ANNEX 1

# 2016-2019 Financial Planning and Budget Process:

## Cabinet's Draft Council Tax Requirement and Budget Proposals

27 January 2016

North Tyneside Council

## Contents

**Part 1**



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# Section 1.0
# Our North Tyneside Plan 2016-2019 / Creating a Brighter Future / Target Operating Model

## 1.1 Our North Tyneside Plan 2016-2019 / Creating a Brighter Future (CBF) / Target Operating Model (TOM)

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

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

It has also been shaped through consultation and engagement with residents, service users and key stakeholders through: the Big Community Conversation in the summer of this year; the Our North Tyneside Plan and Budget consultation from September 2015 to January 2016, feedback from the Residents Survey and also at the State of the Area event.

By listening to our residents and others, the Plan provides a clear framework for the Council to move forward. It provides the context for all financial decisions and the operational delivery of services both at Borough level but also increasingly as we work alongside other local authorities through the North East Combined Authority and with businesses through the North East Local Enterprise Partnership.

As well as reflecting what people are telling us they want, the Plan also takes into account the empirical evidence around need across the Borough. A key fact is that in North Tyneside, a baby born today in the most deprived part of the Borough will live 10 years less than a child born in the least deprived part. This inequality is visible throughout a residents life; from babies being born with low birth weight, the differences in educational attainment and employment through to the difference in the quality of health that people can expect in later life.

The Medium Term Financial Plan is central to achieving our vision. In order to ensure our resources are directed towards the right priorities, we have developed a detailed understanding of the Borough and our communities. North Tyneside borough has a population of 202,744, which is greater than at any other time since 1981. It is estimated to continue to rise to 231,300 by 2033. Not only is the future population expected to increase but it is also expected to include more people aged 65 and over. By 2033 the over 65 age group is expected to have increased by 47% from today's level. In addition the number of children (0-14 years) is also projected to increase between now and 2033 by 8.7%, compared to a projected 4.4% increase for Tyne and Wear and 2.8% for the North East. These projections will have a significant impact on how we provide services and represents major opportunities and challenges for the future. These projections have been factored into our financial planning.

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

The second is to continue to invest in the Borough's future and to create a prosperous economy that will generate income and provide the job and training opportunities that will be essential to successfully tackling these inequalities. We will do this through continued investment in:

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

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

**Our People will:**

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

**Our Places will:**

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

**Our Economy will:**

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

These outcomes underpin the CBF Change Programme first implemented during 2014/15.

In order to deliver against these outcomes alongside the financial challenges we face due to reductions in Government funding, the Council will change the way it operates through the development and implementation of a “Target Operating Model” (TOM). The TOM will describe how we will deliver services and is one of the drivers that will:

- protect the core essential services to deliver what people need

- improve customer service through: getting things right first time; improved information online; providing more accessible services on a 24/7 basis, enabling people to do more for themselves online at a time when it suits them, including supported access in face-to-face community and well-being hub settings

- support changes in behaviour by residents to encourage and enable them to do more for themselves if they can and to rely less on Council services through new communications and marketing campaigns

- modernise how services are delivered and the way in which the Council operates through improved use of technology, innovation and mobile working

- provide a network of front line services via excellent quality community based facilities – a one stop shop approach to provide more services under one roof

- enable our workforce to become more flexible through redesign of structures, teams and roles and a focus on different workforce development

- Seek to maximise the impact partners have, and achieving the outcomes and successful delivery of the Target Operating Model

- reduce costs around how the Council processes payment for services by moving to a non-cash based approach

- review of fees and charges to ensure these remain in line with our charging principles

- manage demand for the most costly care and health services through a more preventative approach for both children and adults

- streamline access to care and disability support services for adults and children

- adopt a new approach to childcare

- move to more community based housing support rather than residential homes or 24 hour wrap around care

- develop a new self-funded approach to support the Borough's schools to continue to perform excellently

- introduce a more targeted and integrated locality based approach for children and family support services that work in a "whole family" way to deal with the full range of issues and challenges that people may be facing rather than each one in isolation

- promote volunteering and to deliver more services in partnership with the local community and voluntary sector organisations or groups

- review how environmental areas are maintained

Our performance management framework will ensure that we monitor delivery against these outcomes and we are starting from a very strong and successful starting point. Over the past two years, the Borough has seen:

- increasing educational achievement with 61% of pupils achieving 5A*-C grades at GCSE, including English and Maths
- more people receiving essential NHS health checks to identify the risk of cardiovascular disease and enabling earlier intervention to prevent significant health problems in later life
- excellent levels of take up for our award-winning Active North Tyneside programme to improve the health and well-being of residents
- the creation of a new and successful way to care for our older residents via the community based Care and Connect service

- 99% of Primary pupils and 87% of Secondary pupils are taught in schools rated Outstanding by Ofsted – one of the top performing Borough's nationally for primary and for secondary we are bucking the trend through continued strong performance
- the lowest number of Job Seeker Allowance claimants in the North East
- 414 net additional new homes provided, including affordable homes – an increase from the previous year
- significant progress with regeneration plans at the Coast and Swans
- excellent levels of resident and customer satisfaction with services and facilities
- 39 schools in total have received investment over the two year period.
- continued 5 star rating for environmental standards
- 3 blue flags and 4 seaside awards for beaches and 5 green flags
- an innovative partnership based approach to drive out anti-social behaviour in Whitley Bay town centre.
- the creation of over 2,700 jobs
- an increased number of new small businesses, major new investment or large scale expansions by a range of different world class companies

**What this means for our workforce**

In order to continue to deliver specialist services to those who need them most, whilst managing the demand for the other services we provide, we will need to build on the strengths we have and consider the impact upon the shape, size and priorities of our workforce.

We will need a front line workforce, delivering universal services who are flexible and able to help residents to help themselves to access Council services which are non specialist and complex in terms of need. Some of these services will be able to be accessed by the Council's website with ease, and for others our front line workforce will be trained to signpost residents to relevant services depending on need.

Moving towards a model of providing a network of front line services via excellent quality community based facilities – a one stop shop approach to provide more services under one roof, will require multi skilling and generic skills sets from our workforce.

In terms of the more specialist services, we will be working in a different way to ensure that specialist resources can be more effectively targeted at the people who need them most which will require changes to how our workforce are structured, particularly through a preventative rather than a reactive approach.

The offer will be joined up from the Council in terms of services for residents, again which will have an impact, which in certain services will mean teams who are part of a whole family approach, dealing with multiple issues and challenges.

We will inevitably have a smaller workforce but one which is flexible, agile and high performing, which focuses on the right things to achieve our outcomes for the residents.

Building on our strengths, our workforce will be focused upon improving customer service through: getting things right first time; improved information online; providing more accessible services on a 24/7 basis, enabling people to do more for themselves online at a time when it suits them, including supported access in face-to-face community and well-being hub settings and supporting those who need the more specialist services through a preventative approach to service delivery.

## 1.2 Policy Framework for the 2016/17 Financial Planning and Budget Process

The refreshed Our North Tyneside Plan 2016-2019 provides the policy direction and strategic priorities for the 2016/17 Budget. It will be delivered through a partnership between the Authority, local people, communities, businesses, and local voluntary and public sector organisations.

