North Tyneside Council
Report to Council
Date: 20 February 2014

Title: 2014-2018 Financial Planning and Budget Process: Liberal Democrat Group Notice of Objection

Report of: **The Liberal Democrat Group**

Wards affected: **ALL**

Liberal Democrat Group Notice of Objection for the 2014/15 General Fund Revenue Budget, the proposed Council Tax Level for 2014/15, the Investment Plan for 2014-2018 and the Treasury Management Statement and Annual Investment Strategy for 2014/15

1.0 Introduction

The Liberal Democrat Group have submitted objections to the Elected Mayor's budget to ensure that the Authority concentrates on maintaining services.

We believe at a time when many families are still feeling under pressure, it is essential that the Authority prioritises and cuts out waste, it aims to protect services for children and vulnerable adults.

The Liberal Democrat Group does not believe that there is any tangible benefit to the people of North Tyneside by continuing to freeze Council Tax when a small increase may well help to protect service delivery.

We believe all parties should be prepared to work together for the benefit of North Tyneside residents and we again call for an all party group to monitor the budget especially any areas of high risk. We believe it is essential to have strict budgetary control, to maintain financial stability and concentrate on providing the quality services residents deserve.

This budget therefore proposes a small Council Tax increase of 1.90% (Council element only) and an increase of 1.70% (including precepts).

2.0 Liberal Democrat Group Resolution: Setting the Council Tax 2014/15

2014/15 Council Tax Requirement Resolution

2.1 The Liberal Democrat Group recommends that:

1. The recommended budgets of the Authority, be approved as noted below subject to the variations listed in paragraphs 2, 3 and 4 below and notes the estimated allocation of £139.696m in Dedicated Schools Grant, for 2014/15:

Directorate	£
Chief Executive's Office	22,056,321
Deputy Chief Executive's Office	119,789,811

Corporate	11,280,417
Total	153,126,549

2. The following levies be included in the net budget requirement:

	£
Tyne & Wear Integrated Transport Authority	12,398,399
Tyne Port Health Authority	51,191
Environment Agency	175,444
Northumberland Inshore Fisheries and Conservation Authority	128,597
Total	12,753,631

3. The contingency provision be set as follows:

	£
Contingency Provision	3,600,000
Total	3,600,000

4. The following individual objections are proposed to be incorporated within the Authority's Budget.

Growth

Item		**£**
	Corporate	
1.	Loss of 2014/15 Council Tax Freeze Grant	863,000
2.	Revenue effect of capital plan proposals	20,000
3.	Freeze school and community meals price increases	230,000
4.	Reinstate proposal to 'Reduce the Book Fund'	100,000
5.	Reinstate part of proposal 'Review of Learning Disability Residential Care'	100,000
6.	Reinstate proposal to 'Reduce out of hours staffing costs' in Adult Social Care	11,000
7.	Create a fund to promote (and establish) apprenticeships	500,000
	Total Corporate	**1,824,000**
	If All Objections are accepted the Total Growth will be	**1,824,000**

Additional Grants Received by the Council

Item		**£**
8.	Final Section 31 Grant to compensate Local Authorities for the cost of changes to the Business Rates system announced in the 2013 Autumn Statement – Cumulative 2014/15 Change	1,511,000
	Total Additional Grants Received by the Council	**-1,511,000**

5. Note that at its meeting held on 30 January 2014 Cabinet agreed the Council Tax Base for 2014/15 for the whole Authority area as 55,400 (Item T) in the Formula in Section 31B of the Local Government Finance Act 1992, as amended (the “Act”) and the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012.

6. Agree that the Council Tax requirement for the Authority’s own purposes for 2014/15 is £74,971,158, as set out below:

2014/15 Council Tax Requirement for North Tyneside Council

	£	£
2014/15 Budget Requirement		169,793,180
Financed by:		
Revenue Support Grant	(53,093,771)	
Retained Business Rates	(26,467,371)	
Business Rates Top Up	(15,252,485)	
Council Tax Collection Fund Surplus	(8,395)	(94,822,022)
Council Tax Requirement		**74,971,158**

7. Agrees that the following amounts now calculated by the Authority for the year 2014/15 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992 as amended (the Act):

(a) £361,360,896 Being the aggregate of the amounts which the Authority estimates for the items set out in Section 31A(2)of the Act.

(b) £286,389,738 Being the aggregate of the amounts which the Authority estimates for the items set out in Section 31A(3) of the Act.

(c) £74,971,158 Being the amount by which the aggregate at 7(a) above exceeds the aggregate at 7(b) above, calculated by the Authority in accordance with Section 31(A)(4) of the Act, as its Council Tax requirement for the year (Item R in the formula in Section 31B of the Act).

