ANNEX 1

2017-2020 Financial Planning and Budget Process:

Cabinet's Draft Council Tax Requirement and Budget Proposals

25 January 2017

North Tyneside Council

1. Introduction

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

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

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

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

2. Engagement Approach

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

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

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

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

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

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

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

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

<u>Target Audiences</u>

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

Specific external audiences are:

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

Internal audiences are:

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

<u>Approach</u>

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

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

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

Budget Engagement Programme

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

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

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

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

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

3. Our North Tyneside Plan

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

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

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

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

Our People will:

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

Our Places will:

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

Our Economy will:

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

<u>Evidence of Need</u>

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

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

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

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

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

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

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

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

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

4. 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 support delivery of the Our North Tyneside Plan 2016-2019 which is the key driver of our resources allocation. The Budget setting process helps the Authority respond appropriately to responsibilities and duties placed upon Local Government through legislative requirements and the Government's drive to deliver savings.

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

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

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

5. Provisional Local Government Finance Settlement 2017/18

National Headlines

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

Efficiency Plan

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

100% Business Rates Retention

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

New Homes Bonus

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

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

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

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

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

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

Adult Social Care and Council Tax

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

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

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

Settlement Funding Assessment

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

North Tyneside Council Position

Adult Social Care and Council Tax

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

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

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

New Homes Bonus

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

Settlement Funding Assessment / Business Rates

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

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

Spending Power and Overall Summary of Our Changes

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

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

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

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

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

6. Dedicated Schools Grant (DSG)

The main funding arrangements for 2017/18 are:

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

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

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

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

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

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

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

Table 2: Summary of the Settlement for North Tyneside

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

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

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

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

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

7. General Fund

Medium Term General Fund Position

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

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

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

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

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

Table 3: 2016-2020 General Fund Financial Plan Resources

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

<u>Unfunded cost pressures</u>

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

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

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

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

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

- Funding pressures on other partners, particularly the NHS.

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

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

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

Table 4: 2017-2020 General Fund Financial Plan

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

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

8. Efficiency Savings

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

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

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

Table 5: Efficiency Savings 2017-2020

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

9. General Fund – 2017/18 Resources Assumptions

Council Tax

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

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

Local Council Tax Support

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

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

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

Business Rates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. Summary Investment Plan 2017-2020

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

Table 6: Summary of Investment Plan 2017-2020

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

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

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

Table 7: Summary of Financing 2017-2020

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

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

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

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

Flexible Use of Capital Receipts

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

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

Capital Allocations 2017/18

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

12. Prudential Indicators

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

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

13. Annual Minimum Revenue Provision (MRP)

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

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

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

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

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

Background

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

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

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

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

Reporting Arrangements

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

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

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

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

15. Treasury Management Strategy for 2017/18

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

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

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

Current Treasury Portfolio Position

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

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

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

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

Prospects for Interest Rates

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

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

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

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

16. Economic Outlook

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

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

17. Borrowing Strategy

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

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

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

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

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

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

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

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

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

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

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

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

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

Policy on borrowing in advance of need

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

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

Debt Rescheduling

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

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

- the generation of cash savings and / or discounted cash flow savings at minimum risk;
- to help fulfil the strategy outlined above; and
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

18. Annual Investment Strategy

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

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

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

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

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

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

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

Table 10: Bank Rate Forecast for Financial Year Ends

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

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

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

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

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

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

Creditworthiness

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

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

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

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

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

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

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

Policy on the use of external service providers

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

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

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

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

Summary

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

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

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

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

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

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

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

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

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

20. Statement to Council by the Chief Finance Officer

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

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

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

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

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

Robustness of Estimates

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

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

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

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

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

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

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

Adequacy of Financial Reserves

General Fund

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

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

21. Overall 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. As part of the monitoring process the Authority’s Corporate Risk Register is monitored twice yearly by Cabinet.

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 11: Key Financial Risks and mitigating actions

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

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

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

Appendix A – Breakdown of Financial Plan cost pressures 2017-18 to 2019-20

All figures in £'000s	2017-18	2018-19	2019-20
Legislative / regulatory changes	**2,832**	**1,904**	**1,522**
- Schools Funding Changes	0	695	699
- Grant related changes	2,832	1,209	823
Inflationary changes (pay and prices)	**7,313**	**4,118**	**4,214**
- Pay award	1,417	917	917
- Apprenticeship levy	500	0	0
- Waste management	797	425	405
- Pension contribution increase	500	0	0
- Social care inflation	4,515	3,000	3,000
- Levy and reserve contributions re 3rd parties	(416)	(224)	(108)
Resource changes	**(960)**	**(1,467)**	**(2,879)**
- CCG Better Care Fund	333	0	0
- Improved Better Care Fund	(464)	(3,376)	(2,969)
- Change in New Homes Bonus	420	793	90
- School Improvement & Brokering Grant	(133)	0	0
- High Needs Strategic Review Grant	(80)	80	0
- Adult Social Care Support Grant	(1,036)	1,036	0
Demand led	**3,074**	**1,650**	**5,500**
- Learning Disability	1,215	900	1,000
- Care Act 2014	634	0	0
- Corporate parenting	1,225	0	0
- Potential future pressures	0	750	4,500
Corporate pressures	**4,131**	**2,895**	**3,330**
- Funding 2016/17 pressures	1,500	0	0
- Investment cost of borrowing	(1,000)	2,119	2,000
- Use of reserves	2,001	0	0
- Corporate changes	1,630	776	1,330
TOTAL	**16,390**	**9,100**	**11,687**

Appendix A

Description (Amount)	**Schools Funding Changes (£0k in 2017-18)**
How have the above amounts been calculated?	Estimate of changes to resources approved by the Schools Forum
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	The Authority secures funding from the Dedicated Schools Grant approved by the Schools Forum. This is reviewed on an annual basis by the Forum to determine the level of funding and associated activity required.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	Costs associated with the activities funded are reviewed to consider actions to mitigate the reduction in funding.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Some areas of cost do continue such as pension costs.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council’s 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Appendix A

Description (Amount)	**Grant related changes (£2,832k in 2017-18)**
How have the above amounts been calculated?	The value in 17/18 represent the reduction in Public Health grant (£322k), Education Services Grant (£1,419k), Local Council tax support and HB Admin Subsidy (£69k), Schools early years contribution (£575k) , Weekly collection Support Grant (£397k) and revenue match funding required for an HLF scheme (£50k)
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Fall out of external funding
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Where savings are possible they have been included in the savings proposals for 2017/18.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Pay award (£1,417k in 2017-18)
How have the above amounts been calculated?	There are two components to this cost pressure – annual pay award (£917k) and National Living Wage (NLW) annual increase (£500k). The pay award calculation is based on an agreed pay award of 1% applied to 2016-17 staffing budgets (including salary, employer's national insurance, and employer's pension contributions). The Living wage is based on an estimate of taking the pay to the NLW minimum.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Annual pay award agreed by employers as part of national pay bargaining / contractual obligation to move staff up an increment towards the top of the relevant pay scale.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	National cap on public sector pay increases of 1%.
Does the activity causing the cost pressure need to continue?	Yes, staff are involved in delivering a range of statutory and discretionary services, which are being reviewed as part of the identification of savings to meet the Council's budget gap in 2017-18.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Appendix A

Description (Amount)	**Apprenticeship levy (£500k in 2017-18)**
How have the above amounts been calculated?	This cost pressure is based on the proposed 0.5% government levy applied to the 2016-17 staffing budget excluding non-community schools (approx. £100m).
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	This cost pressure is due to the introduction by the government of the apprenticeship levy.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	There may be some scope to reduce the net cost to the Council by claiming costs currently incurred relating to the training of apprentices from government, however, the guidance on the detailed operation of the scheme has yet to be published.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, the cost pressure is based on our staffing costs. Staff are involved in delivering a range of statutory and discretionary services, which are being reviewed as part of the identification of savings to meet the Council's budget gap in 2017-18.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Appendix A