## 1.3 Our North Tyneside Plan and Budget Engagement

We arranged a number of ways to capture the views of residents on priorities for the Our North Tyneside Plan and Budget for 2016/17. As stated previously, the Big Community Conversation was held in the summer this year. Nine public meetings were held across the Borough in phase one of the Our North Tyneside Plan and Budget Engagement during September and October and the State of the Area Event was held in October. Residents discussed and gave views on a range of potential options to deliver savings in the Council Budget.

In addition, information was also shared via social media and the Council's website, for residents to give feedback.

On the Our North Tyneside Plan, the overall feedback from the phase one consultation was:

- agreement with the priorities, particularly around health and well-being (with a focus on prevention), giving all children the best start in life and creating more job, apprenticeships and skills opportunities for all ages, having a good quality environment with excellent infrastructure

- support for the need to work in partnership with all sectors and with residents/communities

- support for increased use of self-service, the use of technology (including in how we engage with residents) and increased independence

- agreement to the need to target services on those who need them most

- support for reducing any duplication in buildings and the need to be consistent in any charges

On the Budget the overall feedback from the phase one consultation was

- support for an increase in Council Tax in order to maintain essential services

- seek to do more to generate more income into the Borough through tourism and business investment

- support for a review of Council assets to ensure Value for Money

- agreement that review of environmental services to ensure improved Value for Money would be helpful

A second phase of engagement has run from 8 December 2015 to 31 January 2016 which has again provided opportunities for residents to have their say online, via social media and at a range of events. These events have offered the opportunity for the following groups to discuss proposals for the refreshed Our North Tyneside Plan and Budget proposals:

- North Tyneside Strategic Partnership members, political groups within the Authority, staff panel members, all residents, young people, older people and people with protected characteristics under the Equality Act.

Engagement feedback shows widespread agreement with the Our North Tyneside Plan priorities and Budget proposals. Key findings highlight requests for:

- more communication about proposals for nursery childcare provision
- a clear definition of ‘affordable’ housing
- the maintenance of environmental standards and the borough’s physical infrastructure
- clarity on partner’s performance and value for money
- exploration and exploitation of external (including European) funding streams.
- Information on the implications of self-service, particularly for vulnerable people
- greater investment in ICT in order to deliver self-service
- public reporting on performance against the Our North Tyneside plan
- regular reporting on engagement outcomes
- progress on regeneration initiatives
- decisions on proposed housing developments, particularly around Murton village

Participants also acknowledged the impact successful partnership working and the achievement of local schools has had on the borough.

Face to face engagement is now complete, but opportunities to comment on-line will be available via the council's website until 31 January 2016. Should any additional comments be received by this date they will be published in an addendum report and presented to Council on 4 February 2016.

# Section 2.0
# The Financial Strategy for 2016-2019

## 2.1 Introduction

At its meeting on 14 September 2015, Cabinet approved the process and timetable to be adopted for the preparation of the draft Financial Plan, 2016/17 revenue budgets in respect of the General Fund, Dedicated Schools Grant (DSG) and Housing Revenue Account (HRA), and the 2016-2019 Investment Plan, as part of the overall Financial Planning and Budget process for 2016-2019. Cabinet also approved the Budget Engagement strategy at that meeting and the work to be undertaken to refresh the Our North Tyneside Plan 2016-2019.

The Our North Tyneside Plan 2016-2019 will continue to provide the policy direction and strategic priorities for the 2016/17 Budget. It will be delivered through a partnership between the Authority, local people, communities, businesses, and local voluntary and public sector organisations.

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 2016 – 2019 and the 2016/17 Council Tax Requirement.

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 they can be confirmed. The information to be assessed and finalised is:

(a) The Final Local Government Finance Settlement announcements for 2016/17, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG) (due January 2016/February 2016);

(b) Police and Crime Commissioner for Northumbria and Tyne and Wear Fire and Rescue Authority Precepts (due 3 February 2016 and 15 February 2016 respectively);

(c) The retained Business position of the Council as set out in the 2016/17 NNDR1 Return;

(d) Tyne and Wear Joint Service Budgets (due January / February 2016); and

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

Therefore, 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 Resources and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these proposals.

## 2.2 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 Our North Tyneside Plan 2016-2019 which ultimately drives our resources. Our Budget setting process helps the Authority respond appropriately to responsibilities and duties placed upon Local Government through legislative requirements and the Government's drive to deliver savings.

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.

<u>Creating a Brighter Future Programme</u>

An important element of our overall Financial Strategy is the Authority's approach to changes needed to achieve savings. As set out in Section one, the Council continues to deliver its priorities through the "Creating a Brighter Future" change programme and will operate through a new "Target Operating Model".

### Defining our Financial Strategy

Best practice highlights the need for medium-term planning horizons. The Authority's three-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 that supports the delivery of the required outcomes;

(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 new technology

The approach to resource planning for 2016-2019 will continue 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 will be the annual detailed review of the current Financial Plan forecasts and commitments for revenue, capital investment and housing finance. The Financial Strategy will be subject to its usual annual review.

Leading on from this, the key components and principles adopted for our 2016-2019 Financial Strategy have been fully reviewed as part of this year's process and are summarised in Table 1 below:

**Table 1: Principles adopted for the 2016-2019 Financial Strategy**

| **Financial Themes** | **Principles Adopted** |
|---|---|
| Council Tax | • Provide value for money for the people of North Tyneside<br>• Council Tax levels that demonstrate prudence and retain stability in the Authority's finances<br>• Council tax collection managed to secure recurrent efficiencies in the Authority's collection fund |
| Housing and Welfare Reform | • Ensure that the financial implications of the Local Council Tax Support Scheme have been fully considered<br>• Welfare Reform changes are reviewed to ensure that the full implications are taken account of<br>• Recognise the implications of Housing Revenue Account Self Financing and the impact of announcements made as part of Summer Budget 2015 on the Housing 30 year business plan. |
| Commercial Activity | • Consider Trading Opportunities<br>• Options for Service Delivery Mechanisms<br>• Ensure that commercial opportunities with our partners are explored |

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| Revenue Income Generation | • Encourage a climate / approach where trading and charging powers of the Authority are maximised<br>• Continue to manage income and debts to reduce the need to make provision for bad debts<br>• Apply a charging policy consistently across all Authority services |
| Revenue Expenditure & Budget Strategy | • Annual Budget resources aligned and prioritised to meet the Our North Tyneside Plan<br>• Reserves and Balances Policy in line with best practice that is reviewed on at least an annual basis<br>• 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<br>• Earmarked reserves established appropriately for known and quantifiable (future) liabilities and financial risks<br>• Pay and price inflation forecasts and full payroll costs built into projections and then used as a way to target general efficiency savings across service areas<br>• Continuous challenge of the base Budget to secure service efficiency savings<br>• 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 Creating a Brighter Future Programme<br>• 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<br>• 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<br>• Ensure appropriate use of reserves to support the revenue Budget in the medium term<br>• Recognise the implications of the Business Rates Retention Scheme<br>• The Financial Strategy needs to be flexible enough to manage the changes to the Local |

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| | Government finance system |
| Capital Financing and Expenditure | • Supports the Authorities responsibilities with regard to Heath and Safety for both Staff and our residents and customers<br>• Supports the Authority's aim to promote and stimulate strong and sustainable economic growth leading to wellbeing and prosperity for residents and communities and this will be supported by a planned approach to strategic investment managed through the Authority's Investment programme<br>• Strategic assets reviewed at least annually to maximise the potential to release value into the business for strategic re-investment and to ensure that the asset requirements are aligned to the delivery of services across the borough<br>• 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<br>• Asset management plans updated on at least an annual basis and acknowledging available Budget resources<br>• Continuous review of prudential borrowing and its impact on the revenue budgets<br>• No further additional reliance on land and building capital receipts |
| Treasury Management | • Treasury Management Strategy to focus on delivering safe stewardship<br>• Strategic options devised, where the market allows, for managing the overall level of borrowing over the medium term |
| Risk Management | • Business risk embedded in all decision-making processes of the Authority<br>• Budget resources aligned to reduce any material financial risks to the Authority. |

There are a number of additional key elements that are considered in respect of the Financial Strategy.

