ANNEX 1

North Tyneside Council

2013-2015 Financial Planning and Budget Process:

Cabinet’s Draft Council Tax Requirement and Budget Proposals

28 January 2013

widening horizons

www.northtyneside.gov.uk

Contents

*Please note the page numbers above refer to those in the bottom left hand corner this Annex

Section 1.0
The 2013-2015 Financial Planning and Budget Process

1.1 Introduction

At its meeting on 10 September 2012, Cabinet approved the process and timetable to be adopted for the preparation of the draft Financial Plan, 2013/14 revenue budgets in respect of the general fund, dedicated schools grant (DSG) and housing revenue account (HRA), and the 2013-2023 capital plan, as part of the overall Financial Planning and Budget process for 2013-2015. Cabinet also approved the budget engagement strategy at that meeting.

On 26 November 2012, Cabinet considered its initial budget proposals and was advised that the level of CEI projects that were already included in the Financial Plan at that stage were sufficient to cover existing committed plans, commercial activities and some allowance for contingencies. Cabinet was further advised at that meeting that given that the 2013-2015 Provisional Local Government Finance Settlement, which included details of the new Business Rates Retention Scheme, was not anticipated to be received until mid December 2012, the budget proposals were necessarily draft at that stage. Until further information on the financial position of the Authority was known from Central Government, it was not possible to quantify with any certainty the level of further savings that were required to be achieved in 2013-2015 through the Change, Efficiency and Improvement (CEI) Programme.

Cabinet agreed on the 26 November 2012 to amend the timetable to allow further time for the details of the Provisional Local Government Finance Settlement to be fully analysed and the implications for North Tyneside Council to be assessed, during which time, further CEI savings that were required would be more fully developed before updated proposals are brought before Cabinet at this meeting. In addition, it was proposed that the Budget Engagement Strategy was also amended in line with the proposed updated timetable. The amended 2013/14 Financial Planning and Budget Timetable of Key Decision Milestones is set out in Section 1.6 of this report.

This document now presents, for Cabinet's consideration, the estimates of amounts for all aspects of its proposed spending and resource plans for the period 2013 – 2015 and the 2013/14 Council Tax Requirement. The Senior Leadership Team has been fully involved in the financial planning and budget process to date.

The proposals cover a two-year planning period from 2013-2015 to align with the Spending Review, except the Capital Plan which continues to be set within a ten-year planning horizon.

Cabinet's estimates of amounts are presented here based upon available information and judgements at the time of writing. There are a number of assumptions and judgements built into the figures presented here that lie mainly outside the control of the Authority and need to be finalised. The estimates of amounts will therefore need to be subject to further review before full Council can approve the Council Tax level for 2013/14 and the 2013-2023 capital plan. The information to be assessed and finalised is:

(a) Northumbria Police Authority and Tyne and Wear Fire and Rescue Authority Precepts (due 6 February 2013 and 18 February 2013 respectively);

(b) Levies, including the Tyne and Wear Integrated Transport Authority (ITA) (due January / February 2013);

(c) Tyne and Wear Joint Service Budgets (due January / February 2013);

(d) The Final Local Government Finance Settlement announcements for 2013/14, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG), Council Tax Freeze Grant and Council Tax Support funding) final detailed information (due late January 2013/ early February 2013); and

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

In addition to the information outstanding as detailed above, there may be amendments to the proposals set down in this report in response to any recommendations from Overview and Scrutiny Committee. In addition, as the Budget Engagement process will continue beyond the 28 January 2013, any outcomes from budget engagement after the drafting of this Cabinet report will be considered by the Elected Mayor and provided as an Addendum to the report to full Council on 7 February 2013 and 21 February 2013.

1.2 Budget and Policy Framework Procedure Rules in relation to the Authority's Budget

The Budget and Policy Framework Procedure Rules are set out in Part 4.7 of the Authority's Constitution. The Budget is guided by paragraph 4.7.3 covering the process for the preparation, consideration and final approval of the Authority's Budget. The constitutional requirements for preparing, considering and approving the Budget drive the timetable for the Financial Planning and Budget process.

The development of the Budget proposals is following broadly the same timetable as in previous years. The priorities in the Sustainable Community Strategy provide the strategic framework within which budget resources are allocated. The timetable is set out in Section 1.6 of this report.

The Financial Planning and Budget process is a fundamental part of the overall governance and assurance framework of the Authority. This in turn provides assurance that is considered as part of preparing the Annual Governance Statement each year.

1.3 The Financial Planning and Budget Process for the 2013–2015 planning period

In order to meet the significant and challenging levels of savings introduced by the four year Spending Review, North Tyneside Council introduced its new Service and Spending Review Process for 2011/12. This process enabled the Authority to continue to deliver effective and efficient services to the residents of North Tyneside, while at the same time achieving the required levels of savings. The required changes have been developed and managed through the Change, Efficiency and Improvement Programme (CEI).

The Authority has already made, and has plans in place to make significant efficiency savings. The agreed Authority Budgets for 2011/12 and 2012/13 have included savings equivalent to 10% of the North Tyneside Council net budget for each of these two years.

For this year, the Authority has in place a two year financial planning process, in line with the planning horizon of the current Spending Review. A new 2 year Local Government Finance Settlement for 2013-2015 was issued by Communities and Local Government (CLG) on 19 December 2012, the details of which are set out in Section 3.0 to this report. Combined with this, the 1 April 2013 sees fundamental local government finance changes in relation to Business Rates and Council Tax, as a result of 3 main developments:

- Business Rates Retention Scheme;
- Localised Council Tax Support Scheme; and,
- Technical reforms of Council Tax.

1.4 Strategic Planning

The North Tyneside Strategic Partnership's Sustainable Community Strategy 2010 - 2013 provides the overarching policy direction, vision and delivery priorities for the Authority. Cabinet will also have due regard for the Council Strategic Plan 2012/15 agreed at full Council on 1 March 2012 which covers the period for the 2013/14 Financial Plan and Budget.

The Authority's Performance Framework identifies the key actions the Authority is taking under the themes in the Sustainable Community Strategy:

- Regeneration;
- Quality of life;
- Best start in life; and,
- Sense of place.

The Performance Framework includes an additional theme "21st Century Council" which relates to how the Authority operates to deliver services and how it involves residents and others in its decision making process.

1.5 Defining our Financial Strategy

Best practice highlights the need for medium-term planning horizons. The Authority's two-year planning timeframe will assist in ensuring there is a clear demonstration of sustainability in its plans for the future. The key drivers for change and the improvement focus in resource planning continue to include the need for:

(a) Medium term planning horizons – for workforce, assets, finance;

(b) Financial flexibility;

(c) Driving value for money and efficiency gains;

(d) Joined-up performance management;

(e) Strong financial awareness and budget holder responsibility;

(f) Effective risk management;

(g) More rapid accounts closure;

(h) Continuous forecasting and in-year reporting; and,

(i) Effective use of technology.

The approach to resource planning for 2013-2015 has continued to concentrate on ensuring that all of the above drivers are embedded into the decision-making process for the allocation and re-direction of the Authority's finite resources, financial and otherwise. In addition, there has been the annual detailed review of the current financial plan forecasts and commitments for revenue and capital investment. The Financial Strategy will be subject to an annual review.

Schools revenue funding is mainly directed through the Dedicated Schools Grant (DSG), however, the Authority have ensured appropriate consultation and inclusion of schools and young people within the Financial Planning and Budget process.

1.6 2013/14 Financial Planning and Budget Timetable of Key Future Decision Milestones

Key aspects of the 2013/14 Financial Planning and Budget timetable remaining are summarised in Table 1 below. This highlights key decision milestones in the process. This information has been supplemented by a detailed operational timetable for 2013/14.

Table 1: 2013/14 Financial Planning and Budget Process Timetable of Key Milestones

Date / Meeting	**Detail**
28 January 2013 **Cabinet**	Cabinet considers its draft budget proposals for 2013-2015 in relation to the 2013/14 Council Tax Requirement including general fund revenue, schools, treasury management strategy & Capital Plan.
28 January 2013 **Cabinet**	Cabinet sets the 2013/14 Council Taxbase incorporating changes agreed at full Council on 24 January 2013 and authorises the Mayor and Deputy Mayor to consider any comments from Overview and Scrutiny Committee.
30 January 2013 **Overview and Scrutiny**	Overview and Scrutiny Committee consider the 2013-2015 Financial Planning and Budget proposals in relation to the Council Tax Requirement including the general fund revenue, schools, treasury management strategy & Capital Plan.
6 February 2013 (Estimated Date)	Estimated Northumbria Police Authority precept setting date.
7 February 2013 **Full Council**	Cabinet submits to full Council its estimates of amounts for the 2013-2015 Financial Plan and 2013/14 Budget & council tax levels. Elected Mayor responds to Overview and Scrutiny Recommendations.
18 February 2013	Tyne and Wear Fire and Rescue Authority precept setting date.
21 February 2013 **Full Council**	Reconvened full Council meeting to consider Cabinet's estimates of amounts for the 2013-2015 Financial Planning and Budget process & council tax levels. Consideration of any Notices of Objection.

Date / Meeting	Detail
25 February 2013 (if required) **Cabinet**	Cabinet Meeting to consider any objections to Cabinet's Budget proposals
5 March 2013 (if required) **Full Council**	Full Council meeting to agree the general fund revenue budget for 2013/14; the council tax level for 2013/14, treasury management strategy & Capital Plan for 2013-2023

1.7 Managing our Risks

The Authority has used the information that it holds in relation to strategic risks as part of managing its business and has looked to implement strategies to minimise financial and other risks by deploying resources appropriately. The 2013–2015 Financial Planning and Budget process has included specific consideration of how to address key business risks faced by the Authority. Services are continuing to consider ways in which to minimise or eliminate risk from business decisions, particularly in relation to capital investment schemes and major Change, Efficiency and Improvement (CEI) projects.

1.8 Outstanding Information

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

1.9 Authorisation to amend Cabinet's Estimates of Amounts

With reference to paragraph 1.1 above, it is proposed that the Elected Mayor is authorised to consider any changes that may need to be made to Cabinet's estimates of amounts in light of external information still to be assessed and finalised in relation to:

(a) Northumbria Police Authority and Tyne and Wear Fire and Rescue Authority Precepts (due 6 February 2013 and 18 February 2013 respectively);

(b) Levies, including the Tyne and Wear Integrated Transport Authority (ITA) (due January / February 2013);

(c) Tyne and Wear Joint Service Budgets (due January / February 2013);

(d) The Final Local Government Finance Settlement announcements for 2013/14, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG), Council Tax Freeze Grant and Council Tax Support funding) final detailed information (due late January 2013/ early February 2013); and

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

In addition to the information outstanding as detailed above, there may be amendments to the proposals set down in this report in response to any recommendations from Overview and Scrutiny Committee. In addition, as the Budget Engagement process will continue beyond the 28 January 2013, any outcomes from budget engagement after the drafting of this Cabinet report will be considered by the Elected Mayor and provided as an Addendum to the report to full Council on 7 February 2013 and 21 February 2013.

Section 2.0
Strategic Planning

2.1 Policy Framework for the 2013/14 Financial Planning and Budget Process

The North Tyneside Strategic Partnership's Sustainable Community Strategy 2010-2013 provides the overarching policy direction, vision and delivery priorities for the Authority. There is no intention to refresh the Council Strategic Plan this year, and Cabinet will have due regard for the Council Strategic Plan 2012/15 agreed at full Council on 1 March 2012 which covers the period for the 2013/14 Budget.

Following the Government's Comprehensive Spending Review in 2010 the Authority established its Change, Efficiency and Improvement Programme 2011 - 2015 to ensure the Authority could both meet its financial challenges and improve services and outcomes for residents and employees. The proposals for the 2013 – 2015 Financial Planning and Budget process outline how the Authority will deliver year three of this programme.

2.2 Sustainable Community Strategy 2010 - 2013

The priorities of the Sustainable Community Strategy are:

- Regeneration;
- Quality of life;
- Best start in life; and,
- Sense of place.

Regeneration

North Tyneside is business friendly. The Authority wants to attract and support more business and to help create sustainable employment. The North Bank of the Tyne offers opportunities as an area of global significance in renewable and marine industries. The Authority wants the borough to be well connected, to minimise congestion and promote healthy means of travel. It wants neighbourhoods to be safe, to offer a range of housing, with easily accessible town centres providing a range of shops and services.

Quality of life

The Authority aims to reduce inequalities in the quality of life experienced by residents. It seeks to promote independence, healthy living and the ability to play a full part in the community for all our residents, by supporting and protecting vulnerable children and families and the personalisation of adult social care.

The Authority is working towards mitigating the impact of climate change and continues to reduce its CO^2 omissions both as an organisation and in conjunction with our partners through the North Tyneside Strategic Partnership.

Best start in life

Our aim is to ensure that the youngest children are ready for school when they enrol; provide age appropriate and affordable activities for people aged 8-19 and equip children and young people with the education and skills they will need to prosper in their adult life, in an increasingly competitive and global jobs market.

Sense of place

The Authority is continuing to enhance the coastal strip and make progress with plans for the regeneration of the Spanish City Island. There is an annual programme of cultural activities, which builds on the borough's heritage.

The Authority delivers a clean and attractive local environment and has put in place a programme of improvements to public parks across the borough.

North Tyneside is a place where residents tell us they feel safe, and the Authority are continuing to build on success in reducing crime within the borough.

21st Century Council

The Authority's Performance Framework which outlines progress against the Sustainable Community Strategy and the Council Strategic Plan includes a fifth theme "21st Century Council" which relates to how the Authority operates to deliver services and how it involves residents and others in its decision making process.

To ensure the Authority can meet its financial challenges, improve services and outcomes for residents and employees it has continued to develop partnerships with other organisations and is now exploring ways it might improve income through trading services.

The Authority works with local people and organisations to help them to influence the decisions which affect their lives and shape service delivery. It will also continue to encourage residents to fully participate in the democratic processes by maximising registration to vote and encouraging high voter turnout at all elections.

The following table identifies the key priorities the Authority is addressing under these themes. Further information on the actions being taken to deliver each priority can be found in the How we are performing section on the Authority web site. It is proposed that these priorities continue during 2013/14.

