ANNEX 1

Cabinet – 9 November 2015
Agenda Item 6(a)

2015/16 Financial Management Report to 30 September 2015

Section 1.0
Executive Summary

Summary

1.1 This is the third report to Cabinet for 2015/16, setting out the Authority's financial position as at the 30 September 2015.

1.2 This report includes details of the forecast outturn position to the 31 March 2016, highlighting key strategic issues to be managed by the Authority during the year.

Strategic Management of the Authority's Budget

1.3 The budget for 2015/16 was approved by full Council at its meeting of 19 February 2015. The net General Fund revenue budget was set at £156.757m, this included CBF savings (Creating a Brighter Future Programme) of £14.158m to be achieved.

1.4 The Investment Plan for 2015-19 was approved at £230.337m (£83.752m for 2015/16). Reprogramming into 2015/16 of £17.469m and variations of £3.909m were approved as part of Financial Management reports to Cabinet. This leaves a revised 2015-19 Investment Plan of £251.715m (£102.398m for 2015/16).

1.5 The current forecast outturn for the General Fund revenue budget reflects a pressure of £1.570m. This reflects an improvement of £0.431m since the position reported for July (£2.001m). The Officer team continues to work to deliver plans that will ensure all pressures identified are managed and that the budget remains on target at the end of the year.

1.6 The Housing Revenue Account (HRA) is forecasting an under spend of £0.193m for the year.

1.7 In the period to September 2015, the level of capital spend posted within the General Ledger was £27.056m, which represents 33.66% of the revised Investment Plan for the year. Details of the projects delivered are included in paragraph 5.1. The revised estimated financing of the 2015/16 Investment Plan, following reprogramming, includes capital receipts of £2.859m which have now been generated in full. As a result of the reprogramming identified there is a capital receipts requirement of £1.185m in 2016/17. Any capital receipts received in the remainder of the year will be carried forward to meet this requirement in 2016/17 or used to reduce the in-year borrowing requirement in 2015/16.

1.8 Cabinet is recommended to approve reprogramming of £19.836m to the 2015/16 Investment Plan and variations of £1.495m credit (£2.175m credit in 2015/16 and £0.680m in 2016/17).

Strategic Issues

1.9 As in previous years, over and above the management of the Authority's core budget, there are issues that need to be addressed in year or that give rise to implications which extend beyond the one-year timescale of the annual budget. These issues are summarised below.

Creating a Brighter Future Programme (CBF Programme)

1.10 The budget for 2015/16 included savings of £14.158m, from the delivery of projects/actions included as part of the CBF programme. The savings are embedded within service budgets and are therefore included within budget monitoring.

1.11 The scale of the financial challenge for the year meant that wide ranging efficiencies and service reconfiguration are required to be implemented during 2015/16. It is important that these savings are monitored as part of the overall financial position of the Authority so the bottom line financial position is known.

1.12 It is also important that savings are only considered to be achieved once they are assessed as being realisable. To that end, this report has been prepared on a prudent basis. However, Cabinet should note the level of budget challenges that have been addressed to date through both the CBF programme and by on-going management action. **Appendix R** details the status of each of the specific CBF savings included in this report.

1.13 Set out in Appendix R are indicators of delivery shown as Red, Amber or Green. Currently there are projects with a value of £9.146m with a green status, £4.184m with an amber status and £0.828m with a red status. The status of the projects is reflected in the budget monitoring position as at 30 September 2015.

Implications for 2016/17 and Following Years

1.14 This is an important report not only because it gives the financial position for the mid-point of this financial year, but also because it forms the starting point for the financial planning process which is underway for 2016/17 and following years. As such, Cabinet needs to be aware of any implications of the report for those future years' budgets. The main issues identified in 2015/16 that will need to be considered in forward financial planning are as follows:

- CBF Programme - as noted in the report (paragraphs 1.10 to 1.13), one of the significant pressures which needs to be considered is the impact of any CBF saving not being achieved and actions required to secure savings into 2016/17;
- Implications of the summer budget announcements, in particular the impact on the Housing Revenue account 30 year Business Plan;
- Demand led pressures - in areas such as Looked after Children and Adult Social Care remain for future years; and,
- Use of Reserves – currently the 2015/16 budget includes the planned use of reserves of £1.766m. This is in respect of the Business Rates Retention scheme and reflects the impact of the Office appeals. Consideration also needs to be given to the potential impact of a further call on the Strategic Reserve should there be no improvement in the General Fund revenue position for this financial year.

Section 2.0
General Fund Income and Expenditure

2.1 This section of the report details the current budget pressures identified by Services and the expected year-end outturn following mitigating actions taken to reduce those pressures. Table 1 summarises the position and reflects an in year pressure of £1.570m.

2.2 Budget monitoring is based on the recorded transactions as at 30 September 2015 and is set out in Table 1 below. Table 1 is supplemented by a summary commentary below, covering the key variances by Service. The detailed **Appendices (A - M)** set out variations by Services.

Table 1: 2015/16 General Fund Revenue Budget Forecast to 31 March 2016

		Full Year Budget	Forecast Outturn	Forecast Outturn Variance Sept 2015	Forecast Outturn Variance July 2015
		£m	£m	£m	£m
Services					
Chief Executive's Office	Appendix A	4.572	4.814	0.242	0.242
Business and Economic Development	Appendix B	1.597	1.739	0.142	0.155
Commercial and Business Redesign	Appendix C	4.180	4.266	0.086	0.030
Corporate Strategy	Appendix D	2.156	2.136	-0.020	0.110
Digital Strategy	Appendix E	0.104	0.060	-0.044	-0.042
Human Resources and Organisational Development	Appendix F	1.810	1.926	0.116	0.106
Law and Governance	Appendix G	3.899	3.968	0.069	0.054
Public Health	Appendix H	-0.089	-0.019	0.070	0.180
Adult Social Care	Appendix I	46.747	46.389	-0.358	-0.154
Children, Young People and Learning	Appendix J	16.133	18.825	2.692	2.461
Commissioning and Investment	Appendix K	7.871	8.851	0.980	1.005
Environment, Housing and Leisure	Appendix L	31.201	30.857	-0.344	-0.281
Deputy Chief Executive Central Costs	Appendix L	0.279	0.275	-0.004	-0.003
Non-Controllable		8.461	8.461	0.000	0.000
Sub Total - Service-Approved Budget		**128.921**	**132.548**	**3.627**	**3.863**