Pension Fund

On 5 October 2015, the UK Chancellor of the Exchequer, confirmed that the Government is to hold talks with local government pension schemes to overhaul their structure and create “half a dozen British wealth funds” to invest in regional infrastructure projects.

This means that assets of the Tyne and Wear Pension Fund will be pooled into one of six British Wealth Funds, the intention of which is to boost British Infrastructure development such as building new homes and roads. The Government has invited local authorities to come forward with their own proposals to meet common criteria for delivering savings.

Work is continuing through the Tyne and Wear Pensions Committee to explore appropriate options for the Tyne and Wear Pension Fund of which North Tyneside Council is a member. Progress on the development of proposals for the Tyne and Wear Pension Fund to join a ‘Wealth Fund’ will be reported to Council at the appropriate time.

The Technical Partnership with Capita

Cabinet’s Budget Proposals have taken continued account of the challenges involved in making the Partnership a success. The 2015/16 Budget proposals included a significant correction to the managed Budget handled by Capita, particularly in terms of property. This resulted from a flaw in the financial transfers made to underpin the Partnership in November 2012.

Subsequently, the Deputy Mayor and the Cabinet Member for Housing and Transport, with support from the Cabinet Member for Finance and Resources, have been working with the officer team and Capita to strengthen performance management, sort out accountability and performance related to the savings target in order to ensure the Partnership has the right impact for the residents and businesses of North Tyneside and the right positive impact on the Authority’s finances.

The Cabinet’s Budget proposals are made in the context of those challenges and the associated financial plans. A further report is expected to be presented to Cabinet at its meeting on 14th March 2016.

## 2.3 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.

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

**Table 2: Key Financial Risks and mitigating actions**

| Potential Risk | Initial Response |
|---|---|
| | |
| There is a risk that the levels of savings and income the Authority has included in the Budget proposals are not fully deliverable. | A robust challenge process has taken place to establish the Target Operating Model (TOM) and how this enables the Council to deliver its Creating a Brighter Future (CBF) Programme. This programme will then be monitored throughout the year to identify any areas which are not delivering savings as planned so corrective action can be taken. Whilst this process is well established with the Creating a Brighter Future Programme monitoring during 2015/16 a review of governance has taken place to ensure the correct programme management approach is in place. |
| There is a risk that if the Creating a Brighter Future (CBF) programme / Target Operating Model (TOM) are not successfully implemented we may be unable to deliver improved services and meet the increased demand on Council services within reducing resources. This could have the financial impact of the Council not delivering on its Budget. | An overall Project Initiation Document and Terms of Reference are in place for all CBF projects which are in varying stages of delivery. This spans all service redesign projects (Ready for School, Work and Life; Cared For, Safeguarded and Healthy; and Great Place to Live, Work and Visit) plus the infrastructure and enabling projects. Heads of Service have ownership for delivering the projects.<br>Monthly Programme Board meetings via SLT take place which help ensure that there is visibility and accountability. It also enables reporting of progress against the plans. |
| There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2018/19 may be wrong, resulting in changes to the current targeted savings. | There is flexibility within the CBF Programme which will allow us to reconfigure if the assumptions that have been made prove to be incorrect. The Council is involved in National financial networks and works closely with Association of North East Councils |

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| | (ANEC), regional and sub-regional financial networks to help ensure we are informed and aware of any national developments. The use of Reserves and Balances can be considered to give greater flexibility in delivery of the Budget and Financial Plan. |
| There is a risk that the financial plans in relation to the Better Care Fund (BCF) do not deliver the anticipated savings. | Governance arrangements are in place to ensure we continue to establish systems around regulations and financial spend. A Turnaround Board has been established which consists of the Chief Executive and representatives from the Clinical Commissioning Group (CCG), it has been established to manage the CCG deficit and look at finances across Health and Social Care. |
| There is a risk that not all growth pressures have been identified in the 2016/17 proposed Budget. | Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor. |
| There is a risk that demand - led pressures exceed Budget provision. | Demand - led pressures continue in areas such as Corporate Parenting and Placements and Learning Disabilities and have been taken into consideration as part of these draft Budget proposals. |
| There is a risk that specific factors arising during 2015/16 have not been fully taken into account when preparing the 2016/17 Budget. | The 2015/16 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures factors arising during the year are highlighted. |
| There is a risk that the contingency provision included in the Financial Plan for 2016/17 is insufficient. | Increase in contingency for 2016/17 of £4.702m to cover specific identified pressures. Experience of 2015/16 has demonstrated the contingency figure to be sufficient. More recently, volatile waste recycling markets present new issues that continue to be closely monitored. |
| There is a risk that there are insufficient levels of reserves and balances. | The Reserves and Balances Policy has been updated and is included as an appendix to this report. |
| There is a risk that the level of capital receipts included in the Budget proposals are not deliverable. | Capital receipts of £1.4m are included in the financing of the 2016/17 Investment Plan. There are a number of actions being progressed that are expected to realise this requirement. |

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| There is a risk that the Council may be unable to sustain the existing level of rent incomes which will impact on our ability to deliver the 30 year HRA Business Plan. The government plans to reduce the social housing rents by 1% per annum for 4 years will significantly impact income and our ability to deliver our existing 30 year HRA business plan. Welfare Reform may also impact on rent collection levels. This has the potential financial impact of £425m over a 30 year period. | A financial inclusion strategy is being developed which will set out how the Council and its partners will support its residents to better manage their finances and maximise their income. In addition, a review of the way tenants pay their rents will take place, resulting in easier payment methods e.g. the introduction of more direct debit payments, which will ensure that rents are collected.<br>The Council will review the cost and quantity of work within the 30 year Investment Plan to help mitigate the impact of changes. |
| There is a risk for a small number of schools that increasing Budget deficits will result in an unsustainable education offer. | Robust challenge and support arrangements are progressing across a number of schools from both the Local Authority and the wider school community. |

# Section 3.0
# 2016/17 Provisional Local Government Finance Settlement and an offer to council's for the next three years

## 3.0 Context / National Settlement

Following the 25 November 2015 announcement of the Spending Review and Autumn Statement, Greg Clark, MP, the Secretary of State for Communities and Local Government announced the Provisional Local Government Finance Settlement for 2016/17 to Parliament. A Consultation on the Settlement was issued with a closing date of 15 January 2016.

