table 1: Core Spending Power: Changes in the North Tyneside Council Figures since the February 2016 Settlement

	2017/18 £m	**2018/19 £m**	**2019/20 £m**
Settlement Funding Assessment Change – Change in Baseline Funding Level	+0.033	+0.154	+0.328
New Homes Bonus	-0.438	+0.052	+0.050
Adult Social Care Support Grant	+1.036	0.000	0.000
Improvement	**+0.631**	**+0.206**	**+0.378**
Reconciliation to our new published Spending Power Total			
Council Tax Change	-1.750	-2.447	-3.324
Change in Our Spending Power from February 2016 Settlement	**-1.119**	**-2.241**	**-2.946**

6. Dedicated Schools Grant (DSG)

The main funding arrangements for 2017/18 are:

1. The Dedicated Schools grant (DSG) continues to be issued in 3 separate Blocks: Schools Block, Early Years Block and High Needs Block.

2. There is an apparent reduction in the per pupil funding for the Schools Block but this is to reflect the re-base lining of the High Needs Block (£4,529.21 in 16/17).

3. Early Years funding now incorporates the 2 year old and 3-4 year olds, together with the additional 15 hours provision.

4. High Needs Block – only provisional figures were issued in December 2016, prior to the place review in January/February 2017 and final figures being provided in March 2017. The indicative figures are based on the re-baselining exercise which took account of block to block transfer agreed by Schools Forum in previous years.

5. The overall DSG continues to be ring-fenced although the 3 Blocks are not ring-fenced individually. So there remains discretion for the Local Authority to move money between the Blocks.

6. The Minimum Funding Guarantee (MFG) continues at minus 1.5% per pupil for 2017/18.

A summary of the Settlement for North Tyneside is shown in the table below.

Table 2: Summary of the Settlement for North Tyneside

	Schools Block	**Early Years Block**	**High Needs Block**	**Total Estimated 2017/18 DSG**
Per pupil rate (£): R-Year 11	£4,451.98			
Block value (£m) now includes NQT funding previously allocated separately	£115.40m	£11.75m	£18.68m	
Total Settlement (£m)	**£115.40m**	**£11.75m**	**£18.68m**	**£145.83m**

The Schools Block (£115.40m) is based on the cash per pupil rate of £4,451.98 multiplied by the number of pupils in schools based on the October 2016 census. Overall, pupil numbers have increased by 233. The Per Pupil rate however has been adjusted following the re-baselining exercise all Local Authorities were required to complete in 2016/17. Also included in this year's Schools Block DSG allocation is the Education Services Grant (retained element £0.423m) which has now been agreed by Schools Forum. The Newly Qualified Teachers (NQT) funding enables schools to pay for the services of their preferred appropriate body for monitoring and quality assurance of NQT's which was previously identified separately, is now also included in the Schools Block allocation.

The 2017/18 Early Years Block DSG Settlement (£11.75m) includes an allocation for the additional 15 hours entitlement for 3 & 4 year olds which will be introduced from September 2017. There will be further adjustments following the January 2016 census which will not be known until the summer 2017. The Early Years Block allocation includes funding for 2 Year olds and 3 & 4 year olds. Also included in the Early Years Block settlement is the Early Years Pupil Premium allocation.

In respect of the High Needs Block allocation (£18.68m) only provisional figures have been issued in December by the Department for Education (DfE) prior to the place review in January/February 2017 with final figures for each Local Authority following thereafter in March 2017. The increase in this block reflects the re-baselining as mentioned above.

In addition to the funds provided through the DSG, schools will continue to receive Pupil Premium. The Pupil Premium will be held constant in 2017/18 at £1,320 per pupil for primary aged children, £935 for secondary aged children, £1,900 for adopted children, £1,900 per Looked After Child and £300 for Service children.

7. General Fund

Medium Term General Fund Position

The Council, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010. In addition service pressures and increasing demand for services, particularly from the most vulnerable, has meant the Council has had to make significant budget savings in response to the Government's austerity measures. Like other councils in the region, North Tyneside Council has seen its funding disproportionately reduced by Government Policy when compared with the national context. The UK's recent vote to leave the European Union (EU) is likely to herald more instability in the short to medium term and the consequences will need to be carefully considered over the period of the Authority's Financial Plan and beyond.

It has already been highlighted that, at a local level, there are changes in North Tyneside's demography with an increasing population and a growing number of our most vulnerable residents requiring complex health and social care support. Whilst the Borough has seen some economic growth, the Business Rates Retention scheme is such that significant appeals have led to a reduction in rateable value since the scheme was introduced in 2013/14.

The likely continuing requirement and scale of budget savings, over and above the £101m already taken from budgets since 2010, presents an increasing challenge for the Authority. The Government's approach to "continue the work of bringing the public finances under control and reducing the deficit, so Britain lives within its means" will result in further significant funding reductions for Local Government.

By the end of 2016/17 the Council's grant funding will have reduced by approximately 32% from 2010. This equates to over a £276 per head reduction and over a £581 per dwelling reduction in Government funding over the period. Central Government has indicated a change to the approach to eliminating the budget deficit and to reducing the overall levels of public debt, however, at this stage there is no indication of what that could mean for Local Government in the short to medium term.