Description (Amount)	**Waste management (£797k in 2017-18)**
How have the above amounts been calculated?	This cost pressure is based on a range of RPI-related inflation factors built into long-term contracts with third parties in addition to an increase in the number of households in the borough.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Contractual / market-led inflation on payments to third parties and increase in demand mainly related to the growth in households in the borough generating waste.
If the cost pressure is due to increased demand, what evidence exists to support this?	Contractual / market-led inflation on payments to third parties. In addition a long term grant supporting weekly refuse collection has ended.
What, if anything, can be done to mitigate the cost pressure?	Further behavioural change to divert waste away from landfill.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Inflation factors to be used to calculate inflationary increases are set out in the relevant contracts.
Does the activity causing the cost pressure need to continue?	Yes, the Council has a statutory duty to dispose of all waste collected.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Appendix A

Description (Amount)	Pension fund contributions (£500k in 2017-18)
How have the above amounts been calculated?.	This cost pressure is an estimate (based on the annual average cost increase over the previous three years) based on the actuarial 2016 valuation of the Tyne & Wear Pension Fund.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	The estimated cost increase is due to various changes in the assumptions made by the actuary in the next three-year valuation of the pension fund. The main assumptions are the discount rate used to value pension fund liabilities (which is related to bond yields which are at a relatively low level due to the Bank of England's policy of quantitative easing and Brexit), pension fund performance, inflation and longevity.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, the Council has a contractual obligation under Local Government Pension Scheme regulations to fund pension benefits for staff. Staff are involved in delivering a range of statutory and discretionary services, which are being reviewed as part of the identification of savings to meet the Council's budget gap in 2017-18. In addition, approximately half of the estimated cost increase relates to repayment of the Council's historic pension deficit.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	**Social care inflation (£4,515k in 2017-18)**
How have the above amounts been calculated?	This cost pressure is based on potential increases in rates payable to third party providers covering 2016-17 and 2017-18 reflecting in particular the impact of the National Living Wage increases.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Inflation on payments to independent sector providers
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	Any savings from greater investment in preventative services and improved partnership working are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Cost pressure is based on likely increases in rates with third party providers. Benchmarking will be used to ensure that actual rates agreed are appropriate.
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Appendix A

Description (Amount)	**Levy and reserve contributions re 3rd parties (-£416k in 2017/18))**
How have the above amounts been calculated?	These are estimates based on information provided by the third parties
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Is a cost reduction in 17/18 .
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a – reduction in cost
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a – reduction in cost

Description (Amount)	**CCG Better Care Fund (£333k in 2017-18)**
How have the above amounts been calculated?	This value reflects late decision by the CCG to reduce their contribution to the Better Care Fund in 2016-17 – the pressure relates to the element of the reduction in funding that could not be matched by a reduction in costs
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	The CCG has sought to pass some of the financial pressures in its own financial position to the Local Authority.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	All steps to match resource reduction with cost reduction were taken. The services supported are statutory services.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Appendix A

Description (Amount)	Improved Better Care Fund (-£464k in 2017-18)
How have the above amounts been calculated?	These are estimates provided by Government of likely increase in grant income re Better Care Fund as set out in the 2016 Local Government Settlement
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	n/a
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Appendix A

Description (Amount)	**Changes in New Homes Bonus (£420k in 2017-18)**
How have the above amounts been calculated?	These are estimates provided by Government of likely changes in grant income re New Homes Bonus
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Reduction in grant income in 17/18 – income is not tied to specific spend
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Description (Amount)	**School Improvement and Brokerage grant (-£133k in 2017-18)**
How have the above amounts been calculated?	These are estimates provided by Government as part of the Education Funding Settlement announcements of grant income of at least £1,800 per maintained school as at September 2017 to fund them continuing to monitor and broker school improvement provision for low-performing maintained schools and intervene in certain cases
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	n/a
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Appendix A

Description (Amount)	High Needs Strategic Review Grant (-£80k in 2017-18)
How have the above amounts been calculated?	These are estimates provided by Government of grant income re a Government requirement to perform a Strategic Review of their High Need provision as set out in the 2016 Local Government Settlement
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	n/a
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Appendix A

Description (Amount)	**Adult Social Care Support Grant (-£1,036k in 2017-18)**
How have the above amounts been calculated?	As part of the provisional Local Government Finance Settlement for 2017/18 a new dedicated £241m Adult Social Care Support Grant for 17/18 has been announced as a one-off for 2017/18. The North Tyneside allocation is £1.036m.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	n/a
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Description (Amount)	Learning Disabilities (£1,215k in 2017-18)
How have the above amounts been calculated?	This cost pressure is based on estimated client population growth in 2017-18 along with known growth pressures for 2016/17 and projected savings.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increasing adult population (18+) with learning disabilities
If the cost pressure is due to increased demand, what evidence exists to support this?	Future population projections and review of those clients or potential currently known to Adult Services
What, if anything, can be done to mitigate the cost pressure?	Any savings from the services are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Appendix A

Description (Amount)	**Care Bill (£634k in 2017-18)**
How have the above amounts been calculated?	This cost pressure is based on known continuing unfunded costs in 2016/17 as a result of demand following the introduction of the Care Bill
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increasing workload not covered by grant funding
If the cost pressure is due to increased demand, what evidence exists to support this?	Growth built in relates to pressure in 2016-17
What, if anything, can be done to mitigate the cost pressure?	Any savings from the services are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Corporate Parenting (£1,225k in 2017-18)
How have the above amounts been calculated?	This cost pressure is based on 2016-17 increase in care packages.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increased demand and complexity of need.
If the cost pressure is due to increased demand, what evidence exists to support this?	The amount has been calculated using in year pressure figures in 2016/17
What, if anything, can be done to mitigate the cost pressure?	Any savings from greater investment in preventative services and improved partnership working are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	**Funding 2016-17 pressures (£1,500k in 2017-18)**
How have the above amounts been calculated?	This cost pressure is based on savings targets which are not achieved during 2016/17, which are therefore built into plans for 2017-18.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Targets set for 2016/17 that have not been achieved and are to be delivered in future years
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Council’s 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Appendix A

Description (Amount)	**Investment Cost of borrowing (-£1,000k in 2017-18)**
How have the above amounts been calculated?	The £1,000k is an estimate of likely interest savings based on treasury forecasts
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	n/a
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Description (Amount)	**Use of Reserves (£2,001k in 2017-18)**
How have the above amounts been calculated?	This represents the reversal of the 16/17 Budget drawdown from reserves
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Returning to assumption that 2017/18 budget will be fully funded rather than continuing to draw from reserves
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will be putting increased pressure on limited reserves which is not advised in the longer term

Description (Amount)	**Corporate changes (£1,630k in 2017- 18)**
How have the above amounts been calculated?	The 2017/18 value is made up of individual small value pressures, such as partner negotiation, school PFI reserve adjustments & feasibility funding.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	The majority relate to unavoidable cost increases where no alternative is considered possible
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Appendix B
Savings 2017-18

