2018/19 Financial Management Report Annex

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SECTION 1 - GENERAL FUND SUMMARY

1 General Fund Revenue Forecast

1.1 The Authority's approved net revenue Budget of £154.726m is forecast to overspend by £3.599m. This is an improvement of £0.227m on the previous report taken to Cabinet in September 2018 of £3.826m. The budget includes £10.143m of budget savings as agreed at Council on 15 February 2018. The table in 1.2 below sets out the variation summary across the General Fund.

Table: 1.2 2018/19 General Fund Revenue Forecast Outturn as at 30th September 2018

	Gross Expenditure			Income			Net Expenditure			Forecast Variance July 2018
	Budget	**Forecast**	**Variance**	**Budget**	**Forecast**	**Variance**	**Budget**	**Forecast**	**Variance**	
Services	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Health, Education, Care and Safeguarding	168.515	176.965	8.450	(104.753)	(106.300)	(1.547)	63.762	70.665	**6.903**	7.091
Commissioning and Investment	199.133	202.003	2.870	(180.755)	(183.214)	(2.459)	18.378	18.789	**0.411**	0.193
Environment, Housing and Leisure	68.908	70.520	1.612	(28.617)	(30.104)	(1.487)	40.291	40.416	**0.125**	0.340
Chief Executive Office	0.533	0.497	(0.036)	(0.447)	(0.447)	0.000	0.086	0.050	**(0.036)**	(0.032)
Business and Economic Development	2.096	1.998	(0.098)	(0.905)	(0.764)	0.141	1.191	1.234	**0.043**	(0.163)
Commercial and Business Redesign	6.864	7.202	0.338	(5.436)	(5.374)	0.062	1.428	1.828	**0.400**	0.158
Corporate Strategy	2.140	2.462	0.322	(1.500)	(1.708)	(0.208)	0.640	0.754	**0.114**	0.124
Finance	70.082	71.176	1.094	(70.941)	(71.469)	(0.528)	(0.859)	(0.293)	**0.566**	0.459
Human Resources and Organisational Development	2.129	2.464	0.335	(2.248)	(2.529)	(0.281)	(0.119)	(0.065)	**0.054**	0.054
Law and Governance	3.617	3.861	0.244	(3.727)	(3.761)	(0.034)	(0.110)	0.100	**0.210**	0.214
Central Items	21.848	17.488	(4.360)	(11.650)	(12.481)	(0.831)	10.198	5.007	**(5.191)**	(4.612)
Support Services	19.840	19.840	0.000	0.000	0.000	0.000	19.840	19.840	**0.000**	0.000
Total Authority	**565.705**	**576.476**	**10.771**	**(410.979)**	**(418.151)**	**(7.172)**	**154.726**	**156.263**	**3.599**	**3.826**

SECTION 2 - DELIVERY OF BUDGET SAVINGS PROPOSALS

2.1 The combined budget savings of £10.143m in 2018/19 approved by Council in February 2018 bring the total savings the Authority has had to find in the eight years following the 2010 Comprehensive Spending Review (CSR) to £120.076m.

2.2 **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
2018/19	10.143
Total Savings	**120.076**

2.3 Although the vast majority of the ambitious 2017/18 savings target of £18.338m was delivered during 2017/18, at the beginning of the year there was £1.111m of savings from 2017/18 that remained to be delivered, taking the overall savings target for 2018/19 to £11.254m. Progress is tracked against each saving proposal and £7.065m, equating to 63% of the overall target, is already forecast to be saved (July, £6.526m representing 58% of the target).The table below shows the delivery by Service;

2.4 **Table: Creating a Brighter Future (CBF) savings at September 2018**

Service	Savings Target £m	Assumed in Forecast £m	To Be Delivered at Sept. £m	% Achieved	Assumed in Forecast at July £m
Business & Economic Development	0.121	0.121	0.000	100%	0.121
Central Items	3.870	1.079	2.791	25%	0.950
Commercial & Business Redesign	0.060	0.060	0.000	100%	0.060
Commissioning & Investment	0.519	0.474	0.045	91%	0.466
Corporate Strategy	0.160	0.160	0.000	100%	0.160
Environment, Housing & Leisure	1.158	1.158	0.000	100%	1.138
Finance	0.305	0.155	0.150	51%	0.265
Health, Education, Care and Safeguarding (HECS)	4.920	3.725	1.195	76%	3.231
HR & Organisational Development	0.025	0.025	0.000	100%	0.025
Law & Governance	0.116	0.108	0.008	95%	0.110
Total savings	**11.254**	**7.065**	**4.189**	**63%**	**6.526**

2.5 A prudent approach is taken to reporting efficiency savings and they will only be reported as achieved in the forecast position when the impact can be seen flowing into the financial ledger system. The governance structure of the CBF programme includes separate monthly reviews of progress by the Senior Leadership Team and the Deputy Mayor. In addition, in-year finance and performance progress meetings are held between officers and Cabinet Members to consider progress and actions being taken to deliver savings. The main areas of pressure in relation to delivery of savings targets continue to be the cross-cutting procurement and management savings shown within Central Items and savings related to care costs within HECS. Further details are provided below.

Central Items

2.6 The £2.791m of savings targets which are currently forecast as non-delivered within Central Items are the cross-cutting targets for Procurement Savings (£1.349m 2018/19 plus £0.500m from 2017/18) under the Maximising Resources Business Case and Management Savings (£0.942m) under Fit for Purpose – How we are Organised. This has improved by £0.129m since the report at July.

2.7 Progress has been made against the Procurement targets of £2.000m with £0.151m identified while a further £0.692m of proposals continue to be monitored but not yet forecasted as achieved at this stage while investigations continue. These proposals include community equipment, catering expenditure, spend on voice and data services, spend on an IT system used within Reablement and external homecare provision, purchase card spend and high cost placements. The 2017/18 cross-cutting savings in procurement are being managed alongside the 2018/19 target but are forecast as not yet achieved at this stage. Work continues, in conjunction with our partner Capita, to identify remaining savings. In October 2018, Cabinet made the decision to return the Procurement Service back to direct Council control.