The Net General Fund Financial Plan Resources from 2016-2020 are set out in Table 3 below:

Table 3: 2016-2020 General Fund Financial Plan Resources

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Council Tax	78.678	80.544	80.827	81.110
Revenue Support Grant	31.184	22.596	16.915	11.198
Retained Business Rates	28.410	25.918	25.918	25.918
Business Rates Top Up	15.673	19.189	19.806	20.511
Total General Fund Financial Plan Resources	**153.945**	**148.247**	**143.466**	**138.737**

Unfunded cost pressures

The need to find savings in 2017/18 and future years is driven by a net reduction in resources from Central Government and significant unfunded cost pressures arising from a number of sources. The Authority is experiencing the same service pressures as many other Metropolitan Authorities. These cost pressures arise for a number of reasons including:

- Legislative / regulatory changes (for example impact of the National Living Wage on social care providers);

- Pay and price inflationary increases – increases in pay and other staff related costs (for example pension costs) and general and specific inflation (for example utilities / PFI contracts). RPI is used as the underlying assumption for price increases; however, resources are adjusted by Government assumptions which use the lower CPI;

- Increasing demand for services – increased demand for social care services (for example increased numbers of children with severe disabilities);

- External funding changes – cuts in specific grants (for example Housing Benefit Subsidy Administration Grant and Education Services Grant); and

- Funding pressures on other partners, particularly the NHS.

(Further details of the cost pressures are included in Appendix A.)

Cabinet are very aware, that since the Budget was agreed in February 2016, an unprecedented number of in-year unfunded pressures, mostly driven by Government, have meant there is a projected over commitment against the General Fund revenue budget. Cabinet Members' and the Senior Leadership Team have had to work hard and creatively to reduce that over commitment from £5.577m as at 31 May 2016 to £4.744m at the 30 September 2016 to £3.817m at 30 November 2016. While the majority of planned savings are being delivered, additional measures have been required including further cost challenges, stretched income targets, and review of reserves in order to protect the year end position.

As set out in the 2017 Provisional Local Government Finance Settlement, included in the proposals is an increase of 3% to Council Tax being the Adult Social Care precept, and a general increase of 1.998% which is reflected in the table below. More detail is included in section 9 below. Taking the increase in Council Tax into consideration, the gap/efficiency requirement for 2017/18 is currently an estimated £18m and an estimated £49m to the end of 2019/20 as set out in Table 4 below.

Table 4: 2017-2020 General Fund Financial Plan

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**Three Year Summary £m**
General Fund Base Budget	153.945	148.247	143.466	**153.945**
Unfunded Cost Pressures	16.390	9.100	11.687	**37.177**
Efficiency Savings Requirement	-18.338	-13.881	-16.416	**-48.635**
Council Tax Increase *	-3.750	0.000	0.000	**-3.750**
Total General Fund Financial Plan	**148.247**	**143.466**	**138.737**	**138.737**
Efficiency Requirement prior to Council tax increase	**-22.088**	**-13.881**	**-16.416**	**-52.385**

*Assumes a 4.998% Council Tax increase in 2017/18 in order to contribute £3.750m towards the total efficiencies required of £22m in 2017/18 (£52m over the next three years). There has been no assumption of any increase in Council Tax in future years.

8. <u>Efficiency Savings</u>

Our approach for 2017-20 is to achieve savings early where possible, to mitigate against future financial risks whilst working in a very different way so that resources can be more effectively targeted at the people who need them most to ensure that all residents have a successful, healthy and safe future, no matter where they live in the Borough. We need to deal with causes not consequences (i.e. we are proactive rather than reactive), we understand and manage demand, we enable people to help themselves. We use intelligence to target our resources to best effect, we maximise income and reduce long term cost, we work in partnership to improve outcomes and we are innovative and utilise technology to improve outcomes.

In terms of delivering the overall budget, the Creating a Brighter Future programme will necessarily continue to be a cross cutting programme to transform every part of the Authority and the relationship with the residents of North Tyneside as set out in the "Our North Tyneside Plan". The Efficiency Plan, which was agreed under a delegation to the Mayor on 10 October 2016, sets out a number of proposals to be delivered over the next three years that are designed to support the Authority in managing the change required to meet the financial challenges. The proposals are looking to consider how we reshape service delivery that meets the demands being faced by the Authority, consider how we support our residents to help themselves, and continue to develop the Borough in terms of a place to live, being attractive to businesses and have effective transport and physical infrastructure.

Appendix B sets out in more detail the proposals for 2017/18 which are summarised in Table 5 below:

Table 5: Efficiency Savings 2017-2020

CBF Theme	2017/18 £m	2018/19 £m	2019/20 £m
Ready for School	-0.580	0.000	0.000
Ready for Work	-1.076	-0.270	-0.200
Cared For, Safeguarded and Healthy	-2.693	-0.245	-0.200
Great Place to Live, Work & Visit	-1.282	-0.621	-1.520
Fit for Purpose	-4.657	-1.054	-1.091
Maximising Resources	-8.050	+7.497	-0.273
TOTAL	**-18.338**	**5.307**	**-3.284**

9. <u>General Fund – 2017/18 Resources Assumptions</u>

Council Tax

In last year's Local Government Finance Settlement, Central Government assumed there would be on average an annual increase in Council Tax of 1.5%. In addition to the general increase, an Adult Social Care precept of 2% would be raised. Cabinet's initial draft proposals included in the report of the 28 November 2016 included this assumption along with a 1.998% general increase. As previously set out in this annex, the Provisional 2017 Local Government Finance Settlement offered local government the opportunity to accelerate a maximum of an additional 1% of the Adult Social Care precept into 17/18 and 18/19 in order to support pressures in respect of funding Adult Social Care services. The proposals in this report have therefore been prepare in the assumption of a 3% Adult Social Care precept in line with that national guidance.