(d) £1,353.27 Being the amount at 7(c) above (Item R), all divided by Item T (5 above), calculated by the Authority, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year.

(e) North Tyneside Council Valuation Bands

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
902.18	1,052.55	1,202.90	1,353.27	1,653.99	1,954.72	2,255.45	2,706.54

being the amounts given by multiplying the amount at 7(e) above by the number which, in the proportion set out in Section 5(1) of the Act 1992, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Authority, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

(f) Police and Crime Commissioner for Northumbria Valuation Bands

Note that for the year 2014/15 the Police and Crime Commissioner for Northumbria have issued the following amounts in precepts to the Authority, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings in the Authority's area as indicated below:

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
57.74	67.36	76.99	86.61	105.86	125.10	144.35	173.22

(g) Tyne & Wear Fire and Rescue Authority Valuation Bands

Note that for the year 2014/15 the Tyne and Wear Fire and Rescue Authority have issued the following amounts in precepts to the Authority, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings in the Authority's area as indicated below:

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
48.77	56.90	65.03	73.16	89.42	105.68	121.93	146.32

(h) Total Valuation Bands

That, having calculated the aggregate in each case of the amounts at 7(e), 7(f) and 7(g) above, the Authority, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2014/15 for each part of its area and for each of the categories of dwellings shown below:

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
1,008.69	1,176.81	1,344.92	1,513.04	1,849.27	2,185.50	2,521.73	3,026.08

8. The Authority's basic amount of council tax for 2014/15 is not excessive in accordance with the principles approved under Section 52ZB of the Local Government Finance Act 1992, as amended.

9. The Authority's Financial Regulations will apply to the financial management of this budget.

10. It is proposed to change the level of contingencies to £3.600m to recognise demand-led pressures particularly in Adults' and Children's Social Care areas, the estimated pay award for 2014/15 and additional contingencies as set out in

Appendix B.

11. It is proposed that virement levels and approvals for virement shall be in accordance with the rules set down in the Authority’s Financial Regulations in force at the time.

12. The Reserves and Balances Policy as set out in the report to full Council on 6 February 2014, is adopted as set down and is subject to review at least annually.

13. The Chief Executive, in consultation with the Elected Mayor, Deputy Mayor, Cabinet Member for Finance and Resources, the Head of Finance and Commercial Services and the Senior Leadership Team is authorised to manage the overall Change, Efficiency and Improvement Programme and note that decisions made under this authorisation will be reported to Cabinet as part of the regular budget monitoring information provided.

14. The Elected Mayor in consultation with the Strategic Property Group, be granted delegated authority to keep under review the proposed Reserve List of Schemes, within the 2014-2018 Investment Plan and agree any changes considered appropriate subject to the Financial Regulations.

15. An All Party Group review the Investment Plan proposals in relation to the Learning Village / Multiversity proposal.

16. The review of Home to School Transport arrangements will not include the cessation of post 16 subsidy for Home to College transport or the cessation of school bus pass assistance to faith schools.

17. The chief finance officer be authorised to serve notices, enter into agreements, give receipts, make adjustments, institute proceedings and take any action available to the Authority to collect or enforce the collection of non-domestic rate and Council Tax from those persons liable.

18. The chief finance officer be authorised to disburse monies from funds and accounts of the Authority as required for the lawful discharge of the Authority's functions.

19. Agree that the Police and Crime Commissioner for Northumbria (formerly the Northumbria Police Authority) and the Tyne and Wear Fire and Rescue Authority receive payment from the Collection Fund in 12 equal instalments on the last working day of each month.

20. Payments from the Collection Fund to be made to the Authority's General Fund in 12 equal instalments on the last working day of each month.

3.0 INVESTMENT PLAN 2014-2018

3.1 The Liberal Democrat Group recommends that the following amendments be incorporated within the 2014-18 Investment Plan:

£

Additional Growth:	
1.Increase Additional Highways Maintenance budget by £1.000m per year for 4 years (EV056)	4,000,000
Total Additional Growth	**4,000,000**

The Investment Plan for 2014-2018 including these changes is attached as **Appendix A.**

3.2 Draft Prudential Indicators

The following indicators have been amended to reflect the changes to the Investment Plan set out in section 3.1 above and the revenue impact of the changes.

The following sets down the draft Prudential Indicators as calculated and proposed for North Tyneside Council for 2014–2018.

3.3 Indicators of Affordability

Prudential Indicators (PIs) 1 to 4 are key indicators of affordability.

3.4 Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)

This indicator calculates the estimated net finance costs for the year divided by the amounts to be met from government grants and local taxpayers for the non-HRA element, and the total HRA income for the HRA element. The objective is to identify trends over time.