2.8 Continued reshaping of the Senior Leadership Team (SLT) is expected to make a further contribution to the Management Savings target. Heads of Service have a range of plans that are currently in development to address the remaining balance to be achieved. These plans include consideration of the opportunities arising from devolution and regional joint working in regard to the provision of children's social care services, consideration of the arrangements in place to manage our major contracts and delivery of our Transformation and ICT requirements.

Commissioning and Investment

2.9 The Service has made good progress and delivered 91% of its target at September 2018 however £0.045m remains to be delivered. Work continues to look at options to at least secure the remaining balance.

Environment, Housing and Leisure

2.10 The Service is forecasting to deliver all of its £1.158m target

Finance

2.11 The target relating to changes to the Customer Services operating model of £0.150m is now reported as yet to be achieved. Discussions are on-going with our partner ENGIE to implement these required changes and deliver the savings on a sustainable basis. Alternate options to meet this target are being explored in-year.

Health Education, Care and Safeguarding

2.12 The Service is forecasting to deliver £3.725m amounting to 76% of its targets (July, £3.231 and 66%). Projects around Public Health contracts, reductions in block contracts and staffing restructures in Integrated Services are all complete.

2.13 In the report of the position at July, a total of £0.281m of the target of £1.713m savings relating to achieving income within the People Wellbeing Services Business Case was considered to be outstanding. This has now been achieved by the delivery of additional income relating to the Troubled Families Programme in addition to a grant for the Partners in Practice work and for work associated with the Alternative Delivery Model (ADM) project. Further income is anticipated from the ADM project as currently the funding agreement covers the period to December 2018.

2.14 However, an amount of £0.300m relating to banding of care home fees is currently shown as not yet achieved as the negotiation of fee rates for 2018/19 has met with significant challenge from the care providers. A commitment has been made to reset the negotiations by taking time to fully consider the financial challenges faced by the sector. As a consequence, this saving is shown as not yet achieved pending further discussions.

2.15 The 2017/18 savings targets relating to HECS have been subsumed within the normal budget monitoring processes. In relation to the Children with Disabilities target, work has been on-going to develop a revised plan to achieve these savings. Since the report of the position at July, minor savings of £0.013m have been achieved by generating additional income from providing a residential assessment place at Riverdale to a neighbouring authority. The Service continues to review alternative ways of achieving the full target of £0.350m.

2.16 The service is continuing to take a prudent view around savings to be delivered against care provision and its related income as these are delivered over the course of the year by on-going robust review and management actions rather than as a one-off activity with a discrete start and end date as in, for example, a staffing restructure. The project around Customer Demand Pathway continues to be rated amber as careful monitoring of results of individual client reviews continues. At this point in time, delivery of 50% of the £0.200m target is forecasted. The projects on Direct Payments and Client Charging have progressed and following policy decisions taken by Cabinet in October, 25% of these targets are prudently forecasted to be delivered with full implementation of the projects assumed by January 2019. The balance of the Direct Payment target of £0.100m has already been achieved by one off measures in-year relating to the claw back of previously made direct payments which are no longer required by clients. The project on Health Funding is now rated as green and is forecasted to fully achieve the target of £0.400m as a result of increased s117 income relating to mental health aftercare, following a review of eligible clients.

SECTION 3 – SERVICE COMMENTARIES

3.1 Meetings have been held between finance officers and budget managers to review the forecast positions for 2018/19, with forecasts continuing to be prepared on a prudent basis. Meetings took place in July and October/November with officers, the Cabinet Member for Finance and Resources, the Deputy Mayor and relevant Cabinet Members to discuss the in-year finance and performance position. Further meetings are planned on a quarterly basis. Heads of Service and their senior teams also attend to discuss plans in progress to mitigate any pressures.

3.2 Health, Education, Care & Safeguarding (HECS)

3.2.1 HECS is forecasting an over-commitment against its £63.762m net controllable expenditure budget of £6.903m representing an improvement of £0.188m since the July report. This forecast position excludes the application of contingency budgets set aside in Central Items for demand-led pressures in adult services of £1.800m and within children’s services of £2.616m.

3.2.2 **Table: Financial Summary for HECS**

	Budget (£m)	Forecast (£m)	Variance Sep(£m)	Variance July(£m)
Corporate Parenting & Placements	13.953	17.202	3.249	3.199
Early Help and Vulnerable Families	2.130	2.243	0.113	0.093
Employment and Skills	0.601	0.758	0.157	0.000
Integrated Disability & Additional Needs Service	1.993	2.699	0.706	0.638
School Improvement	0.050	0.018	(0.032)	(0.006)
Wellbeing, Governance & Transformation	2.265	1.806	(0.459)	(0.483)
Disability & Mental Health	28.341	29.176	0.835	1.367
Wellbeing & Assessment	11.421	14.192	2.771	2.706
Integrated Services	2.554	2.248	(0.306)	(0.302)
Business Assurance	0.435	0.304	(0.131)	(0.121)
Public Health	0.019	0.019	0.000	0.000
Total HECS	**63.762**	**70.665**	**6.903**	**7.091**

3.2.3 On 2 October, the Government announced additional funding for adult social care to support NHS winter pressures. Although the final grant determination letter has not been received at the time of writing this report, a letter outlining the allocations and broad purpose of the funding has been published showing the value of the grant for North Tyneside to be £1.031m. All local authorities receiving this grant will be required to confirm;

1. That the totality of the grant will be spent on providing adult social care services, in addition to funding already planned; and that use of the grant has been discussed with local NHS partners, including local acute hospital trusts.

2. That councils include alongside their certification described above, what additional volumes of care and support the additional funding will purchase by returning a central template

3.2.4 The grant has not been shown within the Authority's position at this stage pending discussions with members and with the Authority's local NHS partners regarding its use.