In North Tyneside, the 3% Adult Social Care precept is expected to raise an estimated £2.25m. This falls well below the cost of additional burdens of the National Living Wage particularly for Adult Social Care services, costs associated with funding pressures in the local health economy as well as the extra cost associated with the needs of an ageing population. In this Authority the costs of Adult Social Care services already fall in the lower quartile against national benchmarks, were the precept not to be taken cuts to service provision would be such that the Authority would be at risk of being unable to deliver its statutory duties in relation to Adult Social Care and put further pressure on vulnerable people and their families.

Local Council Tax Support

In 2013/14 Council Tax Benefit came to an end, and Local Council Tax Support (LCTS) was introduced in its place. At the same time, funding was transferred into the settlement funding assessment (comprising Revenue Support Grant and Business Rates) after being cut by over 10.0%. As this funding is not separately ring-fenced within the settlement funding assessment, it has effectively been cut at the same rate as our settlement funding assessment has been cut, i.e. in 2014/15 (9.0%), 2015/16 (12.9%), 2016/17 (9.9%) and 2017/18 (10.2%). We estimate the funding loss over the five-year period to be in the region of £6.7m. This has put significant additional strain onto the General Fund budget and resulted in the Council, as well as many other local authorities, seeking to collect some Council Tax from working age people who previously received 100% Council Tax Benefit.

Council Tax Support under our current scheme is capped at 90% of an individual’s Council Tax liability, meaning that working age people will be charged 10% of their Council Tax before they receive Council Tax Support. Pensioners are not subject to the cap and may still be awarded reductions of up to 100% of their council tax liability.

At its meeting on the 19 January 2017 full Council will consider options for changes to the LCTS including a reduction in the cap to 87.5%. The budget proposals included in this report are based on the assumption of a cap of 87.5%.

Business Rates

The level of Business Rates is set by the Government and is based on the rateable value of non-domestic properties across North Tyneside. The Council previously had no direct financial interest in the collection of Business Rates and acted purely as an agent of the Government. However, since 2013/14 we have retained 49% of the Business Rates we collect and paid the other 51% over to the Government (50%) and the Tyne and Wear Fire and Rescue Authority (1%). As a result we now have a direct financial incentive to maximise the amount of Business Rates collected in North Tyneside.

An additional risk in 2017/18 has arisen in relation to the revaluation of rateable values within North Tyneside. This will come into effect from 1 April 2017 and has resulted in reduced rateable values for some business properties, which is likely to lead to reduced Business Rates income being received. The Government has committed to adjust our Top-Up Grant if this is the case to ensure the Council is no worse of as a result. But due to the complexity of the Business Rates system there is a risk that we may still be worse off as a result of these changes. The final position will not be confirmed until the NNDR1 form is returned to Central Government, the deadline for this is 31 January 2017. Updates to the NNDR system are also required to enable completion of this return.

We are currently exposed to the risk of Business Rate appeals, which are determined by the Valuation Office Agency. Since 2013/14 the level of appeals has been higher than were originally anticipated and this has resulted in a significant Collection Fund deficit as at 31 March 2016. The Government has consulted on a range of practical changes designed to improve the efficiency of the appeals process and reduce the financial uncertainty facing local authorities, with new streamlined processes being introduced in 2017/18 alongside revaluation.

10 Cabinet's Draft Budget proposals for the 2017-2020 Investment Plan

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

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

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

All proposals for capital investment follow a structured gateway process, and are challenged by Members and senior officers, from the initial ideas stage, through the delivery stage and finally to post implementation. All proposals are considered in terms of their strategic alignment with the Our North Tyneside Plan, Creating a Brighter Future Programme and the Target Operating Model.

The Investment Programme Board (IPB) meets on a monthly basis and, as part of its monthly meetings, receives an update on all ongoing projects included in the approved Investment Plan (currently 2016-2019).

As part of the 2017/18 budget process, the IPB also received bids for new projects and changes to existing projects. All bids were considered and, following a thorough challenge and review the items listed below are the current proposals included in the Investment Plan:

(a) **Coastal Regeneration £4.950m**: required to replace the funding removed from the budget to cover the redevelopment of the former High Point hotel site in 2016/17 (£0.940m for the Dome and £0.610m for Northern Promenade), for additional costs to the Spanish City Island public realm and links to the town centre (£1.500m). The remainder (£1.900m) is for potential additional works to the Dome such as lead paint removal and buried asbestos removal.

