Cabinet – 29 May 2018

Agenda Item 3(a) ANNEX 1

2017/18 Provisional Finance Outturn Report

North Tyneside Council

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1. Executive Summary

1.1. Summary

1.1.1. The Authority's audited Statement of Accounts (the Accounts) for 2017/18 will be presented to full Council for discussion and approval on the 26 July 2018. The Accounts are a statutory document which set out the Authority's financial position and performance for the year in a series of formal accounts prepared according to a specific statutory and regulatory framework.

1.1.2. Successive changes to local government accounting practice have made the Accounts a very technical document. As in previous years, this report sets out the Authority's financial performance in an outturn report. This reflects the Authority's structure and is set out on a similar basis to the financial management reports presented to Cabinet throughout the year. This report is also the end-point of the Authority's financial management process for the financial year 2017/18.

1.1.3. The figures contained in this report are provisional until the completion of the Accounts. In accordance with legislation the draft Accounts will be "certified" by the Chief Finance Officer by 31 May 2018 and the audited Accounts will be approved by full Council on 26 July 2018.

1.1.4. The financial year has seen the Authority continue to manage its finances despite on going funding reductions and continuing cost pressures in respect of Adult and Children's social care services. Despite these challenges the proactive management of the General Fund budget throughout the year has led to a year end surplus of £0.722m. It is proposed to deal with this surplus by a £0.200m transfer to the General Fund Balance and £0.522m to the Strategic Reserve. After the final transfer, the General Fund Revenue Account shows spend on budget for 2017/18, with a closing balance on the Strategic Reserve of £14.473m and General Fund balances of £6.804m. Retaining these levels of balances is important for managing the financial resilience of the Authority through 2018/19 and beyond.

1.1.5. The Housing Revenue Account has a year-end balance of £6.082m, which represents an improvement against the budget of £3.221m. This change is as a result of an in year improvement against budget of £1.882m (this represents 1.4% of the gross budget) and an increase in brought forward balances of £1.339m. Further details are given in Section 4 of this Annex.

1.1.6. School balances have reduced from £4.987m at the start of the financial year to £3.357m at 31 March 2018. Whilst some schools have seen their individual balances increase, the value of individual school deficits overall has increased which contributes to the £1.630m reduction in balances. Overall the position improved from projected overall deficit balances of £2.228m (excluding Seaton Burn College). Further details are contained in Section 3 of this Annex.

1.1.7. The initial approved Investment Plan for 2017/18 was £106.952m. Variations and reprogramming of £23.082m credit were approved by Cabinet during 2017/18 to give a revised Investment Plan of £83.870m. Capital expenditure for the year was £76.687m (91.4% of the revised plan), a variation of £7.183m (credit). This outturn includes further reprogramming of £8.130m (credit) as shown in Section 5 but the level of spend is the highest achieved by the Authority during the last 7 years.

1.2. Strategic Management of the Council's Budget

1.2.1. Whilst statutorily the Authority's budget and Accounts must be prepared by individual financial years, the pressures and opportunities that the Authority faces often extend across several accounting years. Decisions taken in one year will be felt in subsequent periods. One of the benefits of the Authority's regular budget monitoring process is that issues can be identified early in the year and action taken to address them. The outcomes of these actions can then inform both budget setting and final accounts preparation. Budget setting, budget management and final accounts can therefore be seen as related parts of a continuous process of financial management by the Authority. This part of the report sets out some of the key strategic issues managed by the Authority during 2017/18.

1.3. General Fund

1.3.1. The budget for 2017/18 was approved by full Council at its meeting of 16 February 2017. The net General Fund revenue budget was set at £152.360m including 'Creating a Brighter Future' savings of £18.338m.

1.3.2. The Monitoring report up to 31 January 2018 projected an underspend of £0.628m and the final position is an underspend of £0.722m.

1.4. Creating a Brighter Future (CBF) Programme

1.4.1. The budget for 2017/18 included savings of £18.338m, from the delivery of projects/actions included as part of the CBF Programme. The scale of the financial challenge for the year meant that wide ranging efficiencies and service reconfiguration were required to be implemented during 2017/18 leading to £14.540m or 79.3% of the savings targets being achieved. The remaining balance was achieved through a range of management actions. These CBF savings have been monitored as part of the overall financial position of the Authority, and regular updates of progress shared with the Mayor and Cabinet members and also reported to Cabinet as part of the bi-monthly Financial Management reports. Further details of the CBF programme outcomes are detailed in section 2.2 below.

1.5. Redundancies

1.5.1. In response to resource reduction and cost pressures the implementation of the CBF programme has resulted in redundancy cost of £0.916m during 2017/18. As part of the closure of the 2017/18 accounts an additional contribution to reserves of £2.567m has been made resulting in a balance of £3.151m held for redundancy costs expected to be incurred during 2018/19 and in future years.

1.6. Treasury Management

1.6.1. There has been an increase in the level of actual external borrowing (excluding PFI) from £436.897m at 31 March 2017 to £461.155m at 31 March 2018. The level of internal funding remains high at £70.179m at 31 March 2018 (£77.639m at 31 March 2017). During 2017/18, the approach to maximising the opportunity of short term borrowing rates to minimise cost has continued, delivering £4.148m of interest savings in year.

1.7. Reserves and Outlook

1.7.1. The Council continues to face significant government funding cuts in future years. Combined with cost pressures arising from increased demand for services and unfunded new burdens means that currently savings of £10.143m are required in 2018/19 (14.05% of the 2017/18 net revenue budget) and an estimated £21.409m in 2019/20. There is currently nothing to indicate that further savings and efficiencies will not be required annually for the foreseeable future.

1.7.2. The Fair Funding Review is underway, however, whilst it is correct that the funding formula of Local Government is refreshed and updated the more significant question has to remain regarding the quantum of funding available to Local Government. In addition to the Fair Funding review, the Government have advised of their intention to move to 75% Business Rate Retention but the uncertainty remains as to how this will form part of the Fair Funding Review.

1.7.3. The Medium Term Financial Plan (MTFP) sets the approach to the redirection of resources in order to deliver the priority-led spending plans and deliver the outcomes shaped by Our North Tyneside Plan. The Cabinet is aware it must keep under review its medium-term Financial Strategy and two-year Financial Plan, in the context of the 2018-2020 'Our North Tyneside Plan' and known key financial risks.

1.7.4. It has been highlighted previously by the Chief Finance Officer that the Authority has a relatively low level of reserves and the level of uncertainty with regard to the levels of funding for Local Government Finance beyond 2019/20 remains a significant concern. Appendix A sets out in detail the movement on reserves and balances and despite some increases the general level of reserves available to support the Authority's budget remains relatively low.

1.7.5. During 2017/18 as stated previously a further provision of reserves for potential redundancy costs £2.567m has been made. Interest and budget savings have allowed the repayment of £1.5m to the PFI reserves. This has a positive impact on reducing cost pressures in future years.

1.7.6. The MRP adjustment in 17/18 allows creation of a reserve in 2017/18 for use in 2018/19 as planned as part of the 2018/20 Budget and Financial Planning process.

1.7.7. A VAT refund for Leisure Services (see 2.13.4 below) has in part been used to set aside a reserve for reinvestment in the service including replacement technology and maintaining facilities to a high standard.

1.7.8. The Strategic Reserve has increased to £14.473m following an allocation of £0.522m from the surplus outturn and the General Fund balances have been increased by £0.200m to £6.804m. Even with these increases the Strategic Reserve represents only 4% of the 2018/19 gross budget and just over 9% of the 2018/19 net budget, with the General Fund balances added together these represent 6% of the 2018/19 gross budget and close to 14% of the 2018/19 net General Fund budget.

1.7.9. The movement in the HRA reserves and balances shows an increase of £1.320m to £28.953m, of this just over £17m relates to PFI reserves for the Sheltered Housing Scheme. Included on the overall movement is an increase in Housing Revenue Account balance by £0.117m as set out in Section 4 of this Annex.

1.7.10. School Balances show a reduction of £1.630m as set out in section 3 of this Annex, but as stated previously this is an improvement against the planned deficit reserves position of £2.228m.

1.7.11. Overall, 2017/18 was typical of recent years in that several strategic concerns overlay the management of the approved budget. The Council was able to manage these issues through its forward planning process and by pro-active management of in year issues. Financially that management action was underpinned by the Services closely managing spend, and by taking advantage of short term borrowing rates to achieve interest savings. However, because such strategic pressures are a feature of the current local authority environment there will always be an element of risk as we move forward into each new financial year. The experience of 2017/18, once again reinforces the importance of forward planning, a strong balance sheet, close management of the core budget, a regular monitoring and reporting process and a flexible approach to managing

2. General Fund Income & Expenditure

2.1. Summary

2.1.1. This section of the report details the provisional outturn figures as at 31 March 2018. The Authority's approved net revenue Budget of £152.360m is provisionally expected to underspend by £0.722m, an improvement of £0.094m since the last report to Cabinet on 14 March 2018.

2.1.2. The £0.722m underspend will be transferred to reserves and balances.

Accounting Adjustments

2.1.3. As part of the statutory reporting regulations there is a requirement to ensure there is a clear audit trail between the figures reported to Cabinet and those published in the Statement of Accounts.

2.1.4. The outturn therefore includes a series of year-end accounting adjustments which, whilst having no impact on the final outturn position, provide a link from outturns reported to Cabinet and the corporate, published outturns. These adjustments include:

- Adjusting both budgets and actual positions for support service recharges. This has no impact on the variances
- Adjusting the service positions for actual (rather than budgeted) capital expenditure items
- Adjusting the service positions for impact of Public Finance Initiative's (PFIs) has reduced the reported costs of the services by £5.487m and had the opposite impact on the corporate budget lines.

2.1.5. As these accounting adjustments were not included in the previously reported forecasts presented to Cabinet, the impact of these adjustments from the outturn variance needs to be removed to allow comparison to the last forecast at a service level reported to Cabinet as at January 2018. This is shown in table 2.1.7 below.

2.1.6. The table below shows the variance between the outturn to be published in the statement of accounts and the budget, plus the adjustments required to allow comparison of the final outturn for Cabinet to the last reported position.