	£000
Cared For	**-2,693**
A New Model to Support Children; national policy direction, Inspection and demand pressures are creating an environment where local authorities are looking at alternative models to deliver services to support children, including collaboration and Children's Trusts. This project aims to review best practice and the alternatives to our current approach. It will build on the practical collaborations proposed on Fostering and Additional Needs as well as the strengths of the current North Tyneside team. It will also explore the capability to grow direct provision as the dynamics in the market change and our capability to deliver specialist housing and support grows. This aims to respond to the increasing demand, increasing recognition and expectation but also address cost pressures.	-1,019
Assess At Home; the current processes on discharge can be risk adverse and slow. In the first instance this can build in unnecessary cost and in the second, frustrate patients and clinicians. This project will also be developed with the Clinical Commissioning Group and use a single trusted assessor: Where there is no immediate clinical risk, social care assessment will take place at home and will aim to restore the level of independence and quality of life in place before admission. The intention is to pilot this approach in partnership with Northumbria Health Care Foundation Trust using a single Hospital Ward. This is challenging the longstanding orthodoxy to assess in hospital.	-884
Value for Money Tested Social Care; long term national policy direction in social care has created a situation which is sometimes at odds with realistic outcomes and the financial position. This project will make changes to day to day commissioning and assessment processes to re-set the outcome of funded social care. In partnership with the Clinical Commissioning Group and using a single trusted assessor outcomes will be shaped by working with individuals to set realistic goals for independence and applying a value for money test to care at home versus other settings. We have to ensure we test the longstanding orthodoxy that Care is always better at home. We have to ensure that the provision of the right quality of care is affordable.	-790
Fit for Purpose Org	**-4,657**
How we are organised; as services change the organisation must change with them. This project aims to ensure the organisation is reshaped to reflect changes in services and reductions in resources. In addition to changes in service delivery it also aims to ensure the organisation's infrastructure is changed and shrinks in line with the rest of the organisation with resultant changes in overheads and recharges. This will include taking opportunities to streamline the Council's decision-making infrastructure and processes where appropriate. In addition making sure that infrastructure is tested against best practice, the priorities of the Mayor and Cabinet and the market	-3,495
Optimise the customer journey and introduce self-service for our routine transactions; the Authority still has a significant cost invested in serving relatively routine transactions. This project builds on work already done by the Authority to ensure our customers serve themselves wherever possible. As part of the development of our Community Hubs this will also involve the creation of effective gateways that make sure only those most in need make direct contact with more specialist services	-50
Sourcing, supply chain and commercials; more than half of the Authority's expenditure is to third parties and with a supply chain of almost 5000 organisations and individuals it is critical that the sourcing, supply and commercial arrangements are as sharp as possible. This project aims to look beyond the large scale commissioning and major partnerships to ensure all of the supply chain is subject to a rigorous value for money test and best practice category management is applied.	-1,112

Appendix B
Savings 2017-18

	£000
Great Place	**-1,282**
Deliver our Transport Strategy; major investment is underway in North Tyneside. This is specifically shaped to support the local economy and to handle housing growth. The Draft Local Plan must be underpinned by an effective Transport Strategy and transport operations. This project aims to develop a Transport Strategy for the Borough to be agreed later this year by the Mayor and Cabinet. This will shape significant investment in the highway network as well as local, tactical investment in roads and pavements. It will also shape our own transport operations including how we commission transport services and operate our fleet. This is aligned to national policy and investment in infrastructure funded by Central Government.	-200
Develop our Community Hubs; over the last decade the Authority has created significant assets to support and serve our communities. Four Customer First Centres have been delivered alongside new assets in Dudley, Shiremoor, Battle Hill and Howdon as well as significant investment in the leisure offer in Whitley Bay, North Shields, Wallsend and Killingworth. In harmony with the work to protect and develop the cultural offer this project aims to identify the needs of each community and focus services to support those needs and provide a universal service which helps manage demand for more intensive and expensive support. The outcome will be the development of our team and work with partners to deliver a maximum use of an optimum number of hubs	-154
Develop Specialist Housing Products and Services; early work on the Cabinet's Affordable Homes Programme has demonstrated the Authority's ability to deliver specialist housing which supports independent living and reduces costs. This project aims to shape our housing growth plans to include specialist housing products and services for children and adults with additional needs, Looked After Children and older people. We aim to create a joint team with commissioning, housing and social care expertise to make that a success building on existing pilot work to deliver at scale. This links to the Governments ambition to deliver more homes.	-275
Protect and Develop North Tyneside's Cultural Offer; in a period of significant financial pressure, North Tyneside Council has managed to sustain and develop a rich cultural offer. The Mayor and Cabinet have already publicly committed to protecting and developing this offer. This is demonstrated by the Investment Plan which includes Whitley Bay Regeneration Programme; The Dome, the North and South Promenade, St Mary's Island; The Wallsend Regeneration Programme; Segedunum Master Plan and the North Shields Master Plan. This project aims to work with cultural partners to protect and develop the offer, making the most of the Authority's assets, with an optimum sport, leisure and library offer that makes the maximum difference to residents, business and visitors delivering a developed and sharpened events programme while exploiting opportunities to maximise income and reduce costs. This links to Central Government's Culture White Paper and National Library Strategy.	-123
Pursue Profit from Property Development; the housing and property market in North Tyneside has remained relatively buoyant through a difficult decade. In parallel to the Mayor and Cabinet's Affordable Homes Programme and in line with the Draft Local Plan this project aims to use a range of commercial models to exploit current and acquired assets to build for profit. We expect this to happen both at scale and on a property by property basis beginning with initial work in North Shields (Northumberland Square) and Whitley Bay (The High Point, Whiskey Bends and The Avenue). This links to the Government ambition to deliver more homes.	-330
Develop a 10 year plan for waste; for ecological and financial reasons it is imperative that local authorities have long term plans for waste. In collaboration with our partners this project aims to establish a 10 year plan to increase recycling and contain the growth of waste costs as well as developing a post 2022 solution for disposal of residual waste and exploring opportunities to enter the recycling business	-200

Appendix B
Savings 2017-18

	£000
Maximising Resources	**-8,050**
Balancing the Investment Plan; despite the difficult financial climate the Authority has worked hard to deliver a successful, appropriately funded Investment Plan. This project aims to take a long-term, 10 year view of that plan and its likely profile and funding to ensure optimum current costs.	-7,700
Delivering our Fees and Charges Policy; the Authority has an agreed Fees and Charges Policy that reflects policy priorities, need and the wider market in which we operate. This project will continue our work to regularly review our Fees and Charges.	-350
Ready for School	**-580**
Continue to redesign 0-19 Services; starting with ante-natal services this project aims to continue our work to target our services at need and to manage demand for more specialist services. Critical to delivery will be the Healthy Child Programme and the work to increase the richness and consistency of the Early Help offer. This approach links to Government Policy and best practice through concentrating on prevention and developing more schools to deliver Early Years.	-580
Ready for Work	**-1,076**
Deliver the Employment and Skills Strategy; later this year the Mayor and Cabinet will consider a replacement to the existing Employment and Skills Strategy. This will position North Tyneside's work in this area relative to the Global, European, National and Regional economic drivers. This project aims to ensure our work in this area is in line with national best practice and builds on the existing high performance. Work will be done to sharpen the adult learning offer to support the priorities of the Mayor and Cabinet as well as re-shaping the Connexions service to ensure the delivery of the statutory obligations and a school-funded offer that meets the needs of those schools. This is aligned to the North East Strategic Economic Plan "more & better jobs" and government policy on more and better apprenticeships and better post 16 offers.	-300
North of Tyne Collaboration to Support Children with Additional Needs; rising demand and changing national policy has created significant pressures for all local authorities. Working with Newcastle City Council and Northumberland County Council this project aims to build resilience in the universal offer to prepare young people with additional needs for adult life by developing a more consistent approach to Health, Education and Care Plans and creating a specialist cross-boundary commissioning function to optimise work with providers. This links to Government Policy introducing a single Education Care and Health Plan.	-350
Re-model and trade our services to schools; responding to changing customer need and national reform, this project aims to review and develop our portfolio of services to schools. As well as our existing successful work in school improvement, catering and capital project management we expect to extend our facilities management offer with the transfer of the Cleaning Service back from Capita and take advantage of the Healthy Child Programme. This work will see a universal offer for schools but also a more bespoke offer to individual schools depending on their needs and the needs of their communities. We also expect to be able to build on our existing work beyond North Tyneside. This links to Government Policy of changing the role of Local authorities in Education.	-426
Grand Total	**-18,338**

2017-2020 Investment Plan Summary

Project Ref	Project Title	2017/18 £000's	2018/19 £000's	2019/20 £000's	Total £000's	Funding Source	£000's
	GENERAL FUND **Great Place to live, work and visit**						
BS026	Asset Planned Maintenance programme	1,500	1,500	1,500	4,500	Council Contribution	4,500
DV054	Coastal Regeneration	14,955	750	0	15,705	Council Contribution Heritage Lottery Fund	13,105 2,600
DV058	Swan Hunters Redevelopment	9,750	0	0	9,750	Single Local Growth Fund (SLGF) Council Contribution	7,750 2,000
DV062	St Mary's Lighthouse and Visitor Centre	35	1,852	481	2,368	Heritage Lottery Fund grant (HLF) Council Contribution	2,131 237
EV034	Local Transport Plan	4,043	1,817	0	5,860	Local Transport Plan (LTP) Grant DfT grant	5,669 191
EV054	Central Promenade Reconstruction Scheme	3,700	0	0	3,700	Council Contribution Environment Agency Grant Northumbrian Water Ltd	1,930 870 900
EV055	Surface Water Management Improvements	1,288	0	0	1,288	Council Contribution Environment Agency Grant	632 656
EV056	Additional Highways Maintenance	2,000	2,000	2,000	6,000	Council Contribution	6,000