(b) **Northumberland Square £3.650m**: additional finance to bring forward the development of 13-16 Northumberland Square and also develop the land to the rear of the site anticipated to be delivered through North Tyneside Trading Company;

(c) **Streetlighting LED £1.954m**: upgrading of around 7,000 lamps to modern, energy efficient LED models. This project is anticipated to result in reduced revenue costs of £0.466m per annum through lower energy costs;

(d) **Coastal Properties £2.580m:** purchase of equity and provision of loan capital to enable the development of sites at the former Whisky Bends and The Avenue, by the North Tyneside Trading Company, for homes for sale;

(e) **Property Development £3.900m:** provision of finance to enable the development of homes across the Borough;

(f) **Warm Zones £0.100m:** to provide a one year extension to the current contract for energy efficiency measures for households in the Borough;

(g) **Vehicle replacement £2.620m**: replacement of vehicles required to ensure the provision of services;

(h) **Contingency Provision £2.000m**: provision for unforeseen pressures and projects within the plan;

(i) **Rolling programmes year 3 £4.600m**: provision of budgets for 2019/20 (year 3) for Asset Planned Maintenance programme (£1.500m), ICT Strategy (£1.000m), additional Highways Maintenance for Roads and Pavements (£2.000m), and Local Infrastructure projects (£0.100m). The approval of spend on all rolling programmes will be subject to the provision of final business cases and ongoing review as part of the monitoring process,

(j) **North Bank of Tyne transport major scheme £4.525m**: a bid is being submitted to the Local Growth Fund for works to provide the necessary future highway capacity and improve the connectivity to strategic development sites on the North Bank of Tyne. The total cost of the scheme is expected to be £4.700m including development costs of £0.175m in 2016/17 with the scheme being fully grant funded;

(k) **North Shields Fisherman's Heritage project £0.075m:** provision of a memorial to the fishermen lost at sea from the North Shields port. The scheme will be funded using £0.038m of fundraising contributions generated externally and £0.037m council contribution; and,

(l) **All Our Histories £0.053m**: this budget is to fund the purchase of smart tablets and software to support the programme of engagement and digital co-creation to engage with all communities in their history.

11. Summary Investment Plan 2017-2020

Table 6 below shows the draft 2017-2020 Investment Plan.

Table 6: Summary of Investment Plan 2017-2020

Spend	2017/18 £000's	2018/19 £000's	2019/20 £000's	Total £000's
General Fund	80,734	24,744	8,043	113,521
Housing	26,049	24,144	22,790	72,983
Total	**106,783**	**48,888**	**30,833**	**186,504**

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

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

Table 7: Summary of Financing 2017-2020

Spend	2017/18 £000's	2018/19 £000's	2019/20 £000's	Total £000's
General Fund				
Council Contribution:				
Unsupported Borrowing	47,298	14,825	7,230	69,353
Capital Receipts	0	380	380	760
	47,298	15,205	7,610	70,113
Grants & Contributions	33,436	9,539	433	43,408
Total General Fund Resources	**80,734**	**24,744**	**8,043**	**113,521**
Housing - HRA				
Capital Receipts	663	2,847	2,805	6,315
Revenue Contribution	6,818	5,955	4,136	16,909
Major Repairs Reserve	14,850	15,342	15,849	46,041
House Building Fund	3,558	0	0	3,558
Grants and Contributions	160	0	0	160
Total Housing HRA Resources	**26,049**	**24,144**	**22,790**	**72,983**
TOTAL RESOURCES	**106,783**	**48,888**	**30,833**	**186,504**

The draft 2017-2020 Investment Plan for the General Fund includes expenditure of £80.734m in 2017/18. Of this expenditure £33.436m (41.4%) is funded through grants and other external funding contributions.

Capital receipts of £7.075m (£0.760m General Fund and £6.315m Housing) have been assumed in the financing of the draft plan.

Across the life of the draft plan, unsupported borrowing totals £69.353m. The cost of borrowing is included within the General Fund Revenue budget and Financial Plan.

Flexible Use of Capital Receipts

In December 2015 the Secretary of State published guidelines confirming the criteria for the Flexible Use of Capital Receipts. The guidance covers the period 1 April 2016 to 31 March 2019. It allows Local Authorities the flexibility to use capital receipts to fund revenue expenditure incurred to generate ongoing savings. In order to use this flexibility, Authorities are required to disclose those projects they intend to fund using capital receipts. This can be done as part of the budget setting process.

At this stage consideration is being given to the future use of capital receipts for some elements of the ICT citizen interaction and self serve project and the cost of redundancies arising from the restructure of services. A strategy will be developed over the coming year to support this.

Capital Allocations 2017/18

A number of capital allocations (grants) are announced by Central Government as part of the Local Government Finance Settlement. These include Education Funding (Capital Maintenance and Devolved Formula Capital) (Department for Education) and the Local Transport Plan (Department for the Environment). Figures in respect of the Local Transport Plan have been received and are included in the draft plan. However, final figures for schools are yet to be received, therefore indicative figures, based on 2016/17 announcements, are currently included in the plan. These will be updated as soon as 2017/18 figures are available and will be included in subsequent reports.

12. Prudential Indicators

The Local Government Act 2003 requires authorities to comply with the 'CIPFA Prudential Code for Capital Finance in Local Authorities.' The Prudential Code requires authorities to develop a set of Prudential Indicators for capital as laid out in the Code. In addition to the indicators laid down in the Code, local authorities are free to set up their own local indicators, as they consider appropriate.