2.1.7. **Table – General Fund Provisional Outturn Summary to 31st March**

Service	Budget £m	Final Accounts £m	Variance £m	Accounting Adjustments £m	Adjusted Variance for Cabinet £m	January Forecast for Cabinet £m	Variance from last Cabinet Report £m
Services							
HECS	68.033	72.793	4.760	(1.067)	3.693	3.422	0.271
Business & Economic Development	1.368	1.553	0.185	(0.032)	0.153	0.128	0.025
Chief Executive Office + DCEO	0.082	0.045	(0.037)	0.000	(0.037)	(0.004)	(0.033)
Commercial & Business Redesign	2.154	2.898	0.744	(0.718)	0.025	0.150	(0.125)
Commissioning & Investment	17.845	16.587	(1.258)	1.820	0.563	0.691	(0.128)
Corporate Strategy	0.731	0.905	0.174	0.000	0.174	0.131	0.043
Environment &Housing and Leisure	40.500	37.289	(3.211)	3.189	(0.022)	0.306	(0.328)
HR & Organisational Development	(0.065)	0.067	0.132	0.000	0.131	0.147	(0.016)
Law & Governance	(0.147)	0.004	0.151	0.000	0.151	0.079	0.072
Finance	(0.693)	(0.396)	0.297	(0.072)	0.225	0.044	0.181
Central Items	2.465	(0.194)	(2.659)	(3.120)	(5.778)	(5.722)	(0.056)
Sub Total Services	**132.273**	**131.551**	**(0.722)**	**(0.000)**	**(0.722)**	**(0.628)**	**(0.094)**
Support Services	20.087	20.087	0.000	0.000	0.000	0.000	0.000
Total Net Expenditure	**152.360**	**151.638**	**(0.722)**	**(0.000)**	**(0.722)**	**(0.628)**	**(0.094)**

Main Variations to Previous Reported Forecast Outturn (January Report)

2.1.8. Comparing the adjusted outturn variance to the previously reported January forecast outturn shows an overall improvement of £0.094m.

2.1.9. The reasons for these main movements are itemised below, with more detailed explanations of both the outturns and changes compared to January's report being contained in section 2.3 to 2.13 of this report.

Healthcare, Education, Care & Safeguarding (HECS)

2.1.10. The cause of the main movement in HECS since January is the resolution of a longstanding and complex policy issue. This led to the implementation of a revised policy for Special Guardianship allowance (SGOs) agreed by Cabinet in September 2107. It also includes a £1.5m estimate of areas of allowances which could not be reported earlier as this related to an embargoed Local Government Social Care Ombudsman report considered by Cabinet on 14 May 2018. This was offset in part by increased contributions, including income from the Clinical Commissioning Group £0.426m, and reduced costs of commissioned services.

Commissioning & Investment

2.1.11. The main variance in Commissioning & Investment is in relation to PFI charges, with a £0.321m positive improvement following completion of the PFI review. This was offset by a downturn in the Catering position since the last report, partially related to school closures due to the adverse weather conditions in February and March 2018.

Environment, Housing & Leisure (EHL)

2.1.12. The movement on EHL from January to year-end outturn is a £0.321m improvement, which can mainly be attributed to lower waste disposal costs. The other significant variance change came within the Bereavement Service £0.177m where higher than expected cremation income was received since the last report which has improved the outturn position now being reported. Both of these variations were in part impacted by the severe weather conditions in February and March.

Other Services

2.1.13. Other Services have been grouped together as individually the outturn variances and movements are not significant. The overall worsening position within these services can mainly be attributed to year-end impacts in Finance and Law & Governance income. Enforcement income ended the year lower than forecasted due to the identification of assumed income which related to individuals who had absconded from the Borough. Governor Support recharges and land search fees also both came in below expectations, plus the impact of final positions on the bad debt provision and final housing subsidy claim from DWP, both of which were marginally worse than forecast at January.

Creating a Brighter Future Delivery

2.1.14. The position for the year includes delivery against the savings projects identified through the Creating a Brighter Future programme.

2.1.15. The combined budget savings of £18.338m in 2017/18 approved by Council in February 2017 brings the total savings the Authority has had to find in the seven years following the 2010 Comprehensive Spending Review (CSR) to £109.933m.

2.1.16. **Table - Year on Year savings since 2010 CSR**

Year	**£m**
2011/12	16.169
2012/13	16.739
2013/14	12.240
2014/15	16.552
2015/16	14.158
2016/17	15.737
2017/18	18.338
Total Savings	**109.933**

2.1.17. The progress made during the year against savings proposals is shown in the table below.

2.1.18. **Table - Savings Tracker Outturn 2017/18**

	Budgeted Saving	Actual Savings delivered vs original targets	Net pressure on CBF savings targets	Other Mitigating Savings	Remaining Shortfall at March 2018	Budget growth in 2018/19 relating to savings targets
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Business and Economic Development	0.162	0.102	0.060	0.025	0.035	0.007
Central	8.780	8.138	0.642	0.642	0.000	0.000
Commercial and Business Redesign	0.235	0.235	0.000	0.000	0.000	0.000
Commissioning and Investment	1.067	0.645	0.422	0.175	0.247	0.177
Corporate Strategy	0.355	0.308	0.047	0.024	0.023	0.004
Environment Housing and Leisure	1.578	0.911	0.667	0.667	0.000	0.489
Finance	0.191	0.191	0.000	0.000	0.000	0.000
Health Education Care and Safeguarding	5.527	3.620	1.907	1.066	0.841	0.291
Human Resources & Organisational development	0.185	0.169	0.016	0.000	0.016	0.021
Law & Governance	0.258	0.221	0.037	0.000	0.037	0.011
Total	**18.338**	**14.540**	**3.798**	**2.599**	**1.199**	**1.000**

2.1.19. In a challenging year, Services delivered against 79.3% of original scheme targets with a further 14.2% of targets met by other savings identified during the year.

2.1.20. Cabinet closely monitored the delivery of budget savings proposals in 2017/18 and as part of the 2018-20 Budget and Financial Planning process included growth in the budget for 2018/19 for those savings no longer considered deliverable. The HECS service is continuing to analyse and understand the data in relation to this work and is working collaboratively with NHS partners to deliver Continuing Health Care (CHC) in a cost effective manner. In addition, the outstanding element of the 2017/18 Pay and Pension savings of £1.000m has been adjusted for in the 2018/19 budget. The final column of Table 2.2.5 above shows how the budget growth has been allocated between Services.

Healthcare, Education, Care & Safeguarding (HECS)

2.1.21. HECS has ended the year showing an overspend of £3.693m. Over the course of 2017/18 the position for HECS improved but the final provision for costs associated with the back dating of SGO allowances has resulted in an increase of the overspend for the year by £0.271m since the last report to Cabinet.

2.1.22. **Table Comparing Outturn Variance to January Forecast**

	2017/18 Budget £m	2017/18 Outturn £m	Outturn Variance £m	January Variance £m	Movement £m
Corporate Parenting and Placements	15.871	19.688	3.817	2.475	1.342
Early Help and Vulnerable Families	2.343	1.950	(0.393)	0.003	(0.396)
Employment and Skills	0.515	0.680	0.165	0.164	0.001
Integrated Disability and Additional Needs Service	1.886	2.287	0.401	0.588	(0.187)
School Improvement	0.151	0.063	(0.088)	(0.073)	(0.015)
Wellbeing, Governance & Transformation	1.729	1.546	(0.182)	(0.480)	0.298
Disability & Mental Health	22.523	26.542	4.018	4.440	(0.422)
Wellbeing & Assessment	20.068	20.678	0.611	0.760	(0.150)
Integrated Services	2.670	2.652	(0.018)	0.157	(0.175)
Business Assurance	0.349	0.291	(0.058)	(0.033)	(0.025)
Public Health	(0.072)	(0.072)	0.000	0.000	0.000
The Improved Better Care Fund (IBCF) Grant	0.000	(4.579)	(4.579)	(4.579)	0.000
TOTAL HECS	**68.033**	**71.726**	**3.693**	**3.422**	**0.271**

2.1.23. The in-year monitoring reports to Cabinet have set in out detail the cost drivers of the pressures across HECS. The main areas being the cost of care packages, Special Guardian Ship Orders and staff costs.

2.1.24. In common with most local authorities the North Tyneside have seen the average cost of homecare packages increase seen as a national issue with higher costs for more intense support for an aging population. Nationally, there has been an increase in demand for children's residential placements, but with no corresponding increase in central government funded provision. In North Tyneside the overall number of placements has remained relatively static during this financial year; however placement mix has changed. Placements for adolescents (particularly males) with a combination of risks including aggressive behaviour, offending, substance use and sexualised behaviour are increasingly difficult to source and this has resulted in the use of more costly bespoke individual placements, where it is not suitable to place young people in group environments.

2.1.25. The main changes across the Service since the last report to Cabinet include:

- Estimated costs associated with back dated payments for Special Guardianship allowances £1.521m
- Finalised costs associated with system changes across Adults and Children's in respect of Liquid Logic, Dartington Model Implementation, £0.298m
- Finalising contribution from Public Health Grant towards Early Help and Vulnerable Families £.440m
- Savings secured in Integrated Disability and Additional Needs Service in respect of staff costs and package reviews
- S256 Mental Health Contributions secured £0.426m
- Reduced costs on Home Care and Extra Care packages in Wellbeing and Assessment £0.150m as actions to manage demand, particularly in relation to reducing two carer provision, have taken effect.
- Reduced expenditure in the final two months of the year on Adaptations and Loans Equipment- due to lower costs in the final two months of the year relating to minor adaptations in privately owned homes. In addition, there has been reduced expenditure on specialist equipment partly resulting from the introduction of a new framework agreement in relation to seating and increased recharge income from the NHS in relation to specialist equipment supporting clients who are under continuing healthcare arrangements. The Service continues to mitigate cost pressures by recycling equipment wherever this is safe and cost effective.

2.1.26. As previously reported the Improved Better Care Fund Grant (IBCF) of £4.579m (confirmed after the 2017/18 budget was set) has been applied to offset the over commitment in client placements costs. In addition, the final two months of the year saw increased income contributions for Troubled Families £0.080m and more income from the CCG than expected in relation to children £0.061m. These gains have been partially offset by income targets not being met for the following areas; Employment & Skills DFE contribution £0.164m, short break care bed sales £0.043m. In addition, NHS s256 contributions for Mental Health resettlement were £0.831m less than expected. Negotiations continue with the CCG on future expectations with regards to the s256 contributions.

2.1.27. Cabinet are aware of the particular challenges faced nationally across the Children's Social Care Sector, this has lead to staffing costs being overspent by a net £0.367m through the necessary use of agency workers and payments of market supplements. There is also a staff cost to delaying implementation of plans relating to the proposals for the childcare settings detailed in the 'Continue to redesign 0-19 Services' business case in 2017/18. There is corporate work in hand to continue to address this picture.

Commissioning & Investment

2.1.28. Commissioning & Investment has ended the year showing a budget outturn overspend of £0.562m, an improvement of £0.129m since January when it showed a forecast overspend of £0.691m.