Project Ref	Project Title	2017/18 £000's	2018/19 £000's	2019/20 £000's	Total £000's	Funding Source	£000's
EV073	A1058 Coast Road Improvements to junctions	1,968	0	0	1,968	Local Growth Fund Council Contribution	1,751 217
EV077	A1056/A189 Weetslade junction imps	480	0	0	480	Section 278	480
EV078	A19 Employment Corridor access imps	3,177	0	0	3,177	Local Growth Fund Section 106	2,770 407
EV082	North Bank of the Tyne	2,610	1,915	0	4,525	Local Growth Fund	4,525
GEN12	Local infrastructure projects	100	100	100	300	Council Contribution	300
HS049	Northumberland Square	3,650	1,000	1,000	5,650	Council contribution	5,650
EV083	Streelighting LED	1,730	224	0	1,954	Council contribution	1,954
DV063	Coastal Properties	2,580	0	0	2,580	Council contribution	2,580
DV064	Property Development	3,000	900	0	3,900	Council contribution	3,900
DV065	North Shields Fisherman's Heritage Project	75			75	External contributions Council Contribution	37 38
CO074	All Our Histories - Libraries IT	53			53	Arts Council grant	53
	Total Great Place to live, work and visit	**56,694**	**12,058**	**5,081**	**73,833**		**73,833**

Project Ref	Project Title	2017/18 £000's	2018/19 £000's	2019/20 £000's	Total £000's	Funding Source	£000's
	Cared for, Safeguarding and Healthy						
CO064	Community Capacity (Adult Social Care)	1,000	0	0	1,000	Department of Health grant	1,000
HS003	Private Sector Homes Renovation	605	200	0	805	Council Contribution	805
HS004	Disabled Facility Grants	1,517	1,517	0	3,034	Council Contribution Better Care Fund	420 2,614
HS036	North Tyneside Warm Zone	100	42	0	142	Council Contribution	142
	Total Cared for, Safeguarding and Healthy	**3,222**	**1,759**	**0**	**4,981**		**4,981**
	Corporate and Enabling						
EV069	Vehicle Replacement	1,209	1,899	962	4,070	Council Contribution	4,070
EV076	Depot rationalisation	7,623	5,252	0	12,875	Council contribution	12,875
GEN03	Contingency Provision	1,542	1,000	1,000	3,542	Council Contribution	3,542
IT020	ICT Strategy	1,300	1,000	1,000	3,300	Council Contribution	3,300
IT025	BDUK (Broadband)	34	75		109	Council Contribution	109
IT026	ICT citizen interaction and self serve	1,800	0	0	1,800	Council Contribution	1,800
	Total Corporate and Enabling	**13,508**	**9,226**	**2,962**	**25,696**		**25,696**

APPENDIX C(i)

Project Ref	Project Title	2017/18 £000's	2018/19 £000's	2019/20 £000's	Total £000's	Funding Source	£000's
	Ready for School and Work						
ED075	Devolved Formula Capital	589	0	0	589	Education Funding Agency	589
ED120	Basic Need	167	0	0	167	Education Funding Agency	167
ED132	School Capital Allocation	3,612	0	0	3,612	Education Funding Agency	3,612
ED186	Backworth Park Primary - relocation and expansion	2,942	1,701	0	4,643	Section 106 Basic Need Grant Council Contribution	4,471 165 7
	Total Ready for School and Work	**7,310**	**1,701**	**0**	**9,011**		**9,011**
	TOTAL: GENERAL FUND	**80,734**	**24,744**	**8,043**	**113,521**		**113,521**
	HOUSING						
	Great Place to live, work and visit						
HS015	Refurbishment / Decent Homes	18,299	20,219	18,633	57,151	Revenue Contribution	16,909
HS017	Disabled Adaptations (HRA)	1,020	1,030	1,041	3,091	Capital Receipts	6,315
HS039	ICT Infrastructure Works	284	287	429	1,000	Major Repairs Reserve (MRR)	46,041
HS044	HRA New build	6,446	2,608	2,687	11,741	House Building Fund	3,558
						Dept of Health grant	160
	Total: HOUSING	**26,049**	**24,144**	**22,790**	**72,983**		**72,983**
	TOTAL INVESTMENT PLAN	**106,783**	**48,888**	**30,833**	**186,504**		**186,504**

APPENDIX C(i)

Project Ref	Project Title	2017/18 £000's	2018/19 £000's	2019/20 £000's	Total £000's	Funding Source	£000's

	2017/18	2018/19	2019/20	Total
GENERAL FUND				
Council contribution	47,298	14,825	7,230	69,353
Capital Receipts	0	380	380	760
Revenue Contribution	0	0	0	0
Grants & Contributions	33,436	9,539	433	43,408
	80,734	24,744	8,043	113,521
HOUSING				
Capital Receipts	663	2,847	2,805	6,315
Revenue Contribution	6,818	5,955	4,136	16,909
Contribution from Reserves (House Building Fund)	3,558	0	0	3,558
Grants & Contributions	160			160
Major Repairs Reserve	14,850	15,342	15,849	46,041
	26,049	24,144	22,790	72,983
	106,783	48,888	30,833	186,504

APPENDIX C(ii)

2017-2020 Prudential Indicators

Introduction

1.0 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Authority's underlying investment appraisal systems.

1.1 Within this overall prudential framework there is an impact on the Authority's treasury management activity as it will directly impact on borrowing and investment activity. The Treasury Management Strategy for 2017/18 is included in the annex to the report.

1.2 The Prudential Code requires the following matters to be taken into account when setting or revising the prudential indicators:

a) Service Objectives – e.g. strategic planning for the Authority
b) Stewardship of assets – e.g. asset management strategy
c) Value for money – e.g. options appraisal
d) Prudence and sustainability – e.g. implications of external borrowing
e) Affordability – e.g. impact on Council Tax
f) Practicality – e.g. achievability of the forward plan

1.3 Matters of affordability and prudence are primary roles for the Prudential Code.

1.4 The revenue consequences of capital expenditure, particularly unsupported capital expenditure, must to be paid for from the Authority's resources.

1.5 Capital expenditure can be paid for through capital receipts, grants etc, but if these resources are insufficient then any residual capital expenditure will add to the Authority's borrowing need.

1.6 The key risks to the plans are that the level of external funding has been estimated in some projects and therefore may change. Similarly some estimates for other sources of funding, such as capital receipt levels, may change as capital receipts are reliant on an active property market.

1.7 In total there are fifteen prudential indicators, covering:

- Affordability;
- Prudence;
- Capital expenditure;
- External debt; and
- Treasury management.

1.8 Prudential indicators are required to be set by full Council as part of the Financial Planning and Budget process. Any revisions must be reported through the financial management process.

1.9 The prudential indicators for the forthcoming and future years must be set before the beginning of the forthcoming year. They may be revised at any time, following due processes and must be reviewed, and revised if necessary, for the current year when the prudential indicators are set for the following year.

1.10 The following sets down the draft Prudential Indicators as calculated and proposed for North Tyneside Council for 2017–2020. The indicators include those for the Housing Revenue Account.

Prudential Indicators for Affordability

1.11 The fundamental objective in considering affordability of the Authority's Investment Plan is to ensure that the total capital investment of the Authority remains within sustainable limits, and in particular to consider the impact on the "bottom line" and hence Council Tax and Housing rents. Affordability is ultimately determined by a judgement on acceptable Council Tax or housing rent levels.