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

13. Annual Minimum Revenue Provision (MRP)

The MRP is the amount that is set aside to provide for the repayment of debt (principal repayment). The regulations require the Authority determines an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

As part of the 2016/17 budget process the MRP policy was amended so that the provision for historic debt (supported borrowing) was reduced, from a level of 4% per annum, to 2% per annum as a more reasonable provision (which equates to a 50 year asset life). During 2016/17 further work has been carried out to review the level of provision made to date whilst also recognising the lifespan of the assets created by the debt with the aim of aligning the provision more closely with the benefit being received by the Authority from the use of those assets. This work has confirmed a 50 year asset life as a reasonable estimate. Following this the MRP policy proposed for 2017/18 recognises that the amount of MRP set aside to date in respect of historic supported borrowing (at 4%) is greater than the proportion of the asset life used at this stage (estimated to be an average of 2% based on 50 years). It is therefore proposed, because sufficient provision has been made no MRP is required until the provision realigns to the asset lives. This approach is consistent with many other local authorities and deemed a prudent choice. This adjustment will release a saving of £7.700m into the 2017/18 budget and has been built into the draft budget proposals. The balance of £2.800m will be held as a reserve and released against future years MRP provision There will also be a corresponding impact on the Capital Financing Requirement (CFR), in that the repayment of the supported borrowing element of the debt will be extended, so the CFR will reduce more slowly.

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

(a) Existing assets pre 1 April 2007 – MRP will be charged at 2% per annum;
(b) Supported Borrowing – MRP will be charged at 2%;
(c) Unsupported Borrowing – for all assets financed by unsupported borrowing, MRP will be charged over the estimated life of the assets. This may include assets financed through PFI schemes and finance leases;
(d) Lease transactions treated as "on balance sheet" - an element of the annual charge to the Authority for the lease will be treated as repayment of capital (i.e. repayment of principal and interest). The principal element is effectively the MRP charge for the year. This MRP charge will be equal to the element of the rent/service charge that goes to write down the balance sheet liability; and,
(e) Loans made for capital purposes for which borrowing is taken out – MRP will be based on the actual principal repayment schedule relating to the loan provided.

14. Treasury Management Statement and Annual Investment Strategy 2017/18

Background

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. A key part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Authority's low risk policy, providing adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Authority's (Investment) plans. These capital plans provide a guide to the borrowing needs of the Authority, essentially the longer term cash flow planning to ensure that the Authority can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as:

"The management of the local authority's investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Reporting Arrangements

In line with best practice, the Treasury Strategy is considered as part of the budget approval process. This includes the approval of the Prudential and Treasury Indicators.

There are two other main reports each year, which incorporate a variety of policies, estimates and actuals which are approved by Cabinet. These reports are:

- **A Mid - Year Treasury Management Report** – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and indicate whether the Authority is meeting the strategy or whether any policies require revision; and

- **An Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

15. Treasury Management Strategy for 2017/18

The proposed strategy for 2017/18 in respect of the following aspects of the treasury management function is based upon the treasury management officers' view on interest rates, supplemented with market forecasts provided by the Authority's treasury advisor, Capita Asset Services. This strategy covers:

- The current treasury portfolio position;
- Prospects for interest rates;
- Economic Outlook;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness; and,
- Policy for the use of external service providers.

These elements, along with the treasury indicator which limit the treasury risk and activities of the Council (detailed in Appendix C(ii)), cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Communities and Local Government (CLG) Minimum Revenue provision (MRP) Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

Current Treasury Portfolio Position

The Authority's debt and investment position at 9 January 2017 is set down in Table 8 below.

Table 8: Current Treasury Portfolio Position as at 9 January 2017

	Principal Outstanding	Average Rate	Principal Outstanding	Average Rate
	(9 January 2017) £m	%	(8 January 2016) £m	%
Fixed Rate Funding				
PWLB*	183.850	4.98	196.650	4.98
PWLB – (HRA Self Financing)	128.193	3.49	128.193	3.49
Market Loans	20.000	4.35	20.000	4.35
Temp Loans	99.857	0.50	79.896	0.63
Total External Debt	**431.900**		**424.739**	
Less **Investments** (UK) DMO**	27.600	0.15	22.900	0.25
Total Investments	**27.600**		**22.900**	
Net Position	**404.300**		**401.839**	

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

Prospects for Interest Rates

The Authority has appointed Capita Asset Services as its external treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 9 below sets out Capita Asset Services' professional view of interest rates.

Table 9: Capita Asset Services forecast interest rates – (30 November 2016)

	Bank Rate %	5 year PWLB %	10 year PWLB %	25 year PWLB %	50 year PWLB %
Dec 2016	0.25	1.60	2.30	2.90	2.70
Mar 2017	0.25	1.60	2.30	2.90	2.70
Jun 2017	0.25	1.60	2.30	2.90	2.70
Sep 2017	0.25	1.60	2.30	2.90	2.70
Dec 2017	0.25	1.60	2.30	3.00	2.80
Mar 2018	0.25	1.70	2.30	3.00	2.80
Jun 2018	0.25	1.70	2.40	3.00	2.80
Sep 2018	0.25	1.70	2.40	3.10	2.90
Dec 2018	0.25	1.80	2.40	3.10	2.90
Mar 2019	0.25	1.80	2.50	3.20	3.00

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August 2016 in order to counteract what it was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut bank rate again by the end of the year. However, economic data since August has indicated stronger growth in the second half of 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant fall in economic growth.