Table 1 continued

		Full Year Budget	Forecast Outturn	Forecast Outturn Variance Sept 2015	Forecast Outturn Variance July 2015
		£m	£m	£m	£m
Corporate and Democratic Core	Appendix M	11.520	11.030	-0.490	-0.490
Corporate Accounting	Appendix M	-2.642	-4.679	-2.037	-1.806
Contingency Budget	Appendix M	1.250	1.250	0.000	0.000
Levies	Appendix M	12.556	12.556	0.000	0.000
Utilities		0.000	0.470	0.470	0.434
Non-Controllable		5.152	5.152	0.000	0.000
Sub-Total- Non Delegated budgets		**27.836**	**25.779**	**-2.057**	**-1.862**
Net forecast pressure		**156.757**	**158.327**	**1.570**	**2.001**

Services

2.3 The main variations are set out in detail below.

2.4 The year end position for the **Chief Executive's Office** is currently forecast as an overall pressure of £0.242m. This is further detailed in **Appendix A**. The main issue is a forecast pressure on the Business Partnership Change Efficiency and Improvement target (£0.769m), which was originally included as a savings target within the 2014/15 budget. This is an additional target on top of the core savings already delivered by Cofely through the Partnership. Work continues to develop and agree the target savings.

This pressure is offset by a forecast net under spend in the Revenue and Benefits service relating to forecasted recovery of benefits overpayment income.

2.5 **Business and Economic Development** is forecasting an overall pressure of £0.142m. This includes a predicted continuing pressure at the Swan Hunter site of £0.144m mainly due to a reduction in expected income whilst the regeneration work is underway. The agreement remains that the Authority will manage the Swan Hunter site at least through the period of regeneration. The full analysis is included as **Appendix B.**

2.6 **Commercial and Business Redesign** has a forecast pressure of £0.086m. Following a realignment of management responsibilities, ICT has been moved from Digital Strategy and is now reported in this service area. Comparative variances for July 2015 have been adjusted accordingly. The pressure relates to revenue costs of new system developments (£0.128m) offset by staff savings and additional management fee income. The full analysis is included as **Appendix C.**

2.7 **Human Resources and Organisational Development** is showing a pressure of £0.116m. The pressure arises from the transfer of staff back to the Authority from Cofely and a change in an assumption around a Creating Brighter Future target of £0.050m. Details are shown in **Appendix F.**

2.8 The **Public Health** Service is forecasting a pressure of £0.070m as detailed in **Appendix H.** This is mainly a result of higher than anticipated prescription costs payable to the Clinical Commissioning Group. This has improved from the July forecast (£0.180m overspent) due to a proposed new service in relation to domestic violence perpetrators no longer going ahead in the form originally intended.

The Department of Health has published a consultation paper on the in-year reduction of Public Health Grant totaling £200m nationally. The document outlines various options for implementing this, with the Government's preferred method reducing grant income to North Tyneside by £0.774m. The Authority's response to the consultation suggests a preferred approach that fairly reflects the Authority's funding position with respect to the target funding for Public Health. The Public Health grant income forecast has been reduced in line with Central Government's proposal and corresponding reductions have been made in expenditure assumptions in relation to support for services provided within Environment, Housing and Leisure and within Adult Social Care.

2.9 **Adult Social Care** is reporting a forecast under spend of £0.358m. There is uncertainty around the position for Adult Social Care with a number of key changes coming into effect in-year. The Better Care Fund agreement was signed on the 19 June 2015 between the Authority and the North Tyneside Clinical Commissioning Group (CCG). This position assumes Better Care Fund related transactions are in line with the budget. The budget was set on the basis of the plans for the protection of existing social care services and new expenditure associated with investments included within the agreement.

Cabinet will recall that the service ended the financial year 2014/15 with a significant surplus reflecting the success of the gateway process and on-going reviews of placements to manage costs down, in addition to the receipt of additional one-off income from the CCG of £1.950m. Strong demand management has continued into the early part of 2015/16 and indications are that expenditure is being contained effectively. Additional grant funding of £1.131m has been made available for the implementation of new and expanded duties under the Care Act which came into effect on 1 April 2015. Forecasts indicate that the new duties will be delivered within the available resource.

The reduction of Public Health grant in year has resulted in reduced support of £0.634m for Adult Social Care services which have public health outcomes and which were funded by this grant. The service is forecasting savings to offset this loss within central budgets and within Personalisation - Care Coordination where staffing savings are being made in advance of Creating Brighter Futures savings proposals for 2016/17.

Loss of Public Health grant combined with reduced health income forecasts have resulted in a worsening position in externally commissioned care for clients with a Learning Disability or Mental Health issue which is now showing an overspend of £1.776m. This includes an assumption of new packages starting in the remainder of 2015/16 totalling £0.300m and potential additional third party payments of £0.673m. This pressure is offset by under spends in all other service areas but predominantly in Older People's services (£0.873m) and Personalisation Care Coordination (£0.635m).

Whilst all of the necessary actions have been taken to realise planned savings for 2015/16, forecasts have not been adjusted to reflect savings which are expected to accrue in the second half of the year. In addition there are continuing risks associated with the financial position of the CCG. The full analysis is included as **Appendix I.**

2.10 **Children Young People and Learning** is currently forecasting a budget pressure of £2.692m at year end which compares to a £2.461m variance in July.

The main underlying cause for the budget pressure in this service is Corporate Parenting and Placements which is forecasting a pressure of £1.898m with a worsening of £0.138m since July.

The area of Corporate Parenting and Placements captures a spectrum of provision to meet each individual child's needs, ranging from adoption, foster care, our own North Tyneside residential provision, to the most costly individual placements made out of borough. A full breakdown of this pressure is included in **Appendix J**.

The area of Corporate Parenting and Placements has been suffering from demand led pressure for a number of years. This is a national issue with a 13% rise across the country in numbers of Looked After Children (LAC) since 2009. Within North Tyneside there has been an increase of 45% in the same period with 95 more children currently in the service compared to 2009. The rate of Looked After Children in North Tyneside however remains lower than the North East average at 75 per 10,000 population compared to 81 across all North East authorities. The national rate is however lower at 60 per 10,000 of population.

The increase in overspend since the July report is mainly due to additional external residential placements.

Table 2: Movement in numbers of Looked After Children (LAC) giving rise to increased costs.