Alongside the publication of the Provisional Settlement information, the Department for Communities and Local Government outlined indicative information for the next 3 years until 2019/20.

The Government announced that the last Spending Review in 2010 had set out a real terms reduction of 14% over the period from 2011-2015. The reductions for this Spending Review from 2016-2020 were announced at 6.7% in real terms. Total funding for councils will fall by 2.8% in 2016/17, before rising again by 2019/20.

The Government also outlined an offer to Local Government. Any Council that wishes to, can take up the offer of a four-year settlement to aid medium term financial planning. In return for this guarantee, Local Authorities will have to produce an efficiency plan that satisfies Ministers, though the exact format of this is yet to be prescribed.

## 3.1 Specific Information including implications for North Tyneside Council

Spending Power

The Spending Power calculations originally introduced in the 2011/12 Local Government Finance Settlement have been re-defined. The 'Spending Power' calculation now includes the component elements of:

- Settlement Funding Assessment
- Council Tax Requirement and the potential Council Tax available from the Adult Social Care Council Tax flexibility
- Improved Better Care Fund
- New Homes Bonus
- Rural Services Delivery Grant

The national reduction in 'Spending Power' was outlined as 0.5% over the four year period of the Spending Review (SR) from 2016/17 to 2019/20. North Tyneside Council by contrast sees a 1.8% increase in Spending Power over the next four years against a historic low base. However, Government assumptions are predicated on significant Council Tax increases and growth over the Spending Review period alongside significant reductions to Revenue Support Grant.

The North Tyneside Council Spending Power per dwelling is £1,655 in 2016/17, well below the national average of £1,829. By 2019/20, whilst the gap is narrowed slightly our Spending Power per dwelling is forecast to be £1,735 compared with the national average of £1,872.

An illustration of the North Tyneside Council Spending Power figures are set out below:

**Table 3: North Tyneside Council Spending Power 2015-2020**

| | 2015/16 Adjusted £m | 2016/17 £m | 2019/20 £m | Total Change % |
|---|---|---|---|---|
| Revenue Support Grant | 42.02 | 31.18 | 11.20 | -73.3% |
| Business Rates | | | | |
| Of which Retained Business Rates | 28.30 | 28.53 | 30.91 | 9.2% |
| Of which Top Up Grant | 15.54 | 15.67 | 16.98 | 9.3% |
| | 43.84 | 44.20 | 47.89 | 9.2% |
| Total Settlement Funding Assessment | 85.86 | 75.38 | 59.09 | -31.2% |
| Council Tax | | | | |
| Of which Council Tax Requirement | 74.93 | 78.32 | 91.01 | 21.5% |
| Of which Adult Social Care Precept | 0.00 | 1.55 | 7.37 | |
| | 74.93 | 79.87 | 98.38 | 31.3% |
| Improved Better Care Fund | 0.00 | 0.00 | 6.81 | |
| New Homes Bonus | 2.65 | 3.44 | 2.08 | -21.5% |
| Rural Services Delivery Grant | 0.00 | 0.00 | 0.00 | |
| **Total Core Spending Power** | **163.44** | **158.69** | **166.36** | |
| Change Over Spending Review Period | | | £2.92m | |
| | | | 1.8% | |

Settlement Funding Assessment (SFA)

Nationally, the key income funding stream for Local Government, the Settlement Funding Assessment (SFA) under the Business Rates Retention scheme, sees a 12.5% reduction in 2016/17, with Revenue Support Grant seeing a 27.6% reduction.

A number of grants have been rolled into the Settlement, The North Tyneside Council totals are as set out in Table 4 below:

**Table 4: Grants Rolled into the Settlement**

| Grant | North Tyneside Council Total £m |
|---|---:|
| 2015/16 Care Act - Adult Social Care | 0.789 |
| 2015/16 Care Act – Funding Reform | 0.501 |
| Lead Local Authority Flood Funding | 0.012 |
| 2015/16 Council Tax Freeze Grant | 0.873 |
| Efficiency Support Grant | 0.000 |
| Carbon Monoxide and Fire Alarm Grant | 0.001 |
| Sustainable Urban Drainage Systems | 0.009 |
| **Total** | **2.185** |

The issued SFA for North Tyneside Council for 2016/17 is £75.38m, which represents a reduction of 12.2%, a £10.5m reduction compared with 2015/16. SFA will be distributed to North Tyneside Council in this Settlement as set out in Table 6 below. This table shows the significant reduction in one of the Authority's main sources of income, the Revenue Support Grant (RSG). The 2016/17 Revenue Support Grant for North Tyneside represents a 25.8% reduction on the adjusted total from last year. By 2019/20, it's expected that we'll see a total reduction in our Revenue Support Grant of 73.3%.

The Baseline funding level is the amount of an individual local authority's Settlement Funding Assessment provided through the local share of the Business Rates. In the case of North Tyneside Council this also includes the Business Rates "Top up" payment, which totals £15.7m in 2016/17.

**Table 5: Distribution of SFA to North Tyneside Council 2015-2020**

| | SFA 2015/16 £m | Provisional SFA 2016/17 £m | Provisional SFA 2019/20 £m |
|---|---:|---:|---:|
| Revenue Support Grant | 42.02 | 31.18 | 11.20 |
| Baseline Funding Level | 43.84 | 44.20 | 47.89 |
| **Total Settlement Funding Assessment** | **85.86** | **75.38** | **59.09** |

The total reductions facing North Tyneside Council are set out below:

**Table 6: Reductions facing North Tyneside Council 2016-2020**

| | 2016/17 | By 2019/20 |
|---|---:|---:|
| Reduction in Settlement Funding Assessment | -12.2% | -31.2% |
| Reduction in Revenue Support Grant | -25.8% | -73.3% |

Council Tax

It was confirmed that there will be no Council Tax freeze funding in 2016/17.

The Government outlined that Council Tax referendum principles for 2016/17 will remain unchanged at 2%. There are specific exemptions including for District Councils and Police and Crime Commissioners which are in the lowest quartile of Council Tax increases, who will be able to raise their Council Tax by £5 at Band D. This includes the Police and Crime Commissioner for Northumbria.

It was also outlined that Social Care councils would be allowed to raise their Council Tax by an additional 2% over the existing referendum threshold. Under the rules set out to accompany the Provisional Local Government Finance Settlement, councils must prove they have spent the entire additional 2% on Adult Social Care Services. The Section 151 officer of Adult Social Care Authorities had to indicate to the DCLG by 15 January 2016 if their Council is minded to take up the 2% flexibility.

Government assumptions are for an average annual increase in their Council Tax, excluding the Social Care precept of 1.75% over the period of the Spending Review.

Better Care Fund (BCF)

The Provisional Local Government Finance Settlement confirmed both the continuation of the Better Care Fund and additional BCF Funding of £1.5 billion by 2019/20. The Government will consult on how the additional funding is distributed. The North Tyneside Council indicative allocations are set out in Table 7 below.