1.12 In considering the affordability of its Investment Plan, the Authority is required to consider all the resources that are currently available, and estimated for the future, together with the totality of the Investment Plan, revenue income and revenue expenditure forecasts for the forthcoming year and following two years (as a minimum). The Authority is also required to consider known significant variations beyond this timeframe. This requires the development of rolling revenue forecasts as well as capital expenditure plans. In line with the Financial Plan, three-year forecasts have been provided for the prudential indicators.

1.13 When considering affordability, risk is an important factor to be considered. Risk analysis and management strategies should be taken into account.

1.14 Looking ahead for a three year period, the following are key prudential indicators of affordability:

- the ratio of financing costs to net revenue stream for both the Housing Revenue Account (HRA) and non-HRA services; and
- the incremental impact on council tax and housing rents. The scope for increases in both these elements is governed by the Government's ability to limit increases.

Ratio of financing costs to net revenue stream

1.15 This indicator identifies the trend in the cost of capital (predominately external interest and MRP) as a proportion of the net revenue budget for the General Fund and housing income for the HRA and is shown in Table 1 below:

Table 1: Ratio of Financing Costs to Net Revenue Stream

	2016/17	2017/18	2018/19	2019/20
	Est.	Est.	Est.	Est.
General Fund	13.67%	11.54%	18.40%	20.06%
HRA	27.46%	30.39%	27.22%	27.93%

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

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

	2016/17	2017/18	2018/19	2019/20
	Est.	Est.	Est.	Est.
General Fund	7.80%	9.46%	11.74%	12.57%
HRA	6.22%	7.69%	4.28%	4.51%

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

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

Council Tax

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

1.19 Revenue budget impacts may arise from the following:

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

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

	General Fund
2017/18	£7.35
2018/19	£35.65
2019/20	£51.37

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

Housing rents

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

1.22 Revenue budget impacts may arise from the following:

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

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

	HRA
2016/17	£1.74
2017/18	(£0.49)
2018/19	(£1.73)

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

<u>Prudential Indicators for Prudence</u>

1.24 A key indicator of prudence is that, over the medium term, gross debt will only be used for a capital purpose. Under the Code the underlying need to borrow for a capital purpose is measured by the Capital Financing Requirement (CFR).

Gross debt includes external borrowing and also other liabilities including PFI schemes and Finance Leases.

Gross debt and Capital Financing Requirement (CFR)

1.25 This key indicator shows that gross debt is not expected to exceed the total CFR including additional capital requirements for 2016/17 to 2019/20.

Table 5: Gross external debt compared to CFR

	2016/17	2017/18	2018/19	2019/20
	Est.	Est.	Est.	Est.
	£'000s	£'000s	£'000s	£'000s
External Borrowing	487,517	523,853	524,002	515,053
Other Liabilities (including PFI and Finance Leases)	136,483	133,008	131,211	127,558
Total Gross debt	624,000	656,861	655,213	642,611
Capital Financing requirement	655,792	688,857	685,206	674,502

Prudential Indicators for Capital Expenditure

Estimate of capital expenditure

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

1.27 The Investment Plan for 2017-2020 is included in the annex to the report and the figures below are based on that report. A full breakdown of individual projects is shown in Appendix C (i).

Table 6: Capital Expenditure

	2016/17	2017/18	2018/19	2019/20
	Estimate £000's	Estimate £000's	Estimate £000's	Estimate £000's
General Fund	50,838	80,734	24,744	8,043
HRA	23,398	26,049	24,144	22,790
Total	74,236	106,783	48,888	30,833

1.28 There is a risk of cost variations to planned expenditure against the Investment Plan, arising for a variety of reasons, including tenders coming in over/under budget, changes to specifications, slowdown/acceleration of project phasing. There is also the possibility of needing to bring urgent and unplanned capital works into the Investment Plan. These risks are managed by project officers on an ongoing basis, by means of active financial and project monitoring, they will be overseen by the Investment Programme Board and any changes will be made in accordance with Financial Regulations.

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

Estimate of Capital Financing Requirement (CFR)

1.30 The CFR can be understood as the Authority's underlying need to borrow money long term for a capital purpose. The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The CFR will increase annually by the amount of capital expenditure which is not immediately paid for by grants, contributions, direct revenue funding or capital receipts. The General Fund CFR will also be reduced each year by the amount of Minimum Revenue Provision (MRP) that is set aside in the revenue budget. In addition, the CFR may be reduced by additional voluntary contributions in the form of capital receipts or revenue contributions. The HRA business plan includes provision to reduce the HRA CFR in this way.

1.31 The CFR also includes any other long term liabilities eg PFI schemes and finance leases.

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

Table 7: Capital Financing Requirement

	2016/17 Est. £000's	2017/18 Est. £000's	2018/19 Est. £000's	2019/20 Est. £000's
General Fund	299,682	338,082	337,569	330,338
HRA	356,110	350,775	347,637	344,164
Total	**655,792**	**688,857**	**685,206**	**674,502**

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

Table 8: Capital Financing Requirement for Unsupported Borrowing

	2016/17 Est. £000's	2017/18 Est. £000's	2018/19 Est. £000's	2019/20 Est. £000's
General Fund	154,830	189,248	191,595	187,234
HRA	35,636	31,746	30,131	28,329
Total	**190,466**	**220,994**	**221,726**	**215,563**

Prudential Indicators for External Debt

Authorised limit for total external debt

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

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

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

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

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

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

Table 9: Authorised Limit for External Debt

	2016/17 £000's Est.	2017/18 £000's Est.	2018/19 £000's Est.	2019/20 £000's Est.
Borrowing	1,080,000	1,120,000	1,120,000	1,100,000
Other Long Term Liabilities	160,000	160,000	160,000	160,000
Total	**1,240,000**	**1,280,000**	**1,280,000**	**1,260,000**

1.40 The Chief Finance Officer reports that these Authorised Limits are consistent with the Authority's current commitments, existing plans and the proposals in this 2017/18 budget report for capital expenditure and financing, and in accordance with its approved Treasury Management Policy Statement and Practices.

Operational Boundary for total external debt

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

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

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

Table 10: Operational Boundary for External Debt

	2016/17 £000's Est.	2017/18 £000's Est.	2018/19 £000's Est.	2019/20 £000's Est.
Borrowing	540,000	560,000	560,000	550,000
Other Long Term Liabilities	140,000	140,000	140,000	140,000
Total	**680,000**	**700,000**	**700,000**	**690,000**

HRA limit on indebtedness

1.44 Under the reforms of housing finance the Government published *Limits on Indebtedness Determination 2012* which set out the maximum amount of housing debt the Authority could have outstanding at any one time. The limit for North Tyneside was £290.824m. The HRA Capital Financing Requirement excluding the North Tyneside Living PFI scheme should be within the cap set. The table below confirms that the proposals remain within the cap set.

Table 11: HRA limit on indebtedness

	2016/17 £000's Est.	2017/18 £000's Est.	2018/19 £000's Est.	2019/20 £000's Est.
Gross HRA capital financing requirement	356,110	350,775	347,637	344,164
Less HRA PFI schemes	85,800	84,355	82,832	81,161
Adjusted HRA capital financing requirement	270,310	266,420	264,805	263,003
HRA limit on indebtedness	290,824	290,824	290,824	290,824

Prudential Indicators for Treasury Management

Adoption of the CIPFA Code of Practice for Treasury Management

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

Upper limits on interest rate exposure **2017/18 to 2019/20**

1.46 Full Council will be requested to set an upper limit on its fixed interest rate exposures for 2017/18, 2018/19 and 2019/20 of 100% of its net outstanding principal sums.

1.47 Full Council will be requested to set an upper limit on its variable interest rate exposures for 2017/18, 2018/19 and 2019/20 of 50% of its net outstanding principal sums.

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

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

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

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

	2017/18	2018/19	2019/20
% of Investments with Maturity over 364 days	25%	25%	25%

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

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2017/18

Investment Instruments and Credit Criteria

Investment instruments used for the prudent investment of the Authority's cash balances are listed below under the 'Specified' and 'Non-Specified' Investment categories.