Table 2: Authority activity 2012 - 2014

Regeneration	Economic Growth Inward Investment North Bank of the Tyne Infrastructure Small Medium Enterprise Development Town Centres Housing Strategy
Quality of life	Welfare Reform Adults personalisation and independence Health and Wellbeing Housing (tenant services) Co2 Public protection
Best start in life	Education and Development Youth Provision Early intervention and Prevention Youth Employment Decreasing youth offending Helping Vulnerable Children, Families
Sense of place	Coastal Development Street Scene Culture, parks and heritage Crime and disorder
21st Century Council	Structure and shape and form of organisation Enabling Democracy Traded Services Budget saving Year 2-4 Change, Efficiency and Improvement Programme Demographics and future proofing Excellent intelligence Customer First

2.3 What our residents have told us

The Authority puts residents at the centre of the services it delivers and engagement with residents takes place throughout the year in a number of different ways. For example through the North Tyneside Homes Annual Gold Ticket Event for tenants and through the Young Mayor and Young Cabinet.

Each year the Authority do focussed budget engagement to ensure residents' views are considered during the Financial Planning and Budget process and each year the Authority try to improve the process. This year the Voice your Choice programme has formed the heart of the specific budget engagement. This started on 8 October 2012 and will continue into early 2013.

During the first phase of Voice your Choice a themed approach was used across three weeks. Each week focused on one of the three Change Efficiency and Improvement Programme themes as set out below:-

- Week 1 - 8 October 2012 : Choices for our people
- Week 2 - 15 October 2012 : Choices for services
- Week 3 - 22 October 2012 : Choices for places

Throughout the three week period, people were able to contribute their views through a number of different ways, including through email and Facebook, through talking to Authority staff out and about in the borough over the three weeks and via a questionnaire. Over 1,400 questionnaires have been returned. This is a higher level of budget engagement compared to previous years.

The second phase of budget engagement started following the agreement of Cabinet of the initial Financial Planning and Budget Setting proposals on Monday 26 November 2012. Sessions were held with service users on aspects of the budget and a consultation document was published on the North Tyneside Council website seeking views on Cabinet's initial proposals. These proposals identified that detailed plans to save £6.133m in 2013/14 were in place across all the themes of the CEI programme. In addition, a further £1.949m of savings projects were proposed.

At that stage, work on an additional £4.125m of savings was underway in preparation for the announcement of the 2013/14 Provisional Local Government Financial Settlement in December.

A further phase of engagement will take place on the Elected Mayor and Cabinet's full proposals set out in section 5 of this report. This will be a consultation document on the website and events on specific aspects of the proposals.

2.4 Engagement outcomes – Phase 1

Choices for our people

There were two questionnaires on choices for the people theme. One focused on early years and family support services and the second focussed on adult social care.

In total, 431 questionnaires on early years and family support services were returned, and some of the key findings from the responses were:

- Respondents value the following services (with the most frequently mentioned first): play facilities and activities (including Play and Stay), childcare (including nursery and crèche), baby groups, family and parent support, family/holiday activities, training and employment.

- Almost half of all respondents think it would be reasonable to charge for some early years and family support services, such as play facilities and activities, and fun activities for families.

- When asked ‘how the Council could improve the use of early years and family support services’ many respondents said no improvements were necessary. However, those who did make suggestions, proposed the provision of more or new services and activities (for example play groups and holiday activities), better/more advertising and communication which the services available, and changing the time of day an activity or service is provided.

- Some respondents also shared their ideas about how the Authority might work with local people to shape and deliver early years and family support services. They suggested more consultation with users and, more advertising and information.

On Social Care people were asked for their views on statements on prevention, personalisation and protection. In total, 142 questionnaires were returned and some of the key findings were:

- More than three-quarters of respondents agreed with the statements contained in the questionnaire about prevention – defined as ‘investing in actions that help prevent the need for further services or that delay or reduce social care needs’.

- Respondents who had agreed with the statements were asked what people could do to live long and happy lives. Their comments focused on a combination of healthy living (including low cost or free social and leisure activities), personal responsibility/independence, a good social/family life (resulting in a sense of belonging and self-worth), financial security and decent accommodation.

- More than four-fifths of respondents agreed with the statements on personalisation, described as ‘offering as much choice and control to people in a way that is affordable now and in the future’.

- Respondents who had agreed with the statements were asked to suggest ways in which the Authority could allocate the resources it has available to provide adult social care while ensuring fairness and targeting of those most in need. They highlighted the need for: a fair and transparent process for allocating resources; needs assessment; a rigorous approach to working with providers; and the importance of partnership working.

- Almost all respondents agreed with the statements about protection, explained as ‘balancing risk to give people choice and control over their lives whilst protecting those who might be vulnerable or at risk of abuse’.

- Those who did agree with the statements were asked to describe how individuals, families and communities can look after themselves. They identified a need for community capacity building, joined up services and access to information and support. However some were uncertain whether families would always help and others pointed out that not everyone can look after themselves even with support from family and community.

The results of this survey will be considered alongside other consultation and engagement work carried out by Adult Social care with service users, their carers and the public. Brief information on some examples of this work is provided in Section 2.8. Feedback from all our Adult Social Care activity and engagement with partners is brought together into an annual statement called the Local Account - Local Account May 2012.

Choices for services

For this theme the Authority sought views on how to shape future Cultural Services. In total, 433 questionnaires were returned and some of the key findings were:

- Over 90% of respondents consider libraries, parks and indoor sport/leisure to be the most important cultural and leisure services.

- When respondents were asked how far they think it is reasonable for people in North Tyneside to travel to visit or attend cultural services, there was a mix of responses. These responses were spread across 1-5 miles in terms of how far the majority of respondents believe it is reasonable to travel.

- The majority of respondents believe the charges for North Tyneside's cultural and leisure services are 'about right'. A fifth believe them to be 'too high' with only 3% believing the charges to be 'too low'.

- Over four fifths of respondents believe it is not reasonable to charge for services that are currently provided free of charge, whereas around one in six respondents believe it is reasonable to charge.

The results of this survey will be considered alongside the other engagement and consultation work carried out on these services. Brief information is provided in Section 2.8.

Choices for places

The questionnaire for this final theme focussed on carbon reduction and environmental standards. 453 questionnaires were returned and some of the key findings were:

- 52% of respondents were more concerned about climate change than 12 months ago.

- Over 90% agreed with the Council taking actions to reduce its energy use.

- Litter free streets, enforcement (including fines) and well maintained green spaces were ranked as the most important environmental services.

- Well maintained waggonways and rights of way, weed control and floral displays were ranked as least important.
- Parks, town centres and the coast were the most important areas where flowers should be planted. Roundabouts, key focal points / smaller shopping areas and housing estates were the least important areas.
- 45% said that the current level of four weed spraying treatments a year was acceptable, with 55% favouring either one, two or three.
- Just under half said that 12 to 16 grass cuts a year was acceptable, compared to the current level of 16. Just over half said that between 1-6 or 7-11 cuts were acceptable.
- 82% said that there should not be a charge for garden waste.

The results of this survey will be considered alongside the other engagement and consultation work carried out by Environmental Services. Brief information is provided in Section 2.8.

The reports on the responses to each questionnaire are published as background papers for this report to Cabinet.

2.5 Engagement Outcomes - Phase 2

This section provides information on the outcomes of engagement on the budget proposals from 26 November 2012 up to the drafting of this report. If any different messages are received from the budget engagement exercise before 25 January 2013 an Addendum report will be provided for the Cabinet meeting on 28 January 2013. In addition, as the Budget Engagement process will continue beyond the 28 January 2013 any outcomes from budget engagement after the drafting of this report will be considered by the Elected Mayor and provided as an Addendum to the report to full Council on 7 February 2013 and 21 February 2013.

There were approximately 340 hits on the website between 1 December 2012 and 13 January 2013. Any comments received from the web exercise have been incorporated into the following sections on the outcomes of service led engagement by Adult Social Care and Culture.

Choices for people

Communication and engagement on Adult Social Care budget proposals for 2013/14 started in early December 2012. This work builds upon well established mechanisms for communication the Service has with a range of user groups, provider networks and partner organisations. There have been 16 events held so far with a wide range of service users, partners from the NHS and provider organisations which have involved over 150 people.

The majority of the sessions to date have concentrated on proposals for learning disability services, with specific sessions held with carers and service providers.

These events have been supported by colleagues from the NHS North of Tyne Engagement Team.

Engagement is ongoing but initial findings show that people are well informed about many of the challenges and opportunities facing the Authority and recognise the need for change.

There was common feedback expressing the benefit and value of respite services for carers, with requests to ensure that alternatives to residential respite services are well researched and communicated consistently.

While the need for change was largely accepted, people want to be assured that any changes will be sensitively managed and sufficient time given to service users, their carers and providers to adapt. Ongoing, clear and honest communication from Authority Officers was seen as essential to achieving this. In particular people wanted to receive written information on the outcome of the consultation events, including a summary of all of the comments received.

The value of receiving care from a consistent care team was seen as vital to enable service users and their carers to have confidence to try new approaches and for some, to take steps to living more independently within the community.

Access to appropriate advice and support to help people navigate the health and social care system was also viewed as essential and should be available to everyone, regardless of their eligibility for social care funding.

Many with experience of using Personal Budgets to buy their care and support, wanted to have access to good quality advice and information to help them know what services were available.

Assurance of the Authority’s continued commitment to supporting people into employment was a strong theme and people wanted to be assured that the proposal to merge the existing Employment Support Service into the Reablement team, would not detract from this.

Social care providers have been keen to express their willingness to work with the Authority to respond to the changes but did express concerns about the uncertainty of future income, if people do not choose to spend their Personal Budget with their organisation.

Choices for Services

For this theme the Authority sought further views on the efficiency proposals for Cultural Services set out in Cabinet’s initial budget proposals.

There was a general understanding and appreciation of the need to make efficiencies and to maximise income. Key messages which came out of the consultation were that any increase in fees and charges should be ‘fair’ and ensure that services and facilities remain accessible for all. There was support for generating income through sponsorship to maintain current services, activities or events. Overall, seeking alternative management options for facilities was seen as positive, though the current quality and accessibility standards for residents and visitors would be expected to be maintained by any new operator.

There were a breadth of proposals across Cultural Services and as such it was considered that there was a balance across all service areas and that no one group would be disadvantaged more than another.

While it was broadly accepted that there was a need for change, from the responses received there was a clear message for the Authority to be open and transparent in its communication with the residents of North Tyneside. In addition there was support to maximise opportunities to access different funding streams to maintain services and to keep services accessible and affordable, particularly for those on low incomes.

It was suggested that operational models, including revising opening hours, could be considered. It was considered important for the Authority to maintain, albeit reduced services rather than 'elimination'. Additional income could be generated for the Borough through maximising the tourism and cultural offer and by the introduction of charges for some services, activities or events, and that differential pricing would continue to keep services accessible.

2.6 Residents Survey 2012

The annual Residents' Survey finds out how residents see the Authority, the services it delivers and the local area. The key findings from the 2012 survey are:

- 73% of residents are satisfied with their local area
- almost all (90%) of residents feel safe during the day and 62% feel safe at night
- 63% agree that North Tyneside is a place where people get on well together and 70% feel a sense of belonging to their local area

Residents have concerns and believe improvements can be made, including to the following:

- roads and pavements (suggested by 66%)
- job prospects (suggested by 35%)
- clean streets (suggested by 31%)
- the level of anti social behaviour (suggested by 31%)

Many of the Authority's services achieved high levels of satisfaction. The top three are

- street lighting (85% satisfied)
- refuse collection (82% satisfied)
- doorstep / kerbside recycling (75% satisfied)

The areas with the lowest satisfaction are:

- winter maintenance (23% satisfied)
- pavement maintenance (23% satisfied)

- road maintenance (22% satisfied)

Overall

- 60% of residents feel informed by the Authority
- 50% of local people are satisfied with the way the Authority runs things and 29% are dissatisfied
- 38% of people think the Authority delivers value for money, down 7% from 2011, but significantly higher than 2008 (29%).

Additional information is provided on the results of the Residents Survey in the background paper -2013/14 Budget Engagement Strategy Report.

2.7 Business Community

An initial meeting was held with the North East Chamber of Commerce on 10 January 2013 which focussed on providing information on the overall process for developing the 2013-2015 Financial Plan and Budget and detailed information in the Elected Mayor and Cabinet's initial proposals which were agreed on 26 November 2012. A further meeting is planned for the 1 February 2013 which will detail the Elected Mayor and Cabinet's final proposals for the 2013-2015 Financial Planning and Budget Setting process.

2.8 Examples of service specific engagement undertaken through out the year

This section provides examples of the range of other engagement carried out by the Authority during 2012 that are relevant for consideration as part of the Financial Planning and Budget process.

In Children, Young People and Learning, updates on the current position for the CEI Programme and the current financial position are provided through regular meetings with service managers and leads within the Directorate as well as the Schools Forum, School Governors, Association Secretaries and Head Teacher Briefings.

In Adult Social Care, since April 2012 the Authority have engaged and consulted with a wide range of service users, their carers and the public to discuss experiences of existing services and priorities for the future. This has been carried out though experience surveys, established focus groups and forums and short-term or one off events that are linked to specific service or national policy changes. Feedback from all of this activity is brought together into an annual statement called the Local Account, which was published in May this year - Local Account May 2012.

In addition to an annual statutory user survey, 3,500 Adult Social Care service users were also contacted through a postal survey to ask about their experiences of services and wider issues around community safety and wellbeing that could inform the work of the joint commissioning boards and the Health and Wellbeing Strategy.

The Carer Personalisation Reference Group, a small group of around 10 carers of people who have a learning disability, was also established early in 2012. It helps to communicate planned services changes resulting from personal budgets and changes to services as a result of last year's budget plans.

The Learning Disability Respite Group – a short term working group of commissioners and carers of people with a learning disability was established in 2011/12 to oversee the review of in house learning disability services.

Other examples, include a consultation in May 2012, with Adult Social Care service users to inform the re-commissioning of existing domiciliary care contracts in 2013 and a consultation in June and July 2012, with focus groups on how the Care Call Service will be delivered in 2013 and beyond.

Individual services within Cultural Services capture visitor information and views on how the Authority can improve what is offered through out the year. Consultation and engagement with Sport and Leisure customers includes the annual evaluation of the Healthy 4 Life Programme which assesses the effects of the full year programme.

There are a number of high profile cultural events in the Borough which are used to gain customer views and comments, for example the 10K Road Race survey and Mouth of the Tyne Festival visitor survey. A Visitor survey and the Tourism Business survey are also delivered annually.

Park Visitor Surveys are delivered throughout the year across the 12 parks managed by Cultural Services. The survey captures visitor information and feedback on the overall standard of individual parks and how improvements could be made. There is also on-going consultation on the regeneration of the parks as part of the Excellent Parks project and 'Friends of' groups have been established.

A user satisfaction survey is currently being developed for Libraries, Community Centres and Tourist Information Centres. The survey will be of a similar format to the 'What Matters to You' survey which helped to inform the North Tyneside Libraries Strategy 2011-2016 (agreed by Cabinet in November 2011).