Placement Type	No. of LAC at April 2015	No. Of LAC at July 2015	No. of LAC at Sept 2015	Average Cost of Placement per annum £m	Increase / (Decrease) in Forecast Cost since July £m
External Residential	15	15	17	£0.179	£0.153
External Fostering Placement	19	24	26	£0.038	£0.040
Internal Fostering	208	221	215	£0.018	-£0.005
Other*	58	64	63	various	-£0.050
Total	300	324	321		£0.138

*Other includes Placed for Adoption, Supported Residence and NTC Children's Homes.

The pressure of £1.898m is after applying a contingency budget of £1.250m. Savings targets of £0.597m have been applied to this service area with plans focussing around reducing the number of high cost out of borough placements and using intelligent commissioning to ensure placements are delivered at appropriate cost. Whilst significant progress has been made against achieving planned reductions in spend, demand has continued to outstrip available resources. The service is working on early intervention and prevention strategies to contain demand moving forwards but there is expected to be a significant time lag between successfully embedding an enhanced preventative approach and seeing a reduced number of children with complex issues presenting for support.

The service has also been looking to maximise Health income opportunities to contribute to supporting children with a complex mixture of health and social care needs. The current financial deficit being managed by the North Tyneside Clinical Commissioning Group (CCG) has however presented additional challenges. The reported position for Corporate Parenting and Placements includes an assumption of income from the CCG of £0.272m in support of particular Looked After Children who have health needs. Discussions are ongoing with the CCG to secure this funding, however, if agreement is not reached, the forecast position could worsen. There is also a forecasted shortfall against a general health contribution income target in relation to Children with Disabilities (£0.200m) and discussions are ongoing with the CCG around appropriate levels of support.

School Improvement budgets are showing a pressure of £0.197m as a result of potential income shortfalls on courses offered during the 2015/16 academic year, third party costs in relation to school partnering services and the High Borrans Outdoor Education Centre. A School Forum sub group has been formed to review the £0.052m pressure at High Borrans and is contributing to work on developing a sustainable business plan moving forwards. The movement since July of £0.095m is mainly due to additional ICT connectivity costs in schools.

The service is committed to containing this expenditure as far as possible whilst ensuring the statutory Corporate Parenting responsibilities of the Authority are delivered but has struggled to contain demand led pressures. The Senior Management Team have been instructed to formulate an action plan to mitigate the forecast pressure and realise real savings that include:

- Controls over appointments;
- Senior Management challenge sessions;
- Weekly placement challenge, external review and scrutiny; and,
- Weekly budget monitoring updates to SMT.

2.11 The **Commissioning and Investment** service is reporting a forecast pressure this year of £0.980m.

The main area of concern is property related pressures (£0.645m) linked to the rentals of operational buildings with a smaller element linked to the Commercial Estate. The Authority is currently in negotiation with Capita to determine how these risks will be managed moving forwards.

There is also a £0.239m pressure within Education Capital and Fair Access. This is in relation to Schools PFI contract (£0.093m) and recharges to capital where £0.062m is still to be finalised. In addition, Home to School Transport is showing a pressure of £0.098m. New contracts will be in place from September 2015 and work is ongoing to restructure routes to reduce costs in addition to exploring alternative ways to deliver these services.

The remaining pressure relates to a savings target in the Commissioning service which, at this stage in the year, is not certain of being achieved (net pressure £0.060m). However, work is underway to manage the issue

A full analysis is included as part of **Appendix K.**

2.12 **Environment, Housing and Leisure** is reporting an under spend of £0.344m which is an improvement from the under spend of £0.281m reported in July. Property budgets are now managed under the Commissioning and Investment service and General Fund Housing is now included within this service area. Forecasts relating to energy and rates continue to be excluded from the service position and are reported corporately.

The main area of improvement is within Capita managed services where Transport and Highways is now £0.193m under spent (July, £0.041m under spent) mainly as a result of the recent introduction of income generating savings agreed as part of the budget setting process. In addition Planning has improved by £0.080m to £0.056m under spent due to higher planning fee income.

Budgets relating to the Leisure and Cultural offer within the borough are showing pressures of £0.095m (reduced from £0.121m in July). The service is continuing to review its supplies and services expenditure plans to identify where any discretionary spend can be further reduced. In addition, a review of vacancies is being undertaken to establish if recruitment can be delayed to reduce forecasted costs whilst maintaining service delivery.

Waste Strategy is showing an over spend of £0.065m mainly due to a reduced income forecast.

These pressures are offset by under spends in Fleet and Security, Bereavement and Street Environment. Notable movements since July include an ongoing improvement in Fleet and Security of £0.037m due to reduced staffing costs and lower vehicle maintenance costs, as the vehicle replacement programme reduces the age profile of the fleet. Bereavement has also improved (£0.042m) due to increased income which has arisen partly as a result of the continued closure of Blyth Crematorium which is not due to reopen until the end of October 2015. The under spend in Street Environment has reduced due to a proposal to invest in new machinery to improve efficiency and support the delivery of Creating Brighter Futures targets in 2016/17.

The full analysis is included as part of **Appendix L.**

2.13 The following table shows the grant received from The Reading Agency for the Book Fund Initiative. Cabinet are requested to approve receipt of this grant. Further details are shown in **Appendix Q.** Any new capital grants are included in the capital variations (Tables 4 and 5) of this annex.

Table 3: 2015/16 Revenue Grant awarded September 2015

Service	Amount £m
Environment, Housing and Leisure	0.002
Total	0.002

Non Delegated Budgets

2.14 The **Corporate and Democratic Core** is forecasting an under commitment of £0.490m arising from lower than budgeted pension costs. A full analysis is included as part of **Appendix M.**

2.15 **Corporate Accounting** is forecasting an under spend of £2.037m including:

(a) An under spend of £0.257m on MRP due to the reprogramming of 2014/15 capital spend;
(b) A forecasted under spend on interest charges of £2.062m reflecting 2014/15 reprogramming and the continued use of temporary and internal borrowing;
(c) Forecast Strain on the Fund savings of £0.234m based on current and future leavers;
(d) £0.500m pressure relating to provision for bad debts;
(e) A credit £0.532m for a new grant in relation to the Independent Living Fund closure;
(f) £0.156m pressure relating to fees and contributions; and,
(g) £0.393m estimated pressure relating to Management Structure Savings. Savings will be allocated to services as they are confirmed.

A full analysis is included as part of **Appendix M.**

Section 3.0
Housing Revenue Account Income and Expenditure

3.1 This section of the report provides an update on the financial position for the Authority's Housing Revenue Account (HRA). The forecast year-end position and variance analysis for September 2015 is attached as **Appendix N** to this report.