Specified Investments – are those investments offering high security and liquidity. All such investments will be in sterling, with a maximum maturity of 364 days, meeting the minimum 'high' rating criteria where applicable. Table 1 below shows the credit rating criteria used to select whom the Authority will place funds:

Table 1: Specified Investments and Credit Criteria

The minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available or other market information, to support their use.

	Maximum Deposit	**Maximum Period**
UK Government Debt Management Office (DMO)	£50m	6 months
UK Local Authorities	£10m each	1 year
UK Government Gilts, Bonds and Treasury Bills	£10m	1 year
AAA-rated Money Market Funds	£5m each	Liquid
Certificate of Deposits with banks and building Societies	£5m each	1 year
UK Banks / Building Societies	£5m each	1 year

Non-specified Investments - are all sterling denominated, with maturities in excess of one year. A maximum of 25% may be held in aggregate in non-specified investments. Table 2 below shows the counterparties with whom the Authority will place funds:

Table 2: Non-Specified Investments

	Maximum Deposit	**Maximum Period**
UK Local Authorities	£5m each	3 years

Appendix E

2017-2020 Financial Planning and Budget Process

2017/18 Financial Planning and Budget Timetable of Key Future Decision Milestones

The key aspects of the 2017/18 Financial Planning and Budget timetable are summarised in the Table below. This highlights the key decision milestones in the process. This information has been supplemented by a detailed operational timetable for 2017/18.

Date / Meeting	**Detail**
28 November 2016 **Cabinet**	Cabinet considers its 2017-2020 initial budget proposals in relation to General Fund, Schools, Housing Revenue Account & North Tyneside Investment Plan for 2017-2020 and the Council Plan.
29 November 2016	Notice of Objection Process for the 2017/18 Budget Commences.
29 November 2016	Budget Engagement process continues. Ends in January 2017.
December 2016 **Scrutiny Process**	Scrutiny of the 2017-2020 Financial Planning and Budget Process.
12 December 2016 **Cabinet**	Cabinet considers the outcomes of the consultation on the 2017/18 Council Tax Support Scheme and proposes a scheme for Council to consider on 19 January 2017.
12 December 2016 **Cabinet**	Cabinet considers proposals in respect of Council Tax Discounts for 2017/18 and makes proposals for Council to consider on 19 January 2017.
10 January 2017 **Overview, Scrutiny and Policy Development Committee**	Overview, Scrutiny and Policy Development Committee consider the results of their review of the 2017-2020 Financial Planning and Budget process.
16 January 2017 **Cabinet**	Annual housing rent change for 2017/18 approved by Cabinet.
19 January 2017 **Council**	Council considers the proposed 2017/18 Local Council Tax Support Scheme from Cabinet and agrees or amends the scheme for 2017/18.

Appendix E

Date / Meeting	Detail
19 January 2017 **Council**	Council decides proposals in relation to changes to Council Tax Discounts for 2017/18.
25 January 2017 **Cabinet**	Cabinet considers its draft Council Plan and budget proposals for 2017-2020 in relation to General Fund Revenue, Schools & North Tyneside Council Investment Plan for 2017-2020, taking into account feedback received as part of Budget Engagement.
25 January 2017 **Cabinet**	2017/18 Council Taxbase agreed by Cabinet.
2 February 2017 **Council**	Cabinet submits to the Council its estimates of amounts for the 2017-2020 Financial Plan and 2017/18 Budget & council tax levels and the Council Plan.
16 February 2017 **Council**	Reconvened Council meeting to consider Cabinet's estimates of amounts for the 2017-2020 Financial Planning and Budget process & council tax levels and the Council Plan. Consideration of any Notices of Objection.
20 February 2017 (if required) **Cabinet**	Cabinet Meeting to consider any objections to Cabinet's Budget proposals.
28 February 2017 (if required) **Council**	Council meeting to agree the general fund revenue budget for 2017/18; the Council Plan, the council tax level for 2017/18 & the North Tyneside Investment Plan for 2017-2020.

Reserves and Balances Policy

Date: 25 January 2017 **Version:** V1 **Author:** Janice Gillespie

The Reserves and Balances Policy represents good financial management and should be followed as part of the annual Financial Planning and Budget process, Budget Monitoring and Final Accounts.

2 Application
The general principles set out in this Reserves and Balances Policy apply to North Tyneside Council's General Fund and to the Housing Revenue Account.

3 The Existing Legislative/Regulatory Framework
The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

The Local Government Finance Act 1992 and Local Government Act 2003 set out a range of safeguards to mitigate against local authorities over-committing themselves financially. These include:

- the balanced budget requirement;
- Chief Finance Officers' section 114 powers;
- the external auditors' responsibility to review and report on financial standing;
- the requirement for the Chief Finance Officer to report to full Council on the robustness of budget estimates and the adequacy of reserves in the Authority balance sheet; and,
- the requirement for the Authority to regularly monitor its budget.

Generally, the balanced budget requirement is sufficient discipline for the majority of local authorities. This requirement is reinforced by section 114 of the Local Government Finance Act 1988 which requires the Chief Finance Officer in England and Wales to report to all the authority's councilors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice by the Chief Finance Officer cannot be taken lightly and has serious operational implications. Indeed, the authority's full council must meet within 21 days to consider the section 114 notice and during that period the authority is prohibited from entering into new agreements involving the incurring of expenditure.

Local Authority Accounting Practice (LAAP) Bulletin 77 (released November 2008) sets out guidance to local authority chief finance officers on the establishment and maintenance of reserves and balances. The Bulletin states that its guidance "represents good financial management and should be followed as a matter of course". The guidance covers the legislative and regulatory framework relating to reserves; types of reserves; the principles to be used to assess the adequacy of reserves and the Chief Finance Officer's advice to full Council.

Guidance on specific levels of reserves and balances is not given in statute, the published guidance or by the Chartered Institute of Public Finance and Accountancy (CIPFA) (the recognised accountancy body for local government finance) or the

Audit Commission. There is no statutory minimum level of reserves. It is up to local authorities themselves to set their own level of reserves and balances on the advice of the Chief Finance Officer.

4 The Role of the Head of Finance (Chief Finance Officer)
Within the existing statutory and regulatory framework, it is the responsibility of the Head of Finance (in her role as Chief Finance Officer) to advise the Authority about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.

The Authority then, acting on the advice of the Chief Finance Officer, must make its own judgements on the level of reserves and balances taking into account all the relevant local circumstances. These include the operational and financial risks, and the arrangements in place to manage them, including adequate and effective systems of internal control. The duties of the Chief Finance Officer in relation to the level of reserves are covered by the legislative framework described in 3 above. Under the Local Government Act 2003, the Chief Finance Officer must report to the full Council on the adequacy of reserves (section 27) and reserve transactions must be taken account of within the required budget monitoring arrangements (section 28).

5 Types of Reserves
Reserves can be held for four main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities; and
- A reserve in respect of grants.

In addition, since 2003/04 the Authority has held a Strategic Reserve in its balance sheet. This has been used to manage significant financial pressures which can arise in year, or between years, for example to manage the significant pressures arising from equal pay settlements and costs of non statutory redundancy payments. The reserve has also been used to support the General Revenue budget in periods where the Authority's finances are in transition.

The Authority also holds a pensions reserve as required under International Accounting Standard 19 – Employee Benefits. This is a specific accounting mechanism used to recognise the Authority's share of pension fund liabilities in its balance sheet. As this is a reserve which arises from an accounting standard it is not available to finance expenditure of the Authority.

For each reserve held by the Authority there should be a clear protocol setting out:

- the reason for/purpose of the reserve;
- how and when the reserve can be used;

- procedures for the reserve's management and control; and,
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

This Reserves and Balances Policy ensures that when establishing reserves, North Tyneside Council complies with the Code of Practice on Local Authority Accounting in the United Kingdom (The Code) and in particular the need to distinguish between reserves and provisions.

6 Policy and Principles to Assess the Adequacy of Reserves
The principles used by the Chief Finance Officer to assess the adequacy of unallocated general reserves when setting the budget ensure that account is taken of the strategic, operational and financial risks facing the authority.