2.1.29. **Table Comparing Outturn Variance to January Forecast**

	2017/18 Budget £m	**2017/18 Outturn £m**	**Outturn Variance £m**	**January Variance £m**	**Movement £m**
School Funding & statutory staff costs	15.244	15.162	(0.082)	0.000	(0.082)
Commissioning Service	0.397	0.390	(0.007)	0.045	(0.052)
Child Protection independent assurance and review	0.649	0.741	0.092	0.070	0.022
Facilities and Fair Access	(0.353)	0.449	0.802	0.523	0.279
Strategic Property and Investment	0.365	0.044	(0.321)	0.003	(0.324)
High needs Special Educational Needs	(0.080)	(0.080)	0.000	0.000	0.000
Property	1.599	1.716	0.117	0.050	0.067
Commissioning & Investment Management & support	0.143	0.152	0.009	0.015	(0.006)
Internal Audit & Risk	(0.087)	(0.118)	(0.031)	0.000	(0.031)
Procurement	(0.033)	(0.050)	(0.017)	(0.015)	(0.002)
TOTAL C&I	**17.845**	**18.407**	**0.562**	**0.691**	**(0.129)**

2.1.30. The main cause of the variance in Commissioning & Investment is contained Facilities and Fair Access Service, £0.802m, with the most material element being in respect of the home to school transport service (as previously reported to Cabinet). This overspend reflects the rise in children with additional needs. The service ended the year with an overspend of £0.465m a small increase from the £0.439m last reported to Cabinet. As reported previously the Authority continues to use appropriate opportunities to review the level of provision given, particularly when other elements of a child's package are reviewed. The Authority has a panel supporting work on this issue, and is drawing on the knowledge of Special School Head teachers. An overspend in Catering services of £0.260m makes up the remaining variance and this, in the main is related to school closures due to the adverse weather conditions in the last quarter of the year

2.1.31. The improved outturn position on Schools Funding and Statutory staff costs arose primarily relates from reduction in Teachers Early Retirement costs £0.103m and Teachers Maternity costs £0.066m, offset by an overspend on Special Staff costs £0.088m.

Environment, Housing & Leisure

2.1.32. Environment, Housing & Leisure has ended the year showing an outturn underspend of £0.022m, a move of £0.328m since January when it showed a forecast overspend of £0.306m. The main areas of variation are in Waste Management and Bereavement. The reasons for these movements are detailed below.

2.1.33. **Table Comparing Outturn Variance to January Forecast**

	2017/18 Budget £m	**2017/18 Outturn £m**	**Outturn Variance £m**	**January Variance £m**	**Movement £m**
Sport & Leisure	3.638	4.084	0.446	0.401	0.045
Arts Tourism & Heritage	1.943	2.009	0.065	0.106	(0.041)
Libraries & Community Centres	5.380	5.749	0.369	0.395	(0.026)
Security & Community Safety	0.146	0.224	0.078	0.081	(0.003)
Fleet/Facilities Management	0.473	0.145	(0.328)	(0.372)	0.044
Waste	11.414	10.935	(0.479)	(0.356)	(0.123)

Strategy					
Bereavement	(0.782)	(0.843)	(0.062)	0.117	(0.179)
Street Environment	7.886	7.855	(0.030)	(0.025)	(0.005)
Head of Service and Resilience	0.098	0.122	0.024	0.042	(0.018)
Street Lighting PFI	4.242	4.242	(0.000)	0.000	(0.000)
Consumer Protection & Building Control	0.682	0.620	(0.061)	0.001	(0.062)
Transport and Highways	4.477	4.207	(0.270)	(0.275)	0.005
Planning	(0.042)	0.189	0.232	0.191	0.041
General Fund Housing	0.944	0.940	(0.004)	0.000	(0.004)
TOTAL EHL	**40.500**	**40.478**	**(0.022)**	**0.306**	**(0.328)**

2.1.34. All Service areas across Environment, Housing and Leisure ended the year with some variation since the last reported position to Cabinet, most were not material, but more details are set out in the following paragraphs in respect of Waste and Bereavement which are the service areas that saw the highest level movement.

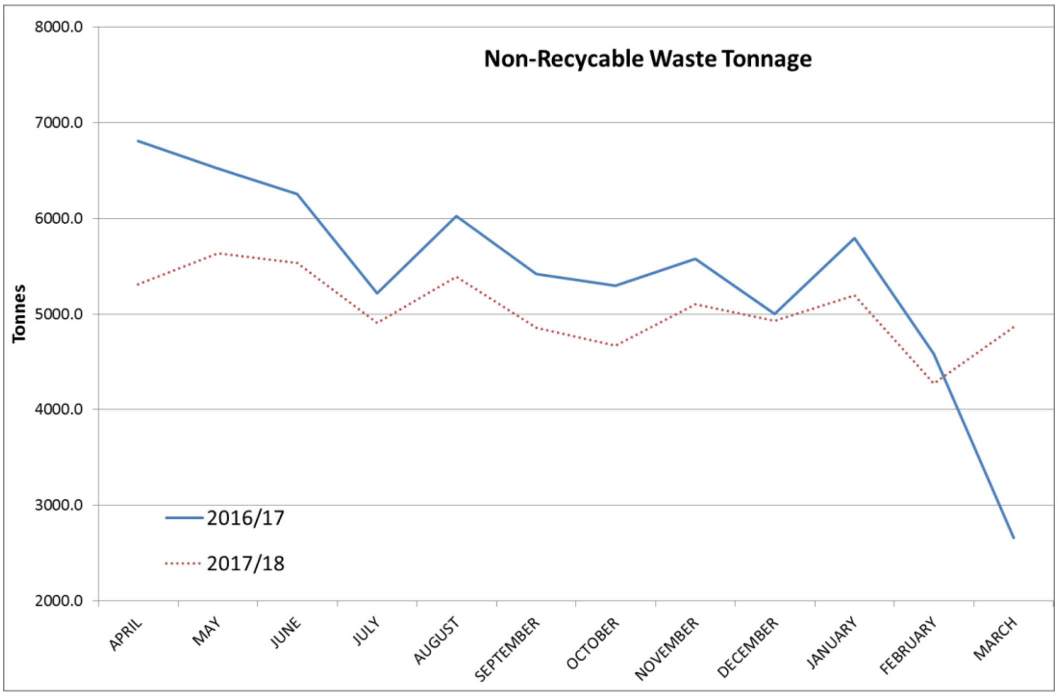
2.1.35. There was a £0.479m underspend in Waste strategy of which £0.356m was forecast at January.

2.1.36. Since the January report forecast, waste costs have continued to remain at a lower than predicted value. The main reasons for this are;

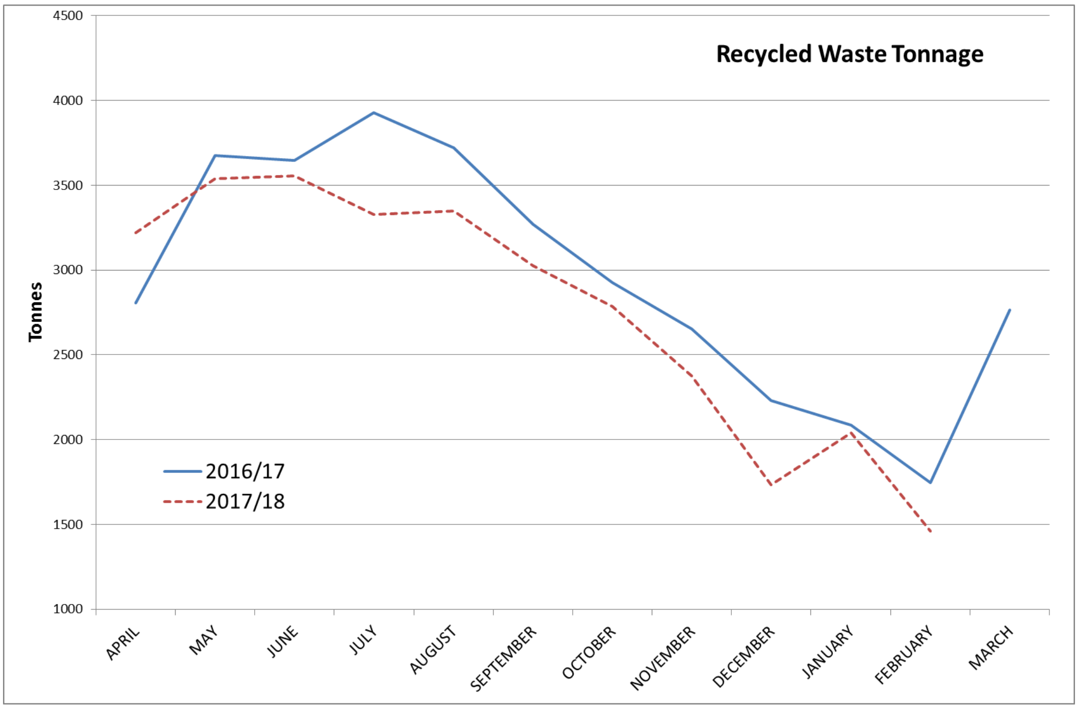
- Overall 4,000 tonnes less waste disposed of in 17/18 compared with 2016/17 across Household Waste Recycling Centre and general/municipal waste disposal;
- Garden waste collected during 2017/18 was 169 tonnes less than the previous year;
- Early economic indicators suggest that there was a significant retail down-turn due to the adverse weather in the last quarter which has had a direct impact on the generation of waste by consumers.

2.1.37. The tables below illustrate the change in waste tonnages over the last two financial years for both Non-recyclable and recyclable waste Waste cost and illustrates clearly the impact of the changes highlighted in paragraph2.5.4 above.

2.1.38. **Table Non-recyclable monthly tonnages**



2.1.39. **Table Recyclable monthly tonnages (NB//. March 17/18 not confirmed)**



2.1.40. Sustaining the move of the shift to recycling and a reduction in landfill can be more clearly understood when considering the comparative cost per tonne. The cost per tonne for disposal of household recyclable waste ended the year at £0.31p per tonne, down from a budgeted cost of £25 per tonne. Household non-recyclable waste has a current cost of £121.00 per tonne for disposal.

2.1.41. The outturn variance in the Bereavement Service reflects higher levels of income achieved since the last forecast position. The number of cremations since the last report (685) was 15.5% more than the same comparable period in 2017 (593).

Business & Economic Development

2.1.42. As previously reported the main area of budget variation as shown in the table below relates to income pressures at the Swan Hunters site of £0.155m due to three major load out and laydown opportunities which did not progress in year.

2.1.43. **Table Comparing Outturn Variance to January Forecast**

	2017/18 Budget £m	2017/18 Outturn £m	Outturn Variance £m	January Variance £m	Movement £m
Regeneration	0.357	0.527	0.170	0.145	0.025
Business & Enterprise	0.860	0.840	(0.020)	(0.004)	(0.016)
Resources & Performance	0.151	0.154	0.003	(0.013)	0.016
Business and Economic Development	**1.368**	**1.521**	**0.153**	**0.128**	**0.025**

Commercial & Business Redesign

2.1.44. Commercial & Business Redesign ended the year with a small overspend against budget. The main movement from January's reported forecast relates to a reduction in costs associated with the implementation of the Office 365 project in 2017/18 which are now expected to fall in 2018/19.