Main budget pressures across HECS

3.2.5 In addition to its normal complex budget management, the Service has been required to deal with a combination of demand-led pressures and national policy changes. There have been upward pressures on care providers' fees partially resulting from the National Living Wage and reduced income from the NHS largely due to the on-going financial challenges faced by the North Tyneside Clinical Commissioning Group (NTCCG). Discussions with NTCCG over the last couple of months have led to an agreed approach to the contributions being made to the Authority, particularly with regard to S256 contributions for Mental Health provision. We continue to work with the NTCCG to achieve a service delivery within available resources.

3.2.6 The main factor behind the significant overspend is third party payments in relation to fees for care homes and community-based packages for adults. This was foreseen and, as part of the 2018/19 budget setting process, contingencies were created and these are currently held centrally. In addition, there remains significant pressure within Corporate Parenting and Placements in relation to care provision for Looked After Children (LAC) and Care Leavers despite the overall numbers of LAC being relatively stable and showing a reduction from the recent January 2018 high (see 3.2.25 below). This has combined with the on-going pressures in the workforce arising from staff retention costs and recruitment costs. As indicated in section 2, the Service is making progress in delivering another demanding set of savings projects but the total of £1.195m targets which are, as yet, not yet achieved are contributing to the overall overspend position.

The main factors contributing to the pressure are shown in the table below;

3.2.7 Table: Summary of Factors Driving the Overspend within HECS

Sub-service	Savings still to be delivered 2018/19 £m	Savings still to be delivered 2017/18 £m	Demand Pressures £m	CCG Income £m	Other income (mainly client income) £m	Staff £m	Other £m	Total £m
Adult Services	0.505	0.109	2.569	0.491	(0.344)	(0.290)	(0.330)	2.710
Children's Services	0.147	0.434	2.850	0.070	0.000	0.553	0.139	4.193
Total	**0.652**	**0.543**	**5.419**	**0.561**	**(0.344)**	**0.263**	**(0.191)**	**6.903**

Adult Services

3.2.8 In Adults the £2.710m overall pressure predominantly relates to demand pressures foreseen by Cabinet which are partially offset by other income mainly client contributions. In addition there are £0.614m (July, £0.839m) of, as yet, not fully delivered CBF targets mostly from 2018/19 but with a small element relating to the prior year. There is also a much pressure of £0.491m from CCG income around the s256 mental health agreement and reducing contributions for jointly funded packages. This has improved from the July forecast position of £1.311m following second quarter billing of CCG recharges for shared care and s117 Mental Health Aftercare income. The demand pressure is backed by £1.8m of contingencies held centrally and there may also be some potential offset from the new grant announced in October 2018 to address NHS winter pressures (£1.031m).

3.2.9 In common with most local authorities, North Tyneside has seen costs within adult social care continue to rise as the success story of longer lifespans means there are many more people with significant care and support needs arising from a mixture of physical health and mental health conditions including dementia and frailty in old age. In addition to older people, younger adults with learning disabilities and physical disabilities are also living longer, often with multiple complex issues.

3.2.10 In order to manage this demand as effectively as possible and ensure that the most intensive services are targeted at those in the greatest need, the Service has been going through transformation to embed an asset-based approach that focuses on enhancing an individual's strengths and informal support networks to maximise their independence. This has had the impact of containing the overall 0size of the population in receipt of services with a cost to the Authority, but the average cost of those services has increased due to the increased average complexity of the needs of those clients.

3.2.11 Demand-led pressures (excluding those which form part of savings targets as yet not achieved outlined in 2.12 to 2.16) total £2.569m above budget. These are analysed into the following service types;

Table: Analysis of Adult Services Care Provision Pressure by Service Type

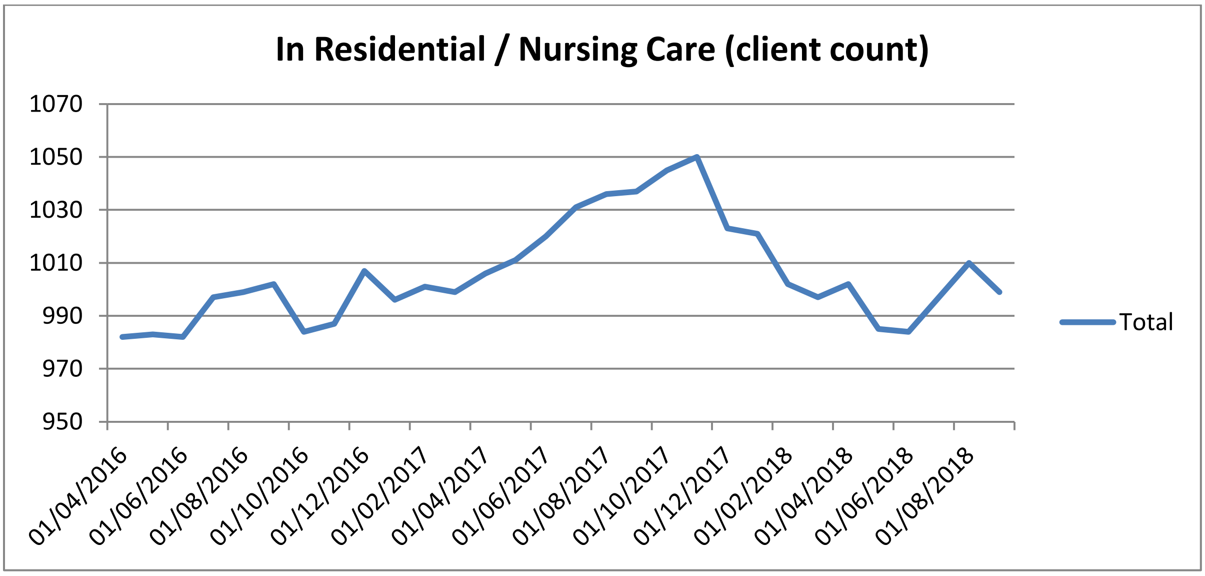
Type of Service	Demand-led Pressure September £m	Demand-led Pressure July £m
Residential and Nursing care	1.651	1.280
Homecare and Extra Care	0.946	0.932
Other Community-Based Care	(0.028)	0.191
Total	**2.569**	**2.403**

<u>Residential and Nursing Care</u>

3.2.12 In relation to residential and nursing care, although there has been a reduction in long-term placements being made there has also been an increase in short-term placements. Internal processes have been established to monitor the processes around making short-term placements, which is now leading to a reduction in their use. However there are challenges, for example the options to move clients from short-term placements to community provision diminishes after longer lengths of stay in short-term placement as clients lose skills and family concerns increase around risks at home.