Throughout the last year and into next year the Authority has been working with residents and partners to develop the next Waste Strategy for 2013-2030 which will shape service delivery. This has included collecting views on recycling and general waste issues as well as a bid to the government's Weekly Collection Support Scheme. Methods used include a questionnaire on the website as well as attending the North Shields Housing Forum, the Housing Gold Ticket event and the Residents Panel. Further consultation to shape waste reduction and recycling targets is planned with Area Forums in November / December before publishing the draft Waste Strategy in the New Year for consultation.

Public Health Funding Engagement 2013/14

On 1 April 2013 the responsibility for public health services will transfer from North Tyneside PCT to North Tyneside Council and a public health ring fenced grant will be allocated to the Authority from 2013/14.

The Authority will have responsibility for

- leading investment for improving and protecting the health of the population and reducing health inequalities;
- ensuring plans are in place to protect the health of the population and ensuring an appropriate public health response to local incidents, outbreaks and emergencies; and
- providing public health expertise, advice and analysis to Clinical Commissioning Groups (CCGs).

The Authority will also have a new role in supporting, reviewing and challenging NHS commissioned immunisation programmes and national screening programmes.

During 2012/13 extensive engagement has been undertaken in relation to the transfer of public health responsibilities to the Authority. This engagement has included discussion around the use of the ring-fenced grant in general and what the key health and wellbeing priorities are for the borough.

Engagement has taken place with the following groups/organisations to date:

- Elected Mayor, Cabinet and Members;
- Health and Wellbeing Board;
- Commissioning Executive;
- Health Improvement Commissioning Board;
- Children's Commissioning Executive;
- Clinical Commissioning Group;
- LINk members;
- Community and Healthcare Forum;
- Community and Voluntary Sector representatives (as part of 'Working With' Event;
- Northumberland Tyne and Wear NHS Foundation Trust;
- Northumbria Healthcare Foundation Trust; and
- Members of the public during health and wellbeing community engagement sessions.

The outcome of the engagement sessions has been to inform the Health and Wellbeing Strategy for North Tyneside and also to inform priorities for shifting investment to address key health problems and areas of inequality. Key messages coming out of the engagement include:

- The need to shift investment into more preventative and early interventions;
- To ensure that commissioned services focus on outcomes rather than activity;
- To target those in greatest need to improve health and wellbeing and reduce demand on high cost services;
- To make health and wellbeing activities very local, accessible and free for those in greatest need;
- To provide more support to vulnerable people to improve their health and wellbeing;
- To work with community organisations and local people to build skills, capacity and interventions to improve health and wellbeing;
- To rebalance current public health spend in relation to North Tyneside priorities;
- To integrate approaches with other commissioners, where appropriate, to make the best use of resources;
- To invest in alcohol treatment and support services;
- To support activities to improve mental health and wellbeing; and
- To support people in the most deprived areas to access low cost healthy food, cooking skills and physical activity.

Section 3.0
Local Government Finance

3.1 Context / National Settlement

On 19 December 2012, Communities and Local Government (CLG) set out details of the Provisional Local Government Finance Settlement for 2013-2015, the ‘Settlement’. In the Statement to Parliament it was noted that this “begins the biggest shake up of local finance in a generation.” A consultation then commenced on this Provisional Settlement which closed on 15 January 2013.

The Settlement confirms the position for Local Government for 2013/14 as set out in the Autumn Statement of 5 December 2012, of no further reductions for 2013/14 over and above those anticipated. The Settlement for 2014/15 reflects the additional 2% spending reductions for Local Government set out in the same Autumn Statement. This additional national 2% reduction of £447m, is in addition to the reductions for 2014/15 set out in the 2010 Spending Review.

The Business Rates Retention System (BRR) Explained

This Settlement sets out the fundamental change to the system through the Business Rates Retention (BRR) system which takes effect from 1 April 2013. Since 1990, Business Rates income collected by local authorities each year have been pooled nationally and redistributed back to local authorities as central government grant. This has been combined with Revenue Support Grant and distributed based on a series of complex formulae. From 1 April 2013 this system will change with Local Authorities in future retaining business rate income collected locally effectively up to their current baseline level of spend. The aim of the scheme is therefore to provide an incentive effect by allowing local authorities to retain an element of income. Once the system has been set for 2013/14 the Government does not intend to do a reset of the system until April 2020.

The new system introduces a number of new aspects, which were detailed as part of Cabinet’s initial Budget proposals report to the 26 November 2012 Cabinet meeting. The key aspects of these changes confirmed in the Provisional Local Government Finance Settlement are:

<u>Baseline</u>
At the outset of the scheme the Government have set each local authority a business rates baseline for 2013/14 to ensure a stable base starting point to the system based on the Estimated Business Rates Aggregate (EBRA) of £21.797bn. Baseline funding will be increased through increases in the Retail Price Index (RPI) each year.

<u>Local Share</u>
From 1 April 2013 each local authority will retain a percentage of the rates it collects locally. This “local share” rate has been set as 50%, the rest being paid to central

government and also a share being paid to Fire and Rescue Authorities. As setting the local share at 50% means the “local share” for England is less than the Departmental Expenditure Limits (DEL) then the Government are supplementing each authorities Business Rates to bring them up to their DEL through a Revenue Support Grant (RSG) adjustment. RSG is likely to remain in the system for some time, albeit at reducing levels. Setting of the “Local Share” will be based on the 2013/14 National Non Domestic Rates (NNDR1) Return for each local authority. This needs to be submitted to the CLG by 31 January each year in order that this information can be used to inform Central Government and major Preceptors.

Top Up and Tariff
To ensure fairness within the new system, the Government has calculated a tariff or top up for each authority. For any Authority with a business rates income below their level of baseline funding requirement they will receive a top up amount, while conversely for any Authority whose business rates income is greater than their baseline funding level then they will have to pay a tariff to the Government. North Tyneside Council is a Top up authority under this system.

Safety Net
For any authority which experiences a decline in their business rates base, they will receive some protection with the introduction of a safety net. If the income of a local authority falls below a pre-determined percentage of its baseline funding level it will receive safety net payments. The safety net has been set at 7.5%, meaning that authorities would receive payments if their business rate share falls by 7.5% or more in one year. However, any loss of Business Rates income under 7.5% in a given year would have to be managed by the Authority.

Levy
In order to fund the safety net, the Government is introducing a levy on any authorities who stand to gain from a “disproportionate increase” in their business rates income. This levy rate has been set as 1:1 meaning that for every 1% increase in an authority’s business rates base that they would see no more than a corresponding 1% increase in income as measured against their spending baseline. The formula for calculating an individual authority’s levy rate is:

$$1 - \left(\frac{\text{Spending baseline}}{\text{Business Rates base}}\right)$$

Funding Held Back

The Government as part of the Settlement have adjusted the local government spending control total, taking funding out for the following items:

New Development Deals
The Government will make available £120m of funding over six years (£15m in both 2013/14 and 2014/15) to provide investment in growth through financing additional infrastructure.

Fire Grants

Fire revenue grants will remain as a specific grant, totalling £49.8m and £50.3m in 2013/14 and 2014/15 respectively.

Neighbourhood Planning
Funding for new burdens arising from the duty to support neighbourhood planning will be funded as an unringfenced grant, totalling £15m in 2013/14 and £20m in 2014/15.

Capitalisation
This will be funded at £100m in both 2013/14 and 2014/15.

Safety Net
In the early years of the business rates retention scheme, additional support for safety net funding will be provided by holding back £25m in both 2013/14 and 2014/15. This is a reduction to the £250m which it was anticipated would be held back for the safety net.

New Homes Bonus
Within the Business Rates Retention system, £500m in 2013/14 and £800m in 2014/15 will be held back to fund the New Homes Bonus.

Grants Transfers

Adjustments have been made to reflect grants being transferred into the local government spending control total, with one key transfer out, to reflect the transfer out of the Central Education Services within Local Authority Central Spend Equivalent Grant (LACSEG). This will now be administered and distributed as a separate unringfenced grant to local authorities and to academies. This amounts to £1.039bn in 2013/14 and £1.029bn in 2014/15. The following grants being transferred for 2013/14 and 2014/15 are set out in Table 3 below:

Table 3: Grant Transfers 2013/14 and 2014/15

Grant	**2013/14 £m**	**2014/15 £m**
Transfers In		
2011/12 Council Tax Freeze Grant	593	593
Council Tax Support Grant	3,295	0
Early Intervention Grant	1,709	1,600
Greater London Authority General Grant	46	43
A proportion of Greater London Authority Transport Grant	758	782
Homelessness Prevention Grant	80	80
A proportion of Lead Local Flood Authorities Grant	21	21
Learning Disability and Health Reform Grant	1,413	1,448
Bus Service Operators' Grant for London	45	46
Total Transfers In	**7,960**	**4,613**
Transfers Out		
Local Authority Central Spend Equivalent Grant (LACSEG)	1,039	1,029

Total Transfers Out	**1,039**	**1,029**

3.2 North Tyneside Council Position 2013-2015

The Provisional Local Government Finance Settlement of 19 December 2012 is broadly in line with our resource forecasts. However, the final position can't be confirmed until all of the outstanding information on the Settlement has been released by the Government. Based on the information issued as at 16 January 2013, the 2013/14 position is in line with the position set out in the initial budget proposals to Cabinet on 26 November 2012. Factoring in the impact for North Tyneside (around £3m) of the additional 2% Local Government reductions for 2014/15 announced in the 5 December 2012 Autumn Statement, then again the 2014/15 position is as anticipated.

Floor Damping Levels and Banded Floors within the 2013-2015 Provisional Local Government Finance Settlement

The 2013-2015 Provisional Local Government Finance Settlement maintains four separate groups of authorities i.e. education / social services, districts and police and fire and rescue authorities. This Settlement continues the system of four levels of banded floors, to reflect how much local authorities are dependent on formula grant. Band 1 reflects those councils most reliant on formula grant and band 4 applies for those authorities least reliant on formula grant. North Tyneside Council falls into band 2. For 2013/14 the Government has increased the differential between the damping bands, so that the gap between bands increases from 1% to 2%.

Start Up Funding Assessment (SUFA)

A key aspect of the Business Rates Retention (BRR) System is the introduction for each local authority of a Start Up Funding Assessment (SUFA). This has been calculated by effectively totalling up all of the income streams within the BRR, using the former needs based formaulae. The Government have calculated for each authority their estimate what SUFA would have been for 2012/13 had the system been in place last year. The SUFA for North Tyneside Council for 2013/14 is £105.622m, which reduces by 8.9% to £96.216m in 2014/15. This information is set out in Table 4 below:

Table 4: 2013-2015 Start Up Funding Assessment for North Tyneside Council

	2012/13 Adjusted £m	**2013/14 £m**	**2014/15 £m**
Formula Funding	83.432	75.533	80.509
2011/12 Council Tax Freeze	2.130	2.130	2.130
Council Tax Support Funding	14.173	14.152	0.000
Early Intervention Funding	7.338	6.386	5.979
Homelessness Prevention Funding	0.171	0.171	0.171
Lead Local Authority Flood Funding	0.115	0.115	0.115
Learning Disability and Health Reform			

Funding	6.961	7.135	7.312
Local Authority Central Spend Equivalent Grant (LACSEG)	-4.085	0.000	0.000
Total Start Up Funding Assessment	**110.235**	**105.622**	**96.216**
Reduction		**-4.613**	**-9.406**
Reduction (%)		**-4.18%**	**-8.91%**

North Tyneside is a “Top Up” Authority under the Business Rates Retention system. SUFA will be distributed to North Tyneside Council as set out in Table 5 below:

Table 5: Distribution of SUFA to North Tyneside Council in 2013/14

	2013/14 £m
Revenue Support Grant	63.426
Business Rates Baseline	27.234
Business Rates “Top Up”	14.962
Total Start Up Funding Assessment	**105.622**

Formula Funding for North Tyneside Council

Table 6 below shows the movement for North Tyneside Council of Formula Grant as a result of the 2013-2015 Provisional Local Government Finance Settlement. As all detailed figures for 2014/15 have yet to be issued, the figures shown below are a comparison of our 2012/13 and 2013/14 position.

Some adjustments have been made to the Formula Grant for 2012/13 to arrive at a revised Formula Grant for 2013/14. These adjustments are in respect of:

- 2011/12 Council Tax Freeze (£2.130m) – Fall out of Formula Grant in 2013/14, reflecting the movement of this into a grant as part of SUFA.
- Adjustments have been made to the distribution of the Relative Needs Amount and Central Allocation; and,
- Formula Grant has been reduced in 2013/14 (£3.977m) to reflect the impact of the Local Authority Central Spend Equivalent Grant (LACSEG) adjustment.

Table 6: North Tyneside Council’s Formula Grant Allocation 2012-2014

	2012/13 £m	**2013/14 £m**
Grants Rolled in Using Tailored Distributions	8.602	7.457
Relative Needs Amount	63.044	60.149
Relative Resource Amount	-14.113	-16.250
Council Tax Freeze Compensation	2.130	0.000
Central Allocation	24.754	28.086
Local Authority Central Spend Equivalent Grant		

(LACSEG)	0.000	-3.977
Total Formula Grant Before Damping	**84.417**	**75.465**
Damping Adjustment	0.237	0.068
Formula Grant Allocation	**84.654**	**75.533**

Grant Rolled in using a Tailored Distribution – A new separate grant block which was created as part of the 2011/12 Local Government Finance Settlement to distribute approximately £2bn of the £3.4bn of specific grants rolled in using a tailored distribution.

Relative Needs Amount – Determined by Relative Needs Formula and intended to reflect the relative needs of individual authorities in providing services. The formula for each specific service area is built on a basic amount per client, plus additional top ups to reflect local circumstances. The block aims to measure the need of an authority relative to others.

Relative Resource Amount – This is a negative figure, which adjusts for the fact that some areas can raise more income locally and require less support from Government. This negative amount is deducted from the positive grant arising from the Relative Needs Block.

Central Allocation – Once the above blocks are allocated, the remainder of the Formula Grant pot is then allocated on a per head basis. The per head amounts are based on the appropriate minimums from each authority already calculated for the needs and resources block.

LACSEG – An adjustment to reflect the transfer out of the Central Education Services within Local Authority Central Spend Equivalent Grant (LACSEG), which wiill now be administered and distributed as a separate unringfenced grant to local authorities and to academies.

Floor Damping – The resulting allocation from the three blocks above are 'damped' to ensure the amount each authority receives is limited by a guaranteed maximum decrease. This basically protects authorities from late changes in funding year on year. The baseline for damping is calculated by adjusting for any grant transfers into the formula grant system.