2.1.45. **Table Comparing Outturn Variance to January Forecast**

	2017/18 Budget £m	2017/18 Outturn £m	Outturn Variance £m	January Variance £m	Movement £m
Head of Commercial & Business Redesign	(0.044)	(0.021)	0.023	0.014	0.009
ICT	2.198	2.200	0.002	0.136	(0.134)
Commercial and Business Redesign	**2.154**	**2.179**	**0.025**	**0.150**	**(0.125)**

Corporate Strategy

2.1.46. As reported previously the overspend in Corporate Strategy have been driven by staff cost pressures.

2.1.47. **Table Comparing Outturn Variance to January Forecast**

	2017/18 Budget £m	2017/18 Outturn £m	Outturn Variance £m	January Variance £m	Movement £m
Corporate Strategy Management	0.133	0.148	0.015	0.022	(0.007)
Policy, Performance & Research	(0.140)	(0.133)	0.007	0.002	0.005
Community and Voluntary Sector Liaison	0.472	0.514	0.042	0.039	0.003
Marketing	0.129	0.229	0.100	0.057	0.043
Elected Mayor and Executive Support	(0.035)	(0.037)	(0.002)	(0.006)	0.004
Children's Participation & Advocacy	0.172	0.184	0.012	0.017	(0.005)
Corporate Strategy	**0.731**	**0.905**	**0.174**	**0.131**	**0.043**

Chief Executive Office

2.1.48. The Chief Executive Office ended the year with a small overall saving on operational costs £0.037m.The movement £0.033m is further savings on supplies and services.

2.1.49. **Table Comparing Outturn Variance to January Forecast**

	2017/18 Budget £m	2017/18 Outturn £m	Outturn Variance £m	January Variance £m	Movement £m
Chief Executive	(0.043)	(0.007)	0.036	0.036	0.000
Deputy Chief Executive	0.125	0.052	(0.073)	(0.040)	(0.033)
Chief Executive Office	**0.082**	**0.045**	**(0.037)**	**(0.004)**	**(0.033)**

Finance

2.1.50. The Finance Service outturn underspend results from staff saving £0.035m due to the timing of vacancies being filled, External Audit fee savings £0.042m and an increase in income from the contracted pension fund cap and collar rebate from the Engie contract as a result of finalising the year end position.

2.1.51. The Revenue & Benefits Service has a final overspend of £0.458m, the main movement arising from the finalisation of the bad debt provision on Benefit Overpayments. In addition a reduction in enforcement income £0.097m due to an exercise that resulted in a reduced level of fees linked to individuals who had absconded from the Borough and also there has been an increase in the number of low value summonses that are not been referred to the enforcement agents.

2.1.52. **Table Comparing Outturn Variance to January Forecast**

	2017/18 Budget £m	2017/18 Outturn £m	Outturn Variance £m	January Variance £m	Movement £m
Finance Service	(0.378)	(0.611)	(0.233)	(0.249)	0.016
Revenue & Benefits and Customer Services	(0.315)	0.143	0.458	0.293	0.165
Finance	**(0.693)**	**(0.468)**	**0.225**	**0.044**	**0.181**

Human Resources & Organisational Development

2.1.53. The service has reported a staff cost pressure throughout 2017/18, the final position at the year- end had a small improvement due to a reduction of expenditure on supplies and services £0.043m.

2.1.54. **Table Comparing Outturn Variance to January Forecast**

	2017/18 Budget £m	2017/18 Outturn £m	Outturn Variance £m	January Variance £m	Movement £m
Human Resources and Organisational Development	(0.065)	0.066	0.131	0.147	(0.016)

Law & Governance

2.1.55. Overall the overspend is due to staffing pressures across the service and reduced income for Governor Services (lower uptake from schools than anticipated) and Land Searches (impacted by VAT now being chargeable). This was partially offset by savings in election costs.

2.1.56. The movement since the last report to Cabinet is as a result of lower income being achieved than previously forecast and increased operational costs in relation to counsel fees.

2.1.57. **Table Comparing Outturn Variance to January Forecast**

	2017/18 Budget £m	2017/18 Outturn £m	Outturn Variance £m	January Variance £m	Movement £m
Customer, Governance and Registration	(0.231)	(0.097)	0.134	0.109	0.025
Democratic and Electoral Services	(0.058)	(0.106)	(0.048)	(0.052)	0.004
Information Governance	0.027	0.140	0.113	0.085	0.028
Legal Services	(0.178)	(0.177)	0.001	(0.031)	0.032
North Tyneside Coroner	0.293	0.244	(0.049)	(0.032)	(0.017)
Law and Governance	**(0.147)**	**0.004**	**0.151**	**0.079**	**0.072**

Central Items

2.1.58. The 2017/18 outturn set out in the table below reflects an overall saving against budget of £5.778m, an improvement of £0.056m since January.

2.1.59. Table - Forecast Variation Central Budgets and Contingencies

	2017/18 Budget £m	2017/18 Outturn £m	Outturn Variance £m	January Variance £m	Movement £m
Corporate & Democratic Core	10.031	9.428	(0.603)	(0.603)	0.000
Corporate Accounting	(19.307)	(24.486)	(5.179)	(5.119)	(0.060)
Levies	11.741	11.745	0.004	0.000	0.004
Central Items	**2.465**	**(3.313)**	**(5.778)**	**(5.722)**	**(0.056)**

2.1.60. The savings include £4.148m on interest charges, reflecting the continued use of temporary borrowing at low rates and internal borrowing, as well as the level of capital reprogramming in the current and previous financial years. Cabinet will recall during 2016/17 significant in-year savings were achieved through the application of the Treasury Management Strategy. Additional savings were factored into budget setting for 2017/18 however the approach to Treasury Management is continually reviewed in order to minimise borrowing costs to the Authority and maximise the opportunity to achieve in-year budget savings. There is an underspend of £2.398m in relation to Minimum Revenue Provision (MRP). As highlighted in the budget setting reports for 2017/18 and 2018/19, this relates mainly to the exercise carried out to review the period over which the authority is receiving benefit from historic investment. This exercise identified a historic overprovision for which an adjustment was made during 2017/18 by way of backdated MRP.

2.1.61. A VAT refund from HMRC in relation to Leisure Service activities was confirmed with a value of £1.914m. A budget of £1.126m for contingencies and a budget of £0.199m relating to the Service Improvement Fund have not been drawn down resulting in an underspend within Corporate Accounting. Backdated rates rebates of £0.426m were agreed and additional income of £0.868m from section 31 Grants for Small Business Rate Relief are shown here, together with a dividend from the Airport of £0.886m and a dividend of £0.250m from Kier.

2.1.62. Included in Central items is the budgeted saving on Procurement activity of £0.500m which was not achieved during 2017/18. As highlighted previously, a detailed review of the procurement of services and the Authority's spend with suppliers is in progress. Options have been identified and work has commenced to change how the Authority approaches procuring supplies and services across a number of areas with savings expected to be delivered in 2018/19.

2.1.63. Seaton Burn College transferred as a sponsored academy at the start of January. At that point in time, the school had a cumulative deficit balance of £0.648m. In accordance with DfE legislation on the treatment of surplus and deficit balances when maintained schools become academies, the deficit remains with the LA, to be funded from its General Fund.

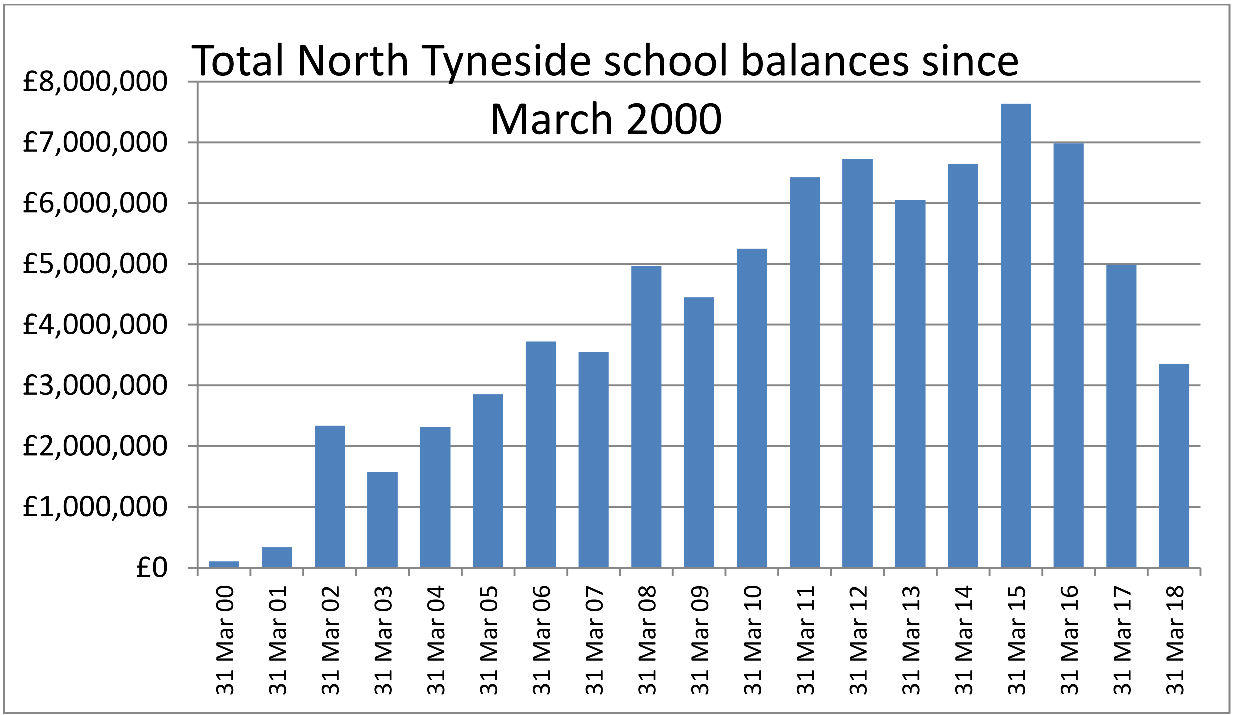
3. Schools Finance

3.1. School Balances

3.1.1. Schools have concluded their 2017/18 accounts closure exercise in line with the local Scheme for Financing Schools and the Authority's year end timetable. Collective school balances in North Tyneside maintained schools reduced from £4.987m at the start of the financial year to £3.357m by 31 March 2018 (excluding Seaton Burn College). This position is significantly better than forecast at the start of the year where overall the position for schools was expected to be and overall deficit balance of £2.228m therefore a £5.548m improvement. The balance reported will be included in the Authority's statutory accounts and is before any commitments are taken into account.