16. Economic Outlook

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

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically low levels after the referendum and then further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen due to a rise in concerns around Brexit, the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any borrowing undertaken that results in an increase in investments and will incur a revenue loss between borrowing costs and investment returns.

17. Borrowing Strategy

The Authority's capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

The Authority's borrowing strategy will give consideration to new borrowing in the following order of priority:

- The cheapest borrowing and lowest risk approach is internal borrowing. By continuing to maintain a relatively low level of cash balances the risk of investment is reduced. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years;

- Temporary borrowing from the money markets or other local authorities;

- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintain an appropriate balance between PWLB and market debt in the debt portfolio;

- PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt; and

- PWLB borrowing for periods of longer than 10 years may be explored.

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

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

The principal risks that impact on the strategy are the security of the Authority's investments and the potential for sharp changes to long and short term interest rates. Officers, in conjunction with the Authority's treasury advisor, will continue to monitor the financial standing of banks and building societies, and the level of interest rates, both those prevailing and forecast.

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Head of Finance will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet or full Council, as appropriate, at the next available opportunity. Such circumstances include a situation where:

- If it were felt that there was a significant risk of a sharp fall in long and short term interest rates, perhaps due to marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered; or

- If it were felt there was a significant risk of a sharp rise in long and short term rates than that currently forecast in the United Kingdom (UK), an increase in world economic activity or a sudden increase in inflation risks. If this is the case, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Policy on borrowing in advance of need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

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

Debt Rescheduling

As short term borrowing rates remain considerably cheaper than longer term interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). Any position taken via rescheduling will be in accordance with the strategy position outlined above.

In order to generate the most attractive debt rescheduling opportunities, it is proposed that the strategy for 2017/18 should remain flexible. The reason for any rescheduling to take place may include:

- the generation of cash savings and / or discounted cash flow savings at minimum risk;

- to help fulfil the strategy outlined above; and

- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to Cabinet as part of the next financial management report at the meeting following its action.

18. Annual Investment Strategy

This Authority has regard to the Communities and Local Government's (CLG's) Guidance on Local Government Investments and the 2011 revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Authority's investment priorities are:

a) the security of capital;
b) the liquidity of its investments; and,
c) return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Authority applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentrated risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Treasury officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis in relation to the economic environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Authority will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources will include the financial press, share prices and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The intention of the strategy is to provide security of investments and minimisation of risk. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates.

Bank Rate is forecast to remain unchanged at 0.25% before starting to rise from quarter 2 of 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

Table 10: Bank Rate Forecast for Financial Year Ends

Year End (March)	Bank Rate Forecast (%)
2017/18	0.25
2018/19	0.25
2019/20	0.50

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

The strategy for 2016/17 agreed on 18 February 2016 was set against a background of uncertainty and a prudent approach was taken with nearly all investments being made on a short term basis. In the current economic climate it is essential that a prudent approach is maintained. This will primarily be achieved through investing with selected banks and funds which meet the Authority's credit rating criteria, set out in Appendix D.

The Authority will avoid locking into longer term deals while investment rates are down at low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by the full Council.

It is also important to recognise that movements within the money markets can happen with no notice and the Head of Finance may have to amend this strategy in order to safeguard the funds of the Authority. Any such actions will be reported to Cabinet as part of the next financial management report at the meeting following this action.

The Head of Finance will undertake the most appropriate form and duration of investments depending on the prevailing interest rate at the time, taking into account the risks shown in the interest rate forecast. All investments will be made in accordance with the Authority's investment policies and prevailing legislation and regulations. At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

Creditworthiness

The Council applies the creditworthiness service provided by Capita Asset Services. This service employs a modelling approach utilising credit rating from the three main credit rating agencies – Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following outlays:

- credit watches and credit outlooks from the credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in the credit ratings;

- Sovereign ratings to select counterparties from only the most creditworthy countries.

Credit ratings are monitored regularly. The Authority is alerted to changes to ratings by Capita Asset Services who notify the Authority of any changes as soon as they receive the information. Where an institution has its credit rating downgraded so that it fails to meet the Authority's credit criteria then:

- no new investments will be made after the date of notification, and,
- investments on call will be recalled immediately.

Where an institution is placed on negative rating watch (notification of a possible rating downgrade) deposits will continue to be made up to approved limits so long as the institution's credit quality is above the Authority's minimum criteria.

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on any external support for banks to help support its decision making process.

Policy on the use of external service providers

The Authority uses Capita Asset Services, Treasury solutions as its external treasury management advisor.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

The Authority also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subject to regular review.

19. Response to the Overview, Scrutiny and Policy Development Committee Recommendations

Summary

This section of the document proposes how to consider responding to any recommendations made by the Overview, Scrutiny and Policy Development Committee following its scrutiny and challenge of the 2017-2020 Financial Planning and Budget process.