Analysis of North Tyneside Council Grants Rolled into Formula Grant Using Tailored Distribution 2013/14

As part of the 2011/12 Formula Grant Settlement, approximately £2bn of £3.4bn specific grants being rolled into formula grant were distributed using a 'tailored distribution'. This continues for the 2013/14 Provisional Local Government Finance Settlement. The total of these grants for North Tyneside Council is £7.457m for 2013/14 which is a reduction of £1.145m compared with 2012/13. A comparison of the 2012/13 and 2013/14 allocations for North Tyneside Council are shown in Table 7 below:

Table 7: 2012-2014 North Tyneside Council Grants Rolled into Formula Grant Using Tailored Distribution

	2012/13 £m	2013/14 £m
Local Transport Services	0.090	0.100
Supporting People	7.524	6.430
Housing Strategy - Older People	0.058	0.049
Learning and Skills Council (LSC) Staff Transfer	0.231	0.208
HIV / AIDS Support	0.053	0.057
Preserved Rights	0.639	0.607
Animal Health and Welfare	0.007	0.006
Total Grants Rolled in Using Tailored Distribution	**8.602**	**7.457**

Council Tax

2011/12
The 2011/12 Local Government Finance Settlement confirmed that there would be £652m made available nationally in England to fund the implementation of a Council Tax freeze in 2011/12. This set out that there would be funding to support this over the period of the current Spending Review for 2011/12 but no funding to support a further freeze in 2012/13. North Tyneside took advantage of this Council Tax freeze grant of £2.130m in 2011/12 meaning there was no Council Tax increase for residents in 2011/12. As noted earlier, this amount has now been included within the Start Up Funding Assessment for 2013/14 and 2014/15.

2012/13
On 3 October 2011 HM Treasury announced that a further £804m would be made available nationally (£675m in England and £129m for Scotland, Northern Ireland and Wales) to allow the continuation of the Council Tax Freeze into 2012/13. North Tyneside Council took advantage of this one-off grant in 2012/13 totalling £2.140m which allowed us to freeze council tax in 2012/13.

2013/14
On 8 October 2012 it was announced that Government Funding would be made available to authorities to allow a third consecutive council tax freeze. Authorities signing up to the grant scheme will receive funding in two equal instalments over 2013/14 and 2014/15. This funding was confirmed as part of the 19 December 2012 Provisional Local Government Finance Settlement.

As noted in 26 November 2012 Cabinet Report on the Cabinet's initial budget proposals for 2013-2015, North Tyneside Council is intending to take advantage of this Council Tax Freeze grant in 2013/14. The provisional allocations for North Tyneside Council are £0.857m for both 2013/14 and 2014/15.

The total payments to North Tyneside from this scheme for 2012-2015 are detailed in Table 8 below.

Table 8: Provisional 2012-2015 Council Tax Freeze Grant Payments for North Tyneside Council

	2012/13 £m	2013/14 £m	2014/15 £m
2011/12 Council Tax Freeze Grant	2.130	2.130	2.130
2012/13 Council Tax Freeze Grant	2.140	0.000	0.000
2013/14 Council Tax Freeze Grant	0.000	0.857	0.857
Indicative Council Tax Freeze Payment to North Tyneside Council	**4.270**	**2.987**	**2.987**

Council Tax Referendums
The Localism Act also includes powers to abolish Council Tax capping in England and instead allows local residents to veto “excessive” Council Tax rises, which was included as part of the 2012/13 Local Government Finance Settlement. These provisions continue for 2013/14 with a referendum limit on the relevant basic amount of council tax being reduced from 3.5% in 2012/13 to 2% for 2013/14.

‘Spending Power’ Calculation

The 2011/12 Local Government Finance Settlement introduced a new calculation of individual authorities’ spending power. This is calculated as being an individual authorities’ Council Tax income plus formula grant income plus income from specific grants. This calculation of ‘Spending Power’ continues into the new Provisional Local Government Finance Settlement for 2013-2015. The ‘Spending Power’ calculation for North Tyneside comparing the position for 2013/14 and 2014/15 with the adjusted position for 2012/13 is set out below:

Table 9: 2012-2015 Spending Power Calculation for North Tyneside

	2012/13 Adjusted £m	2013/14 £m	2014/15 £m
Council Tax Requirement	85.287	85.287	85.287
Start Up Funding Assessment (SUFA)	110.235	105.622	96.216
Council Tax Freeze Grant 2012/13	2.130	0.000	0.000
Council Tax Freeze Grant 2013/14	0.000	0.857	0.857
Inshore Fisheries	0.067	0.067	0.067
Flood Authorities	0.018	0.018	0.018
Social Fund Administration	0.164	0.151	0.139
Community Right to Challenge	0.009	0.009	0.009
Community Right to Bid	0.006	0.008	0.008
New Homes Bonus	0.852	1.299	1.746
Local Reform and Community Voices	0.176	0.181	0.186
NHS Funding to Support Social Care and Benefit Health	2.684	3.690	3.867
Total Spending Power	**201.628**	**197.189**	**188.400**
Reduction		**-4.439**	**-8.789**
Reduction (%)		**2.20%**	**4.46%**

North Tyneside Council therefore sees a 2.20% reduction in its spending power calculation between the adjusted 2012/13 and 2013/14 figures. There is then a further reduction in our Spending Power calculation of 4.46% between 2013/14 and 2014/15.

North Tyneside Council Business Rates Baseline
As noted earlier, from 1 April 2013 each local authority will retain a percentage of the rates it collects locally. It is now an obligation for the authority to formally calculate the estimated level of Business Rates (the Business Rates Taxbase / Business Rates Baseline) it anticipates in collecting for 2013/14 and pass this information to precepting authorities by 31 January 2013. The Business Rates Baseline is dependent on the information included in the NNDR1 form for each local authority. North Tyneside Council submitted a draft NNDR1 form for 2013/14 on 7 January 2013, and a final updated return will be submitted to CLG by 31 January 2013.

Using the information submitted to the CLG on 7 January 2013 this creates the following provisional figures for North Tyneside Council for 2013/14 as set out in Table 10 below:

Table 10: Provisional 2013/14 North Tyneside Council Business Rates Baseline / Business Rates Taxbase

	2013/14 £m
Provisional 2013/14 North Tyneside Business Rates Baseline / Business Rates Taxbase	56.876
Provisional North Tyneside Council Retained Local Share (50%)	28.438
Of the Local Share:	
Provisional Amount Retained by North Tyneside Council (98%)	27.869
Provisional Amount Paid to the Tyne and Wear Fire and Rescue Authority (2%)	0.569

The final National Non-Domestic Rates 1 form for North Tyneside Council for 2013/14 will be signed off by the authority's Section 151 Officer, and returned to the CLG by the deadline of 31 January 2013.

3.3 Education Funding Settlement

The funding system for Education for 2013/14 is significantly different to the methodology used in previous years.

The Department for Education has coordinated a national exercise of "School Funding reform" which has sought to review all aspects of education and school funding. This includes those funds currently allocated through the Dedicated

Schools Grant (DSG) and those education related services currently funded through the Local Government (DCLG) Local Authority Formula grant allocations.

The aspirations behind the changes to the funding system are to ensure that all school funding is transparent; where funding follows the pupil and where pupils with additional needs attract additional funding. Similar schools, serving pupils with similar needs, should be funded in broadly similar ways, no matter where they are.

The reforms include:

(a) A change in the way Local Authorities (LAs) receive their funding for education in 2013/14, including:

  (i) Splitting the Dedicated Schools Grant (DSG) into 3 new blocks: Schools, Early years & High needs. These blocks remain collectively ring-fenced to be used in support of school funding, although it is possible to move money between the 3 blocks; and,

  (ii) A transfer of funds from Department for Communities and Local Government (DCLG) Local Authority Formula grant allocations to the Department for Education (DfE) to allow them to introduce a new specific grant that would be payable to Local Authorities and academies for these functions (thereby removing the need for the current complex funding calculations associated with Academy funding). This was part of the DCLG consultation that ended on 24 September 2012. This process is expected to change the funding mechanism, but the Authority do not expected to see a change in the overall net position of funding received by North Tyneside (beyond that which would be expected in relation to the creation of an Academy).

(b) A requirement for all Local Authorities to delegate more funds from within the DSG to schools and to significantly simplify their local funding formula using prescribed criteria for 2013/14. To help minimise turbulence to schools and academies, the Minimum Funding Guarantee will continue to be set at minus 1.5% for 2013/14 and 2014/15. The simplification of local formula within prescribed criteria is acknowledged as a step towards a future national school funding formula;

(c) A significant change in the way High Need Special Educational Needs (SEN) provision, across all settings, are funded from 2013/14 (e.g. maintained mainstream and special schools, additionally resourced provisions, commissioned SEN services, pupil referral units, alternative providers, academies, independent providers, covering pre-16 year olds and post 16 year olds); and

(d) A requirement for all Local Authorities to review and simplify their funding formula for early years for 2013/14 so these can be more easily understood and benchmarked.

The DfE, working through the Education Funding Agency (EFA), required all Authorities to complete the majority of this work by October 2012. This included details of the elements mapped to the respective new funding blocks, the new simplified local formula and forecast high need SEN provision to be supplied by every LA no later than 31 October 2012. Taking these 2012/13 baseline indications of the blocks the EFA then;

- Add additional funding for the extended 2 year old offer;

- Add funding transferred from the EFA in respect of post 16 high need places in colleges and other institutions that LA's will now be responsible for funding;

- Add value of SEN Block grant previously provided to Local Authorities by the EFA in respect of post 16 High need students in maintained schools;

- Adjust for the net position in respect of inter authority recoupment; and

- Deduct an estimate in relation to hospital tuition, as hospital education will be funded through the maintaining authority, thereby removing the need for authority recoupment.

This creates a baseline value per pupil for each Local Authority, this has then been coupled with the data on pupil numbers from the October 2012 pupil census and used to calculate the value of the 3 new blocks for every Local Authority for 2013/14. Whilst the process of disaggregating the DSG into 3 new blocks and transferring funds in and out of the blocks in respect of new funding responsibilities is complex, the overall quantum of resource available to fund these services nationally is broadly cash limited. The final allocations for each of the blocks, for every Local Authority, were issued by the Department for Education on 19 December 2012 and are outlined in section 5.15 of this report.

Following detailed consultation with all schools in North Tyneside the new mainstream funding formula, for distributing the Schools block in 2013/14 and onwards, (which will also be applicable to Academies) is a much simplified model with only 7 factors:

- A basic amount per pupil (attracting approximately 77% of funds in the Schools block);
- Additional per pupil funding for deprivation;
- Additional funding to support low cost/ high incidence SEN;
- Additional funding to support those children with English as an additional language;
- A lump sum for all schools of £0.150m to protect smaller schools;
- PFI costs; and,
- Additional allocation for rates.

In addition to the main formula all mainstream schools will be protected from any potential reduction in funds through the Minimum Funding Guarantee – meaning no school will lose more than 1.5% per pupil for 2013/14 and 2014/15.

It should be noted that the Pupil Premium (which provides additional support for children in deprivation, looked after children and service children) remains outside and in addition to, the formula outlined above. The Pupil Premium is currently £623 per pupil in 2012/13 and is due to rise further in 2013/14 to £900 per pupil.

Upon reviewing the national guidance with the working group, North Tyneside Council's early years single funding formula was seen to be in line with the new framework. This includes the methodology for allocating funds for deprivation. It has therefore been possible to apply the same formula and cash values created in 2012/13 to the model for 2013/14 as the changes to the model are no more than presentational.

Section 4.0
The Financial Strategy for 2013-2015

4.1 Financial Strategy

A Financial Strategy is critical in order to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term. This financial strategy needs to link to the Sustainable Community Strategy which ultimately drives our resources. Our Financial Planning and Budget process helps the Authority respond appropriately to responsibilities and duties placed upon Local Government through legislative requirements and the Government's drive for a deliverable programme of efficiency savings. The Change, Efficiency and Improvement Programme (CEI) has been refreshed and updated and additional financial targets determined as part of ensuring a balanced financial plan and budget forecast for next year. These are covered in more detail in Section 5.0 of this Annex.

Financial planning is of critical importance during the period of the Government's own Spending Review and beyond, given the potential scale of future challenges noted previously. This planning is supported by the continuing need to integrate revenue, capital, asset and treasury planning, driven further by the Prudential Code requirements in relation to longer-term capital investment. In formulating the financial plan, the impact of priorities, objectives and preferred options needs to be fully evaluated.

Whilst decisions around budget-setting are approved on an annual basis, the Authority must demonstrate medium-term financial and resource planning. Annual budget decisions should be taken in the context of the overall financial plan that looks at all Authority services and takes into account the Government's Local Government Finance agenda.

4.2 National Context

As noted previously, the forthcoming year, 2013/14, represents the third of the four year Government Spending Review announced in October 2010. A new two-year Local Government Finance Settlement was issued on 19 December 2012 to cover the last two years of the current Spending Review period.

Related to this, from 1 April 2013 there will be a significant number of changes to the current system of Local Government Finance through the Business Rates Retention Scheme, Localised Council Tax Support Scheme and Technical Reforms of Council Tax. These changes present a number of challenges set against a backdrop of a tightening of public finances. The future financial and service challenges facing Local Government have already been indicated through the current Spending Review, with further information contained within the 2011

Autumn Statement, Budget 2012, the 2012 Autumn statement (5 December 2012) and as part of the 2013-2015 Provisional Local Government Finance Settlement issued on 19 December 2012. It is anticipated that the public sector will continue to see significant reductions in spending until at least 2017/18, as the Government has moved back its deadline to remove the structural Budget deficit from 2015 to 2017/18.

4.3 Local Context

As a result of the scale of the changes to local authority funding, the financial environment in which the Authority operates is in the process of a radical change over the next three years, with the emphasis for financial planning continuing to shift much more towards savings and efficiencies, the close control of costs, a concentration on priorities and new ways of working. For North Tyneside Council, this fundamental change in the way services are delivered continues to be driven forward through the CEI Programme. This is explained in more detail in Section 5.0 of this report.

4.4 Defining our Financial Strategy

Best practice highlights the need for medium-term planning horizons. The Authority's two year planning timeframe assists in ensuring there is a clear demonstration of sustainability in its plans for the future. The key drivers for change and the improvement focus in resource planning continue to include the need for:

(a) Medium term planning horizons – for workforce, assets, finance;

(b) Financial flexibility;

(c) Driving value for money and efficiency gains;

(d) Joined-up performance management;

(e) Strong financial awareness and budget holder responsibility;

(f) Effective risk management;

(g) More rapid accounts closure;

(h) Continuous forecasting and in-year reporting; and,

(i) Effective use of technology.