3.1.2 Cabinet will be aware that the Authority has been working with schools for a number of years with regard to the long term strategic issue of surplus secondary school places and the associated financial pressures which continue to be compounded by rising employment costs. As expected, 2017/18 is the third year of balances decreasing following a long term trend of rising balances in North Tyneside, and the table below sets out the long term trend of the position of North Tyneside Schools.

3.1.3 **Table - North Tyneside School Balances since 2000**



3.1.4 Schools have been reminded of the need to forecast as accurately as possible so that decisions are taken in the light of accurate budget projections. Cabinet will be aware that schools retain a high degree of autonomy when setting budgets, unless they are in a deficit position. Therefore, whilst Elected Members and officers are able to advise schools on the adequacy of balances, they cannot intervene.

3.2 School Deficits

3.2.1 As well as school balances reducing overall, some individual schools continue to face significant financial challenges. During the year, the Authority and Schools Forum paid particular attention to those schools with approved deficit budgets.

3.2.2 There were ten schools with a deficit approval for 2017/18; Fordley Primary, Ivy Road Primary, Monkseaton Middle School, Marden Bridge Middle School, Longbenton Community College, Marden High, Monkseaton High, Norham High, Whitley Bay High and Seaton Burn College. Schools Forum and senior officers worked closely with these schools during the year, which contributed to an improved outturn of £0.470m compared to the approved deficit budgets planned see table 3.2.5 below. This excludes Seaton Burn College.

3.2.3 Cabinet should note that of the 10 schools that reported a deficit in 2017/18 there are 7 schools that remain in deficit for the coming 2018/19 financial year. These are; Ivy Road Primary, Monkseaton Middle School, Longbenton Commuity College, Marden High, Monkseaton High, Norham High and Whitley Bay High School. Deficit clinics for these schools were held during May 2018. There are a further 4 schools that are indicating a deficit position for 2018/19. These are; Percy Main Primary, Burradon Primary, Ballioll Primary and Backworth Primary. Initial deficit clinics for these schools are due to take place on the 21 June 2018.

3.2.4 In 2017/18 Schools Forum agreed to de-delegate a sum of £0.131m for schools in financial difficulty often referred to as ‘headroom’ funding. Schools Forum also agreed to centrally retain an amount of £0.250m to support schools with falling roles. A sub group of Schools Forum was established to look at the allocation processes for both of these funds. This group met in February 2018 and reported back to Schools Forum in March proposing that a review of existing practice takes place. That review is underway but no final decisions have yet been made by Forum. A balance of £0.467m for these two funds has been rolled into 2018/19 which includes £0.086m brought forward from 2016/17.

3.2.5 **Table of Approved School Deficits 2017/18**

School	2017/18 Approved budget £m	2017/18 draft outturn £m
Fordley Primary	(0.081)	(0.080)
Ivy Road Primary	(0.137)	(0.123)
Monseaton Middle School	(0.034)	(0.033)
Marden Bridge Middle School	(0.027)	(0.013)
Longbenton Community College	(1.026)	(0.916)
Marden High	(0.478)	(0.429)
Monkseaton High	(2.587)	(2.464)
Norham High	(1.224)	(1.168)
Whitley Bay High	(0.618)	(0.516)
Total	**(6.212)**	**(5.742)**

3.2.6 As in previous years, the details of these balances will be reported to the Department for Education (DfE) through the Consistent Finance reporting (CFR) return. This return will be co-ordinated by the Local Authority and submitted by the deadline in July 2018. The CFR data is then used to pre-populate part of the Section 251 return that is submitted to the DfE by the end of August 2018 and verified in September. Full details of each individual school's balance will then be reported to Cabinet.

3.3 2017/18 Dedicated Schools Grant (DSG) Outturn

3.3.1 Overall, and after allowing school allocations, the DSG in 2017/18 of £133.593m (after removing Academies) is showing a credit balance of £0.120m. This compares to an over spend of £0.471m in 2016/17.

3.3.2 This was mainly due to the High Needs Block experiencing financial pressures of £0.430m offset by carry forwards of central items notably the Falling Roles and Headroom funding referred to above. As the DSG is a ring-fenced grant, any balance is carried forward into the next financial year.

3.4 Seaton Burn College

3.4.1 Seaton Burn College transferred as a sponsored academy at the start of January 2018. In accordance with DfE guidance on treatment of surplus and deficit balances when maintained schools become academies, the deficit remains with the LA, to be funded from its General Fund. The school balance on transfer was a deficit of £0.648m against an approved deficit of £0.668m in 2017/18.

3.4.2 Cabinet will receive a further report on Education in North Tyneside at its meeting in July 2018.

4 Housing Revenue Account (HRA) Income & Expenditure

4.1 Summary

4.1.2 Table 4.1.3 below shows the Outturn variances for the HRA for 2017-18. This shows that the overall position on the HRA improved significantly between January and March, with a £0.899m improvement in in-year balances increasing the overall in- year position to £1.882m better than budgeted. Rent and Service charge income projections improved significantly during the year, as empty home numbers dropped dramatically from 486 at the start of the financial year to 236 at 31 March 2018. This plus the work to mitigate the effect of welfare reform led to rental income exceeding budget by £0.256m. In addition, income from temporary dispersed accommodation was £0.083m above budget, and service charge income was £0.207m ahead of budget, also reflecting the drop in the number of empty homes particularly in the North Tyneside Living schemes.

4.1.3 There were significant improvements in most areas of spend across the budget. Debt Interest and Capital Financing taken together with Revenue support to Capital programme and capital charges showed a small under-spend against budget of £0.028m, but there were major variations between these lines reflecting the move to introduce a true Depreciation charge into the HRA. This accounting change requirement was highlighted in the 2017-18 HRA budget Report, at which point work was being undertaken to establish a sustainable method for calculating depreciation. The final depreciation charge showed a £3.102m reduction against budget, but this was offset by an increase in revenue contributions to fund the investment plan £2.824m, and an increase in debt interest and debt set aside costs of £0.250m.

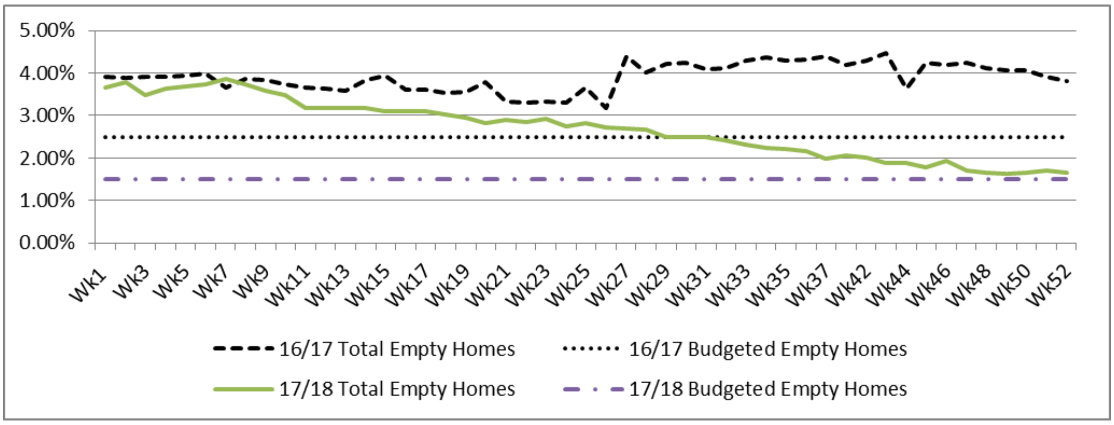
4.1.4 Table: Outturn Variances Housing Revenue Account 2017/18

	FULL YEAR - 2017/18 Full Year Budget £m	March Year End Outturn Actual £m	Variance £m	Variance January Forecast 2017/18 £m	Movement £m
INCOME					
Rental Income	(59.689)	(60.237)	(0.547)	(0.381)	(0.166)
Other Rental Income, Shops etc.	(0.255)	(0.268)	(0.013)	0.001	(0.014)
Interest on Balances	(0.030)	(0.052)	(0.022)	(0.010)	(0.012)
PFI Credits	(7.693)	(7.693)	0.000	0.000	0.000
	(67.667)	**(68.250)**	**(0.582)**	**(0.390)**	**(0.192)**
EXPENDITURE					
Capital Charges - Net Effect	13.848	14.098	0.250	(0.021)	0.271
HRA Management Costs	10.197	9.554	(0.643)	(0.169)	(0.474)
PFI Contract Costs	9.551	9.551	0.000	0.000	0.000
Repairs	11.481	11.482	0.001	(0.004)	0.005
Revenue Support to Capital Programme	6.771	9.595	2.824	0.000	2.824
Contribution to Major Repairs Reserve – Depreciation	15.650	12.548	(3.102)	0.000	(3.102)
Contingencies, Bad debt Provision & Transitional Protection Payments	1.080	0.450	(0.630)	(0.398)	(0.232)
Pension Fund Deficit Funding	0.855	0.855	0.000	0.000	0.000
	69.433	**68.133**	**(1.300)**	**(0.592)**	**(0.708)**
	1.766	**(0.117)**	**(1.882)**	**(0.983)**	**(0.899)**
BALANCES BROUGHT FORWARD	(4.627)	(5.966)	(1.339)	(1.339)	0.000
BALANCES TO CARRY FORWARD	**(2.861)**	**(6.082)**	**(3.221)**	**(2.322)**	**(0.899)**

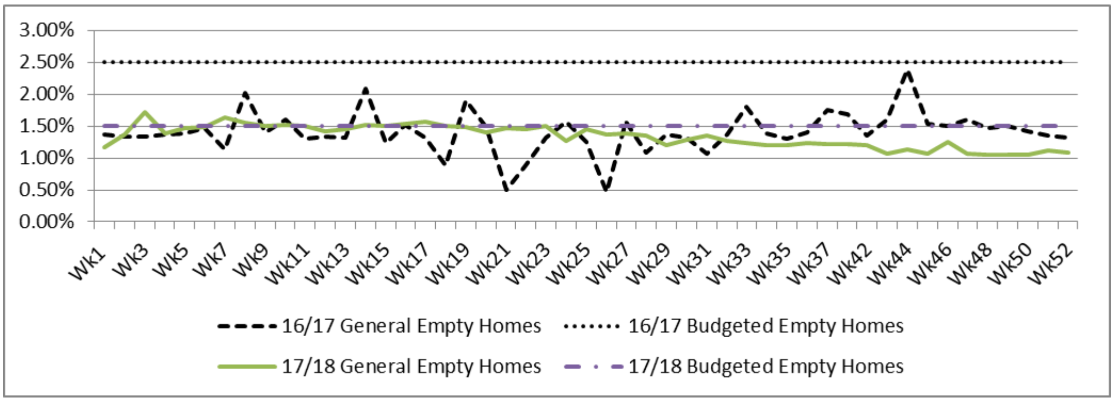
4.2 Empty homes

4.2.1 In terms of the impact of empty homes on the financial picture to date, the level of empty homes has dropped significantly over the course of the year, contributing to an improvement in actual income against budget, with out-turn income being well above original budget levels . The biggest changes have been within the North Tyneside Living Schemes, where, following completion of the schemes, take up of the apartments has led to empty home rates being around 8% at year-end when they were over 30% at the beginning of the financial year. Tables 4.2.2-4.2.4 below illustrate the movement in empty homes stock levels for 17/18 compared to 16/17.