3.2 On the 15 January 2015 Cabinet approved the HRA budget for 2015/16. This included an average increase in housing rents of 2.20% in line with the Government's new rent policy which bases rent increases for the next 10 years on the Consumer Prices Index (CPI) as opposed to the Retail Prices Index (RPI) from 2015/16.

3.3 The HRA started the year with what was £0.422m higher than anticipated opening balances i.e. £3.732m as opposed to the budgeted figure of £3.310m, and the in-year position is now forecast to be £0.193m better than budgeted.

3.4 The main forecast variations against budget are a shortfall in relation to rent and service charge income projections (£0.185m), and a slight increase in the estimated Depreciation charge (£0.058m). These increased costs have been offset by increased commercial and other rental income (£0.050m), savings from a continuation of the policy in relation to debt (which is to borrow short-term to realise in-year savings) along with savings in Debt Management Expenses (DME) (£0.226m), and savings in unallocated contingency and transitional protection payments linked to the delays in the North Tyneside Living scheme (£0.171m). These savings more than cover the loss of rental income from council dwellings.

Rent and Service Charge Income – shortfall of £0.185m made up of range of factors: reduction in dwelling rental income linked mainly to delays in the North Tyneside Living scheme, and hence increased numbers of void properties being held currently losing rental income (£0.337m). In addition, there is a reduction in forecast garage income (£0.026m), reduced sheltered housing officer service charge income (£0.031m), and an over-achievement from dispersed unit income (£0.004m) against budget. These shortfalls are partially off-set by an increase in general service charge income (£0.205m).

Capital Financing Charges and Depreciation– there are two elements to the savings being realised in this area: a small reduction in estimated Debt Management Expenses (DME) of £0.015m, and an estimated £0.211m of interest savings being achieved in-year by the continuation of the policy to take advantage of short-term interest rates. The increased depreciation charge (£0.058m) comes from an in-year rebasing of the depreciation estimate based on an approximation of the historic Major Repairs Allowance (MRA) which is used as a proxy for a true depreciation charge.

Contingency and Transitional Protection – combination of savings from transitional protection budget created for existing tenants who would otherwise be adversely impacted by new rents under the North Tyneside Living project due to delays, along with unallocated contingency totalling £0.171m.

Section 4.0
Schools Finance

2015/16 School Budgets

4.1 Budget monitoring is conducted with all schools during September to October every year and particular attention is being given to the six schools with deficit approval for 2015/16 budgets.

4.2 Further follow up meetings between these schools, School Improvement and Finance will be held later in the Autumn Term to monitor the specific requirements of their deficit approval. This will include a further review of Monkseaton High and Norham High Schools so that updated final deficit letters can be issued; in line with the provisional deficit approval granted in the summer, this review will look at the further work that has taken place over the summer holidays and the first half term of the new academic year.

4.3 The current forecast position indicates that all schools in North Tyneside are broadly performing in line with their original budget plans, with all areas of potential concern being investigated fully by the Finance team.

4.4 Further detail on the deficit position in North Tyneside Schools is set out in a subsequent report to be brought to this meeting.

Progress in relation to 2016/17 School funding

4.5 The September Schools Forum considered the Authority's initial proposals for the 2016/17 funding formula and agreed to a borough wide consultation with schools. Responses to the consultation were discussed at Schools Forum on 14 October 2015 and the proposed formula was accepted. This was submitted to the Education Funding Agency (EFA) by 31 October 2015. The EFA did not mandate any changes to the funding formula moving forwards, so no changes are being implemented other than changes to basic entitlement to take account of changes in the relevant factors such as pupil numbers, levels of deprivation and centrally retained items.

4.6 Members will receive more information on the budget setting process in a subsequent report being brought to this Cabinet meeting.

Section 5.0
Investment Plan Expenditure and Financing

Investment Plan Delivery

5.1 This section of the report sets out some of the key highlights of the 2015/16 Investment Plan including delivery to date and planned delivery.

Affordable Homes New Build and Conversion Works:

There are currently 7 projects that will complete during 2015/16:

- The conversion of Victoria Terrace Customer Service Centre into 5 new affordable homes. Works were completed as planned by the end of May 2015;
- The construction of 32 new affordable homes at Blandford Road, North Shields with works due to complete in November 2015;
- The construction of 9 new units on the former Bude Court Sheltered housing site in Battlehill. Work is due to complete in November 2015;
- The demolition of Alexandra Street and the former Police Station to construct 41 new units in Wallsend Town Centre. Work is due to complete in March 2016;
- The construction of 7 x 2 bedroom homes and 2 bespoke respite units on the former Somervyl Court site in Longbenton. Work is due to complete in December 2015;
- Work is now complete on the conversion of a former Adult Social Care facility at Bamburgh Crescent, Shiremoor into 3 new affordable homes; and,
- Work continues to finalise plans to convert commercial shops at Bedford Avenue, Wallsend to create 5 affordable homes. Work will complete before the end of the financial year but no final delivery programme has been agreed at this point.

Housing Investment Work:

The Housing Capital delivery programme will see the following works delivered across the borough during 2015/16:

- 439 replacement kitchens and bathrooms;
- 800 central heating upgrades;
- 295 replacement roof coverings;
- 618 replacement fencing / boundary walls;
- 154 properties to receive external brickwork repairs;
- 50 non-traditional properties to receive external structural and insulation works; and,
- 1,820 properties receiving external redecoration.

Education Investment Works:

- Delivery and completion of 33 condition related projects across the school estate;
- Completion of the new pedestrian ramp now installed at Whitfield Drive Longbenton to provide a safe cycle route to the pupils attending St Stephen’s and St Bartholomew’s Primary Schools from south of the Metro line;

- The Basic Need investment works at Forest Hall Primary School completed August 2015 with the ongoing external landscaping being delivered until the end of 2015;
- Priority Schools Building Programme (delivered outside the Authority's Investment Plan);
    - Completion of Whitehouse Primary School New Build - Easter 2016;
    - Continue delivery of works at Longbenton College, John Spence and Marden High Schools; and,
    - Finalise solution and establish timescales for development works at Cullercoats Primary School by mid November 2015.

Highways and Infrastructure Works:

- Delivery of the LTP Resurfacing Programme and additional Highway Maintenance projects by the end of December 2015;
- Completion of the Four Lane Ends /A188 Corridor Improvements by the end of September 2015;
- A1058 Coast Road Improvements – work to commence on site in November 2015; and,
- Completion of Phase 1 Central Promenade Reconstruction by the end of October 2015.