3.2.13 This approach is having a positive impact on the numbers of placements overall with the Service showing a lower level of placements since the recent peak in November 2017 as indicated in Chart at 3.2.14 below but we did see an increase in demand from the July position. The number of clients placed at November 2017 was 1,050 which had dropped to 971 at the end of July 2018. August however, saw an increase to 1,010 which has fallen back slightly in September to 999. The service is continuing to review all placements made to appropriately challenge each decision.

3.2.14 Chart: Trend of numbers of Clients in residential and nursing care

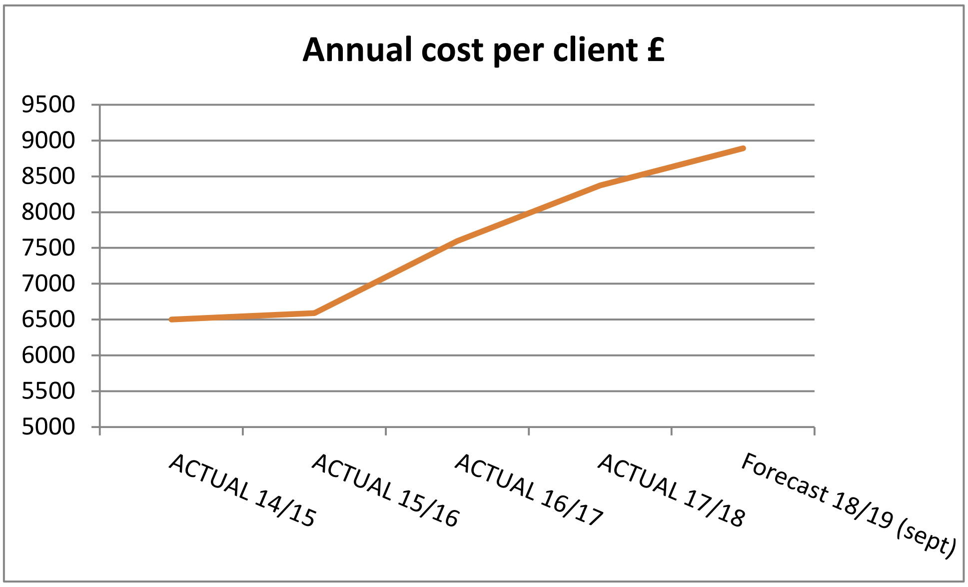


3.2.15 Residential and nursing placement forecasts are showing a pressure of £1.651m when forecast forward at current levels of provision. The rise in placements during August and September has resulted in a £0.371m increased in the forecast since July. The Service is however proactively working to achieve further reductions in the level of residential and nursing care across the remainder of the year as alternative forms of provision of services are identified for short-term placements. Services such as reablement, community based intermediate care and extra care are being deployed effectively to reduce admissions to long term residential care. The service is having a focused review of all short-term placements with support from colleagues from sheltered accommodation and with a view to maximising the appropriate use of assistive technology to identify exit plans for those people needing to move on from short-term residential placements. This is a demand led service however and we are entering the challenging winter period where the service will be stretched by demands to support the effective management of NHS winter pressures.

Homecare and Extra Care

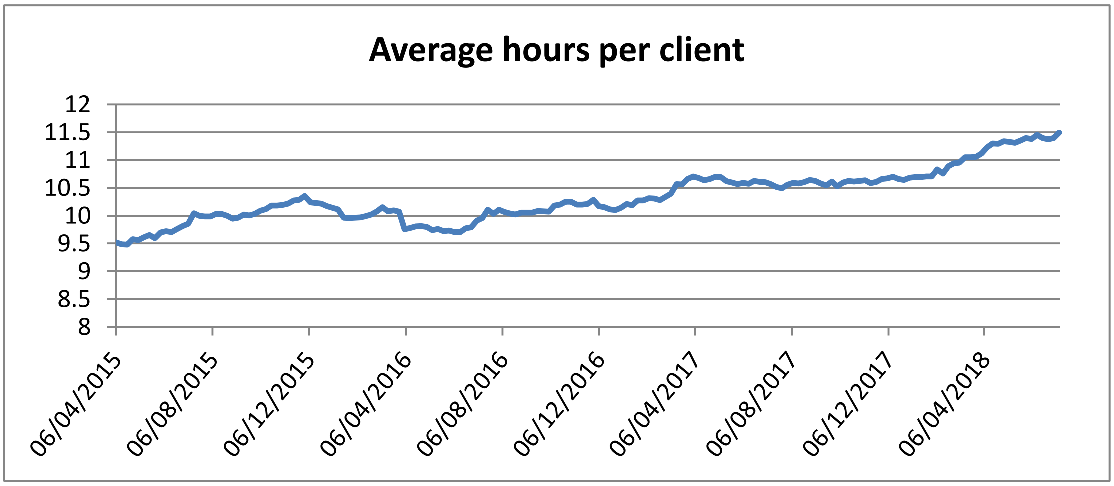
3.2.16 A general reduction in levels of residential and nursing care must be viewed in the context of increasing provision of hours per client of homecare and extra care as those not placed in care homes are supported to live at home with more complex needs. As reported during 2017/18, the Authority, in line with the national picture, has seen an increase in the average cost of homecare as more intense support for an aging population results in higher average package costs as indicated by the chart below.

3.2.17 Chart: Trend in Annual Cost per Client of Homecare/Extra Care Services



3.2.18 The number of hours provided per client has increased by 21% since April 2015 from 9.5 hours on average to 11.5 hours indicating a significant increase in the levels of need which are now being supported in the community rather than in a residential setting. This is illustrated in Chart 3.2.19 below.