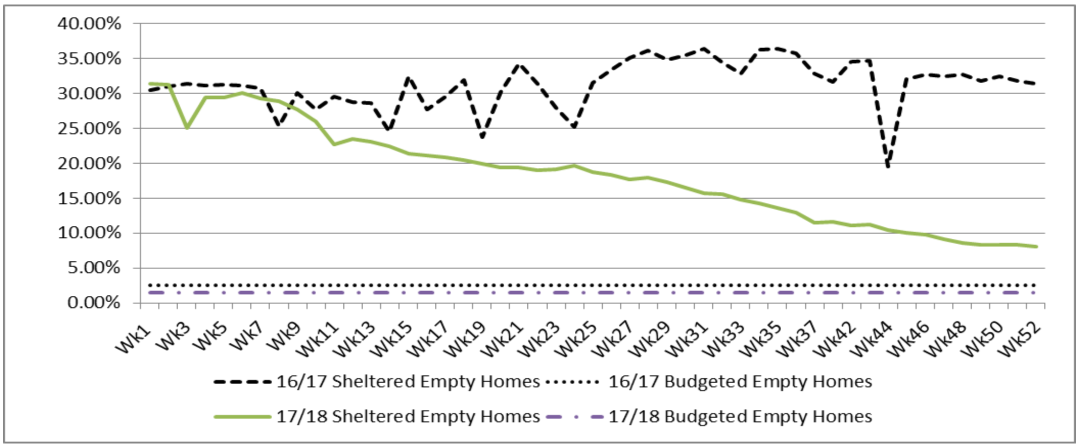
4.2.2 Table: All stock Empty homes debit as percentage of total debit



4.2.3 Table : General Stock Empty homes debit as percentage of total debit



4.2.4 Table: Sheltered Stock Empty homes – debit as percentage of total debit



4.3 HRA Management Expenditure

4.3.1 The net forecast underspend of £0.643m in HRA Management costs represents a £0.474m improvement from January's forecast, and includes a range of variations, the majority being underspends and additional income, but some areas of pressure as well. The main variations included:

- pressure from the impact of Council Tax payable on empty homes £0.261m;
- additional water rates commission income negotiated £0.202m;
- staff vacancies £0.320m;
- additional costs relating to installation and the need for extra telephone lines in the North Living schemes £0.060m;
- in-year costs relating to the Construction Project £0.133m;
- savings re training, postage and general office costs £0.094m;
- reduced call on pay award contingency £0.082m; reduced utility costs re NTL PFI schemes £0.158m;
- increased court cost recovery income £0.040m; miscellaneous additional income £0.075m;
- reduced vehicle and mileage costs £0.049m;
- reduced legal and consultancy costs £0.026m.

4.4 HRA Capital Financing, Debt Interest and Debt Management Costs

4.4.1 Overall Capital Financing, Debt Interest and Debt Management Expenses (DME) showed only a small variation from budget of around £0.028m, but there were some significant variations across the different elements, which mainly reflected the move required by Government from 2017-18 to introduce a "true" measure for depreciation of HRA housing assets, which marked the end of a 5-year transitional period following the introduction of self-financing in 2012-13. Hence, the depreciation charge calculated was

£3.102m below the budgeted figure based on a “proxy” for the old Major Repairs Allowance (MRA) which used to be part of the HRA Subsidy system. The shortfall in capital financing was then balanced by increasing revenue contributions to fund the HRA investment plan by £2.824m, and increasing the amount set aside to repay debt by £0.278m. In addition, debt interest charges showed savings of £0.086m from taking advantage of current low interest rates when refinancing short-term, plus DME were down by £0.043m against budget as well. There was also a small pressure caused by the amount of discounts remaining from a previous debt restructuring being below budget by £0.102m.

4.5 Bad Debt Provision, Contingency and Transitional Protection

4.5.1 The position in these areas at year-end has improved by a further £0.232m from January. Bad Debt Provision ended up £0.414m below budget (£0.185m better than January), due mainly to a strong performance in rent collection, and delays in the roll-out of Universal Credit to May 2018. The use of general contingency dropped by a further £0.050m to £0.139m below budget, and the payment of transitional protection for existing PFI tenants who moved into new or refurbished apartments ended up £0.077m below budget, just £0.003m down on the January forecast.

4.6 Right to Buy (RTB) Trends

4.6.1 The impact of RTB is critical to long-term planning for the HRA. Prior to the introduction of self-financing in 2012, average RTB sales had dropped to around 25 per annum, mainly due to the capped discount £22,000 which had remained static as property values had increased, making RTB less attractive financially to tenants. Shortly after self-financing began central Government announced a change to RTB significantly increasing the maximum discount, initially to £75,000 and then subsequently annual inflation was added to the maximum. The table below shows the trend in RTB sales since that time, and the financial impact this has had on revenue to the HRA.

4.6.2 Table: RTB Trends and Financial Impact

	Sales assumed by self-financing	Actual RTB Sales	Additional RTB Sales above budget assumptions	Estimated lost rent per annum £000)	Capital Receipts £000)
2012-13	40	85	45	0.315	3.477
2013-14	47	122	75	0.457	4.957
2014-15	53	100	47	0.397	3.938
2015-16	55	135	80	0.577	5.548
2016-17	55	136	81	0.557	5.632
2017-18	56	158	102	0.630	7.758
	292	**736**	**444**	**2.933**	**31.310**

4.6.3 In the period (2012-2018) the Council has built over 130 new homes through the HRA, which has helped mitigate a portion of the revenue loss from the 736 sales in the same period, but in essence the HRA has lost £2.9m in from the annual rent over this period.

4.6.4 In terms of the total Capital Receipts from the sales of these properties over the last 5 years of £31.310m, the Authority has been required to pay a proportion over to Government of £10.200m but is allowed to keep a proportion to cover administration costs of £0.958m. The Authority can also retain some proceeds to cover the additional debt burden from the extra sales £11.576m, plus the Local Authority share of the “pooled” assumption £4.192m. Any sum left over is called the “retained” receipt £4.490m and this must be used purely for new build housing, under the “one-for-one” policy. As can be seen from the figures above the Authority has sold an “additional” 444 properties in 5 years and has only replaced circa 130 to date, so the policy intention of “one-for-one” replacement is currently not being achieved in North Tyneside. This is because the average sale price of properties in North Tyneside is relatively low compared to other areas of the country, and hence the additional retained receipt is not sufficient to allow for the replacement of properties on a one-for-one basis. In addition there will always be a time lag between getting the receipts and completing the new build programme.

Construction Options Project 2019

4.6.5 As noted above, on 27 September 2017 Cabinet agreed not to extend the Kier JV contract for a further 5 years from 2019. Hence, the Council is now working to create a fit-for-purpose construction and maintenance operation from April 2019 that will meet the needs of the Authority and our tenants and residents, whilst ensuring greater efficiency and value for money. This will require a significant amount of work to incorporate the staff and assets that will be transferring back to the Council, and to ensure that all necessary supporting systems, equipment and accommodation are put in place. During 2017/18 costs of £132.955m were incurred in delivery of this project. The resources necessary to achieve delivery of this project over the next two financial years have been built into the Business Plan projections, both within the Housing Revenue Account and Capital Investment Plans.

5 Investment Plan Expenditure & Financing

5.1 Summary

5.1.1 The Investment Plan represents the Authority's capital investment programme in projects across all service areas, including General Fund and HRA activities.

5.1.2 All capital investment follows a structured gateway process, and is challenged by Members and senior officers, from the initial ideas stage, through the delivery stage and finally to post implementation. Delivery of the Investment Plan year by year, through both physical on site development and capital spend, is key to the successful attainment of the Authority's objectives.

5.1.3 During 2017/18 the Strategic Property Group (SPG) has developed the 2018-21 Estates Strategy which will be finalised during the first quarter of 2018/19. This is an operational document supporting the Authority's programme of investment that underpins the delivery of the Our North Tyneside Plan. The Estates Strategy is focused on the Authority's land and buildings held for operational, economic and investment purposes and will be reviewed on an annual basis by the SPG. The annual published statement of accounts reflects all of our land and buildings.

5.2 Capital Expenditure 2017/18

5.2.1 The initial 2017/18 Investment Plan budget was £106.952m (£80.903m General Fund and £26.049m Housing). Further variations to the Plan and reprogramming were agreed by Cabinet during the year as part of the Financial Monitoring process to give an approved plan at the year-end of £83.870m (£58.891m General Fund and £24.979m Housing). Table 5.2.2 below summarises these changes.

5.2.2 Table - 2017/18 Investment Plan – Summary of changes to budget

	£m
Investment Plan approved by Council – 16 February 2017	106.952
Reprogramming from 2016/17	12.980
Reprogramming to 2018/19 and future years	(38.324)
Other variations (net)	2.262
Revised Investment Plan approved by Cabinet – 12 March 2018	**83.870**

5.2.3 Actual capital expenditure in 2017/18 totalled £76.687m (£61.690m in 2016/17), comprising General Fund expenditure of £53.156m and £23.531m on Housing Schemes. This level of spend is the highest the Authority has achieved in the last 7 years.

5.2.4 Not all of the expenditure relates to the creation or improvement of fixed assets for the Authority. £5.189m relates to spend on other items, with £1.630m for share capital, £2.410m on loans and £0.894m spent on Disabled Facilities grants. Table 5.2.5 below compares the actual capital expenditure with the revised budget for the year, as well as the actual spend for 2016/17.

5.2.5 Table - Comparison of Capital Expenditure to Revised budget for 2017/18

Actual Capital Expenditure 2016/17 £m		Revised Capital budget 2017/18 £m	Actual Capital Expenditure 2017/18 £m	Variation from budget over / (under) £m
40.905	General Fund	58.891	53.156	(5.735)
20.785	Housing	24.979	23.531	(1.448)
61.690	**Total**	**83.870**	**76.687**	**(7.183)**

5.2.6 Included within the appendices is further information on the Investment Plan and activities in the year. Appendix B shows the final expenditure, and how that expenditure was financed, with Appendix C showing a comparison of expenditure against budget for each individual project. The reasons for these variations have been analysed as reprogramming and other variations.