**Table 7: Indicative North Tyneside Council Better Care Fund Allocations 2016-2020**

| Year | North Tyneside Council BCF £m |
|---|---:|
| 2016/17 | 0 |
| 2017/18 | 0.464 |
| 2018/19 | 3.837 |
| 2019/20 | 6.809 |

Business Rates

The Government re-affirmed their commitment by the end of this Parliament that Local Government will retain 100% of business rates, and that the system of top ups and tariffs will be retained. The Government assumptions for the North Tyneside Council business rates growth, based on increases in the Retail Price Index, are 0.8% for 2016/17, 2.0% for 2017/18, 3.0% for 2018/19 and 3.2% for 2019/20.

No national changes are proposed for the Business Rates Retention scheme in 2016/17. A technical consultation is expected to be issued in the Summer of 2016 around proposals allowing authorities to retain 100% of business rates. The

Government has previously indicated that there will be no net increase in funding associated with the increase in business rate share, as any additional funding would need to be offset by the transfer of additional financial burdens.

The holdback for the Business Rates Safety Net Support to reflect the national totals held back to fund any authority which experiences a significant decline in its business rates base, is to be £50m in 2016/17, the same level as 2015/16. The Government has confirmed their intention to fully fund the extension and doubling of Small Business Rate Relief as outlined in the Spending Review and Autumn Statement 2015. Business Rates Revaluations normally take place every 5 years, but the 2015 revaluation has been deferred and will now take place on 1 April 2017.

New Homes Bonus

The New Homes Bonus provisional allocations for 2016/17 were announced alongside the Provisional Local Government Finance Settlement. The 2016/17 allocations have been calculated on the same basis as 2015/16. Total national payments have been set as £1.485 billion in 2016/17, which will reduce to £900m by 2019/20. The Government proposes to hold back £1.275 billion from the Settlement in 2016/17 to fund these allocations

In addition, the DCLG issued on 17 December 2015 a Technical Consultation: New Homes Bonus: Sharpening the Incentive. This consultation seeks views on options on changes to the New Homes Bonus in order to better reflect authorities' delivery of new housing. It also seeks views on reducing the number of years in which current and future payments are made. The deadline for responses is 10 March 2016.

Education Services Grant (ESG)

The Chancellor announced that £600 million worth of savings will be made nationally from the Education Services Grant (ESG) through to 2020, an expected reduction of 75%. The impact for North Tyneside Council for 2016/17 is a reduction of £0.256m, from £2.876m in 2015/16 to £2.620m.

## 3.2 Education Funding Settlement

The main funding arrangements for 2016/17 are:

1. The Dedicated Schools Grant (DSG) continues to be issued in 3 separate Blocks: Schools Block, Early Years Block and High Needs Block;
2. The per pupil funding for the Schools (Reception to Year 11) and Early Years (3-4 year old) Blocks has been held constant in cash terms from 2015/16;
3. There are an additional 315 pupils this year so the Schools Block has increased by £1.427m;
4. The funding for 2 year olds is now included in the Early Years Block on a per pupil basis;
5. High Needs Block – only provisional figures issued in December 2015, prior to the place review in January/February 2016 with final figures due to be

provided in March 2016. Indications are that North Tyneside will receive an additional £0.320m for 2016/17;

6. The overall DSG continues to be ring-fenced although the 3 Blocks are not ring-fenced individually so there remains discretion for the Local Authority to move money between the Blocks;
7. The Minimum Funding Guarantee (MFG) continues at minus 1.5% per pupil for 2016/17;

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

**Table 8: Education Settlement Summary**

| | **Schools Block** | **Early Years Block** | **High Needs Block** | **Total Estimated 2016/17 DSG** |
|---|---|---|---|---|
| Per pupil rate (£): R-Year 11 | £4,529.21 | | | |
| Per pupil rate (£): 3-4 year olds | | £3,234.96 | | |
| Per pupil rate (£): 2 year olds | | £4,607.50 | | |
| Block value (£m) | £116.342m | £7.514m | £16.412m | |
| Funding for inducting newly qualified teachers (NQTs) (£m) | £0.037m | | | |
| Early Years Pupil Premium (estimate) | | £0.160m | | |
| TOTAL SETTLEMENT (£m) | **£116.379m** | **£7.674m** | **£16.412m** | **£140.465m** |

The comparable DSG for 2015/16 was £138.680m.  The increase this year is due to the increase in pupil numbers and the additional high needs funding.

In addition to the funds provided through the DSG, schools will continue to receive Pupil Premium. The Pupil Premium will be held constant in 2016/17 at £1,320 per pupil for primary aged children, £935 for secondary aged children, £1,900 per looked after child and £300 for Service children.

# Section 4.0
# Cabinet's draft Budget proposals for the 2016/17 Council Tax Requirement including the General Fund Revenue Budget and 2016/17 Financial Plan and the Dedicated Schools Grant

## 4.1 Introduction

One year ago, the Council agreed a four-year revenue and Investment Plan that identified a savings target of £65m as a result of the estimated funding cuts and cost pressures we faced over the 2014/15 to 2017/18 period. During 2015/16 as part of the review of the Creating a Brighter Future (CBF) Programme and development of the Target Operating Model (TOM), all aspects of the Financial Plan and Budget have been reviewed, and Cabinet's draft proposals set out below are based on estimated funding reductions and growth pressures. This section of the Annex sets out in more detail the General Fund and Dedicated Schools Grant proposals for 2016/17 presented by the themes of the Creating a Brighter Future Programme.

## 4.2 Council Tax

In light of the financial challenge facing the Authority, the current Budget proposals for 2016/17 include an assumption that a 2% "Adult Social Care Precept" is proposed to fund Adult Social Care, and a general 2% increase in Council Tax.

## 4.3 2016/17 – 2018/19 General Fund Financial Plan

Table 9 below summarises the General Fund Financial Plan for 2016/17 – 2018/19. Details of 2016/17 – 2018/19 financial pressures are included at Appendix A.

**Table 9: 2016/17 – 2018/19 General Fund Financial Plan Summary**

| | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|
| | £m | £m | £m |
| | | | |
| General Fund Base Budget | 156.757 | 153.936 | 147.670 |
| Pay and Price Increases | 0.834 | 1.770 | 1.487 |
| Demand Led | 4.702 | 6.750 | 6.750 |
| Corporate | 4.422 | 7.165 | 1.935 |
| Legislative / Changes to Responsibilities | 2.958 | 1.647 | 1.961 |
| Creating a Brighter Future Programme | -15.737 | -23.598 | -16.533 |
| | | | |
| **Total General Fund Financial Plan** | **153.936** | **147.670** | **143.270** |

The pay and price pressures are due to inflationary pressures for property, waste management and transport. The waste management increase reflects the growing pressure from housing growth and contract inflation, and an obligation on the Authority to provide for additional landfill tax. A contingency provision for the anticipated level of the pay award has also been made. The proposals here include a forecast reduction in the Combined Authority Transport Levy of £0.397m in 2016/17.

Demand led pressures relate to an increase in contingencies to cover the Living Wage announced in the Government's Summer 2015 Budget, where it was outlined that a new minimum wage of £7.20 will apply from April 2016 for all working people aged 25 or over. In addition, anticipated pressures around Looked After Children and the Learning Disability Service, where demand continues to increase, as well as a contingency amount to cover any potential financial pressures that may arise have been provided for.