The Cabinet must formally respond to any recommendations made by the Overview, Scrutiny and Policy Development Committee in considering its final Budget proposals. It is therefore proposed that Cabinet consider any recommendations in relation to the General Fund Budget, the 2017-2020 Investment Plan and the Treasury Management Statement and Annual Investment

Strategy for 2017/18 at this meeting of 25 January 2017 prior to approving this report.

The meeting of the Overview, Scrutiny and Policy Committee on the 10 January 2017 considered a report by the Budget sub-group in relation to the initial Budget proposals for 2017/18. The Budget sub-group met on the 9 and 13 December 2016, where the Deputy Mayor, Cabinet Member for Finance and Resources, other Cabinet Members as required, Head of Finance and Senior Officers presented the 2017/20 Business Cases for:

a. Cared For.
b. Ready for School and ready for Work
c. Fit for Purpose
d. Maximising Resources
e. Great Place
f. Housing Revenue Account
g. Investment Plan

It was noted by the Budget sub-group that the Authority is facing an incredibly tough and challenging time and is faced with steeply declining government funding as well as relentless pressure on our already reduced budgets. It was noted that the initial budget proposals were developed to protect and improve essential services for the people of North Tyneside, invest in the future of the borough, grow the local economy, creating more jobs and opportunities and build a more modern Authority that enables people to do more for themselves. The proposals aim was to protect essential services and make sure that the Authority operates in as efficient a way as possible, providing excellent value for money for local taxpayers.

The Group noted that the increase in rent arrears and Welfare Reform and benefit changes along with the gaps in social care funding and the fall out of government grants would continue to impact on the Authority's finances. There are great concerns that Social Care could become unviable if not properly funded and the affects to those most in need with a shortage of suitable housing and social care packages. It was noted that a great deal of work has been undertaken in relation to these issues and the sub group requests that a clear vision to how these will be delivered be communicated and implemented at the earliest practicable time be made to realise savings that can then be redirected to supplement the delivery of services to those in the community with most need.

The loss of experienced officers from all sectors of the Authority was also raised as a concern with its potential risk to future services delivery.

The Group raised several recommendations on the proposals in relation to the General Fund Budget, the Cabinet's responses to which will follow as an addendum to this report.

20. Statement to Council by the Chief Finance Officer

The Local Government Act 2003 imposes duties on local authorities in relation to Budget setting. The Act requires that when an authority is deciding its annual

Budget and council tax level, Members and officers must take into account a report from the Chief Finance Officer on the robustness of the Budget and the adequacy of the Authority's financial reserves.

Government has a back up power to impose a minimum level of reserves on any authority that it considers is making inadequate provisions.

In making the statement the Chief Finance Officer necessarily places reliance on information provided to her by other officers of the Authority as part of the Financial Planning and Budget process. Due cognisance to CIPFA's guidance in relation to the adequacy of reserves and balances will also be taken into account.

The intention would be to make a full Statement as part of the report to the Council meeting on 16 February 2017, when all outstanding information should be available.

Robustness of Estimates

In assessing the robustness of estimates, the Chief Finance Officer has considered the following issues*:*

- The general financial standing of the Authority;
- The underlying Budget assumptions from the financial strategy;
- Future budget pressures and growth proposals, including the impact of prudential borrowing for the 2017-2020 Investment Plan;
- The adequacy of the budget monitoring and financial reporting arrangements in place;
- The adequacy of the Authority's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2015/16 Statement of Accounts, presented to full Council on 22 September 2016;
- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority; and
- The outcome of the 2016-2020 Local Government Finance Settlement of 15 December 2016 and the Autumn Statement 2016 of 23 November 2016 and the implications for North Tyneside Council.

The level of contingencies will be £1.202m as pressures incurred during 2016/17 have been recognised as part of the 2017/18 Financial Planning and Budget process.

Reserves, whilst relatively low, are adequate for the risks the Authority faces and can support the Efficiency Plan that is being set out.

The Cabinet is aware it must keep under review its medium-term Financial

Strategy and three year Financial Plan, in the context of the 2017-2020 'Our North Tyneside' Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2017/18 in isolation to future years' needs and pressures. Each year's Budget must continue to be considered within the context of the three-year Financial Plan, the three-year Investment Plan, the Financial Strategy and the global economic position prevailing at the time.

To ensure that the Authority continues to keep within its approved Budget and the financial integrity of the Authority is maintained, it is essential that Budget holder responsibility and accountability continues to be recognized as set down in the Authority's Financial Regulations and in the roles and responsibilities section of the Authority's Budget Management Handbook.

<u>Adequacy of Financial Reserves</u>

General Fund

The 2017-2020 Financial Plan currently assumes no use of reserves to support the budget. The current Financial Plan, maintains the Strategic Reserve at at least the planned level of £5.000m over the life of the Financial Plan. This is in line with the Authority's agreed Reserves and Balances Policy. Any unplanned use of the Strategic Reserve over the 2017-2020 Financial Plan may take the level outside of this boundary and corrective action would be needed to demonstrate how the £5.000m agreed level would be restored.