The approach to resource planning for 2013-2015 continues to concentrate on ensuring that all of the above drivers are embedded into the decision-making process for the allocation and re-direction of the Authority's finite resources, financial and otherwise. In addition, there has been the annual detailed review of the current financial plan forecasts and commitments for revenue and capital investment. The Financial Strategy has been subject to an annual review.

Leading on from this, the key components and principles adopted for our 2013-2015 Financial Strategy have been fully reviewed as part of this year's process and are summarised in Table 11 below:

Table 11: Principles adopted for the 2013-2015 Financial Strategy

Financial Themes	**Principles Adopted**
Council Tax	• Provide value for money for the people of North Tyneside • Council tax levels that demonstrate prudence and retain stability in the Authority's finances • Manage the impact of the 2012/13 Council Tax Freeze Grant in 2013/14 • Council tax collection managed to secure recurrent efficiencies in the Council's collection fund • Ensure that the Financial implications of the Localisation of Council Tax Benefit scheme have been fully considered • Implications of future Welfare Reform changes on the Authority are fully understood.
Income Generation	• Development of new opportunities in relation to the trading and charging powers available to local authorities including the opportunity to establish a trading company to extend the Authority's trading opportunities • Continue to manage income and debts to reduce the need to make provision for bad debts • Develop a charging policy for the Authority.
Revenue Expenditure & Budget Strategy	• Annual budget resources aligned and prioritised to meet Sustainable Community Strategy objectives • A Reserves and Balances Policy in line with best practice that is reviewed on at least an annual basis • General unearmarked reserves (general balances) retained at least at a level of £6m at the end of each financial year, subject to a risk assessment as part of budget setting in each of the three years of the financial planning period • Earmarked reserves established appropriately for known and quantifiable (future) liabilities and financial risks • Pay and price inflation forecasts and full payroll costs built into projections <u>or</u> used as a way to target general efficiency savings across service

	areas • Continuous challenge of the base budget to secure service efficiency savings • Implementation of Service Plans to demonstrate how our services can achieve value for money in terms of customer satisfaction, quality of services and costs. This is driven through the CEI Programme. • Specific annual review of those services supported by specific grant in readiness for any further detailed Government announcement(s) in relation to grant changes, and as a direct result of the Finance Settlement • Where external funding is secured for a limited time period, any operational arrangements put in place must not assume that the fall-out of grant will be replaced by mainstream funding automatically • Reduce reliance on reserves supporting the revenue budget in the medium term • The Financial Strategy needs to be flexible enough to manage the changes to the Local Government finance system which will be brought about through the localisation of business rates from 1 April 2013.
Capital Financing and Expenditure	• Capital Strategy reflects Sustainable Community Strategy priorities and recognises available resources • A ten-year Capital Plan (including Public Private Partnerships / Private Finance Initiative (PPP/PFI) arrangements) in place that enhances financial and delivery certainty in relation to infrastructure investment in the borough • Strategic assets reviewed at least annually to maximise the potential to release value into the business for strategic re-investment • Prudential borrowing to support local capital investment priorities or invest to gain schemes that will secure greater revenue efficiencies, in accordance with the Authority's approved Local Prudential Code • Asset management plans updated on at least an annual basis and acknowledging available budget resources • Continuous review of prudential borrowing and its impact on the revenue budgets.

Treasury Management	• Treasury Management Strategy to focus on delivering safe stewardship • Strategic options devised for managing the overall level of borrowing over the medium term.
Risk Management	• Business risk embedded in all decision-making processes of the Authority • Budget resources aligned to reduce any material financial risks to the Authority.

The budget proposals contained in this report have been developed within the context of these key financial strategy principles.

4.5 Financial Risk Assessment

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

The challenges being faced by the Authority are noted below along with details of the nature of the financial risks, how they are currently being managed by the Authority and proposals for the management of these risks going forward.

<u>Key Financial Risks identified through the Corporate Risk Register</u>

Spending Review

Following the Government's spending review and the announcement of financial settlements to local authorities in 2010 as noted above, there is a need for the Authority to reform its services in order to be able to deliver its statutory responsibilities and fulfil public expectations over the period of the financial strategy. The 2010 spending review was an in depth review of all public expenditure, following which the Government detailed its approach to how decisions on public spending would be made. It has resulted in financial settlements to authorites and other public sector bodies which are, and will continue to be, fundamentally reduced year on year. It affects the whole Authority and the services we deliver. The Authority therefore need to ensure that the Authority can live within our means, while at the same time meet the targets set by the efficiency agenda and spending review.

The consequences of this risk not being managed are that the Authority is unable to deliver on budget and there is the potential to jeopardise future grant bids or inward investment.

In order to deliver the savings the Authority needed following the Local Government Finance Settlement, the Authority established a CEI Programme. This Programme is now in its operational phase.

Plans and proposals have been established to deliver our services in a different way to achieve the annual efficiencies targets. The new Governance Structure is in place for the programme. There is now the CEI Corporate Governance Board which consists of the Elected Mayor, Cabinet Members, Chief Executive and Strategic Directors. Each Theme is managed by a Strategic Director. They receive update reports, identify gaps and agree packages. In addition, a scrutiny process is in place.

Deliverables from year two of the CEI programme have already been incorporated into the Authority's 2012/13 budget and the deliverables from years three and four form the basis of this 2013-2015 Financial Planning and Budget process.

In addition, the following risk is also linked to the Spending Review.

Localised Council Tax Support Scheme – The Local Government Finance Act 2012 replaced the existing national Council Tax Benefit Scheme with a localised Council Tax Support scheme. There is a risk that this results in an additional cost to the Authority.

Price Inflation – The latest monthly inflation figures published on 15 January 2013 showed no change in the Government's preferred measure of Inflation, the Consumer Price Index (CPI) at 2.7%. The level of the Retail Price Index (RPI) increased from 3.0% in November to 3.1%. On 14 November 2012 the Bank of England produced their latest Quarterly Inflation Report. This judged the future prospects for Inflation as generally uncertain, particularly in relation to the outlook for external cost pressures and commodity prices. Domestic energy prices and university tuition fees, are set to put upward pressure on inflation. On balance, however the Bank of England Committee's best collective judgement is that over time CPI inflation is likely to come down to around the 2% target as a revival in productivity growth alleviates pressures on companies' costs. The risks to inflation are judged to be broadly balanced around the 2% target for much of the second part of the forecast period. Inflation is being managed through containment within service budgets over the life of the financial plan.

Regeneration

There is a risk that North Tyneside may suffer from a lack of investment impacting on jobs, skills and the ability to stimulate economic growth. Schemes that will enable an increase in wellbeing and opportunities in the borough are being developed and implemented. The Authority and local businesses are looking at ways in which they can work together more closely for the benefit of the borough. There is an opportunity for a one river approach to establish the River Tyne as a hub for offshore and renewable energy investment and for Local Authorities to work with wider Business Partners via the Local Enterprise Partnership. The benefits attached to the Enterprise Zone sites should encourage business to invest in the area e.g. reduced planning requirements, incentivised tax regime and superfast broadband.

Working with Partners

As the Authority starts to place greater reliance on working with our partners to deliver essential services, there is a need to ensure that the partners are in a position to fulfil their responsibilities. The latest spending review and Government policy may have an impact on our partners resulting in them being unable or unwilling to undertake responsibilities already agreed. The Authority's failure to engage effectively across a range of partnerships would mean that we lose out on potential ways to deliver our CEI programme and achieve the outcomes of the Authority and North Tyneside Strategic Partnership (NTSP) priorities.

North Tyneside Council is working to ensure that those partners engaged in the Local Strategic Partnership and working with the Authority engage successfully in the delivery of the Sustainable Community Strategy, and at an operational level engage with the Authority in terms of performance, service delivery and efficiencies. This is being progressed as the NTSP Partnership will continue to monitor against changes in Government legislation and policy to ensure the Community Strategy is delivered.

The Local Enterprise Partnership (LEP) is now properly constituted, they are meeting as a group and are working on the development of workstreams. Through taking a proactive approach (The Elected Mayor sits on the LEP Board and a Strategic Director sits on the LEP Executive Group) it will enable the Authority to influence the strategic priorities and take advantage / compete for opportunities that will improve the economic wellbeing and growth of the borough e.g. the Authority are part of an Enterprise Zone.

Workforce Planning and Performance

The Authority has agreed a Workforce Strategy which reflects the current climate and challenges facing the authority. If the Authority is unable to deliver this strategy, there is a risk that we will not achieve the identified workforce outcomes, with a subsequent impact on service to our customers and achievement of related corporate objectives. This will have an adverse effect on Value for Money and lead to a costly workforce.

There are controls in place to monitor the costs of the workforce which will enable the Authority to drive the costs down. In addition, the Partnership arrangements for the Business and Technical Packages will ensure that the Authority get the right resources to deliver the Workforce Strategy enabling the CEI Programme and Authority priorities to be achieved.

Health Inequalities

If measures are not put in place there may be an increased chance that people from deprived areas may continue to suffer from ill health and be more likely to die young than those in the more affluent areas of the borough. There is a risk that joint action across the Partnership does not have an impact on Health and Wellbeing of the people of North Tyneside or health inequality increases. The key financial risk is in relation to inappropriate investment. This risk is being managed through the North Tyneside Strategic Partnership (NTSP) Health & Wellbeing Board involving all of the partners which identifies the shared priorities across the borough. The Board also links these priorities with commissioning decisions. In addition, integrated commissioning arrangements are developing in relation to Health, Social Care and Children (Children Commission Executive is in place to inform commissioning decisions).

The Joint Strategic Needs Assessment is currently being reviewed and updated to ensure it helps inform commissioning decisions and a Health and Wellbeing Strategy is being developed which will secure commitment for the Partnership to improving health & wellbeing in the borough.

Delivery of Council Ambitions

As the Authority appoints strategic partners to undertake the delivery of some of our Authority Services, it is important that there are mechanisms in place to ensure that the objectives and ambitions of the Authority are delivered and statutory responsibilities met. If the objectives and ambitions of the Authority are not met, this could lead to Value for Money not being achieved and the financial implications may need to be met internally and alternative savings found. This may lead to reputational damage to the Authority and some statutory duties not being met. To mitigate this risk, the appointment of partners was against a Cabinet agreed set of objectives and through a competitive process which ensured that the selection process made certain that short listed partners were fully aware of the objectives and ambitions of the Authority throughout the procurement process.

This risk is being managed through the development of a governance structure which ensures that the governance to manage the partnerships is in place e.g. Strategic Partnering Board and the Operational Partnering Board and an agreed payment and performance mechanism which includes key performance indicators which ensure that the Authority's ambitions and objectives are being delivered.

Flood Resilience

There is a risk that due to changes in climate and, potentially urban design, the borough may be subject to increased instances of severe weather, resulting in pluvial flooding for which the Authority may be unable to provide adequate emergency response and mitigation of the impact of flooding events. There is the potential for increased costs and increased insurance premiums and potential hardship for residents.

Mitigation of this risk is through joint working with multi agency groups and development and implementation of appropriate strategies and plans including a review of existing surface water management regimes. Improving our drainage, asset maintenance regimes and investment strategies, and working more closely with partner agencies such as Northumbrian Water, Environment Agency and significant land owners to reduce surface water run off will ensure surface water is managed in a manner which offers least impact to our residents, businesses and infrastructure. In addition, Emergency Response Plans are in place and established which will ensure that in the event of emergencies procedures are known and can be followed.

Risks identified through Financial Management Reporting

2012/13 identified pressures

Several areas of pressure have been identified through the Authority's financial management process in 2012/13 and therefore need to be taken into account in this financial planning process for 2013/14 and the following years. These are summarised below:

CEI programme

The most recent financial management report (14 January 2013) highlights that good progress has been made to date in delivering the planned savings for 2012/13, with work still to do in some areas which are set out in that report.

Equal Pay

Equal Pay claims have been a major financial pressure for the Authority since 2004/05, when the first claims were settled. The Authority has progressively resolved claims against it and has successfully introduced a scheme of job evaluation and grading structure, which is generally recognised as a safeguard in respect of future claims for equal pay.

Over time, the Authority's exposure to equal pay claims will diminish. This is because as time passes from the implementation of the Authority's current pay and grading structure (in April 2007) the value of the claims that can be brought are reducing significantly. The 2011/12 Annual Financial Report included a provision of £15.128m for equal pay claims; this was the estimated value of the known claims at the year-end. The Accounts also disclosed further potential costs of equal pay, but as the timing and amount of any such claims was not known, it was included as a contingent liability.

The Authority will continue to monitor the level of potential and known claims and update Cabinet as appropriate. This will include consideration of the potential impact arising from the recent judgment against Birmingham City Council with regard to the timescale for the submission of Equal Pay claims, although at this stage, it is thought this is unlikely to be significant.

The method of funding these claims is also important. In 2011/12, £6.542m of the provision was capitalised after permission was granted by the Secretary of State. This means that the costs did not impact immediately on the Authority's reserves and balances, but were financed as if they were an element of capital expenditure. The remaining £2.265m was carried forward into 2012/13 through the "Unequal Pay Back Pay Account" on the balance sheet; this is an accounting transaction so that the costs are recognised in the accounts when they are physically paid.

Department of Communities and Local Government released a consultation paper on 8 January 2013 proposing to amend the Capital Finance Regulations to allow the use of capital receipts to fund Equal Pay payments. The consultation closes on 6 February 2013. If these proposals are agreed there will be no requirement to fund Equal Pay from reserves, however, there will be a need for additional capital receipts to cover any costs.

Land and property values

The effect of falls in property values since 2008 remains a budget management issue in 2012/13, specifically in relation to land sales and the generation of capital receipts for the financing of the Authority's Capital Plan. To finance the 2012/13 Capital Plan, the capital receipts required are £9.474m. The latest financial management report to Cabinet (14 January 2013) shows a general fund capital receipts requirement of £8.870m to balance the 2012/13 Plan. There is a confirmed risk that the requirement to borrow may increase if sufficient capital receipts cannot be generated to fund the Capital Plan. This risk is being managed through the Major Projects Group and by a focus on this area by the Strategic Property Team.

During 2011/12 the total general fund capital receipts received were £4.386m which highlights the challenge in generating £8.870m in the remainder of the year. To meet the receipts target, 27 transactions are currently being progressed. The transactions are at various stages of completion and continue to be regularly monitored.