Setting the level of reserves is just one of several related decisions in the formulation of the financial strategy and the budget for a particular year. This is carried out as part of the Authority's Financial Planning and Budget Process. Account is taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors are considered:

- The treatment of inflation and interest rates;
- Estimates of the level and timing of capital receipts;
- The treatment of demand led pressures;
- The treatment of planned efficiency savings / productivity gains;
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital investment developments;
- The availability of other funds to deal with major contingencies and the adequacy of provisions; and,
- The general financial and economic climate in which the Authority operates.

The Authority holds two types of reserves

- General unearmarked reserves (the Authority's General Fund Balances)
- Earmarked reserves held for specific purposes

It is the current policy of North Tyneside Council for the *General Fund unearmarked reserves* (the General Fund Balances) to be held at a level of at least £6.000m. This is reviewed at least annually, during the setting of the budget. Factors which are taken into account during the review include; the level of balances as a percentage of the net revenue requirement, budget management and monitoring procedures, risk levels and financial projections for future years.

The level of each *earmarked reserve* is assessed separately with reference to the specific liabilities that the reserve represents. This is done in consultation with relevant officers. Individual earmarked reserves are assessed to ensure their adequacy in relation to factors that have become known since the previous year. It is the policy of North Tyneside Council to ensure that the Financial Planning and

Budget Process takes account of any need to increase particular reserves due to factors which may arise and to fully account for these factors.

As one of the Authority's earmarked reserves*, the Strategic Reserve* is a significant part of the Authority's strategic financial management, often used to finance large pressures which can arise outside of the Authority's regular budget setting and financial management processes. As such, it has been used to address major spending issues and it is therefore the objective of the Authority to maintain the Strategic Reserve at a level of £5.000m over the medium term.

The use of the Strategic Reserve to balance budgets (either revenue or capital) should be very closely considered in line with LAAP (Local Authority Accounting Practice note) 77, which states that, although "balancing the annual budget by drawing on general reserves may be viewed as a legitimate short term option. It is not normally prudent for reserves to be deployed to finance recurrent expenditure". In principle, although the Strategic Reserve may, under certain circumstances, be used to balance the budget of the Authority, it should not be used as a year on year measure to support ongoing revenue spend. The level of the Strategic Reserve and the potential calls against it will therefore be reviewed on a continuous basis, and in the context of the overall financial planning process of the Authority.

Unless expressly agreed by Cabinet as part of the Budget process, the level of balances and reserves will be reviewed by the Chief Finance Officer and Deputy Chief Finance Officer during the final accounts process in consultation with the Elected Mayor, Cabinet Member for Finance and Resources and relevant officers. In addition, the regular budget monitoring process carried out by the Authority throughout the year will report on any changes in the level of balances or reserves. In-year and year-end transfers either into or out of a reserve must be authorised by the Chief Finance Officer and Deputy Chief Finance Officer in consultation with the Elected Mayor and Cabinet Member for Finance and Resources. Full documentation should be retained for all movements into and out of the reserves and balances.

The Reserves and Balances Policy is set in the context of the Authority's Financial Planning and Budget Process and does not focus exclusively on short-term considerations. Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However, in the longer term it is not prudent for reserves to be deployed to finance recurrent expenditure: and where such action is being taken this will be made explicit and an explanation given as to how the recurrent expenditure will be funded in the longer term. Advice will be given by the Chief Finance Officer on the adequacy of reserves over the lifetime of the financial plan. This is addressed in the Financial Planning and Budget Process.

7 The Reporting Framework

The Chief Finance Officer has a fiduciary duty to local taxpayers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds. Compliance with this Reserves and Balances Policy assists in allowing the Chief Finance Officer to be satisfied that there is proper stewardship of public funds.

The level and utilisation of reserves is determined formally by the full Council at its meetings to approve the annual budget and the final accounts. These decisions are informed by the advice and judgement of the Chief Finance Officer.

The Reporting Policy of North Tyneside Council is:

- The Financial Planning and Budget process report to the full Council, which sets the Authority budget for the following year, includes a statement showing the proposed use of, or contribution to, general and earmarked reserves for the year ahead. Reference should be made as to the extent to which such reserves are to be used to finance recurrent expenditure.

- In addition, as part of the budget report to full Council the Local Government Act 2003 requires the Chief Finance Officer to make a statement to full Council on the robustness of the budget estimates and the adequacy of reserves in relation to the forthcoming financial year and the period of the authority's financial strategy (the three year Financial Planning and Budget Process). Where reserves are being used to finance recurrent expenditure this will be made explicit and an explanation given as to how such expenditure will be funded in the medium to long term. Advice should be given on the adequacy of, and expected need for, reserves over the lifetime of the financial strategy.

- The Authority's annual statement of accounts includes a required note on the level of reserves in the balance sheet, showing opening balance, net movement in year and year-end balance. Significant reserve movements are explained in the Chief Finance Officer's foreword to the accounts and the covering report to full Council which accompanies the presentation of the accounts. In addition, the financial management out turn report for the year, which is presented to Cabinet for approval, and subsequently to the Finance Sub Committee, includes a full listing of all reserves and an explanation of any significant movements in individual reserves.

- The regular in-year financial management reports to Cabinet and Finance Sub Committee include details of any transactions affecting the Authority's reserves.

8 Good Governance

It is essential that the Authority takes responsibility for ensuring the adequacy of reserves and provisions when they set the budget. This will be subject to the advice of the Chief Finance Officer and the arrangements for reviewing and reporting on the level of reserves and balances as set out above

Appendix G

2017-2020 Financial Planning and Budget Process

2017/18 Financial Planning and Budget Timetable of Key Future Decision Milestones

The key aspects of the 2017/18 Financial Planning and Budget timetable are summarised in the Table below. This highlights the key decision milestones in the process. This information has been supplemented by a detailed operational timetable for 2017/18.

Date / Meeting	Detail
25 January 2017 **Cabinet**	Cabinet considers its draft Council Plan and budget proposals for 2017-2020 in relation to General Fund Revenue, Schools & North Tyneside Council Investment Plan for 2017-2020, taking into account feedback received as part of Budget Engagement.
25 January 2017 **Cabinet**	2017/18 Council Taxbase agreed by Cabinet.
2 February 2017 **Council**	Cabinet submits to the Council its estimates of amounts for the 2017-2020 Financial Plan and 2017/18 Budget & council tax levels and the Council Plan.
16 February 2017 **Council**	Reconvened Council meeting to consider Cabinet's estimates of amounts for the 2017-2020 Financial Planning and Budget process & council tax levels and the North Tyneside Investment Plan for 2017-2020. Consideration of any Notices of Objection.
20 February 2017 (if required) **Cabinet**	Cabinet Meeting to consider any objections to Cabinet's Budget proposals.
28 February 2017 (if required) **Council**	Council meeting to agree the general fund revenue budget for 2017/18; the Council Plan, the council tax level for 2017/18 & the North Tyneside Investment Plan for 2017-2020.

Glossary of Terms

Authorised Limit	This is the limit beyond which borrowing is prohibited. It reflects the level of borrowing that, while not desired or sustainable, could be required with some headroom for unexpected cash flow movements and includes both temporary borrowing for cash flow purposes and long-term borrowing to finance capital expenditure.
Balances	The reserves of the Authority, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.
Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short-term interest rates in the money markets.
Borrowing	Refers to external borrowing.
Budget	A plan of expected expenditure and income over a set period of time for example the Authority's revenue budget covers a financial year.
Budget Holder	A nominated officer in a Service area who has responsibility for the control and monitoring of a particular budget.
Budget Manager	A nominated officer in a Service area who has responsibility for the control and monitoring of the budgets within a service area.
Budget Monitoring	The analysis and reporting of expenditure/ income against budget. Budget monitoring is carried out by Service area alongside the Finance Service on a monthly basis.
Budgetary Control	The use of budget monitoring information to manage the budget and bring spend in on target for the year.
Business Rates	Business Rates also known as Non Domestic Rates (NDR) is a charge levied upon all non domestic properties. The rateable value of non domestic premises is determined by the Valuation Office Agency (part of the Inland Revenue). This rateable value is multiplied by a national multiplier (set each year by central Government) to arrive at the gross annual amount each business must pay. This can be reduced by reliefs dependant on the size / circumstances of the business to arrive at the net amount payable. Business Rate Retention Regulations were introduced in April 2013 which determines the proportion of Business Rates retained by Local Authorities and its preceptors, or transferred to Central Government.
Capital Financing	The resources required to fund capital payments e.g. • borrowing • the application of useable capital receipts • a direct charge to revenue • the application of a capital grant or contribution.
Capital Financing Requirement (CFR)	This measures the Authority's underlying need to borrow for a capital purpose. It is a calculation of capital costs less funding from capital receipts, grants and contributions to give the balance to be funded by borrowing. The Authority needs to ensure that over the medium term net borrowing does not exceed the CFR. The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code.
Capital Investment /	The total amount spent on capital including all those items capitalised under statute e.g. equal pay and grants to third parties.