3.2.19 **Chart: Average number of hours provided per client**



3.2.20 The Service is working hard to continue embedding the asset-based approach by remodelling how customers access the service to ensure that assessments are proportionate and that clients receive the appropriate level of support to meet their needs(to the extent that they are eligible under the Care Act) as cost-effectively as possible.

CCG Income

3.2.21 The pressure within adult services budget areas in relation to CCG income has reduced from £1.311m in the July forecast to £0.491m. The improvement relates to a forecast revision following the recalculation of CCG recharges for shared care and s117 Mental Health Aftercare income which is performed quarterly. The service has undertaken a careful review of all clients with s117 eligibility where the CCG has undertaken to fund 50% of all mental health aftercare support packages and this has resulted in increased recharges to the CCG of £0.487m. Recharges for shared care have also increased by £0.169m reversing the recent trend of decreasing contributions. In relation to jointly funded care, the Authority is robustly challenging the CCG on a case by case basis where it is identified that a client has significant health needs. However, if a client has not been assessed as fully meeting the threshold for continuing healthcare, there are currently no clear statutory guidelines outlining the CCG's responsibility. New national guidance around jointly funded cases is expected in October 2018 and the Authority is continuing to discuss these issues with the CCG. In addition, negotiations relating to the CCG decision to remove a contribution to Mental Health Resettlement infrastructure have been concluded resulting in an additional £0.164m included in the revised forecast.

Other

3.2.22 The pressure in placement costs and CCG income is being partially mitigated by other income, principally client contributions of £0.344m and underspends in staffing of £0.290m and other areas of£0.330m. This is comprised mainly of unspent transformation budgets within Wellbeing, Governance and Transformation (£0.459m) and underspending budgets in Integrated Services, partly in relation to client transport where a range of approaches have successfully managed costs down.

Children's Services

3.2.23 In Children's services the £4.193m pressure relates to ongoing demand pressures of £2.850m mainly in Corporate Parenting and Placements (July, £2.601m), which were foreseen by Cabinet and backed by £2.616m of contingencies held centrally. In addition, there are £0.581m of, as yet, not fully delivered CBF targets with the balance made up mainly of staffing pressures.

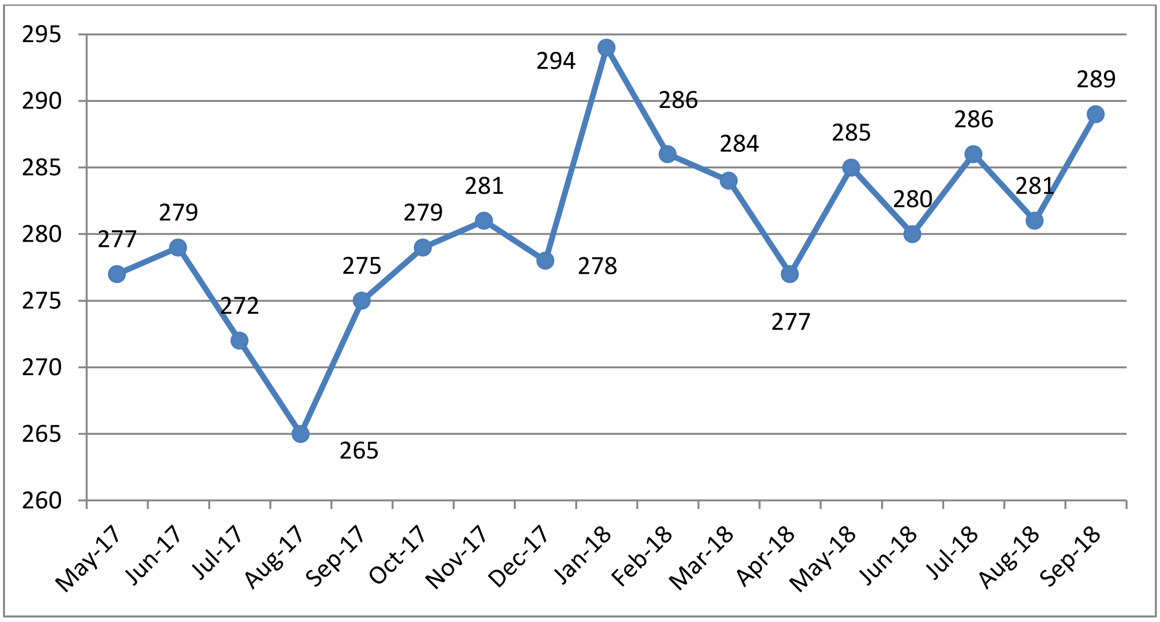
3.2.24 A breakdown of the total of demand led pressures of £2.850m is shown below

Table: Analysis of Demand Led Pressures in Children's Services by Type

Type of Service	Demand-led Pressure September £m	Demand-led Pressure July £m
Placement costs for LAC	1.971	1.790
Costs relating to non LAC	0.750	0.750
Leaving Care costs	0.070	0.061
Management and legal fees	0.052	0.000
Total	**2.850**	**2.601**