Accommodation Costs

Accommodation Costs remain a significant issue for the Authority in respect of potential pressures being faced during 2012/13. Projects are in place to support services as they take action to reduce consumption of both gas and electricity, but rising unit costs continue to negate the impact of those actions. Work is continuing with the new Technical Services partner to access capacity and expertise in delivering energy efficiency.

Planning Appeals

The most recent financial management report (14 January 2013) highlights a pressure in 2012/13 of £0.789m due to the forecast cost of employing external consultants for planning appeals, and associated costs if appeals are awarded against the authority.

Flood Damage

The current estimate of the costs associated with the flooding caused on 28 June 2012 is £1.000m. This is the estimate of general fund costs which are not covered by insurance. Work is on-going to determine if the Bellwin Scheme will apply, but this is only for certain categories of spend and only for costs above a threshold (£0.603m for North Tyneside).

Demand - Led pressures

Demand - led pressures continue in areas such as Looked after Children and Adult Social Care and have been taken into consideration as part of these initial budget proposals.

Use of Reserves

The Authority necessarily reviews its level of reserves both when it sets its annual budget and when it draws up its Final Accounts for the year. In addition, because of factors such as the current economic climate and the incidence of such issues as Equal Pay claims, the level of reserves is monitored continuously throughout the year. The effect of any change in assumptions, or additional calls on reserves, is reflected in the regular bi-monthly monitoring reports to Cabinet. At each individual stage of this process, whether budget setting, final accounts preparation, or in-year monitoring, the Authority must ensure that there is adequate financial provision to cover known and/or unquantifiable risks. The review takes place in accordance with best practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) – *Local Authority Accounting Practice Bulletin 77 (November 2008) on Local Authority Reserves and Balances*. The Authority's Reserves and Balances Policy reflects this guidance.

The Authority ended the financial year 2011/12 with £53.664m of useable reserves and balances. The greater part of that figure is held as, Schools and HRA balances, or in the form of earmarked reserves, ie reserves built up and held for specific and sometimes statutory purposes. The only reserve generally available to help the Authority manage its finances over the medium term is the Strategic Reserve. At the end of 2011/12, this reserve stood at £6.056m. The 2012/13 budget approved at full Council on the 1 March 2012 included the use of £0.200m of the Strategic Reserve to establish the CEI Fund and £1.436m to replenish the reserve in 2012/13.

The main purpose of the Strategic Reserve is to manage major financial pressures which can arise in year or over financial years. The latest monitoring report (14 January 2013) highlights the potential use of reserves of £2.265m to fund the element of the Equal Pay costs not covered by the capitalisation approval received to date. Further work, recently completed, indicates the £2.265m will not be paid during 2012/13 and therefore there will be no requirement to call on reserves.

As stated earlier in this report, Department of Communities and Local Government released a consultation paper on 8 January 2013 proposing to amend the Capital Finance Regulations to allow the use of capital receipts to fund Equal Pay payments. The consultation closes on 6 February 2013. If these proposals are agreed there will be no requirement to fund Equal Pay from reserves, however, there will be a need for additional capital receipts to cover any costs.

There is the potential for a further call on the Strategic Reserve should there be no further improvement in the General Fund revenue position for 2012/13. The 14 January 2013 budget monitoring report to Cabinet for the six months to 30 November 2012 highlighted forecast pressures of £1.637m. Whilst Service Areas and the Finance service teams continue to work together to manage this overall in-year pressure, as it is prepared on a prudent basis, this budget assumes a use of reserves of £1.637m in 2012/13, in line with the projected budget monitoring position for 2012/13 with replenishment in 2014/15.

The proposed draft budget for 2013/14 includes the use of £1.295m of the Strategic Reserve to support the phasing of some CEI savings that may necessarily be a part year effect only in that year.

The planned use and replenishment of the Strategic Reserve ensures that this Reserve is maintained at at least the planned level of £5.000m over the life of the financial plan in line with the Authority's agreed Reserves and Balances Policy.

Cabinet is advised that the 2013/14 budget proposals leave the Authority's general unearmarked reserves (General Fund balances) unchanged at £6.604m.

4.6 Treasury Management Strategy

The proposed Treasury Management Strategy for 2013/14 is included as Section 7.0 of the report. The key elements of the Strategy are:

- Treasury limits in force which will limit the treasury risk and activities of the Authority;
- The current treasury position;
- Prospects for interest rates;
- The borrowing strategy;
- Interest risk;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- Annual investment strategy;
- Monitoring credit ratings; and,
- Policy for the use of external service providers.

Treasury Management continues to be affected by this on-going economic uncertainty with low returns on investment and low short term borrowing rates. The expected longer run trend for Public Works Loan Board (PWLB) borrowing rates is for them to rise slightly during 2013/14 with the bank interest rate expected to remain constant at 0.5%.

If interest rates were to rise then rates for investment would also increase and the Authority would benefit from improved investment returns on any cash surpluses it holds, after taking into account the primary requirement to safeguard the Authority's assets. Movements in both short and long term interest rates are monitored on a daily basis to try and gauge the best lending and borrowing options for the Authority.

Section 5.0
Cabinet's draft budget proposals for the 2013/14 Council Tax Requirement including the General Fund Revenue Budget and 2013-2015 Financial Plan and the Dedicated Schools Grant

5.1 Overview

On 19 December 2012, Communities and Local Government (CLG) set out details of the Provisional Local Government Finance Settlement for 2013-2015, the 'Settlement'. A consultation then commenced on this Provisional Settlement which closed on 15 January 2013.

The Settlement confirms the position for Local Government for 2013/14 as set out in the Autumn Statement of 5 December 2012, of no further reductions for 2013/14 over and above those anticipated. The Settlement for 2014/15 reflects the additional 2% spending reductions for Local Government set out in the Autumn Statement. This additional national 2% reduction of £447m, is in addition to the reductions for 2014/15 set out in the 2010 Spending Review.

As some information on the 2013-2015 Provisional Local Government Finance Settlement has yet to be issued, it is therefore very important for Cabinet to recognise that the draft budget proposals included herein are subject to change and review prior to the publication of the final Council Tax Requirement resolution on 21 February 2013.

In the context of what is stated above, the draft budget proposals to be considered by Cabinet are detailed in the remainder of this Section.

5.2 Council Tax Freeze

In discussion with the Elected Mayor and Cabinet Members as part of preparing the draft budget proposals, the budget presented for the General Fund is predicated on a financial planning assumption of accepting the Government's recently announced Council Tax Freeze Grant and so proposing no increase in Council Tax for the third year in succession.

5.3 Change, Efficiency and Improvement Programme

In light of refreshing the Financial Plan and taking into account a level of known pressures, particularly in demand-led services such as Adults' and Children's Social Care, the Change, Efficiency and Improvement Programme (CEI) has been refreshed and updated and additional financial targets determined as part of ensuring a balanced financial plan and budget forecast for next year.

The first two years of the CEI Programme has seen £32.933m of savings either achieved or broadly on target to be achieved by the end of 2012/13. These draft budget proposals show that plans are in place to save an estimated £12.239m in 2013/14 across all themes of the CEI Programme. Full details of these plans are set out in Appendix A of this report.

5.4 2013-2015 Financial Plan and General Fund

Paragraphs 5.7 to 5.12 below provide the build up to the financial picture for the next two years, reflecting:

a) The messages coming out of the reported financial management position for the current year, 2012/13;
b) Inflation;
c) Existing committed plans;
d) Transfer of services in relation to Public Health;
e) Commercial activities;
f) Reserves and Contingencies' proposals;
g) Income and Grants; and,
h) The CEI Programme.

Final figures for some elements of the budget, such as the Final Local Government Finance Settlement and precepts, are not known at this point. Cabinet is therefore advised that forecasts for 2013-2015 are indicative at this stage and subject to further review between Cabinet Members and the Senior Leadership Team.

Cabinet is advised that all figures quoted in Tables 5.7 to 5.12 below reflect <u>additional</u> resources and/or savings in any particular year. The starting position for the next year in each table is the end position for the previous year/column.

At its meeting on 16 January 2013, Cabinet considered a report on the introduction of a Local Council Tax Benefit Scheme. Cabinet agreed to refer all options included in the report to full Council for consideration and decision on 24 January 2013.

On 13 August 2012 Cabinet considered the changes to Council Tax Benefit and the introduction of a Local Council Tax Benefit Scheme. Cabinet chose to consult on a scheme that continued to support pensionable people in a similar way as the current scheme. It was proposed that the same qualifying and claiming conditions would apply as they currently do. However, the main change would be that the entitlement for working age claimants would be based on a reduced liability of 80% rather than 100%. The financial impact of this option (£0.5m) is included in the draft budget for 2013/14.

Cabinet considered a further report at its meeting on 16 January 2013 on the Technical Reform to Council Tax Discounts and Exemptions. The report set out changes to the Local Government Finance Act 2012 and amendments to the statutory framework under which the decision on local discounts and second home with respect of Council Tax could be made. Cabinet agreed to refer all options included in the report to full Council for consideration on 24 January 2013. The draft budget for 2013/14 has been prepared on the basis of no changes to the current exemptions and discount arrangements.

Cabinet will need to consider the implications of the decision made by the full Council on 24 January 2013, and Cabinet is advised that a supplementary report may be required to be submitted to Cabinet on 28 January 2013 in respect of this consideration.

5.5 2012/13 Financial Management Position

Cabinet received a report on 14 January 2013 setting out the latest revenue budget monitoring position for the financial year 2012/13, as at 30 November 2012. The report included an assessment of the forecast year-end position over all elements of the Authority's revenue budget. The year end projection at that point was a forecast pressure of £1.637m. Where underlying pressures have been offset in 2012/13 by one-off measures, these have been addressed as part of the 2013/14 Financial Planning and Budget process and are included within Cabinet's draft budget proposals. The 2 major items giving rise to the forecast pressure are:-

The strategic financial issues identified in the financial management report which would have implications for 2013/14 and following years are as follows:

(a) The costs associated with flood damage and flood resilience, this has been recognised in considering the level of contingencies.

(b) The costs associated with Planning appeals, this has been recognised in considering the level of contingencies.

Whilst Service Areas and the Finance service teams continue to work together to manage these overall in-year pressures, as it is prepared on a prudent basis, this budget assumes a use of reserves of £1.637m in 2012/13, in line with the projected budget monitoring position for 2012/13 and the use of some one-offs in that year.

5.6 2013-2015 Inflation

As in previous years, the financial plan has been developed on the basis that any general inflation will be contained within service areas and will be funded through compensating savings within the service area. Some specific inflationary pressures are covered by the Contingency Budget and are explained further below.

5.7 2013-2015 Existing Plans

Table 12: 2013-2015 Existing Plans

Existing Plans	2013/14 Additional £000's	2014/15 Additional £000's
Corporate Total		
Pension Fund Deficit Contribution	430	440
Mayoral Election	65	-65
Strain on the Fund (Leavers in 2011 and onwards)	250	250
Capital Plan Revenue costs of borrowing		
- Existing Plan	334	738
- New Plans	17	252
- Equal Pay	450	0
Loss of Council Tax Payment Over Recovery	153	0
Corporate Total	**1,699**	**1,615**
Service Total		
Northumberland Park Heritage Lottery Fund (HLF) Bid	75	0
Wallsend Heritage Lottery Fund (Parks)	50	50
Chief Executive's Full Time Salary (6 month effect)	102	101
Non Review Strategic Projects Team	50	0
No Reduction in Mayoral Allowance	10	0
Continue News Guardian Advertising	32	0
Continue the provision of a pool car	5	0
Mouth of the Tyne Contribution reinstated	92	0
Events Team reinstated	30	0
Wallsend Joint Service Centre	125	375
Waste Management	320	320
Garden Waste Subscription Service	250	0
Housing Benefit Administration Subsidy (5% Reduction)	179	0
Weekly Collection Support	200	200
Service Total	**1,520**	**1,046**
Total Existing Plans	**3,219**	**2,661**

This element of the financial plan sets down the specific Corporate and Service existing plans for spend that are required for commitments. In addition, where there is a prior year commitment or a mandatory service (where the public would expect certain services), those pressures are included within this table.

The growth in the Pension Fund Deficit Contribution of £0.430m is the net increase due in 2013/14 following the 2010 Pension Fund Valuation. Strain on the Fund costs of £0.250m relate to estimated costs that may arise from changes to headcount across the Authority. Growth of £0.320m is included to cover the costs of Waste management in 2013/14 and £0.250m is included for the Garden Waste Collection Scheme following the Cabinet decision of 14 January 2013 to remove the charge. Wallsend Heritage Lottery Fund (HLF) and Northumberland Park HLF bid – Parks funding of £0.050m and £0.075m respectively are required as part of a staged increase in revenue funding to reflect the known fall out of the grant. Additional funding for Wallsend Joint Service Centre of £0.125m is included as a part year effect in 2013/14 with a full year cost in 2014/15.

£0.179m is included to cover the reduction in the Housing Benefit Administration grant and £0.200m for the costs associated with the Weekly Collection Support Scheme. This cost is covered by receipt of a Grant set out in the Income and Grants table below. £0.065m is included to fund the costs of administering the Mayoral Election. In addition, £0.801m is included for the Capital Plan revenue cost of borrowing. This figure includes £0.450m to fund the cost of borrowing arising from Equal Pay costs and £0.017m for new schemes added to the Capital Plan (Section 6.0 refers).

The remaining items included in the table above relate to the effect of the Implementation Plan which has been reported to Cabinet, Overview and Scrutiny Committee and full Council throughout the 2012/13 financial year so far.

5.8 2013-2015 Transfers

Table 13: 2013-2015 Transfers

Transfers	2013/14 Additional £000's	2014/15 Additional £000's
Transfer of Public Health Responsibilities	10,417	390
New Homes Bonus Additional Spending Power	447	447
Local Reform and Community Voices Department of Health Revenue Grant	180	6
Community Right to Challenge	9	0
Community Right to Bid	8	0
Social Fund Programme	717	0
Social Fund Administration	151	-12
Council Tax Support New Burdens	151	-10
NHS Funding To Support Social Care and Benefit Health	1,006	177
Total Transfers	**13,086**	**998**

The financial plan for 2013/14 includes £10.417m of additional estimated costs due to the transfer to the Authority of many Public Health responsibilities which in the past were the responsibility of the Health Service. As this is a transfer of responsibilities to the Authority, there is also a corresponding Public Health Funding Grant which will be received by the Authority in 2013/14. This is highlighted in the Income and Grants table below.

The items in respect of the New Homes Bonus Additional Spending Power (£0.447m), Local Reform and Community Voices Department of Health Revenue Grant (£0.180m), Social Fund Programme and Administration (£0.868m), Council Tax Support New Burdens (£0.151m) and NHS Funding to Support Social Care and Benefit Health (1.006m) represent the expenditure plans to reflect recent grant changes and transfer of services as mainly announced in the Provisional Local Government Finance Settlement for 2013/14 on 19 December 2012.