Corporate pressures include the revenue effects associated with the financing of the Investment Plan and revenue contributions to capital along with the cost of funding redundancies arising as part of the Council's Creating a Brighter Future Programme. The increase in Employer's National Insurance Contributions arising from changes in pension legislation resulting in Council employees being "contracted in" for National Insurance purposes is reflected here. The Electronic Documents Record Management System (EDRMS) is a key enabler for the improvements the Council wants to make in information governance (IG) and for the Creating a Brighter Future (CBF) Change programme. The implementation has already started to allow us to have a Council-wide platform for information management and process improvement. The amounts included here reflect the cost of managing and maintaining the system once implemented. Corporate pressures include the use of £2.001m of reserves, reflecting changes to resources arising from the impact of Business rates appeals.

In terms of legislative pressures and changes to responsibilities, the increase in the Adult Social Care expenditure is for a variety of pressures including the pooled NHS and Local Authority Better Care Fund, and transfer of Health Visiting and Family Nurse services from NHS to Public Health. The main change to grants is an assumed 10% annual reduction in the Local Council Tax Support and Housing Benefit Administration Subsidy. The Public Health grant is expected to reduce by £1.067m in 2016/17. The Education Services Grant reduction is confirmed at £0.256m and the Council Tax Freeze grant for 2015/16 of £0.873m has been absorbed into the Settlement. The Schools Forum has determined to discontinue the Dedicated Schools Grant (DSG) Contribution to the Early Years Service of £1.3m, and this will take effect through a phased approach over 2 years. Consideration is being given to the Early Years services that some schools may want to secure through Service Level Agreements. The Business Rates Retail Relief in place since 2014/15 will not continue in 2016/17, and there is a compensating reduction in Section 31 grants of £0.572m to reflect the removal of this relief. For 2015/16, the amount of retail relief for all occupied retail properties with a rateable value of £50,000 or less was increased from £1,000 to £1,500, and 700 businesses in North Tyneside currently benefit from this relief.

## 4.4 Summary of the 2016-2019 Creating a Brighter Future Programme (CBF)

As set out in Section 1 of this report, the CBF programme has been developed to ensure that the focus of the Council is to help people to help themselves, thereby managing demand for Council services, managing our costs, working better with partners and designing services to deliver our customer priorities. The table below summarises the proposals arising from the programme. Details of the Creating a Brighter Future Programme are included as Appendix B.

## 4.5 Summary of the Creating a Brighter Future Programme (CBF)

**Table 10: Creating a Brighter Future Programme (CBF)**

| CBF Theme | 2016/17 £m | 2017/18 £m | 2018/19 £m |
|---|---|---|---|
| Great Place to Live, Work & Visit | -1.349 | -0.015 | -0.015 |
| Cared For, Safeguarded and Healthy | -7.910 | -2.667 | -0.237 |
| Corporate and Enabling | -4.998 | 0.028 | -0.115 |
| Ready for School & Work | -1.480 | -0.570 | 0.000 |
| Creating a Brighter Future | 0.000 | -20.374 | -16.166 |
| **TOTAL** | -15.737 | -23.598 | -16.533 |

# Section 5.0
# Cabinet's draft Budget proposals for the 2016-2019 Investment Plan and Prudential Indicators

**Introduction**

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

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

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

5.4 The new governance process for Capital Investment that was introduced during 2014/15 has been maintained during 2015/16. This process ensures that all investment follows a structured gateway process, and is challenged by Members and senior officers, from the initial ideas stage, through the delivery stage and finally to post implementation. All proposals are considered in terms of their strategic alignment with the Our North Tyneside Plan, Creating a Brighter Future programme and delivery of the Target Operating Model.

5.5 The Investment Programme Board (IPB) meets on a monthly basis and, as part of its monthly meetings, receives an update on all ongoing projects included in the approved Investment Plan (currently 2015-2019).

5.6 As part of the 2016/17 Budget process, the IPB also received bids for new projects and changes to existing projects. All bids were considered and, following a thorough challenge and review, a number of changes were suggested for approval by Cabinet, and are now included within the draft Investment Plan. The new projects include:

(a) **Depot Rationalisation £12.961m**: As a part of the Strategic Review of the Council's assets there is a need to plan for a significant reconfiguration of depot accommodation to increase operational efficiencies and reduce liability. This is a significant project developed with external expert advice and close working with Cabinet. This project has been in discussion for some time with Lead Members and progress was reported to Cabinet on 12 October 2015. The review of the proposal is expected to continue into next year before the project is given the go ahead to progress fully;

(b) **ICT Citizen Interaction and Self Serve £3.367m**: This investment is required to deliver key aspects of the proposed Target Operating Model in respect of how our residents, customers and stakeholders interact with the Authority, and the implementation of the digital strategy which will enable the Authority to become more efficient and effective; and,

(c) **Northumberland Square £2.500m:** this investment will bring 14 to 16 Northumberland Square into use with options including a proposal to convert it into homes for sale on the open market.

5.7 The draft Plan includes the continuation of the Local Infrastructure projects scheme. Consultation with ward members took place during September / October 2015 to collate proposals. The current requests are being costed for commencement in 2016/17 and will be reported to Cabinet as part of Budget Monitoring and regular reporting on the Investment Plan.

**Investment Plan 2016-2019**

5.8 Table 11 below shows the draft 2016-2019 Investment Plan.

**Table 11: Summary of Investment Plan 2016-2019**

| **Spend** | 2016/17 £000's | 2017/18 £000's | 2018/19 £000's | Total £000's |
|---|---|---|---|---|
| General Fund | 66,495 | 32,425 | 16,651 | 115,571 |
| Housing | 24,859 | 23,085 | 23,366 | 71,310 |
| **Total** | **91,354** | **55,510** | **40,017** | **186,881** |

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

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

**Financing**

5.11 Table 12 below summarises the proposed financing of the draft Investment Plan:

**Table 12: Summary of Financing 2016-2019**

| **Spend** | 2016/17 £000's | 2017/18 £000's | 2018/19 £000's | Total £000's |
|---|---|---|---|---|
| **General Fund** | | | | |
| **Council Contribution:** | | | | |
| Unsupported Borrowing | 29,058 | 16,091 | 10,697 | 55,846 |
| Capital Receipts | 1,415 | 0 | 380 | 1,795 |
| Revenue contribution | 66 | 0 | 0 | 66 |
| | 30,539 | 16,091 | 11,077 | 57,707 |
| Grants & Contributions | 35,956 | 16,334 | 5,574 | 57,864 |
| **Total General Fund Resources** | **66,495** | **32,425** | **16,651** | **115,571** |
| **Housing - HRA** | | | | |
| Capital Receipts | 132 | 2,573 | 2,746 | 5,451 |
| Revenue Contribution | 5,909 | 4,593 | 5,280 | 15,782 |
| Major Repairs Reserve | 14,370 | 14,848 | 15,340 | 44,558 |
| House Building Fund | 3,621 | 1,071 | 0 | 4,692 |
| Grants & Contributions | 827 | 0 | 0 | 827 |
| **Total Housing - HRA Resources** | **24,859** | **23,085** | **23,366** | **71,310** |
| **TOTAL RESOURCES** | **91,354** | **55,510** | **40,017** | **186,881** |

5.12 The draft 2016-2019 Investment Plan for the General Fund includes expenditure of £66.495m in 2016/17. Of this expenditure £35.956m (54%) is funded through grants and other external funding contributions.