Regeneration Works:

- Completion of all soft landscaping works at Northumberland Park;
- Completion of interim works to the Dome;
- Completion of new café and toilets at Long Sands North;
- Installation of a new accessible toilet at Cullercoats Bay North;
- Installation of a new kiosk at the Watts Slope site in Whitley Bay; and,
- Complete infrastructure works as part of Swan Hunter redevelopment works.

ICT Works:

- EDRMS release 5 by the end of October 2015; and,
- Broadband Delivery UK (BDUK) - BT delivery plan now expected by the end of 2015 with a planned start date of July 2016.

Variations to the 2015/16 Investment Plan

5.2 As part of the regular capital monitoring process during August and September 2015 reprogramming of £19.836m and variations of £1.495m credit have been identified to the Investment Plan.

Table 4 details the changes to the approved 4-year Investment Plan, as agreed at Council on 19 February 2015.

Table 4: 2015 - 2019 Investment Plan changes identified

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
Approved Investment Plan – Council 19 February 2015	**83.752**	**63.922**	**47.302**	**35.361**	**230.337**
Previously Approved Reprogramming /Variations					
Cabinet 9 March 2015	8.310	0	0	0	8.310
Cabinet 8 June 2015	8.841	0	0	0	8.841
Cabinet 13 July 2015	0.407	0	0	0	0.407
Cabinet 14 September 2015	1.088	2.395	0.337	0	3.820
Total	18.646	2.395	0.337	0	21.378
Approved Investment Plan – Cabinet 14 September 2015	**102.398**	**66.317**	**47.639**	**35.361**	**251.715**
August/September Reprogramming	-19.836	17.586	2.250	0	0
August/September Variations	-2.175	0.680	0	0	-1.495
Revised Investment Plan	**80.387**	**84.583**	**49.889**	**35.361**	**250.220**

5.3 The variations on the individual schemes are shown in **Appendix O. Appendix P** details the whole of the revised Investment Plan, taking into account the reported changes.

5.4 For 2015/16, total reprogramming to the end of September 2015 of £19.836m has been identified. Details of the main changes are shown below:

(a) **CO064 Community Capacity (Adult Social Care ICT), £1.000m** – Procurement process for systems to commence during October 2015 with implementation expected from April 2016;

(b) **DV019 Whitley Bay Regeneration, £5.217m** –the submission date for the stage 2 Heritage Lottery Fund grant bid is now November 2015 with a decision on the outcome expected in March 2016;

(c) **DV058 Swan Hunter Redevelopment, £6.250m** –due to the late approval of the Single Local Growth Fund grant for the infilling of the wet berth, NELEP have agreed to £1.750m of reprogramming to 2017/18. Project Harris, a project to identify a prospective end user of the site, has also been reprogrammed (£4.500m);

(d) **DV061 Northumberland Square Townscape, £0.090m** – the initial stage 1 Heritage Lottery Fund (HLF) bid was not successful but feedback received encouraged resubmission based on a smaller geographic area. A revised bid has been submitted, with the HLF decision on the revised bid expected in January 2016;

(e) **ED132 Schools Capital Allocation, £0.401m** – a number of window renewal projects have been deferred until 2016/17 due to the contractor going into administration;

(f) **EV055 Surface Water Management Improvements, £0.500m –** extended land negotiations and changes to associated Nexus work programmes have delayed major scheme work. The budget is to be reprogrammed to 2017/18;

(g) **EV073 A1058 Coast Road Improvements to junctions, £0.780m –** reprogramming to reflect expected delivery of the project;

(h) **EV076 Depot Rationalisation, £0.550m –** a review of delivery arrangements is underway which may have an impact on the project delivery date and associated spend profile;

(i) **HS046 Housing Private Landlord Refurbishment, £0.100m –** legal agreements for 3 properties have been signed but no further work is expected to commence in 2015/16;

(j) **IT020 Electronic Document and Records Management System, £0.260m** – reprogramming due to delays in programme delivery;

(k) **HS041 Housing PFI, £0.793m –** due to programme changes, home loss payments and fire safety systems costs are to be reprogrammed to 2016/17; and,

(l) **HS044 HRA New Build, £3.895m –** Due to the issues with the purchase of the Dudley site and delays within NT Living impacting on the Chapelville Court site, the development of the sites has been unable to progress, therefore £3.218m is to be reprogrammed. A grant brought forward from 2014/15 (£0.677m community capacity) has also been reprogrammed to 2016/17 to match the HRA delivery programme**.**

5.5 For 2015/16, total variations to the end of September 2015 of £2.175m credit have been identified. There is also a variation of £0.680m in 2016/17. Details of the main changes are shown below:

(a) **DV058 Swan Hunter Redevelopment, £1.933m credit –** the Regional Growth Fund element of the scheme is to be delivered by Kier with the funding going directly to Kier rather than being paid to NTC;

(b) **EV069 Vehicle Replacement, £0.135m** - revenue contribution to purchase Grounds Maintenance Equipment and machinery;

(c) **EV073 A1058 Coast Road Improvements to junctions, £0.680m –** additional NELEP (North East Local Enterprise Partnership) grant awarded for 2016/17;

(d) **HS015 Major Refurbishment Work, £0.198m credit -** there has been an under spend on the painting programme and also on the Chirton Grange walling project; and,

(e) **New Project, Whole House Innovation Project, £0.045m** – grant awarded from National Energy Action Technical Innovation Fund for Energy Efficiency measures in tenants homes.

Details of all the variations are shown in **Appendix O.**

5.6 The impact of these changes on Capital Financing is shown in Table 5 below.

Table 5: Impact of variations on Capital financing

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
Approved Investment Plan – Cabinet 14 September 2015	**102.398**	**66.317**	**47.639**	**35.361**	**251.715**
Council Contribution	-6.710	6.210	0.500	0	0
Capital Receipts – General Fund	-1.185	1.185	0	0	0
Capital Receipts – HRA	-1.636	1.311	0	0	-0.325
Revenue Contribution	0.069	0.066	0	0	0.135
House Building Fund	-2.550	2.550	0	0	0
Grants and Contributions	-9.868	6.944	1.750	0	-1.174
Major Repairs Reserve	-0.131	0	0	0	-0.131
Total Financing Variations	**-22.011**	**18.266**	**2.250**	**0**	**-1.495**
Revised Investment Plan	**80.387**	**84.583**	**49.889**	**35.361**	**250.220**

Capital Receipts – General Fund

5.7 There were £0.842m ring-fenced General Fund Capital Receipts brought forward at 1 April 2015.

5.8 The capital receipts requirement approved by Council on 19 February 2015 to finance the 2015/16 Investment Plan was £3.869m. This increased to £4.044m following reprogramming and variations reported to Cabinet on 9 March 2015 and 8 June 2015. During August/September 2015 monitoring, £1.185m has been reprogrammed to bring the total of receipts required for 2015/16 to £2.859m.