5.9 2013-2015 Commercial Activity

Table 14: 2013-2015 Commercial Activity

Commercial Activity	2013/14 Additional £000's	2014/15 Additional £000's
Transport	500	0
Waste Management Procurement Advisors	0	200
Streetlighting Private Finance Initiative (PFI)	375	0
Schools PFI	300	0
Dudley and Shiremoor Joint Service Centre	253	0
Kier Management Charge	-100	400
Whitley Bay Joint Service Centre	453	0
Accommodation	440	250
Total Commercial Activity	**2,221**	**850**

Funding for Commercial activities has been included to reflect those areas where additional resources are required in 2013/14 due to contractual or other commercial commitments. £0.500m is included due to increasing transport costs, while the Streetlighting - £0.375m, Schools PFI - £0.300m and Dudley and Shiremoor Joint Service Centre - £0.253m increases are due to increases arising from contractual arrangements. A saving of £0.100m is included to reflect the agreed level of management support to Kier. £0.453m is the full year effect of the Whitley Bay Joint Service Centre.

There are also pressures within the 2013/14 budget caused by increasing prices and pressures in relation to business rates, water and energy charges, which Service Areas are trying to manage within tight budget constraints. It is prudent at this stage to recognise these underlying pressures while work continues to minimise these going forward. The Authority's Technical Partner is working with us to examine all options for mitigating these continuing market pressures.

5.10 2013-2015 Reserves and Contingencies

Table 15: 2013-2015 Reserves and Contingencies

Reserves and Contingencies	2013/14 Additional £000's	2014/15 Additional £000's
Contribution to Strategic Reserve removed from Base Budget	-1,436	0
Impact of Use of Strategic Reserve in 2012/13	0	1,637
Increase in Contingencies	2,402	5,127
Use of Strategic Reserve 2013/14	-1,295	0
Impact of Use of Strategic Reserve in 2013/14	0	1,295
Total Reserves and Contingencies	**-329**	**8,059**

The proposed draft budget for 2013/14 includes the use of £1.295m of the Strategic Reserve to support the phasing of some CEI savings that may necessarily be a part year effect only in that year. This use, together with the planned replenishment in the Financial Plan, will maintain the Strategic Reserve at at least the planned level of £5.000m over the life of the financial plan in line with the Authority's agreed Reserves and Balances Policy.

It is proposed to increase the level of contingencies by £2.402m to £5.187m to recognise a number of areas, including any increase in Levies and/or Inflation, Members' Allowances, Flooding, changes in specific government grants as yet unknown and demand-led pressures particularly in Adults' and Children's Social Care areas.

Cabinet is advised that the proposals in Table 15 leave the Authority's general unearmarked reserves (the General Fund Balances) intact at £6.604m. The chief finance officer has determined that, given the general uncertainty around the announcements for the Final Local Government Finance Settlement that this level of Balance should be maintained for 2013/14.

5.11 2013-2015 Income and Grants

Table 16: 2013-2015 Income and Grants

Income and Grants	2013/14 Additional £000's	2014/15 Additional £000's
Transfers into Start up Funding Assessment		
Learning Disability and Health Reform Grant	7,135	0
Homelessness	171	0
Flood Funding	115	0
Early Intervention Grant	6,386	0
Total Transfers into Start up Funding Assessment	13,807	0
Fall out of Grant		
Council Tax Freeze Grant 2012/13	2,140	0
Changes in Early Intervention Grant	2,304	407
Total Fall out of Grant	4,444	407
Income and Grants		
Council Tax Freeze Grant 2013/14	-857	-857
Public Health Funding Grant	-10,417	-390
New Homes Bonus Grant	-447	-447
Local Reform and Community Voices Department of Health Revenue Grant	-180	-6
Community Right to Challenge Grant	-9	0
Community Right to Bid Grant	-8	0
Social Fund Programme	-717	0
Social Fund Administration	-151	12
Weekly Collection Support	-200	-200
Council Tax Support New Burdens Funding	-140	10
NHS Funding To Support Social Care and Benefit Health	-1,006	-177
LACSEG Adjustment (Estimate) - Figures expected at the end of January 2013	-3,997	0
Total Income and Grants	-18,129	-2,055
Total Income and Grants	**122**	**-1,648**

The details of the Transfers into Start Up Funding Assessment and LACSEG are as set out in Section 3 of this report.

As the 2012/13 Council Tax Freeze grant was a one off grant, the impact of this creates a budget pressure of £2.140m in 2013/14. Any Authority that decides to freeze or reduce their Council Tax in 2013/14, compared to 2012/13 will receive a grant equivalent to 1% of their Council Tax funding for both 2013/14 and 2014/15. The details of this grant were confirmed in the 2013-2015 Provisional Local Government Finance Settlement with the provisional allocations for North Tyneside Council being £0.857m for both 2013/14 and 2014/15.

In 2013/14 the Early Intervention Grant ceases. In 2012/13 this grant was worth £9.060m for North Tyneside. In replacement of this grant £6.386m has been assigned to the Start up funding assessment. Funds for 2 year old education have been moved into the new Dedicated schools grant.

For the remaining grants, the corresponding expenditure is included in the Transfers table above.

5.12 2011-2015 Change Efficiency and Improvement (CEI) Programme

As mentioned earlier, in light of refreshing the Financial Plan and taking into account a level of known pressures, particularly in demand-led services such as Adults' and Children's Social Care, the Change, Efficiency and Improvement Programme (CEI) has been refreshed and updated and additional financial targets determined as part of ensuring a balanced financial plan and budget forecast for next year. Table 17 below reflects the current proposed position:

Table 17: 2011-2015 CEI Programme

CEI Programme	2011/12 Additional £000's	2012/13 Additional £000's	2013/14 Additional £000's	2014/15 Additional £000's
Children, Education, Skills and Adults	-6,675	-9,240	-6,738	-1,694
Business	-7,687	-5,077	-4,410	-1,897
Environment	-1,466	-1,648	-1,091	0
Cross Cutting	-366	-774	0	0
CEI Programme Target	0	0	0	-15,326
Total CEI Programme	**-16,194**	**-16,739**	**-12,239**	**-18,917**

The first two years of the CEI Programme has seen £32.933m of savings either achieved or broadly on target to be achieved by the end of 2012/13. These draft budget proposals show that plans are in place to save an estimated £12.239m in 2013/14 across all themes of the CEI Programme. Full details of these plans are set out in Appendix A of this report.

5.13 2013-2015 General Fund Financial Plan

Table 18: 2013-2015 General Fund Financial Plan

General Fund Financial Plan	2013/14	2014/15
	£000's	£000's
General Fund Base Budget	**169,974**	**176,054**
Inflation	0	0
Existing Plans	3,219	2,661
Transfers	13,086	998
Commercial Activity	2,221	850
Reserves and Contingencies	-329	8,059
Income and Grants	122	-1,648
CEI Programme	-12,239	-18,917
Total General Fund Financial Plan	**176,054**	**168,057**

5.14 Council Tax Levels 2013/14

The Cabinet needs to determine what level of Council Tax is to be proposed for 2013/14, within the context of this report and available resources. Cabinet is reminded that this information is presented based upon available information and judgements at the time of writing. This means that there are still an additional number of assumptions and judgements built into the figures. The estimates of amounts will therefore need to be subject to further review before full Council can approve the Council Tax level for 2013/14 and the 2013-2023 Capital Plan, as detailed in paragraph 1.1 of this document.

Table 19 shows the proposed Council Tax levels for 2013/14. After the application of the Council Tax freeze grant for North Tyneside Council for 2013/14 there is no proposed increase to the Council Tax level for 2013/14. That is, it reflects the assumption of no Council Tax increase in 2013/14 for the Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority based on available information at this stage. In setting its own Council Tax level, the Authority must take into account any increases proposed for the Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority for 2013/14. Final figures are expected from the Authorities in February 2013.

Table 19: 2013/14 Council Tax Increases by Band

Council Tax Band	2012/13 Council Tax £	2013/14 Council Tax £	Increase %	Annual Increase £	Weekly Increase £
A	989.93	989.93	0.00%	£0.00	£0.00
B	1,154.92	1,154.92	0.00%	£0.00	£0.00
C	1,319.91	1,319.91	0.00%	£0.00	£0.00
D	1,484.90	1,484.90	0.00%	£0.00	£0.00
E	1,814.88	1,814.88	0.00%	£0.00	£0.00
F	2,144.86	2,144.86	0.00%	£0.00	£0.00
G	2,474.83	2,474.83	0.00%	£0.00	£0.00
H	2,969.80	2,969.80	0.00%	£0.00	£0.00

5.15 Dedicated Schools Grant 2013/14

As referenced in section 3.3, there are a number of significant changes to the Dedicated Schools Grant (DSG) planned nationally for 2013/14.

For 2013/14 the DSG is to be separated into three new blocks: Schools, Early years & High needs. These blocks remain collectively ring-fenced to be used in support of school funding, although it is possible to move money between the three blocks.

Since August officers have been in dialogue with the Education Funding Agency (EFA) in order to assign current levels of the DSG to the three new blocks. This exercise has been undertaken with reference to the Schools Forum. Using the 2012/13 DSG as a starting point, and adding back the funds allocated to Academies in North Tyneside by the EFA in 2012/13, the initial starting points for the size of the respective blocks was:

- Schools block £111.924m
- High need SEN block £15.865m
- Early years block £5.988m

In order to establish 2013/14 allocations these blocks have then been adjusted for the following:

- Add the value of “SEN Block grant” to the Schools block (previously provided to Local Authorities by the EFA) in respect of post 16 High need students in maintained schools;

- Adjust the Schools block for the net position in respect of inter authority recoupment;

- Adjust the Schools block to reflect the fact that 2013/14 allocations will be calculated using the October (2012) census rather than the January census which historically has a higher number of pupils;

- Add funding transferred from the EFA to the High need SEN block in respect of post 16 high need places in colleges and other institutions that Local Authorities will now be responsible for funding;

- Adjust the High need SEN block to account for cross border pupil movement;

- Add additional funding to the Early years block for the extended 2 year old education offer; and

- Deduct an estimate totalling £0.223m from all three blocks in relation to hospital tuition, as hospital education will be funded through the maintaining authority, thereby removing the need for inter authority recoupment.

Following these adjustments new baseline values for each block for 2013/14 have been established. The Schools block and Early Years blocks have then been converted to a value per pupil, which when coupled with the data on pupil numbers from the October 2012 pupil census has been used to calculate the value of the blocks for 2013/14 as follows:

- Schools block £112.961m
- High need SEN block £15.988m
- Early years block £7.894m

The total Dedicated Schools Grant for North Tyneside for 2013/14 is therefore £136.797m.

The first commitment from the High need SEN block is in relation to planned High need places required by the Authority. (This equates to £10,000 for each place, or £8,000 for an alternative provision).

North Tyneside schools will be issued with their 2013/14 budget share of the schools block (using the new formula outlined in section 3.6 of this report) and an indicative value of their Early years, High need SEN and Pupil premium funding for planning purposes.

Section 6.0
Cabinet's draft budget proposals for the 2013-2023 General Fund Capital Plan and Prudential Indicators

6.1 Base Capital Plan 2013-2023

The 2012-2022 Capital Plan was approved by full Council on 1 March 2012. This plan is reviewed by the Major Projects Group (MPG). The MPG is responsible for the governance of the Capital Plan including the provision of guidance, support and challenge to the Senior Leadership Team in respect of capital proposals and delivery of the capital plan. The MPG met on 6 November 2012 to review the 2012-22 base Capital Plan alongside new capital bids received and the current 2012/13 Reserve List.

Reprogramming of £4.183m from 2012/13, reported to Cabinet on 14 January 2013 as part of the 2012/13 Financial Management report, is also included in the 2013-23 draft Capital Plan.

6.2 New schemes

As outlined above as part of its meeting on 6 November 2012 the MPG reviewed all new capital bids received. Following this review the MPG recommended to Cabinet the inclusion of the following schemes on the 2013-2023 Capital Plan:

(a) **DV046 Swan Hunters redevelopment** (cost £12.071m, Council Contribution £3.780m) - The overall aim of this project is to provide the enabling infrastructure works required to re-develop the former Swan Hunter shipyard site in accordance with its newly designated Enterprise Zone (EZ) status for the location and growth of advanced manufacturing businesses and to provide the catalyst for an upsurge in private sector investment on the site. The bid for ERDF funding of £6.780m has recently been approved;

(b) **ED179 River Tyne Energy Innovation centre** (cost £5.500m, Council Contribution £2.750m) - This project will develop 3,000m^2 of business premises at the River Tyne North Bank Enterprise Zone site, creating a business incubator, SME (small and medium-sized enterprises) workspace centre, and a R&D (research and development) facility. The Centre will provide a focal point for a thriving sub-sea, marine oil and gas, and offshore renewable supply chain, and will link SMEs with education and enterprise programmes aimed at inspiring young people to pursue STEM (Science, Technology, Engineering and Mathematics) based careers. The £2.750m Council Contribution is already included in the base Capital Plan as is the cost of borrowing in the revenue budget. A bid for ERDF funding of £2.750m is due to be submitted shortly. Completion of the scheme is dependant on receipt of this grant money;

(c) **EV055 Surface Water Management (flooding) improvements** (cost £4.750m, Council Contribution £4.450m) – A Strategic Flood Risk Assessment (SFRA) has been undertaken to produce a Surface Water Management Plan (SWMP) and indentify schemes requiring action. This scheme covers the physical infrastructure works required to address the issues identified. It is expected that some schemes will be wholly or partly funded by external partners e.g. Environment Agency and Northumbrian Water Ltd;

(d) **EV056 Highways Maintenance** (cost £5.000m, Council Contribution £4.498m) - Recent corporate customer satisfaction surveys have indicated that the improvement of the Authority's public highway network is viewed as a top priority for residents and businesses. This scheme is to help address works identified as part of the Authority's Highway Asset Management Plan. As part of the Autumn Statement additional Local Highway Maintenance Funding of £0.502m was awarded (£0.326m in 2013/14 and £0.176m in 2014/15); and,

(e) **DV048 Roads and Pavements programme** (cost £9.000m, Council Contribution £9.000m) – This extends the scheme beyond the 2013/14 amount contained in the base Capital Plan.