5.13 Capital receipts of £7.246m (£1.795m General Fund and £5.451m Housing) have been assumed in the financing of the draft plan.

5.14 Across the life of the draft plan, unsupported borrowing totals £55.846m. The cost of borrowing is included within the General Fund Revenue Budget and Financial Plan. The Prudential Indicators arising from the Prudential Code are covered in Appendix C (ii).

**Capital Allocations 2016/17**

5.15 A number of capital allocations (grants) are yet to be confirmed by central government. These include Education Funding (Capital Maintenance and Devolved Formula Capital) (Department for Education). We are also awaiting confirmation, from the North East Combined Authority, of the split of the Tyne and Wear allocation of the Local Transport Plan (Integrated Transport block). Indicative figures, based on 2015/16 announcements, are currently included in the plan. These will be updated as soon as 2016/17 figures are available and will be included in subsequent reports.

**Prudential Indicators**

5.16 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.

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

**Annual Minimum Revenue Provision (MRP) Statement**

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

5.19 The MRP is the amount that is set aside to provide for the prepayment of debt (principal repayment). The regulations require the Authority determines an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is 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. The guidance provides recommended options for the calculation of a prudent provision but it does not rule out other methods.

5.20 Under the previous Local Government Finance system grant funding for repayment of debt through the Revenue Support Grant was received at a rate of 4% for debt that had been granted as Supported Borrowing. This was then used to repay debt via the Minimum Revenue Provision. More recently, under the new system for Revenue Support Grant, those direct linkages have disappeared and Revenue Support Grant is projected to be cut substantially in the coming years. The policy has been reviewed in light of these changes and it is proposed that the level of debt repayment be reduced to 2% (£2.254m) as a prudent provision. This is the level previously used for the repayment of debt on housing properties until the Local Government Act 2003 when the repayment of any debt for Housing became discretionary. This proposal will result in a reduction in MRP of £2.254m in 2016/17 and an ongoing reduction of around £2m per annum. This will, in turn, impact on the Capital Financing Requirement (CFR), in that the supported borrowing element of the debt will take longer to repay, so the CFR will reduce more slowly.

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

(a) Existing assets pre 1 April 2007 – MRP will be charged at 2% per annum;

(b) Supported Borrowing – MRP will be charged at 2%;

(c) Unsupported Borrowing – for all assets financed by unsupported borrowing, MRP will be charged over the estimated life of the assets. This may include assets financed through PFI schemes and finance leases; 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 (i.e. repayment of principal and interest). The principal element is effectively the MRP charge for the year. This MRP charge will be equal to the element of the rent/service charge that goes to write down the balance sheet liability.

5.22 The effects of the MRP policy have been built into the current revenue Budget projections.

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

# Section 6.0
# Treasury Management Statement and Annual Investment Strategy 2016/17

## 6.1 Background

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

The second main function of the treasury management service is the funding of the Authority's Capital (Investment) Plans. The Investment Plan provides 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."

## 6.2 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 actuals which are approved by Cabinet. These reports are:

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

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

### 6.3 Treasury Management Strategy for 2016/17

The proposed strategy for 2016/17 in respect of the following aspects of the treasury management function is based upon the treasury management officers' view on interest rates, supplemented with market forecasts provided by the Authority's treasury advisor, Capita Asset Services. This strategy covers:

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

### 6.4 Current Treasury Portfolio Position

The Authority's debt and investment position at 8 January 2016 is set down in Table 13 below. This has been compared with the comparable position as at 9 January 2015.

**Table 13: Current Treasury Portfolio Position as at 8 January 2016**

| | **Principal Outstanding** | **Average Rate** | **Principal Outstanding** | **Average Rate** |
|---|---|---|---|---|
| | **(08 Jan 2016) £m** | **%** | **(09 Jan 2015) £m** | **%** |
| **Fixed Rate Funding** | | | | |
| PWLB* | 196.650 | 4.98 | 226.650 | 5.67 |
| PWLB – (HRA Self Financing) | 128.193 | 3.49 | 128.193 | 3.49 |
| Market Loans | 20.000 | 4.35 | 20.000 | 4.35 |
| Temp Loans | 79.896 | 0.63 | 70.488 | 0.68 |
| **Total External Debt** | **424.739** | | **445.331** | |
| *Less* **Investments** | | | | |
| (UK) DMO** | 22.900 | 0.25 | 25.200 | 0.25 |
| **Total Investments** | **22.900** | | **25.200** | |
| | | | | |
| **Net Position** | **401.839** | | **420.131** | |

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

## 6.5 Prospects for Interest Rates

The Authority has appointed Capita Asset Services as its external treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 14 below sets out Capita Asset Services professional view of interest rates.

**Table 14: Capita Asset Services forecast interest rates – (20 January 2016)**

| | Bank Rate % | 5 year PWLB % | 25 year PWLB % | 50 year PWLB % |
|---|---|---|---|---|
| Jan 2016 | 0.50 | 1.92 | 3.36 | 3.18 |
| Mar 2016 | 0.50 | 2.00 | 3.40 | 3.20 |
| Jun 2016 | 0.50 | 2.10 | 3.40 | 3.20 |
| Sep 2016 | 0.50 | 2.20 | 3.50 | 3.30 |
| Dec 2016 | 0.75 | 2.30 | 3.60 | 3.40 |
| Mar 2017 | 0.75 | 2.40 | 3.70 | 3.50 |
| Jun 2017 | 1.00 | 2.50 | 3.70 | 3.60 |
| Sep 2017 | 1.00 | 2.60 | 3.80 | 3.70 |
| Dec 2017 | 1.25 | 2.70 | 3.90 | 3.80 |
| Mar 2018 | 1.25 | 2.80 | 4.00 | 3.90 |
| Jun 2018 | 1.50 | 2.90 | 4.00 | 3.90 |
| Sep 2018 | 1.50 | 3.00 | 4.10 | 4.00 |
| Dec 2018 | 1.75 | 3.10 | 4.10 | 4.00 |
| Mar 2019 | 1.75 | 3.20 | 4.10 | 4.00 |

## 6.6 Economic Outlook

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

- Investment returns are likely to remain relatively low during 2016/17 and beyond;

- Borrowing interest rates have varied during 2015, due to fluctuations in financial markets. Gilt yields have continued to remain at historically low levels during 2015. The policy of avoiding new borrowing by running down cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

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

## 6.7 Borrowing Strategy

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

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

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

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

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

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

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

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

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

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Head of Finance will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet or full Council, as appropriate, at the next available opportunity. Such circumstances include a situation where:

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

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

### 6.8 Policy on borrowing in advance of need

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

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

### 6.9 Debt Rescheduling

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

In order to generate the most attractive debt rescheduling opportunities, it is proposed that the strategy for 2016/17 should remain flexible. The reason for any rescheduling to take place may include:

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

- to help fulfil the strategy outlined above; and

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

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

**6.10 Annual Investment Strategy**

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

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

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

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

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

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

Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2016. Bank Rate forecasts for financial year ends (March) are:

**Table 15: Bank Rate Forecast for Financial Year Ends**

| Year End (March) | Bank Rate Forecast (%) |
|---|---|
| 2016/17 | 0.75 |
| 2017/18 | 1.25 |
| 2018/19 | 1.75 |

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

The strategy for 2015/16 agreed on 19 February 2015 was set against a background of uncertainty and a prudent approach was taken with nearly all investments being made on a short term basis. In the current economic climate it is essential that a prudent approach is maintained. This will primarily be achieved through investing with selected banks and funds which meet the Authority's credit rating criteria, set out in Appendix D.