The actual figures for 2013/14 are also set out in Table 1 below:

Table 1: Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Est.	Est.	Est.	Est.	Est.
General Fund	13.32%	13.46%	16.20%	17.64%	18.57%	19.37%
HRA	22.93%	30.59%	27.54%	27.89%	32.76%	33.40%

The above indicator shows costs for all borrowing, both supported and unsupported. It also includes the financing costs of PFI schemes (including the estimated Housing Quality Homes for Older People PFI scheme) and leases. To enhance the information available for decision-making we have also provided a local indicator to show the proportion of the budget that is spent on unsupported borrowing. This is shown in Table 2 below:

Table 2: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream (PIs 1 and 2)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Est.	Est.	Est.	Est.	Est.
General Fund	6.75%	6.73%	8.55%	9.71%	10.69%	11.58%
HRA	3.94%	10.07%	4.35%	4.37%	6.61%	7.83%

Debt financing costs related to past and current capital programmes have been estimated in accordance with proper practices. Actual costs will depend on the phasing of capital expenditure and prevailing interest rates, and will be closely managed and monitored on an ongoing basis. Any reprogramming in the capital programme, whether planned or unplanned, may delay the impacts of debt financing costs to future years.

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

Council Tax

This indicator represents an estimate of the incremental impact of new capital investment decisions on the annual Council Tax (Band D). It is intended to show the effect on Council Tax of approving the additional capital expenditure.

Revenue budget impacts may arise from the following:

- Interest from the use of external borrowing;
- Set aside of Minimum Revenue Provision (MRP);
- Revenue running costs or savings; and,
- Direct revenue contributions to capital expenditure

Table 3:Estimates of incremental impact of new capital investment decisions on Council Tax

	General Fund
2014/15	£6.38
2015/16	£28.54
2016/17	£38.38
2017/18	£62.18

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

Housing rents

This indicator represents an estimate of the incremental impact of new capital investment decisions on average weekly housing rents.

Revenue budget impacts may arise from the following:

- Direct revenue contributions to capital expenditure;
- Use of the Major Repairs Allowance (MRA);
- Interest from the use of external borrowing;
- Amounts set aside for the repayment of debt; and,
- Revenue running costs or savings.

Table 4:Estimates of incremental impact of new capital investment decisions on weekly housing rents

	HRA
2014/15	£6.80
2015/16	£3.64
2016/17	(£0.78)
2017/18	£1.37

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

3.6 Prudential Indicators for Prudence

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

Gross debt and Capital Financing Requirement (CFR)

This key indicator is intended to show that gross debt does not, except in the short term, exceed the total CFR plus estimates of additional capital requirements for 2014/15 to 2017/18.

Table 5: Gross external debt less than CFR

	2014/15	2015/16	2016/17	2017/18
	£'000s	£'000s	£'000s	£'000s
External Borrowing	490,610	498,114	494,383	487,769
Other Liabilities (including PFI and Finance Leases)	88,663	120,898	126,638	122,908
Total Gross debt	579,273	619,012	621,021	610,677
Capital Financing requirement	617,385	649,537	650,634	639,542

3.7 Prudential Indicators for Capital Expenditure

Estimate of capital expenditure

This indicator requires reasonable estimates of the total capital expenditure to be incurred during the forthcoming financial year and at least the following two financial years.

The Investment Plan for 2014-18 is included as **Appendix A** and the figures below are based on that report.

Table 6: Capital Expenditure

	2014/15	2015/16	2016/17	2017/18
	Estimate £000's	Estimate £000's	Estimate £000's	Estimate £000's
General Fund	56,483	21,686	18,920	11,158
HRA	23,936	25,427	24,303	24,731
Total	78,419	47,113	43,223	35,889

After the year end, the actual capital expenditure is calculated using the figures shown in the Financial Statements.

There is a real risk of cost variations to planned expenditure against the capital programme, arising for a variety of reasons, including tenders coming in over/under budget, changes to specifications, slowdown/acceleration of project phasing. There is also the possibility of needing to bring urgent and unplanned capital works into the capital programme. These risks are managed by project officers on an ongoing basis, by means of active financial and project monitoring, and will be overseen by the Capital Programme Management and Finance Group.

The availability of financing from capital receipts, grants and external contributions also carry significant risks. These risks are particularly relevant to capital receipts, where market conditions are a key driver to the flow of funds, causing problems in depressed or fluctuating market conditions.

3.8 Estimate of Capital Financing Requirement (CFR)

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

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

The Authority is required to make reasonable estimates of the total CFR at the end of the forthcoming financial year and, as a minimum, the following two years. The HRA estimates must be shown separately.