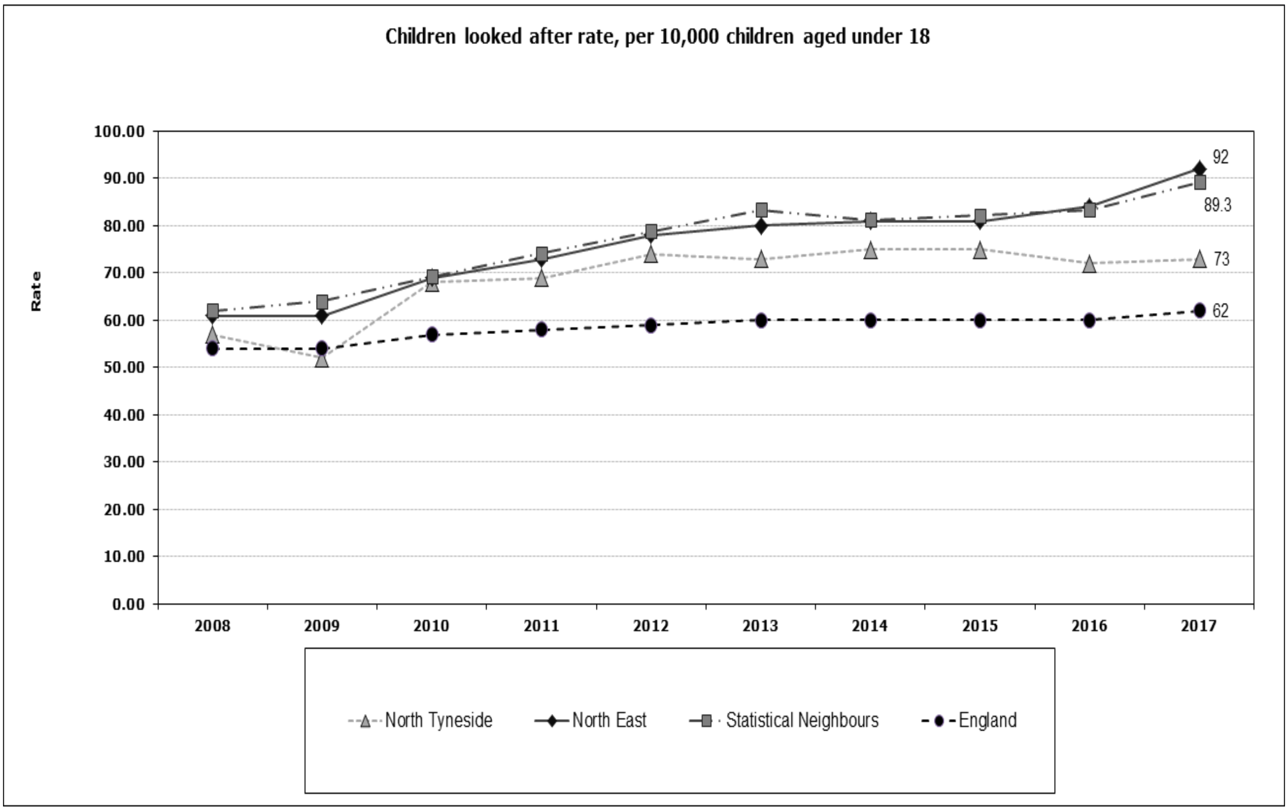
3.2.25 The main over-commitment continues to be in relation to placement costs for looked after children totalling £1.971m, and further detail is provided in Table 3.2.30. Over recent years, there has been an increase nationally in demand for children's residential placements but with no corresponding increase in central government funded provision. In North Tyneside over the last few years the overall number of Looked After Children has reflected the increases felt nationally but the numbers are now lower than the peak in January 2018 as demonstrated in chart 3.2.26 below:

3.2.26 **<u>Looked after Children numbers at each month end</u>**



3.2.27 The most recent available national comparators from 2016/17, as demonstrated by the chart below, shows that North Tyneside, although above the England average, performs well within the North East region in relation to the rates of LAC. Updated national figures for 2017/18 will be available later in the autumn.

3.2.28 Chart: Comparative Performance in Rates of LAC per 10,000 Children under 18



3.2.29 Although the number of placements has not increased relative to 2017/18, the placement mix continues to change. Placements for adolescents (particularly males) with a combination of risks including aggressive behaviour, offending, substance use and sexualised behaviour are increasingly difficult to source. This has resulted in the use of more costly bespoke individual placements, where it is not suitable to place young people in group environments. This is demonstrated in the table below where the main pressure results from residential placements which, in terms of total bed nights, represents only 6% of provision but is very costly amounting to over one third of the overall placement cost (35%). The average cost of a residential care placement has increased to £0.226m per annum compared to £0.207m per annum at the same point in 2017/18, an increase of 9.2% reflecting the increasing complexity of needs of the young people in our care.

3.2.30 **Table: Forecast cost, forecast variance, average placement cost and placement mix**

Placement Type	18/19 Forecast Variance	Average Annual Placement cost £m	18/19 Forecast bed nights	Placement Mix	No. LAC at Sept 18	No. LAC at Sept 17
External Residential Care	0.833	0.226	6,782	6%	18	15
External Fostering	0.262	0.039	9,225	9%	23	25
In-House Fostering Service	0.510	0.024	76,076	70%	203	183
External Supported Accommodation	0.442	0.137	1,294	1%	6	16
Other*	(0.076)	various	15,146	14%	35	36
Total	**1.971**		**108,523**	**100%**	**285**	**275**

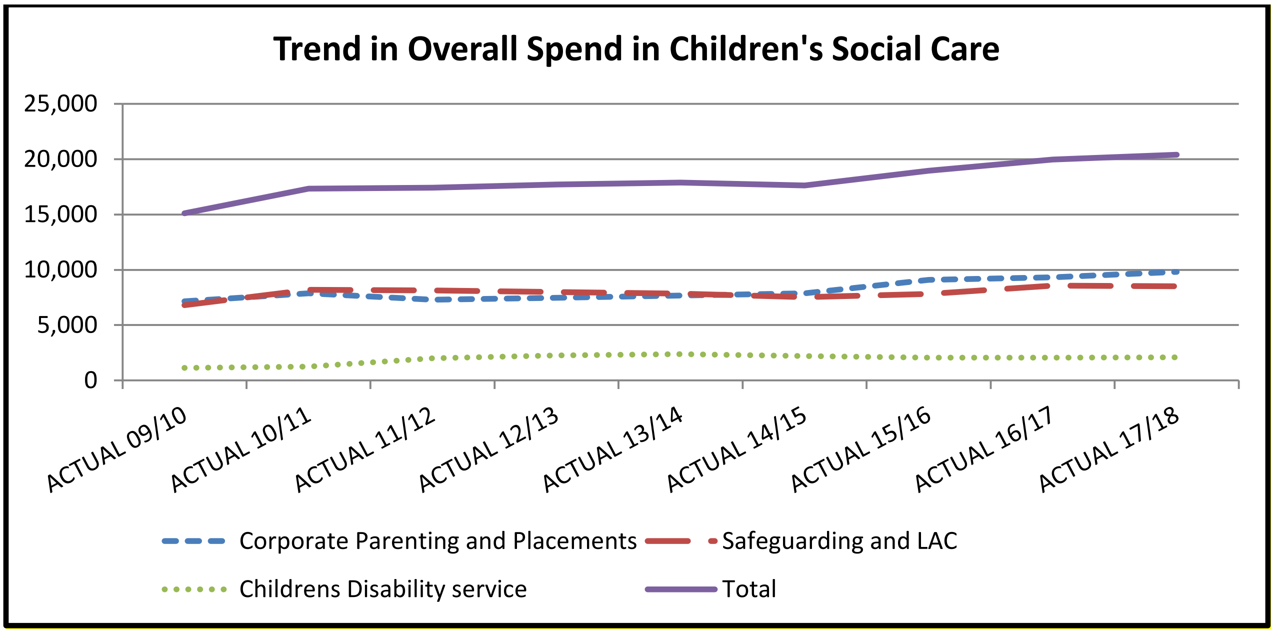
*Other includes Placed for Adoption, Placed with Parents/Parental Responsibility and NTC Children's Homes.