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

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

The Head of Finance will undertake the most appropriate form and duration of investments depending on the prevailing interest rate at the time, taking into account the risks shown in the interest rate forecast.

All investments will be made in accordance with the Authority's investment policies and prevailing legislation and regulations.

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

## 6.11 Creditworthiness

**Changes to the credit rating methodology** - The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a rating uplift due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these uplifts with the timing of the process determined by the regulatory progress at a national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have netted each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of the credit assessment process now focuses solely on the Short and Long Term ratings of an institution. The other key elements of their process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, local authorities typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodology in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean they are suddenly less credit worthy than they were formally. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the support phase of the financial crisis.

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

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

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

### 6.12 Policy on the use of external service providers

Like many other Local Authorities, the Authority uses Capita Asset Services (formerly Sector) Treasury solutions as its external treasury management advisor.

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

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

# Section 7.0
# Response to the Overview, Scrutiny and Policy Committee Recommendations

## 7.1 Summary

This section of the document proposes how to consider responding to any recommendations made by the Overview, Scrutiny and Policy Committee following its scrutiny and challenge of the 2016-2019 Financial Planning and Budget process.

The Cabinet must formally respond to any recommendations made by the Overview, Scrutiny and Policy Committee in considering its final Budget proposals. It is therefore proposed that Cabinet consider any recommendations in relation to the General Fund Budget, the 2016-2019 Investment Plan, and the Treasury Management Statement and Annual Investment Strategy for 2016/17 at this meeting of 27 January 2016 prior to approving this report.

The meeting of the Overview, Scrutiny and Policy Committee on the 4 January 2016 considered a report by the Budget sub-group in relation to the initial Budget proposals for 2016/17. The group met on the 14 December 2015, where the Deputy Mayor, Head of Finance and Heads of Service presented the 2016/19 Business Cases for:

a. Creating a Brighter Future - Savings.
b. Budget and Financial Plan - Growth
c. Housing Revenue Account
d. Investment Plan

It was noted by the Budget sub-group that they understood that it had been very challenging to establish proposals this year due to the number of uncertainties. These being the effects of the Chancellor's 2015 Spending Review and Autumn Statement and the delay on knowing the settlement North Tyneside would receive. At the time of the proposals being scrutinised, the Authority had still not received the Provisional Local Government Settlement and it duration. Therefore all proposals were estimates at that stage.

The Group raised several recommendations on the proposals in relation to the General Fund Budget which are set out in the table below along with the response from Cabinet.

| Recommendations | Cabinet's Response |
|---|---|
| **Recommendation 1:**<br>**Investment Plan**<br>With the overall forecast for long term borrowing rates to increase over the | <br>Agreed<br>The Authority continually reviews rates in anticipation of changes and is in a |

| | |
|---|---|
| next few years, consideration should be given to weighing the short term advantage of internal borrowing against the potential long term costs. There is a risk for missing taking loans at long term rates which will be higher in future years. | position to respond when necessary to market movement. |
| **Recommendation 2:**<br>**Creating a Brighter Future/Target Operating Models**<br>It recognised that risks could be mitigated by ensuring all systems were in place and working to what is expected. It is critical that risk assessments are undertaken prior to implementing any staffing changes. | Agreed.<br>An assessment of risk is carried out by senior management as part of any restructure proposal |
| **Recommendation 3:**<br>**The Cashless Project**<br>Consideration should be made to provide a training package to all staff and be available to citizens in Customer Service Centres. | Agreed<br>Relevant updates and training will be provided at the appropriate time, including support for residents. |
| **Recommendation 6:**<br>**Reserves and Balances**<br>Scrutiny believes it would be beneficial that the level of reserves held by North Tyneside should be transparent to its citizens. Therefore this should be highlighted in future engagement. | Agreed<br>This information is published but consideration will be given to further ways of making the Reserves and Balances position clear to North Tyneside citizens. |
| **Recommendation 7:**<br>**Investment Plan**<br>Scrutiny believes that a preferred solution be decided upon for the Depot Rationalisation at the earliest opportunity. | Agreed<br>A report will be presented to the meeting of Cabinet on 8 February 2016. |

# Section 8.0
# Provisional Statement to Council by the Chief Finance Officer

## 8.1 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 a full Statement as part of the report to the Council meeting on 18 February 2016, when all outstanding information should be available as detailed in paragraph 2.1 of this document.

## 8.2 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 2016-2019 Investment Plan;
- The adequacy of the budget monitoring and financial reporting arrangements in place;
- The adequacy of the Authority's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2014/15 Statement of Accounts, presented to full Council on 24 September 2015;

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

- The implications of the Government's National Summer Budget of 8 July 2015 and the Government announcements of 21 July 2015 which set out the date of the Spending Review of 25 November 2015 and that the Chief Secretary to the Treasury would write to government departments asking them to draw up plans to deliver the remaining required fiscal consolidation of £20 billion required by 2019/20;

- The outcome of the Spending Review and Autumn Statement 2015 of 25 November 2015 and the implications for North Tyneside Council; and,

- The implications of the Local Government Finance Settlement on the Authority's Financial Plan.

The level of contingencies will be £4.702m as pressures incurred during 2015/16 have been recognised as part of the 2016/17 Financial Planning and Budget process.

The Chief Finance Officer is satisfied that due attention has been given to the 2016-2019 Financial Planning and Budget process and in particular the Council Tax Requirement, and Budget setting element of that process for 2016-2019 to enable a positive statement to be made.

The Cabinet is aware it must keep under review its medium-term Financial Strategy and three year Financial Plan, in the context of the 2016-2019 'Our North Tyneside' Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2016/17 in isolation to future years' needs and pressures. Each year's Budget must continue to be considered within the context of the three-year Financial Plan, the three-year Investment Plan, the Financial Strategy and the global economic position prevailing at the time.

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

## 8.3 Adequacy of Financial Reserves

The 2016/17 Budget assumes the use of £2.001m of reserves to support the 2016/17 Budget. The current Financial Plan, maintains the Strategic Reserve at at least the planned level of £5.000m over the life of the Financial Plan. This is in line with the Authority's agreed Reserves and Balances Policy. Any unplanned use of the Strategic Reserve over the 2016-2019 Financial Plan may take the level outside of this boundary and corrective action would be needed to demonstrate how the £5.000m agreed level would be restored.

Guidance on Local Authority Reserves and Balances is given in Accounting Bulletin LAAP (Local Authority Accounting Practice) 77. This states that *"Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short term option",* and so the proposed 2016/17 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 2016-2019 Financial Plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long term reliance on reserves.