5.2.7 Across all capital projects, further reprogramming of £8.130m has been identified and it is requested that Cabinet approve the carry forward of this amount into the 2018/19 Investment Plan. A detailed breakdown of this amount is included in Appendix C.

5.2.8 The major achievements delivered as part of the capital investment programme in 2017/18 include:

Completed projects - including housing new build projects at Chapelville, Seaton Burn with 6 new affordable units being delivered, various works to housing stock (kitchen and bathroom replacements, heating upgrades, roof replacements, replacement windows and doors), promontory and toilets at Watts Slope, BMX/Skate Park at The Parks was improved and extended, a memorial statue was installed as part of the North Shields Fisherman's project, various projects as part of the Asset Planned Maintenance programme, improvement works to the schools estate (DDA improvements, roof replacements, window renewals, electrical rewires etc.), highway improvement works including completion of junction improvements to A1056/A189 at Weetslade, access improvements on the A19 employment corridor (Holystone roundabout), surface water management schemes, installation of energy efficient LED streetlighting, energy efficiency measures to homes as part of the North Tyneside Warm Zones project, replacement of refuse collection, gritters and grounds maintenance vehicles, implementation of new social care information system, ICT refresh

Projects underway - including the Spanish City Dome which is nearing completion, Lower Central Promenade reconstruction (completed May 2018), public realm works at Northern Promenade, new Backworth Park Primary school, operational depot accommodation review, surface water management schemes, highways works on Norham Road bridge and North Bank of the Tyne junction improvements

5.2.9 Further details can be found in the Investment Programme Board end of year report which will be presented to this Cabinet and is included as a background paper to this report.

5.3 Capital Financing

5.3.1 Local authorities can finance capital expenditure from a variety of sources: grants; external contributions; capital receipts; borrowing; and contributions from revenue. This section of the report considers how the Investment Plan has been financed.

5.3.2 Under the Prudential System for capital financing, the Authority can decide to borrow to fund capital expenditure, known as prudential (or unsupported) borrowing. There are associated revenue costs (interest and Minimum Revenue Provision (MRP)) which must be met from the Authority's own resources, i.e. funded by Council Tax payers. MRP is a charge included in the Authority's accounts that effectively spreads the cost of capital expenditure over a period that generally equates to the period in which the asset is used. When deciding whether to take out additional borrowing, the Authority must consider whether the investment Plan is affordable, sustainable and prudent.

5.3.3 When determining how to finance the Authority-funded element of the Investment Plan, the Authority's MRP Policy is used to maximise the effectiveness of borrowing in relation to individual schemes in the Investment Plan. Those schemes with longer asset lives (e.g. major building works) are financed using prudential borrowing, thereby spreading the MRP charges over a longer period, whilst those with shorter asset lives (e.g. equipment) are financed using capital receipts where receipts are available.

5.3.4 The total capital expenditure of £76.687m has been financed as shown in table 5.3.5 below.

5.3.5 Table - 2017/18 Capital Financing

	2017/18 Capital Financing £m
Council Contribution	
Prudential (Unsupported) Borrowing – General Fund	25.645
Capital Receipts -General Fund	1.089
Capital Receipts – HRA	1.338
Direct Revenue Funding - General Fund	0.240
Direct Revenue Funding – HRA	10.017
Major Repairs Allowance	12.026
	50.355
External funding	
Specific Government Grants	13.497
Capital Grants and Contributions	12.835
	26.332
	76.687

5.3.6 Total Prudential borrowing for the General Fund was £25.645m.

5.3.7 During the year £1.889m of General Fund capital receipts were generated, £1.089m have been used in the financing of 2017/18 spend with £0.800m used to reduce debt (Capital Financing requirement).

5.3.8 For Housing, capital receipts of £8.127m were received during 2017/18, of which £1.874m were pooled and paid across to central government leaving a balance of £6.253m available for financing. This balance plus the brought forward receipts of £5.501m gave an available balance of £11.754m. Of this £1.338m was used to finance 2017/18 capital spend and £3.402m was set aside to repay debt leaving a balance of £7.014m to be carried forward into 2018/19.

5.3.9 Table 5.3.10 below shows the movement in capital receipts during 2017/18 including receipts received during 2017/18 (identified in paragraphs 5.3.7 and 5.3.8 above), receipts brought forward at 1 April 2017, receipts used to finance the 2017/18 Investment Plan, receipts set aside to repay debt and receipts carried forward at 31 March 2018.

5.3.10 Table - Movement in capital receipts during 2017/18

	Receipts brought forward 1 April 2017 £m	Net Useable Receipts received £m	Receipts used for financing £m	Receipts set aside for repayment of debt £m	Receipts carried forward 31 March 2018 £m
General Fund	0	1.889	(1.089)	(0.800)	0
Housing	5.501	6.253	(1.338)	(3.402)	7.014
Total	**5.501**	**8.142**	**(2.427)**	**(4.202)**	**7.014**

5.3.11 The Authority also received £13.497m of funding through specific Government grants. These grants included:

- £3.151m Schools Capital Maintenance;
- £0.243m Schools Basic Need;
- £4.698m Local Transport Plan (including Incentive Fund and Potholes grant);
- £0.712m Cycle City Improvement Fund
- £1.023m Better Care Fund (including Disabled Facilities grant);
- £2.078m Environment Agency (Surface Water and Central Lower Promenade);
- £0.983m Community Capacity; and,
- £0.160m Housing Assistive Technology.

5.3.12 Capital Grants and Contributions of £12.835m used in the year included:

- £6.842m North East Local Enterprise Partnership (NELEP) Growth Deal;
- £0.900m Northumbrian Water limited;
- £0.368m Private Developer contributions;
- £1.832m Section 106 contributions and,
- £2.331m Heritage Lottery Fund

5.3.13 As required, under self-financing for Housing, there is a Major Repairs Allowance calculated and used to finance ongoing works to Council Dwellings. This contribution is financed from within the HRA (i.e. it is self-financed) and so appears as part of the Authority's contribution shown in Table 5.3.5 above.

5.3.14 An analysis of the overall capital financing is also shown in Appendix B.

5.4 International Financial Reporting Standards (IFRS) adjustments to Capital Expenditure in 2017/18

5.4.1 Under IFRS any expenditure incurred relating to PFI schemes and finance leases is classed as capital expenditure and the resulting assets are added to the Authority's balance sheet.

5.4.2 During 2017/18 spend of £0.253m was incurred under the street lighting PFI contract.

6 Treasury Management

6.1 Summary

6.1.1 The Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This section of the report meets the requirements of both the Chartered Institute of Public Finance and Accountancy, (CIPFA) Code of Practice on Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities.

6.1.2 The primary reporting requirements of the Code are as follows:

- Forecast the likely activity for the forthcoming year (in the Annual Treasury Management Strategy Report);
- A mid – year review report; and
- Review actual activity for the preceding year, including a summary of performance.

6.1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by members.

6.2 Treasury Position as at 31 March 2018

6.2.1 The Authority's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

6.2.2 At the beginning and the end of 2017/18 the Authority's treasury position is shown in Table 6.2.3 below:

6.2.3 Table - Treasury Management Position

	31 March 2018 Principal £m	Rate/Return %	31 March 2017 Principal £m	Rate/Return %
Fixed Rate Funding: -*PWLB long - term	195.250	4.58	191.000	4.32
(HRA-Self Financing)	128.193	3.49	128.193	3.49
-Market **(LOBO's)	20.000	4.35	20.000	4.35
-Temporary	117.712	0.72	97.704	0.49
0.Total External Debt	**461.155**		**436.897**	
Investments: **-** In-house	(16.400)	0.25	(5.200)	0.10
Total Investments	**(16.400)**		**(5.200)**	
Net Position	**444.755**		**431.697**	

*Public Works Loan Board **Lender Option Borrower Option

6.3 Performance Measurement

6.3.1 One of the key requirements in the Treasury Management Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide, as incorporated in Table 6.2.3 above.

6.4 The Strategy for 2017/18

6.4.1 The expectation for interest rates within the strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31 March 2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

6.4.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and reduce counterparty risk.

6.4.3 During 2017/18, long term PWLB rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.

6.5 The Economy and Interest Rates

6.5.1 The outcome of the European Union (EU) referendum in June 2016 resulted in a gloomy outlook and economic forecasts from the Bank of England based around an expectation of a major slowdown in UK Gross Domestic Product (GDP) growth, particularly during the second half of 2016, which was expected to push back the first increase in Bank Rate for at least three years. Consequently, the Bank responded in August 2016 by cutting Bank Rate by 0.25% to 0.25% and making available over £100bn of low cost financing to the banking sector up to February 2018. Both measures were intended to stimulate growth in the economy. The UK economy growth rate for 2016 was 1.8%, and followed it up with another 1.8% in 2017.

6.5.2 During 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprising result of strong growth in the second half of 2016, growth in 2017 was weak in the first half of the year; quarter 1 came in at +0.3% and quarter 2 was +0.3% which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the service sector of the economy, accounting for around 75%

of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.

6.5.3 Market expectations during the autumn rose significantly anticipating that Monetary Policy Committee (MPC) would be heading to raise the Bank Rate. The 2 November 2017 (MPC) quarterly Inflation Report meeting withdrew the 0.25% emergency rate cut which had been implemented in August 2016. Market debate then moved on as to whether this would be the only move for maybe a year or more by the MPC, or the first of a series of increases in Bank Rate over the next 2-3 years. The MPC minutes from that meeting were viewed as being dovish, i.e. there was now little pressure to raise rates by much over that time period. In particular, the GDP growth forecasts were weak while there was little evidence of building pressure on wage increases despite low unemployment. The MPC forecast that Consumer Price Index (CPI) would peak at about 3.1%. The inflation forecast showed that the MPC expected inflation to come down to near the 2% target over the two to three year time horizon. This all seemed to add up to cooling expectations of much further action to raise Bank Rate over the next two years. However, GDP growth in the second half of 2017 came in stronger than expected, while in the new year there was evidence that wage increases had started to rise. The 8 February 2018 MPC meeting minutes therefore revealed focus was on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 - 24 month period for seeing inflation come down to 2%. (CPI inflation ended the year at 2.7% but was forecast to still be just over 2% within two years). This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate. This shift in market expectations resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

6.5.4 The manufacturing sector has seen stronger growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, the manufacturing sector only accounts for around 11% of GDP so expansion in this sector has a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

6.5.5 Economic growth in the EU was lack lustre for several years after the financial crisis despite the European Central Bank (ECB) cutting its main rate to -0.4% and embarking on a programme of quantitative easing to stimulate growth. However, growth eventually picked up in 2016 and gathered further momentum to produce and overall GDP figure for 2017 of 2.3%. Despite providing monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and in March, inflation was still only 1.4%. It is, therefore, unlikely to start increasing rates until possibly towards the end of 2019.