3.2.31 The service has been successful in managing down the use of externally provided supported accommodation which is the next most costly form of provision after residential care. This has been achieved by making full use of the Authority's in house provision and supporting young people who have been involved in risk taking behaviour with stable and resilient staff teams. This has allowed the placement of young people within services that may otherwise have required an external placement at significant additional cost. However, the remaining cases in external provision are, on average, more complex than previously and the cost of £0.137m per annum for the remaining placements is 44% higher than the average cost of £0.095m in September 2017.

3.2.32 Pressures relating to non LAC are unchanged from the July report at £0.750m. These consist mainly of Special Guardianship Order payments and Cabinet will be aware of the increases in costs for these placements after the revised Council policy was introduced in 2018. Part of the contingency budget of £2.616m held in Central Items was created to mitigate this risk. Management and legal fees have increased since the July report by £0.052m relating to a payment to Dartington Research in relation to further development of strategies to manage demand effectively and reduce the overall costs of children's placements.

3.2.33 Complexity of need and market factors have resulted in a continuing rise in overall spend, despite the Service's on-going efforts to contain costs throughout the whole pathway from managing demand by early intervention through to developing alternative provision for young people with the most complex needs. The rise of costs over the period since 2009/10 is shown below. This graph covers external and internally-provided care costs and associated staffing costs for LAC and children with disabilities.

Chart: Trend in Overall Spend for LAC and Children with Disabilities



<u>Staffing pressures</u>

3.2.32 Cabinet are aware of the particular challenges faced across the children's social care sector nationally and this has led to staffing costs being overspent by a net £0.334m through the necessary use of agency workers and market supplement payments. The remaining £0.219m of the total £0.553m reported staffing pressure, primarily relates to the requirement for additional resource within the Statutory Assessment and Review Team to meet current demand for assessments.

<u>Other</u>

3.2.33 There is a pressure of £0.139m which predominantly relates to a reduced level of grant income for adult learning due to reduced numbers of learners. The Service is looking at demand levels, ways to increase take up and potential restructuring of the service to meet anticipated demand.

3.3 Commissioning & Investment

3.3.1 Commissioning and Investment is forecasting an over-commitment of £0.411m as set out in 3.3.2 below. This compares to the July position of £0.193m.

3.3.2 **Table: Commissioning and Investment forecast variation**

	Budget (£m)	Forecast (£m)	Variance Sept(£m)	Variance July(£m)
School Funding & Statutory Staff Costs	15.341	15.341	0.000	0.000
Commissioning Service	0.405	0.405	0.000	0.000
Child Protection Independent Assurance and Review	0.672	0.682	0.010	0.015
Facilities and Fair Access	0.095	0.222	0.127	0.104
Strategic Property and Investment	0.359	0.404	0.045	0.045
High Needs Special Educational Needs	0.000	0.000	0.000	0.000
Property	1.395	1.624	0.229	0.029
Commissioning & Investment Management & Support	0.152	0.152	0.000	0.000
Procurement	(0.041)	(0.041)	0.000	0.000
Total Commissioning & Investment	**18.378**	**18.789**	**0.411**	**0.193**

3.3.3 The main reason behind the increased pressure within Commissioning and Investment is Property, where a pressure of £0.229m is now forecasted. The £0.200m increase in pressure from the July report relates to the managed repairs and maintenance budget across public buildings and discussions continue with Capita and Kier North Tyneside on the effective management of this area. In addition, there continues to be a small pressure mainly due to costs of preventing and managing vandalism relating to the Sir G.B. Hunter Memorial Hospital site recently vacated by the NHS.

3.3.4 Within Facilities and Fair Access there is a £0.072m overspend within Catering Services due mainly to inflationary pressures. There has been a 2.7% increase in the specific Consumer Price Index for food and beverages which, on an annual spend of £2.2m, explains the majority of this pressure. There are also pressures in Cleaning of £0.027m and within Home to School Transport of £0.044m partially offset by £0.016m of underspends, mainly from staffing.

3.3.5 The Service is concerned that, although increases in food costs experienced to date have been included in the forecast, there is an expectation that further food price increases will be felt as we move through the autumn. There are fears that the impact of the extreme weather the country has suffered in 2018 has not yet been fully factored into prices as the very cold winter followed by a hot and dry summer affects farmers' yields and production costs for key items like grain, meat, potatoes and milk.

3.3.6 There are staffing pressures affecting Strategic Property and Investment where a savings target of £0.045m relating to management savings remains not yet achieved (see 2.9 above). The service is continuing to review required staffing resources against the Council's commitments and priorities and is also looking at alternative sources of funding to at least secure this remaining balance.

3.4 Environment, Housing & Leisure

3.4.1 Environment, Housing and Leisure Service is reporting a pressure of £0.125m against the £40.291m budget, as set out in Table 3.4.2 below. The forecast position has improved by £0.215m from the last reported position of £0.340m in July.