5.9 To date, £2.017m receipts have been received in 2015/16. Together with the balance brought forward, this leaves a nil balance of receipts to be generated in 2015/16 for the General Fund. The balance of £1.185m is now required to be generated in 2016/17.

Table 6: Capital Receipt Requirement – General Fund

	General Fund 2015/16 £m
Requirement reported to 19 February 2015 Council	3.869
Reprogramming and Variations to 9 March and 8 June 2015 Cabinet	0.175
Reprogramming and Variations to be approved at 9 November Cabinet 2015	-1.185
Revised Requirement	**2.859**
Useable Receipts Brought Forward	-0.842
Useable Receipts Received	-2.017
Balance to be generated	**0.000**

Capital receipts – Housing

5.10 Housing Capital Receipts brought forward at 1 April 2015 were £6.597m. The Housing receipts are committed against projects included in the 2015-2019 Investment Plan.

5.11 The approved Capital Receipt requirement for 2015/16 was £4.429m. This, together with the reprogramming reported to Cabinet on 9 March and 8 June 2015, gives a requirement for 2015/16 of £6.536m. During August/September monitoring the requirement been reduced by £1.636m due to reprogramming and variations. The requirement for 2015/16 is now £4.900m. To date, £1.989m receipts have been received in 2015/16 of which £0.410m (Quarter 1) has been pooled as part of the quarterly returns to Central Government. In total, subject to future pooling, this leaves a surplus balance of £3.276m to be carried forward to fund future years.

Table 7: Capital Receipt Requirement 2015/16 - Housing

	Housing £m
Current Requirement	6.536
Reprogramming and Variation reported to 9th November Cabinet	-1.636
Revised Requirement	**4.900**
Receipts Brought Forward	-6.597
Receipts Received	-1.989
Receipts Pooled to Central Government	0.410
Surplus Balance to fund future years (subject to further pooling)	**-3.276**

5.12 The final figure for useable receipts and pooled receipts in year will depend on the final number of Right to Buy properties sold during 2015/16.

Investment Plan Monitoring Position to 30 September 2015

5.13 Actual expenditure in the General Ledger was £27.056m (33.66%) of the total revised Investment Plan as at 30 September 2015.

Table 8: 2015/16 Total Investment Plan Budget and Expenditure to 30 September 2015

	2015/16 Revised Investment Plan £m	Actual Spend to 30 September 2015 £m	Spend as % of Total Revised Capital Budget %
General Fund	52.429	16.281	31.05
Housing	27.958	10.775	38.54
TOTAL	**80.387**	**27.056**	**33.66**

Section 6.0
Treasury Management

Mid-Year Review Report 2015/16

6.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by the Council on 1 March 2012. The Code stipulates that the Chief Finance Officer should set out in advance the Treasury Management Strategy for the forthcoming financial year, and subsequently report the treasury management activities during that year.

6.2 The primary requirements of the Code are as follows:

(a) forecast the likely activity for the forthcoming year (in the Annual Treasury Management Strategy Report);

(b) a mid-year review report; and,

(c) review actual activity for the preceding year, including a summary of performance.

6.3 This section of the document contains the required mid-year review report for 2015/16.

6.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first six months of 2015/16;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16;
- A review of the Authority's investment portfolio for 2015/16;
- A review of the Authority's borrowing strategy for 2015/16; and,
- A review of compliance with Treasury and Prudential Limits for 2015/16 (detailed in Section 7 paragraphs 7.32 to 7.36).

Economic Performance and Outlook

<u>United Kingdom (UK)</u>

6.5 Gross Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the United States of America (USA). However, growth in quarter 1 of 2015 was weak at 0.4% though there was a rebound in quarter 2 to 0.7%. Growth was expected to weaken marginally to about 0.5% in quarter 3 as the economy faces general export weakness from the appreciation of Sterling against the Euro and weak growth in the European Union (EU), China and emerging markets. The Bank of England is forecasting growth to remain around 2.4% to 2.8% over the next three years, driven mainly by strong consumer demand as the pressures on the disposable incomes of consumers has been reversed by a wage inflation at the same time that Consumer Price Index (CPI) inflation has fallen to zero over the last quarter. Investment expenditure is also expected to support growth.

6.6 The August Bank of England Inflation Report forecast outlined that inflation would take 2 to 3 years to increase to the 2% target. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

6.7 There are therefore considerable risks around whether inflation will rise in the near future as strongly as previously expected. This will make it more difficult for the central banks of both the USA and the UK to raise rates as soon as had previously been expected, especially given the recent major concerns around:

- The slowdown in Chinese growth. The knock on impact on the earnings of emerging countries from falling oil and commodity prices; and,
- The volatility in equity and bond markets in 2015 so far, which could potentially impact on national economies rather than just financial markets.

<u>United States of America</u>

6.8 The American economy is growing strongly after a weak first quarter's growth at 0.6%, to growth of 3.9% in quarter 2 of 2015. There had been a general expectation during the summer that the US Federal Reserve (Fed) could start increasing rates at its meeting on 17 September, or if not by the end of 2015. However, the recent disappointing news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities was cited as the main reason the Fed's decision to pull back from making that start. This has led to a reappraisal of the likelihood of any increase occurring in 2015, with early 2016 now being widely regarded as being more likely.

<u>Eurozone (EZ)</u>

6.9 In the Eurozone, the European Central Bank (ECB) embarked on a €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries. This programme of €60 billion of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 of 2015 but came in at 0.4% in quarter 2 and looks as if it may maintain this pace in quarter 3.

<u>China and Japan</u>

6.10 Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth. In quarter 2 of 2015 growth was negative at -1.6% after strong growth of 4.5% in quarter 1. The Government in China has been active during 2015 in implementing several stimulus measures to try to ensure the economy reaches the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market. There are concerns as to the creditworthiness of bank lending to corporate and local government during the post 2008 credit expansion period and whether the end of house price growth is drawing nearer. Concerns about the Chinese economy and the volatility of the Chinese stock market have caused major volatility in financial markets in August and September, such that confidence is, at best, fragile.