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

Table 7: Capital Financing Requirement

	2012/13 Actual £000's	2013/14 Est. £000's	2014/15 Est. £000's	2015/16 Est. £000's	2016/17 Est. £000's	2017/18 Est. £000's
General Fund	292,043	295,247	301,480	301,297	298,314	293,695
HRA	287,011	288,841	316,904	350,190	355,170	349,547
Total	**579,054**	**584,088**	**618,384**	**651,487**	**653,484**	**643,242**

The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 8 below:

Table 8: Capital Financing Requirement for Unsupported Borrowing

	2012/13 Actual £000's	2013/14 Est. £000's	2014/15 Est. £000's	2015/16 Est. £000's	2016/17 Est. £000's	2017/18 Est. £000's
General Fund	124,130	133,588	134,173	146,962	155,279	156,047
HRA	43,593	39,693	38,943	37,823	35,063	31,173
Total	**167,723**	**173,281**	**173,116**	**184,785**	**190,342**	**187,220**

After the year end, the actual capital financing requirement and actual external borrowing are calculated from the Financial Statements.

Prudential Indicators for External Debt

3.9 Authorised limit for total external debt

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

This indicator requires the Authority to set the forthcoming financial year and following years authorised limit for total external debt, separately identifying borrowing from other long term liabilities such as PFI and Finance Leases.

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

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

Full Council is requested to approve these limits and to delegate authority to the Chief Finance Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities, in accordance with option appraisal and best value for money for the Authority.

Any such changes made will be reported to the Cabinet at its next meeting following the change.

Table 9: Authorised Limit for External Debt

	2014/15 £000’s Est.	2015/16 £000’s Est.	2016/17 £000’s Est.	2017/18 £000’s Est.
Borrowing	1,072,000	1,074,000	1,066,000	1,058,000
Other Long Term Liabilities	120,000	150,000	157,000	153,000
Total	**1,192,000**	**1,224,000**	**1,223,000**	**1,211,000**

The Chief Finance Officer reports that these Authorised Limits are consistent with the Authority’s current commitments, existing plans and the proposals in this 2014/15 budget report for capital expenditure and financing, and in accordance with its approved Treasury Management Policy Statement and Practices.

3.10 Operational Boundary for total external debt

The proposed operational boundary is based on the same estimates as the authorised limit. However, it excludes the additional headroom which allows for unusual cash movements.

The operational boundary represents a key management tool for in year monitoring by the Chief Finance Officer. Within the operational boundary, figures for borrowing and other long term liabilities are identified separately. Full Council is requested to delegate authority to the Chief Finance Officer, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the Authorised Limit.

Any such changes will be reported to the Cabinet at its next meeting following the change.

Table 10: Operational Boundary for External Debt

	2014/15 £000's Est.	2015/16 £000's Est.	2016/17 £000's Est.	2017/18 £000's Est.
Borrowing	536,000	537,000	536,000	529,000
Other Long Term Liabilities	100,000	130,000	137,000	133,000
Total	**636,000**	**667,000**	**673,000**	**662,000**

At the end of the financial year, the closing balance for actual borrowing and other long term liabilities will be obtained from the Financial Statements.

3.11 HRA limit on indebtedness

Under the reforms of housing finance the Government published *Limits on Indebtedness Determination 2012* which set out the maximum amount of housing debt the Authority could have outstanding at any one time. The limit for North Tyneside was £290.824m. This limit will be required to flex to allow headroom for the Quality Homes for Older People PFI scheme. Details of how this will take place are still to be determined by CLG, however, Table 11 below shows the assumed limit on the level of indebtedness following the flexing of the cap.

Table 11: HRA limit on indebtedness

	2014/15	2015/16	2016/17	2017/18
	Estimate £000's	Estimate £000's	Estimate £000's	Estimate £000's
Assumed HRA limit on indebtedness	325,367	359,773	367,513	365,780
HRA capital financing requirement	316,904	350,190	355,170	349,547

3.12 Prudential Indicators for Treasury Management

<u>Adoption of the CIPFA Code of Practice for Treasury Management</u>

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

Strategy and Practices.

Upper limits on interest rate exposure 2013/14 to 2015/16

Full Council will be requested to set an upper limit on its variable interest rate exposures for 2014/15, 2015/16, 2016/17 and 2017/18 of 50% of its net outstanding principal sums.

The proposals to set upper and lower limits for the maturity structure of the Authority's borrowings are as follows:

Table 12: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate

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

Table 13: Upper limit for total principal sums invested for over 364 days

	2014/15	2015/16	2016/17	2017/18
% of Investments with Maturity over 364 days	25%	25%	25%	25%

The above indicator sets the exposure of investments in excess of 364 days at no more than 25% of the portfolio.