Guidance on Local Authority Reserves and Balances is given in Accounting Bulletin LAAP (Local Authority Accounting Practice) 77. This states that *"Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short term option",* and so the proposed 2017/18 Budget does not contradict the issued guidance. The Bulletin does then go on to say *that "It is not normally prudent for reserves to be deployed to finance current expenditure"*. The 2017-2020 Financial Plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long term reliance on reserves.

21. <u>Overall Financial Risk Assessment</u>

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

<u>Key Financial Risks</u>

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

Table 11: Key Financial Risks and mitigating actions

Potential Risk	Initial Response
There is a risk that the levels of savings and income the Authority has included in the Budget proposals are not fully deliverable.	A robust challenge process has taken place to align proposals to the Target Operating Model (TOM) and how this enables the Authority to deliver its Creating a Brighter Future (CBF) Programme. This programme will then be monitored throughout the year to identify any areas which are not delivering savings as planned so corrective action can be taken.
There is a risk that if the Creating a Brighter Future (CBF) programme / Target Operating Model (TOM) are not successfully implemented we may be unable to deliver improved services and meet the increased demand on Council services within reducing resources. This could have the financial impact of the Authority not delivering on its Budget.	An overall Project Initiation Document and Terms of Reference are in place for all CBF projects which are in varying stages of delivery. This spans all service redesign projects (Ready for School, Ready for Work and Life; Cared For, Safeguarded and Healthy; and a Great Place to Live, Work and Visit) plus the Maximising Resources and Fit For Purpose projects. Heads of Service have ownership for delivering the projects. Monthly Programme Board meetings via SLT take place which help ensure that there is visibility and accountability. It also enables reporting of progress against the plans.
There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2019/20 may be wrong, resulting in changes to the current targeted savings of £49m by 2019/20, for the General Fund which will be considered by Cabinet in January 2017.	There is flexibility within the CBF Programme which will allow us to reconfigure if the assumptions that have been made prove to be incorrect. We work closely with national, regional and sub-regional financial networks to help ensure we are informed and aware of any national developments. Being involved in the consultation process enables any issues or concerns specific to NTC to be highlighted before final decisions are made. Development and acceptance of the Efficiency Plan will secure the Revenue Support Grant (RSG) (subject to Central Government Change) which will give a degree of certainty for the next 3 years.
There is a risk that the Council will fail to agree a Better Care Fund Plan for	We are currently trying to work with the CCG to gain agreement to reduce the

2017/18 with North Tyneside Clinical Commissioning Group (CCG). As a consequence there is a risk in respect to the transfer of funding from health to social care and the continuation of funding for existing services funded by the BCF. This would have a consequential effect on the 2017/18 budget.	funding gap and to identify potential efficiencies across other areas which could be used to reduce the risk of a reduction to the level of funding transferred to the Council. The Policy and Framework and Guidance for the BCF specifically requires that funding transferred for social care should, as a minimum, be at the equivalent level as that of 2016/17. The Council is currently seeking to work with the CCG to identify areas where potential efficiencies could be achieved across the whole of the BCF funded projects.
There is a risk that not all growth pressures have been identified in the 2017/18 proposed Budget.	Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand - led pressures exceed Budget provision.	Demand - led pressures continue in areas such as Adults and Children’s Social Care and the impact of the Living Wage on our care providers (and the price for services the Authority then has to pay) have been taken into consideration as part of these initial Budget proposals.
There is a risk that specific factors arising during 2016/17 have not been fully taken into account when preparing the 2017/18 Budget.	The 2016/17 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures factors arising during the year are highlighted.
There is a risk that the in year pressures being reported through the 2016/17 financial management process impact on the deliverability of the 2017/18 budget.	As at 30 November 2016, a pressure of £3.817m was reported against the 2016/17 budget. All services continue to develop and deliver actions to mitigate these financial pressures and expect the out-turn forecast to improve as we move through the year. In addition, non essential spend continues to be minimised along with a detailed review of demand led projections in order to reduce the over-commitment. Progress will be monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team.
There is a risk that the contingency provision included in the Financial Plan for 2017/18 is insufficient.	The review of the base budget and the reflection of the 2016/17 pressures into 2017/18 are considered to be such that no further specific contingency is

	required.
There is a risk that there are insufficient levels of reserves and balances.	A full review of reserves and balances is undertaken on a regular basis as part of both the in-year monitoring process and planning process.
There is a risk that the level of capital receipts included in the Budget proposals are not deliverable.	Capital receipts of £0.663m are included in the financing of the 2017/18 Investment Plan. There are a number of actions being progressed that are expected to realise this requirement.
There is a risk for a small number of schools that increasing Budget deficits will result in an unsustainable education offer.	Robust challenge and support arrangements are progressing across a number of schools from both the Local Authority and the wider school community.
There is a risk that North Tyneside may be placed at a disadvantage following the decision to leave the European Union in both financial and economic growth terms. The full extent of the impact will not be clear until we know the precise trade terms which will apply once we formally leave the EU.	The potential impact from leaving the EU has been included in the Council's Financial Strategy. This is helping to ensure that potential areas of impact following the EU exit are highlighted and included (where relevant) in budget planning. The Council is a member of various regional groups which will help us keep up to speed on progress and have the opportunity to exert any influence that we can.