Emerging countries

6.11 There are some considerable concerns about the vulnerability of some emerging countries. Having borrowed significantly in western currency denominated debt since the financial crisis, there is now a strong move to reverse that flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields. This change in investors' strategy and their reverse cash flow has depressed emerging country currencies and caused the US dollar and Sterling to appreciate. In turn, this has made it much more costly for emerging countries to service their western currency denominated debt at a time when their earnings from commodities are depressed. There are also going to be issues when previously borrowed debt comes to maturity and requires refinancing at a much more expensive rate.

Interest Rate Forecasts

6.12 Capita Asset Services, the Authority's treasury advisors, have provided their current Interest Rate Forecast, which is detailed in **Table 9** below:

Table 9: Interest Rate Forecast

	Dec 2015 (%)	Mar 2016 (%)	Jun 2016 (%)	Sep 2016 (%)	Dec 2016 (%)	Mar 2017 (%)	Jun 2017 (%)	Sep 2017 (%)	Dec 2017 (%)
Bank Rate	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.50	1.50
5yr PWLB*	2.40	2.50	2.60	2.80	2.90	3.00	3.10	3.20	3.30
10yr PWLB	3.00	3.20	3.30	3.40	3.50	3.70	3.80	3.90	4.00
25yr PWLB	3.60	3.80	3.90	4.00	4.10	4.20	4.30	4.40	4.50
50yr PWLB	3.60	3.80	3.90	4.00	4.10	4.20	4.30	4.40	4.50

*Public Works Loan Board (PWLB)

6.13 Capita Asset Services undertook a review of its interest rate forecasts on 11 August 2015. Later in August, concerns around the slowdown in China and Japan caused major volatility in equities and bonds and saw a move from equities into safe havens like gilts and so caused PWLB rates to fall. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

6.14 Despite market turbulence in late August, and then in September, causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

6.15 The overall balance of risks to economic recovery in the UK is currently evenly balanced. However, there are potential upside risks, especially for longer term PWLB rates, as follows:

- Uncertainty around the risk of a UK exit from the EU;
- The ECB disappointing financial markets with a programme of asset purchases which proves insufficient to stimulate growth in the EZ;
- The commencement by the US Federal Reserve of increases in the Fed funds rate in 2015, causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major move from bonds to equities; and,
- UK inflation returning to higher levels than in the wider EU and USA, causing an increase in the inflation premium inherent to gilt yields.

6.16 Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows;
- UK economic growth turns weaker than currently anticipated;
- Weak growth or recession in the UK's main trading partners – the EU, the USA and China;
- A resurgence of the EZ sovereign debt crisis;
- Recapitalisation of European banks requiring more government financial support;
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the EZ and Japan; and,
- Emerging country economies and currencies destabilised by falling commodity prices and / or the start of the Fed rate increases, causing a move to safe havens.

Treasury Management Strategy Statement and Annual Investment Strategy update

6.17 The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by Council on 19 February 2015. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Authority's investment priorities as follows:

- Security of capital; and,
- Liquidity

6.18 The Authority will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term.

6.19 A breakdown of the Authority's investment portfolio at 30 September 2015 is shown in Section 6.29 of this report.

6.20 Investments and borrowing during the first six months of the year have been in line with the strategy, and there have been no deviations from the strategy.

6.21 As outlined in Section 6.16 above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 19 February 2015 is still fit for purpose in the current economic climate.

Investment Portfolio 2015/16

6.22 In accordance with the Code, it is the Authority's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Authority's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.50% Bank Rate. The continuing potential for a re-emergence of an EZ sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

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

6.24 In keeping with the agencies' new methodologies, the credit element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor's, this has been a change to the use of Fitch and Moody's ratings. It is important to stress that the other key elements to the process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

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

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

6.27 The Authority's counterparty list details the approved banks that the Authority may lend to either directly or through the Money Markets, on a temporary basis. Due to the downturn in the global economy, many financial institutions have been removed from the counterparty list. A continuous review of the Authority's counterparty list is undertaken.

6.28 The Authority currently uses the Government's Debt Management and Deposit Facility (DMADF) for investments, the maximum rate available from the facility is currently 0.25%. This situation of maintaining shorter term, high quality investments will continue until sufficient strength has returned to banks globally and that there are signs of significantly renewed strength in the UK and global economy.

6.29 Investments held as at 30 September 2015 are summarised in **Table 10** below:

Table 10: Investments 2015/16

Investments	30 Sept 2015 £m	Average Rate of Return %
Debt Management Office Deposit	24.800	0.25

6.30 The Head of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2015/16.

Borrowing

6.31 The Authority's estimated Capital Financing Requirement (CFR) to 31 March 2016 is £638.361m (including Private Finance Initiative (PFI) and Finance Leases). The CFR denotes the Authority's underlying need to borrow for capital purposes. If the CFR is positive the Authority may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

6.32 Total external debt at 30 September 2015 was £500.717m as shown in **Table 11** below.

Table 11: Total external debt at 30 September 2015

Principal £m	
	External borrowing
324.843	Public Works Loans Board (PWLB)
20.000	Lender Option Borrower Option (LOBO)
77.896	Other Local Authorities
422.739	Total
	Other external debt
77.978	PFI and Finance Leases (as at 1 April 2015)
500.717	TOTAL EXTERNAL DEBT
	Split of external borrowing:
276.497	Housing Revenue Account
146.242	General Fund
422.739	Total

6.33 Following the introduction of Self Financing for the Housing Revenue Account from 1 April 2012, loans were split between General Fund and Housing. However, decisions on borrowing for both General Fund and Housing will continue to be made within the overall Treasury Management Strategy and will be reported jointly.

6.34 The difference between the CFR and external borrowing is known as internal borrowing. The level of internal borrowing is determined, within the Treasury Management Strategy, by a number of factors including market conditions for investments and the level of the Authority's reserves and balances.

6.35 Maturing PWLB long term loans of £30m have been repaid since 1 April 2015 as detailed in Table 12 below:

Table 12: Maturing long term loans repaid since 1 April 2015

Principal £m	Interest Rate %	Date Repaid
5.000	9.750	1 April 2015
15.000	10.000	16 May 2015
5.000	10.375	4 August 2015
5.000	11.000	19 August 2015

As at 30 September no new or replacement long term borrowing has taken place during 2015/16.