Expenditure	
CIPFA	Chartered Institute of Public Finance and Accountancy.
CLG	Department for Communities and Local Government.
Consumer Price Index (CPI)	The index has been designed as a macro-economic measure of consumer price inflation. The official measure is calculated each month by taking a sample of goods and services that a typical household might buy, including food, heating, household goods and travel costs. It forms the basis for the Government's inflation target which the Bank of England's Monetary Policy Committee is required to achieve.
Contingencies	Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.
Cost Centre	A code created in General Ledger to record expenditure and income for a particular activity. For example a library or a school.
Council Tax	The main source of local taxation for local authorities. It is a banded property tax (using 1 April 1991 property values) which is levied on households within its area by the billing authority and is set annually for the properties in its area. Council Tax income is paid into the billing authority's Collection Fund for distribution to precepting authorities and for use by the billing authority's own General Fund.
Counterparty	The organisations responsible for repaying the Authority's investment upon maturity and for making interest payments.
Credit Default Swap (CDS)	These contracts reflect the market perception of an institution's credit quality unlike credit ratings which often focus on a longer term view. CDS contracts can be compared with insurance, as a buyer of a CDS pays a premium insuring against a debt default.
Credit Rating	This is a scoring system that lenders use and publish to determine how credit worthy individuals and businesses are.
Debt	The sum of borrowing and other long term liabilities.
DfE	Department for Education.
DWP	Department for Work and Pensions.
External debt	All borrowing, whether for capital or revenue purposes.
Fees and Charges	Income arising from the provision of a service.
Financial Regulations	Rules which set out the financial policies of the Authority and help to ensure that the assets of the Authority are protected and properly deployed.
Financial Year	1 April to 31 March.
Forecast Out-turn	A prediction of the final income and expenditure based at the year end.
General Ledger (GL)	The prime financial record for the Authority. The General Ledger records all the expenditure incurred and all the income generated by the Authority.
Gilts	Gilts are issued by the UK Government in order to finance public expenditure. They are generally issued for a set period and pay a fixed rate of interest for this period.
Holding Accounts	These are accounts within the General Ledger relating to a specific building or service (internal to the Authority) where costs are collected then shared out to the users of the building or service.
IFRS	International Financial Reporting Standards – the basis on which the Authority's accounts are prepared from 2010/11 onwards.

Journal Transfer	A journal transfer is used to correct miscoded transactions or to allocate costs/income within or across Service areas in the General Ledger.
Lenders Option Borrowers Option (LOBOs)	A form of long-term borrowing where loans run at a fixed rate of interest for a fixed period of time, after which the Lender has the option to ask for repayment or change the interest rate on pre-determined dates. If the Lender decides to exercise the option to change the interest rate the borrower can then decide whether to accept the new terms or repay the loan.
LGPS	Local Government Pension Scheme.
Local Government Finance Settlement	The Local Government Finance Settlement is the annual distribution of funding determined by the Government and debated by Parliament. It has two key elements: 1. A Provisional Local Government Finance settlement which is normally received in December. This is then subject to a specific Government Consultation. 2. A Final Local Government Finance settlement which is normally received in late January / early February after the government has had time to consider the representations made to the Provisional Local Government Finance Settlement.
Long Stop Control	The Secretary of State may, by direction, set limits in relation to the level of borrowing of money by a particular local authority for the purpose of ensuring that the authority does not borrow more than it can afford.
Long term	A period of one year or more.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation within plus or minus 1% of a central target of 2% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Money Market	Consists of financial institutions and dealers in money and credit.
Net Revenue Stream	This is the net revenue budget.
Operational Boundary	This is the most likely, prudent view of the level of gross external indebtedness. External debt includes both borrowing and long term liabilities (e.g. finance leases and PFI), with separate boundaries having to be identified for each of these. It encompasses all borrowing, whether for capital or revenue purposes.
Other Long Term Liabilities	The sum of the amounts on the face of the Balance Sheet that are classified as liabilities and are for periods in excess of 12 months, other than borrowing repayable within a period in excess of 12 months e.g. finance leases, PFI and Longbenton transferred debt.
PFI	The private finance initiative is a way of creating "public–private partnerships" by funding public infrastructure projects with private capital.
Precept	The levy determined by precepting authorities on billing authorities. It requires the billing authority to collect income from council taxpayers on

	their behalf. In the case of North Tyneside Council, the precepting authorities are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.
Profiling	A method by which budgets are spread across the year to reflect patterns of spend.
Projections	A forecast of expenditure and income to the year-end based on known commitments and trends.
Prudential Borrowing	See Unsupported borrowing.
Prudential Code	The current system of financial controls for capital financing introduced on 1 April 2004 that local authorities are required to operate within.
Public Works Loan Board (PWLB)	Part of the Government's Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions.
Quantitative Easing	The printing of money by the country's central bank in order to increase the supply of money.
Reprogramming	Refers to changes to the timing of projects in the Investment Plan between years.
Reserves	Amounts which are set aside in the accounts to meet expenditure which the Authority may decide to incur in a future period, but which are not allocated to specific liabilities that are certain or very likely to occur. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves are often described as balances, and usually arise as unplanned surpluses of income over expenditure. This will include the House Building Fund, Strategic Reserve, Insurance Reserve and the Support Change Fund Programme.
Revenue Expenditure	Expenditure on the day-to-day running costs of a service for example employees and transport.
Revenue Support Grant (RSG)	A central government grant paid to each local authority to help to finance its general expenditure, as opposed to specific grants.
RPI – Retail Price Index	The Retail Price Index (RPI) shows the changes in the cost of living and is published on a monthly basis. It reflects the movement of prices in a representative sample of goods and services used regularly, such as food, housing, clothing, household goods and transport. Items considered the most important are given a higher weighting in the overall index.
Service Area	Groups of related cost centres.
Settlement Funding Assessment	For individual local authorities, this comprises of the Revenue Support Grant for the year in question and the Baseline Funding Level.
Short-term	A period of less than one year.
Subjective	A subjective is a code within the General Ledger that indicates the type of expenditure incurred, for example basic pay. A subjective can also be used to record the type of income generated, for example rents and fees.
Supported Borrowing	This is borrowing to fund expenditure in the Investment Plan where the annual financing costs of such borrowing are supported by government through formula grant. No new supported borrowing has been awarded since 2010/11.
Trading Account	These accounts within the General Ledger hold the values of both the

	cost and income of a traded or recharged service e.g. cleaning or transport. Customers can be internal or external to the Authority.
Treasury Management	The management of the Authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
Unsupported Borrowing	This relates to borrowing to fund expenditure where the annual financing costs have to be met from the Authority's own revenue resources. This is also known as prudential borrowing.
Variance	The difference between net budgeted expenditure and income compared to net actual expenditure and income i.e. the actual or predicted overspend or underspend against budget.
Virement	A transfer of budgets from one area of the budget to another.
Yield	Return on an investor's capital investment.
Yield Curve	Graph plotting the yield of all bonds of the same credit quality with maturities ranging from the shortest to the longest available. If the resulting curve shows that short-term yields are lower than longer term yields then it is called a positive yield curve. If short term yields are higher than longer term yields it is called an inverted yield curve. If there is little difference between short and long term yields then it is a flat yield curve.