(f) In addition, on 14 January 2013, Cabinet approved the inclusion of Longbenton Voluntary aided schools project on the Capital Plan, subject to full Council approval of the temporary gap funding of the project. The total cost of this scheme is £6.457m, of which £3.156m is already included in the 2012-2022 Capital Plan under Primary Capital Strategy (ED166). As detailed in the 14 January 2013 Cabinet report, the additional funding comprises £3.200m contribution from the Diocesan authorities and anticipated Capital Maintenance grant of £0.101m. Subject to full Council approval, Unsupported borrowing of £2.200m has been provided in the plan to cover the period between the expenditure on the project taking place and the receipt of the full contribution from the Diocesan authorities following the sale of the sites of the former schools.

6.3 Capital Allocations 2013/14

Figures for the Local Transport Integrated Transport and Maintenance Block Capital Grants for Tyne and Wear were announced as part of the Local Government settlement in December 2012. North Tyneside's share of this is expected to be agreed by the Integrated Transport Authority (ITA) on 24 February 2013. The Capital Plan currently includes indicative figures based on the expected approval.

The Department of Health announced a provisional allocation for Community Capacity grant of £0.554m for 2013/14 (£0.566m for 2014/15). These figures have been built into the Capital Plan.

Education grant figures were provided for one year only in 2012/13. An announcement of figures to cover a 3 year period (2013/14 to 2015/16), which should include Capital Maintenance, Basic Need and Devolved Capital, is now expected in late January 2013. Therefore, no figures have been included yet in the base Capital Plan for these grants.

The revised Capital Plan is shown in Table 20 below: A schedule of individual projects is attached as Appendix B (i). The revenue implications of these schemes have been included in the revenue budget.

Table 20: Summary of base Capital Plan 2013-2023

Spend	2013/14 £000's	2014/15 £000's	2015/16 £000's	2016/23 £000's	Total £000's
Chief Executive's Office	18,852	17,940	9,126	30,564	76,482
Children, Young People and Learning	7,617	6,052	67	0	13,736
Community Services	2,727	566	0	0	3,293
Finance and Resources	1,600	1,000	1,000	6,000	9,600
Corporate items	1,500	500	500	3,000	5,500
General Fund total	**32,296**	**26,058**	**10,693**	**39,564**	**108,611**

6.4 Capital Financing

Table 21 below summarises the proposed financing of the Capital Plan:

Table 21: Summary of Capital Financing 2013-2023

Resources	2013/14 £000's	2014/15 £000's	2015/16 £000's	2016/23 £000's	Total £000's
Council Contribution:					
Unsupported Borrowing	6,218	11,150	8,729	27,688	53,785
Capital Receipts	8,914	3,065	2,065	9,886	23,930
	15,132	**14,215**	**10,794**	**37,574**	**77,715**
Grants & Contributions	17,164	11,843	-101	1,990	30,896
Total Resources	**32,296**	**26,058**	**10,693**	**39,564**	**108,611**

Capital receipts of £23.930m have been assumed in the financing of the 2013-2023 Capital Plan.

Unsupported Borrowing totalling £53.785m is included in the financing of the 2013-2023 Capital Plan. Total borrowing for new schemes, included in the above figures is £21.728m. The cost of borrowing (including new schemes) for years 2013-2015 is included within the General Fund Revenue budget. The Prudential Indicators arising from the Prudential Code are covered in Appendix B (iii)

6.5 Reserve List

As detailed in paragraphs 6.1 and 6.2 above the MPG met on 6 November 2012 to review new capital bids received and the current 2012/13 Reserve List. Appendix B(ii) lists bids received but not included in the proposed 2013-2023 Capital Plan plus those schemes remaining following a review of the 2012/13 Reserve List. A prioritisation process would be applied to release a reserve project from the list.

6.6 Draft 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 are included as Appendix B (iii) to this report.

6.6 Annual Minimum Revenue Provision (MRP) Statement

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

The Minimum Revenue Provision is the amount that is set aside to provide for the prepayment of debt (principal repayment). This is the amount required to make a prudent provision and ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the support provided through the RSG.

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

(a) Existing assets pre 1 April 2007 – MRP will continue to be charged at 4% per annum;

(b) Supported Borrowing – MRP will continue to be charged at 4%, which matches the level of Government support provided for this borrowing through the RSG;

(c) Unsupported Borrowing – for all assets financed by unsupported borrowing, MRP will be charged over the estimated life of the assets. This will include assets financed through current PFI schemes and finance leases; and,

(d) Lease transactions treated as "on balance sheet" - an element of the annual charge to the Authority for the lease will be treated as repayment of capital (ie 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.

The effects of the MRP policy have been built into the current revenue budget projections (Section 5.0 refers).

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

Section 7.0
Treasury Management Statement and Annual Investment Strategy 2013/14

7.1 Background

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. 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 appetite, providing adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Authority's capital 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."

7.2 Reporting Arrangements

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

There are two other main reports each year, which incorporate a variety of policies, estimates and actual 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 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.

7.3 Treasury Management Strategy for 2013/14

The proposed strategy for 2013/14 in respect of the following aspects of the treasury management function is based upon the treasury officers' view on interest rates, supplemented with market forecasts provided by the Authority's treasury adviser, Sector.

This strategy covers:

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

7.4 Current Treasury Position

The Authority's treasury position at 2 January 2013 is set down in Table 22 below. This has been compared with the comparable position as at 12 January 2012.

Table 22: Current Treasury Position

	Principal Outstanding	**Average Rate**	**Principal Outstanding**	**Average Rate**
	(02 Jan 2013) £m	**%**	**(12 Jan 2012) £m**	**%**
Fixed Rate Funding				
PWLB*	264.750	5.70	274.750	5.54
PWLB – HRA Settlement 2012	128.193	3.49		
Market Loans	20.000	4.35	20.000	4.35
Temp Loans	28.173	0.34	25.000	1.15
Total External Debt	**441.116**		**319.750**	
less **Investments**				
(UK) Banks				
(UK) DMO**	10.100	0.25	12.350	0.25
Other LA's***				
Total Investments	**10.100**		**12.350**	
Net Position	**431.016**		**307.400**	

***Public Works Loan Board**
****Debt Management Office**
*****Other Local Authorities**

7.5 Prospects for Interest Rates

The Authority has appointed Sector as it's treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Regular meetings are held with Sector to discuss the Authority's treasury options; all major investment and borrowing decisions consider the professional advice offered by Sector.

Appendix C(iv) of this report sets out Sector's professional view of interest rate forecasts. Appendix C(v) draws together a number of current City forecasts for short term or variable, and longer fixed interest rates.

Table 23 below gives the Sector central view.

Table 23: Sector forecast for PWLB new borrowing

	Mar 2013 %	June 2013 %	Sept 2013 %	Dec 2013 %	Mar 2014 %	June 2014 %	Sept 2014 %	Dec 2014 %	Mar 2015 %
Bank Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.80	2.00	2.20
10 yr PWLB	2.50	2.50	2.60	2.60	2.70	2.70	2.80	3.00	3.20
25 yr PWLB	3.80	3.80	3.80	3.80	3.90	3.90	4.00	4.10	4.30
50 yr PWLB	4.00	4.00	4.00	4.00	4.10	4.10	4.20	4.30	4.50

The UK continues its worst and slowest recovery from recession in recent history. Growth prospects are weak, although the economy did come out of recession in the third quarter of 2012. Consumer spending, the driving force of recovery, is likely to remain under pressure due to the repayment of personal debt, general malaise about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth.

This challenging and uncertain economic outlook has several key treasury management implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality lower risk counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2013/14 and beyond;

- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully; and

- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

7.6 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 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 and the historically low rates of interest means that the interest foregone is lower than in previous years. 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 maintaining 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.

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

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 on the counterparty list, and the level of interest rates, both those prevailing and forecast.

Against this background caution will be adopted with the 2013/14 treasury operations. The Strategic Director of Finance and Resources 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 increases of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered; or

- If it were felt there was a significant risk of a sharp rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap.

7.7 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.

In determining whether borrowing will be undertaken in advance of need the Authority will;

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- Consider the merits and demerits of alternative forms of funding;
- Consider the alternative interest rate bases available, the most appropriate periods to fund the repayment profiles to use; and,
- Consider the impact of borrowing in advance temporarily increasing investment cash balances and the consequent increase in exposure of counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

7.8 Debt Rescheduling

As short term borrowing rates are expected to be considerably cheaper than longer term 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 size of the premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. 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 2013/14 should remain flexible. The reason for any rescheduling to take place may include:

- the generation of cash 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 budget monitoring report at the meeting following its action.

7.9 Annual Investment Strategy 2013/14

This Authority has regard to the CLG's Guidance on Local Government Investments and the 2011 revised 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.

The Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Authority is low in order to give priority to the security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activities.

The Investment Strategy states which instruments the Authority may use for investment purposes, making a distinction between specified and non-specified investments. This is set out in Appendix C(vi). The Authority's current counterparty list is set out in Appendix C(i) and C(ii) of the report.

In order to develop an investment strategy for the next financial year, it is necessary to take a view on future interest rate movements. Professional advice is sought from Sector, the Authority's treasury advisor. The Bank Rate has been unchanged at 0.50% since March 2009. As set out in Appendix C(iv), Sector is forecasting that the Bank Rate is to remain unchanged at 0.50% during 2013/14 before starting to rise from March 2015. Bank Rate forecasts for financial year ends (March) are as follows:

- 2012-13 0.50%
- 2013-14 0.50%
- 2014-15 0.75%
- 2015-16 1.50%

There is a downside risk to these forecasts (i.e. the start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England 2% target rate.

The strategy for 2012/13 agreed on 1 March 2012 was set in a background of uncertainty and a prudent approach was taken with nearly all investments on an overnight basis. In the current economic climate it is essential that a prudent approach is maintained. This will primarily be achieved through investing for up to three months with selected banks and funds which meet the Authority's credit rating criteria, set out in Appendix C(vi).

The Authority will avoid locking into longer term deals while investment rates are down at historically 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 Strategic Director of Finance and Resources 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 Strategic Director of Finance and Resources 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.

7.10 Creditworthiness Policy

Credit ratings will continue to be monitored by the Authority's treasury management team. The Authority is alerted to changes to ratings through its use of the Sector creditworthiness service who notify the Authority of any changes as soon as they receive the information. The Sector creditworthiness service uses a modelling approach with credit ratings from the three main rating agencies – Fitch, Moody's and Standard and Poor's, forming the core element. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system. 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,
- any 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 this Authority will also use market data and market information, information on government support for banks and the credit ratings of the government support.

7.11 Policy on the use of external service providers

The Authority uses Sector Treasury Services as its external treasury management advisers.

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

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

Section 8.0
Response to the Overview & Scrutiny Committee Recommendations

8.1 Information Document

This section of the document proposes how to consider responding to any recommendations made by the Overview and Scrutiny Committee following its scrutiny and challenge of the 2013-2015 Financial Planning and Budget process and the Cabinet's draft Council Tax Requirement and budget proposals.

The Cabinet must formally respond to any recommendations made by the Overview and Scrutiny Committee in considering its final budget proposals. Due to the amendment of the timetable this year, as reported to Cabinet on 26 November 2012, in order to allow time for the details of the Provisional Local Government Finance Settlement to be fully analysed, as explained in Section 1.0 above, the meeting of Overview and Scrutiny Committee to consider these draft budget proposals will not take place until 30 January 2013. It is therefore proposed that delegated authority is granted to the Elected Mayor, in consultation with the Cabinet Member for Finance, the Chief Executive and the Strategic Director of Finance and Resources to formally respond to any recommendations that may be proposed by the Overview and Scrutiny Committee at its meeting.

A separate report will be issued, indicating Cabinet's response to any Overview and Scrutiny Committee Recommendations that may arise.

Section 9.0
Provisional Statement to full Council by the Chief Finance Officer

9.1 Background

The Local Government Act 2003 imposes duties on local authorities in relation to budget setting. The Act requires that when an authority is deciding its annual budget and Council Tax level, members and officers must take into account a report from the chief finance officer on the robustness of the budget and the adequacy of the authority's financial reserves.

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

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

The intention would be to make this full statement as part of the full Council meeting on 21 February 2013 when all outstanding information should be available as detailed in paragraph 1.1 of this document.

9.2 Provisional Statement

Robustness of Estimates

In assessing the robustness of estimates, the chief finance officer has considered the following issues:

- The general financial standing of the Authority;
- The underlying budget assumptions from the financial strategy;
- Future budget pressures and growth proposals, including the impact of prudential borrowing for the 2013-2023 Capital 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 2011/12 Statement of Accounts, presented to full Council on 27 September 2012;

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

- The implications of government's 2011–2015 Spending Review and the Local Government Finance Settlement on the Authority's financial plan.

- The proposal to increase the level of contingencies by £2.402m to £5.187m to recognise a number of areas, including any increase in Levies and/or Inflation, Members' Allowances, Flooding, changes in specific government grants as yet unknown and demand-led pressures particularly in Adults' and Children's Social Care areas.

The chief finance officer is satisfied that due attention has been given to the 2013-2015 Financial Planning and Budget process and in particular the Council Tax Requirement and budget setting element of that process for 2013-2015 to enable a positive statement to be made.

The Cabinet is aware it must keep under review its medium-term Financial Strategy and two year Financial Plan, in the context of the Sustainable Community Strategy and known key financial risks. Future pressures need to be considered and the Authority should not take 2013/14 in isolation to future years' needs and pressures. Each year's budget must continue to be considered within the context of the two-year Financial Plan, the ten-year Capital Plan, the Financial Strategy and the global economic position prevailing at the time.

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

9.3 Adequacy of Financial Reserves

The level of reserves used to support the 2013/14 budget proposals has been set at £1.295m. The chief finance officer's view, based on Cabinet's estimates of amounts proposals is that, this figure for the use of reserves in 2013/14 is manageable within the overall financial position of the Authority and the overall level of reserves and balances carried in its balance sheet. For 2009/10 the budgeted use of reserves, for both revenue and capital, was £11.498m. In the 2010/11 budget this fell to £4.064m and to £3.185m in the 2011/12 budget (comprising of a contribution of £1.803m from the insurance reserve and £1.382m from the Strategic Reserve). The 2012/13 budget approved at full Council on the 1 March 2012 included the use of £0.200m of the Strategic Reserve to establish the CEI Fund and £1.436m to replenish the reserve in 2012/13. The successive reductions recognise the need to reduce the reliance on reserves in balancing the Authority's revenue budget.

The proposed draft budget for 2013/14 includes the use of £1.295m of the Strategic Reserve to support the phasing of some CEI savings that may necessarily be a part year effect only in that year. This use, together with the planned replenishment in the Financial Plan for 2014/15, 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 2013-2015 financial plan would 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 2013/14 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 2013-2015 financial plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long term reliance on reserves.