6.36 Short term borrowing rates for periods up to 1 year continue at relatively low levels. The Authority's borrowing strategy this year has been to borrow short term where possible, to take advantage of these lower rates. As at 30 September 2015, the Council had £77.896m of temporary loans (as seen in Table 11 above), at an average rate of 0.65%.

Debt Rescheduling

6.37 Debt rescheduling opportunities have been limited in the current economic climate and the consequent structure of interest rates. Therefore, no debt rescheduling was undertaken during the first six months of 2015/16.

Section 7:
Prudential Indicators

Introduction

7.1 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 capital appraisal systems.

7.2 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. Section 6 above provides a review of the Authority's activity to date during 2015/16.

7.3 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; and,
(f) Practicality – e.g. achievability of the forward plan.

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

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

7.6 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.

7.7 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.

7.8 In total there are fifteen prudential indicators, covering:
- Affordability;
- Prudence;
- Capital expenditure;
- External debt; and
- Treasury management.

7.9 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.

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

7.11 The following part of the report shows the estimated 2015/16 Prudential Indicators as at 30 September 2015 compared to the indicators approved by Council on 19 February 2015 as part of the budget setting process.

Prudential Indicators for Affordability

Ratio of financing costs to net revenue stream

7.12 This indicator shows the annual total cost of financing capital investments (that have been made over time) as a percentage of the Authority's total spend for both General Fund and the HRA.

7.13 The budgeted figures for 2015/16 are set out in Table 13 below together with the estimated 2015/16 position at September 2015:

Table 13: Ratio of Financing Costs to Net Revenue Stream

	2015/16	2015/16
	Budget	Estimate
General Fund	16.29%	14.77%
HRA	23.66%	23.21%

The current forecast is lower than that budgeted reflecting the savings in the cost of borrowing, for 2015/16, reported for both the General Fund (paragraph 2.15) and Housing (paragraph 3.4).

7.14 The above indicator reflects costs for all borrowing, both supported and unsupported. It also includes the financing costs of PFI schemes (including the North Tyneside Living PFI scheme) and finance leases. To enhance the information available for decision-making we have also provided a local indicator to show the percentage of the budget that is spent on unsupported borrowing. This is shown in Table 14 below:

Table 14: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream

	2015/16	2015/16
	Budget	Estimate
General Fund	9.10%	8.20%
HRA	4.75%	4.70%

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

7.15 This indicator represents the incremental impact of new capital investment decisions, approved as part of 2015/16 budget setting, on the annual Council Tax (Band D) and weekly housing rents.

Table 15: Incremental impact of new 2015/16 capital investment decisions on Council Tax (Band D) and weekly housing rents

	General Fund	HRA
Budget	£4.27	£2.23
Estimate	£2.87	£0.07

7.16 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. The current forecast is lower than that budgeted reflecting the savings in the cost of borrowing, for 2015/16, reported for both the General Fund (paragraph 2.15) and Housing (paragraph 3.4).

Prudential Indicators for Prudence

7.17 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)

7.18 This key indicator shows that gross debt is not expected to exceed the total CFR at 31 March 2016. Gross debt is expected to be lower than budgeted reflecting both the continued use of internal borrowing and reprogramming during 2015/16.

Table 16: Gross external debt less than CFR

	2015/16 Budget	2015/16 Estimate
	£m	£m
Gross External Borrowing	494.309	453.434
Other Liabilities (including PFI and Finance Leases)	122.579	117.864
Total Gross debt	616.888	571.298
Capital Financing requirement	649.323	638.361

Prudential Indicators for Capital Expenditure

Capital expenditure

7.19 This indicator reflects the expected level of capital spend as shown in section 5 of this annex.

Table 17: Capital Expenditure

	2015/16 Budget £m	2015/16 Estimate £m
General Fund	54.484	52.429
HRA	29.268	27.958
Total	83.752	80.387

Capital Financing Requirement (CFR)

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

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

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

Table 18: Capital Financing Requirement

	2015/16 Budget £m	2015/16 Estimate £m
General Fund	300.406	297.026
HRA	348.917	341.335
Total	**649.323**	**638.361**

The estimated CFR is lower than that budgeted due to reprogramming during 2014/15.

7.23 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 19 below:

Table 19: Capital Financing Requirement for Unsupported Borrowing

	2015/16 Budget £m	2015/16 Estimate £m
General Fund	152.758	148.830
HRA	37.323	38.396
Total	**190.081**	**187.226**

Prudential Indicators for External Debt

Authorised limit for total external debt

7.24 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.

7.25 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.

7.26 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.

7.27 The following limits were set by full Council as part of the 2015/16 Financial Planning and Budget process.

Table 20: Authorised Limit for External Debt

	2015/16 £m
Borrowing	1,070.000
Other Long Term Liabilities	150.000
Total	**1,220.000**

7.28 All transactions are expected to be within the Authorised Limit for External Debt for 2015/16.

Operational Boundary for total external debt

7.29 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.

Table 21: Operational Boundary for External Debt

	2015/16 £m
Borrowing	535.000
Other Long Term Liabilities	130.000
Total	**665.000**

7.30 All transactions are expected to be within the Operational Boundary during 2015/16.

HRA limit on indebtedness

7.31 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 HRA adjusted debt at 31 March 2015 is lower than the cap set.

Table 22: HRA limit on indebtedness

	2015/16	2015/16
	Budget £m	Estimate £m
Gross HRA capital financing requirement	348.917	341.335
Less HRA PFI schemes	70.230	64.849
Adjusted HRA capital financing requirement	278.687	276.486
HRA limit on indebtedness	290.824	290.824

Prudential Indicators for Treasury Management

Adoption of the CIPFA Code of Practice for Treasury Management

7.32 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 2015/16

7.33 Full Council set an upper limit on its fixed interest rate exposures for 2015/16 of 100% of its net outstanding principal sums. Borrowing is expected to remain within this limit during 2015/16.

7.34 Full Council set an upper limit on its variable interest rate exposures for 2015/16 of 50% of its net outstanding principal sums. Borrowing is expected to remain within this limit during 2015/16.

7.35 Upper and lower limits for the maturity structure of the Authority's borrowings were set as shown in Table 23 below. Borrowing is expected to remain within these limits during 2015/16.

Table 23: 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%

7.36 Full Council agreed the indicator for exposure of investments in excess of 364 days at no more than 25% of the portfolio. Investments are expected to remain within this limit during 2015/16.