6.5.6 Growth in the American economy was volatile in 2015 and 2016. 2017 followed that path again with quarter 1 at 1.2%, quarter 2 3.1%, quarter 3 3.2% and quarter 4 2.9%. The annual rate of GDP growth for 2017 was 2.3%, up from 1.6% in 2016. Unemployment in the United States also fell to the lowest level for 17 years, reaching 4.1% in October to February 2018, while wage inflation pressures, and inflationary pressures in general, have been building. The Federal Reserve has been the first major western central bank to start to increase rates with six increases since the first one in December 2015 to lift the central to 1.50% - 1.75% in March 2018. In October 2017, the Federal Reserve also became the first major western central bank to make a start on unwinding quantitative easing by phasing in a gradual reduction in reinvesting maturing debt.

6.5.7 Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

6.5.8 GDP growth in Japan has been improving to reach an annual figure of 2.1% in quarter 4 of 2017. However, it is still struggling to get inflation up to its target rate of 2% despite monetary and fiscal stimulus, although inflation has risen in 2018 to reach 1.5% in February. It is also making little progress on fundamental reform of the economy.

6.6 Borrowing Rates in 2017/18

6.6.1 PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reaching peaks in February and March 2018. During the year, the 50 year PWLB target rate for new long term borrowing was 2.50% in quarter 1 and 3 and 2.60% in quarters 2 and 4. Table 6.6.2 to this report shows the PWLB maturity borrowing rates for a selection of maturity periods, the high and low points in rates, the average rates and individual rates at the start and end of the financial year.

6.6.2 Table - PWLB Borrowing Rates 2017/18 for 1 to 50 years

	1Year %	5 Year %	10 Year %	25 Year %	50 Year %
01/04/2017	0.85	1.25	1.93	2.62	2.37
31/03/2018	1.47	1.85	2.23	2.57	2.29
LOW	0.80	1.14	1.78	2.52	2.25
DATE	03/05/17	15/06/17	15/06/17	08/09/17	08/09/17
HIGH	1.51	2.01	2.53	2.93	2.64
DATE	21/03/18	15/02/18	15/02/18	15/02/18	15/02/18
Average	1.11	1.50	2.08	2.69	2.41

6.7 Borrowing Outturn for 2017/18

6.7.1 Long-term borrowing was undertaken during the year for the General Fund to fund capital expenditure and maturing debt as detailed in the table below

6.7.2 Table - Replacement PWLB Loans 2017/18

Principal £m	Interest Rate %	Start Date	Maturity Date
10.000	2.52	14 March 2018	10 September 2030
10.000	2.48	14 March 2018	10 September 2067

6.7.3 Internal borrowing and low rate short term borrowing was also undertaken during the year. General Fund short term borrowing outstanding at 31 March 2018 was £97 million. The HRA also took advantage of low rate short term borrowing with a balance of £20.486 million outstanding at 31 March 2018.

6.7.4 Maturing long – term loans of £15.750m were repaid in 2017/18 as detailed in Table 6.7.5 below:

6.7.5 Table - Maturing Long Term Loans repaid during 2017/18

Principal £m	Interest Rate %	Date Repaid
10.000	2.950	13 June 2017
5.000	10.375	4 August 2017
0.750	9.750	1 October 2017

6.7.6 Maturing short – term loans of £97.704 million were repaid in 2017/18 with an average rate of 0.49%.

6.7.7 Short term savings were achieved during the year by internally financing new capital expenditure by running down existing cash balances and replacing maturing debt by taking advantage of borrowing low rate loans from PWLB as detailed in Table 6.7.2 above. Lower cash balances also meant lower counterparty risk on the investment portfolio.

6.7.8 No rescheduling of debt was carried out during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

6.8 Investment Rates in 2017/18

6.8.1 Investment rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from 0.25%, and reached a peak at the end of March. Bank Rate was raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous low levels due, in part, to a large tranche of low cost financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.

6.8.2 Table 6.8.3 below shows the money market investment rates for the year.

6.8.3 Table - Money Market Investment Rates for 2017/18.

	7 Day %	1 Month %	3 Month %	6 Month %	1 Year %
01/04/17	0.111	0.132	0.212	0.366	0.593
31/03/18	0.364	0.386	0.587	0.704	0.878
HIGH	0.366	0.390	0.587	0.704	0.879
LOW	0.099	0.122	0.140	0.273	0.461
Average	0.215	0.233	0.286	0.401	0.606
Spread	0.267	0.268	0.447	0.432	0.418
High date	27/02/18	22/03/18	29/03/18	29/03/18	28/03/18
Low date	04/07/17	10/08/17	07/08/17	07/09/17	06/09/17

6.9 Investment Outturn for 2017/18

6.9.1 The Authority's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual Investment Strategy approved by the Council on 18 February 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

6.9.2 The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

6.10 Other Issues

6.10.1 Revised CIPFA Codes. In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. A particular focus of these codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments. Officers will report to members when the implications of these new codes have been assessed as to the likely impact on this Authority.

6.10.2 Markets in Financial Instruments Directive (MIFID II). The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on this Authority apart from providing information to each institution dealing with this Authority.

7 Prudential Indicators

7.1 Introduction

7.1.1 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.

7.1.2 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 during 2017/18.

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

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

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

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

7.1.6 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.

7.1.7 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.

7.1.8 In total there are fifteen prudential indicators, covering:

- Affordability;
- Prudence;

- Capital expenditure;
- External debt; and
- Treasury management

7.1.9 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.

7.1.10 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.

7.1.11 The following part of the report shows the actual 2017/18 Prudential Indicators at year-end compared to the estimated indicators approved by Cabinet in the September Financial Monitoring report on 13 November 2017.

7.2 Prudential Indicators for Affordability

Ratio of financing costs to net revenue stream

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

7.2.2 The actual figures for 2017/18 are set out in Table 7.2.3 below together with the estimated 2017/18 position at September 2017 and the 2016/17 final figure:

7.2.3 Table - Ratio of Financing Costs to Net Revenue Stream

	2016/17	2017/18	2017/18
	Actual.	Estimate	Actual
General Fund	12.35%	9.67%	6.94%
HRA	25.21%	30.34%	30.50%

7.2.4 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). 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 the table below:

7.2.5 Table - Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream

	2016/17	2017/18	2017/18
	Actual	Estimate	Actual
General Fund	7.61%	8.19%	8.12%
HRA	5.98%	7.02%	7.22%

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

7.2.6 This indicator represents the incremental impact of new capital investment decisions, approved as part of 2017/18 budget setting, on the annual Council Tax (Band D) and weekly housing rents.

7.2.7 Table - Incremental impact of new 2017/18 capital investment decisions on Council Tax (Band D) and weekly housing rents

	General Fund	HRA
Estimate	£7.28	£1.74
Actual	£5.30	£1.38

7.2.8 These figures are notional and in practice the incremental costs of borrowing for the investment 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.

7.3 Prudential Indicators for Prudence

7.3.1 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)

7.3.2 This key indicator shows that gross debt does not exceed the total CFR at 31 March 2018.

7.3.3 Table - Gross external debt less than CFR

	2017/18 Actual
	£m
Gross External Borrowing	461.154
Other Liabilities (including PFI and Finance Leases)	124.362
Total Gross debt	**585.516**
Capital Financing requirement	653.085

Capital expenditure

7.3.4 This indicator reflects the actual level of capital spend shown in section 5 above.

7.3.5 Table - Capital Expenditure

	2016/17	2017/18	2017/18
	Actual £m	Estimate £m	Actual £m
General Fund	40.905	65.023	53.156
HRA	20.785	24.979	23.531
Total	61.690	90.002	76.687

Capital Financing Requirement (CFR)

7.3.6 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).

7.3.7 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.

7.3.8 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 and PFI.

7.3.9 Table - Capital Financing Requirement

	2016/17 Actual £m	2017/18 Estimate £m	2017/18 Actual £m
General Fund	295.726	338.082	317.912
HRA	344.127	350.775	335.173
Total	**639.853**	**688.857**	**653.085**

7.3.10 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 7.3.11 below:

7.3.11 Table - Capital Financing Requirement for Unsupported Borrowing

	2016/17 Actual £m	2017/18 Estimate £m	2017/18 Actual £m
General Fund	150.906	169.739	167.334
HRA	35.636	31.746	30.131
Total	**186.542**	**201.485**	**197.465**

7.4 Prudential Indicators for External Debt

Authorised limit for total external debt

7.4.1 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.

7.4.2 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.

7.4.3 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.

7.4.4 The following limits were set by full Council as part of the budget setting process:

7.4.5 Table - Authorised Limit for External Debt

	2017/18 £m
Borrowing	1,120.000
Other Long Term Liabilities	160.000
Total	**1,280.000**

7.4.6 The Authorised Limit for External Debt was not breached during 2017/18.

Operational Boundary for total external debt

7.4.7 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.

7.4.8 Table - Operational Boundary for External Debt

	2017/18 £m
Borrowing	560.000
Other Long Term Liabilities	140.000
Total	**700.000**

7.4.9 Actual borrowing remained within the Operational Boundary during 2017/18.

HRA limit on indebtedness

7.4.10 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 2018 is lower than the cap set.

7.4.11 **Table - HRA limit on indebtedness**

	2017/18 Estimate £m	2017/18 Actual £m
Gross HRA capital financing requirement	339.017	335.173
Less HRA PFI schemes	75.805	75.642
Adjusted HRA capital financing requirement	263.212	259.531
HRA limit on indebtedness	290.824	290.824

7.5 Prudential Indicators for Treasury Management

Adoption of the CIPFA Code of Practice for Treasury Management

7.5.1 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

7.5.2 Full Council set an upper limit on its fixed interest rate exposures for 2017/18 of 100% of its net outstanding principal sums. Borrowing remained within this limit during 2017/18.

7.5.3 Full Council set an upper limit on its variable interest rate exposures for 2017/18 of 50% of its net outstanding principal sums. Borrowing remained within this limit during 2017/18.

7.5.4 Upper and lower limits for the maturity structure of the Authority's borrowings were set as shown in the table below. Borrowing remained within these limits during 2017/18.

7.5.5 **Table - 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%

7.5.6 Full Council agreed the indicator for exposure of investments in excess of 364 days at no more than 25% of the portfolio. Investments were within this limit during 2017/18.