3.4.2 **Table: Forecast Variation in Environment Housing & Leisure to budget**

	Budget (£m)	Forecast (£m)	Variance September (£m)	Variance July (£m)
Sport & Leisure	3.113	3.057	(0.056)	0.048
Arts Tourism & Heritage	1.675	1.662	(0.013)	0.086
Libraries & Community Centres	5.026	5.182	0.156	0.195
Security & Community Safety	0.176	0.209	0.033	0.027
Fleet/Facilities Management	0.586	0.471	(0.115)	(0.075)
Waste Strategy	11.162	11.078	(0.084)	(0.035)
Bereavement	(0.761)	(0.747)	0.014	(0.030)
Street Environment	7.810	7.872	0.062	0.069
Head of Service and Resilience	0.110	0.139	0.029	0.033
Street Lighting PFI	4.294	4.294	0.000	0.000
Consumer Protection & Building Control	0.779	0.875	0.096	0.001
Transport and Highways	5.320	5.332	0.012	0.012
Planning	0.108	0.108	0.000	0.000
General Fund Housing	0.893	0.884	(0.009)	0.009
Total	**40.291**	**40.416**	**0.125**	**0.340**

3.4.3 The main factors driving the pressure across EHL as a whole are premises-related energy and water costs (£0.221m) and staffing pressures (£0.196m) relating to prudent estimates made where minimum staffing levels are a safety imperative. In addition, there are a range of miscellaneous operational pressures across the service areas described in the paragraphs below amounting to £0.108m. These pressures are being partially offset by additional income, including £0.400m resulting from the change in VAT treatment for part of the Sport and Leisure's income, as reported in the May report and outlined in 3.4.6 below.

3.4.4 Movement since July is mainly down to two factors: a business rates rebate and additional costs for taxi licencing. The business rates rebate totalling £0.570m is in two parts, both relating to a review and reduction of charges for Segedunum Museum going back six years. There is an ongoing reduction in the charge for Segedunum Museum of £0.101m. In addition, an amount of £0.120m of the back-dated rate rebate received has been applied to offset overspends against rates budgets across the service. The remaining £0.450m back-dated rebate has been shown within Central Items.

3.4.5 In recent years the taxi license charges to the trade were topped up by a planned release of a historic surplus in the taxi-licensing account. The last of the surplus was released in 2017-18. Some Taxi drivers have also choosen to renew their licenses with another authorityThe forecast has been adjusted to reflect an expected drop in licence income against budget of £0.095m

Sport & Leisure

3.4.6 Sports & Leisure income is currently benefiting from increased income due to changes in VAT rules of approximately £0.400m, based on current forecast take-up levels on indoor activities and gym memberships. In addition, there is an improved position following correction of rates overspends using the rebate received for Segedunum.

3.4.7 These items are mitigating operational premises pressures of £0.146m within the service area, which are mainly caused by energy costs. As previously reported the service continues to work closely with colleagues in Asset Management to explore further schemes to enhance control of energy and water usage and reduce costs.

3.4.8 The service area also has staffing pressures of £0.100m which are caused by the need to cover shifts and back-fill for sickness cover. In addition, there are other net pressures totalling £0.098m, mainly relating to supplies and services across the various sites.

Arts, Tourism & Heritage

3.4.9 The Arts, Tourism & Heritage service area has benefitted from the rebates received for Segedunum of £0.101m which explains the improvement since the July report. There remains a residual £0.029m of pressure across this service area mainly due to energy and water rates.

3.4.10 As previously reported, there is a £0.059m pressure arising from The Playhouse due to reduced Authority income and operational cost inflation. This is expected to be partially mitigated later in the year once the profit share for the Council is known, though this is unlikely to completely offset the pressure.

Libraries & Community Centres

3.4.11 Libraries & Community Centres are forecasting Premises and Supplies & Services pressures of £0.103m, with income pressures making up the balance of the overspend. The Service is reviewing all areas of discretionary spend with a view to mitigating these pressures. Included within the reported forecast pressures are contributions from Reserves linked to the three PFI Funded buildings (Whitley Bay Customer First Centre, John Willie Sam’s Centre & Shiremoor Library) totalling £0.181m to fund additional costs for these schemes. The Libraries and Community Centres service area remains on track to deliver the CBF savings associated with the reduced opening hours.

Security & Community Safety

3.4.12 The service is forecasting a small net pressure of £0.033m and is continuing to review how to reduce expenditure & generate income following the move to the White Swan centre which saw some investment in new equipment.

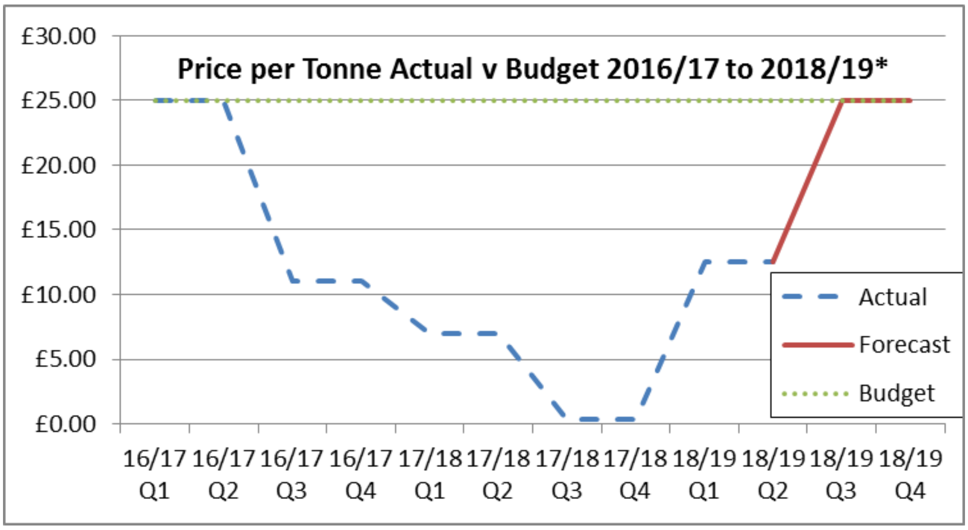
Fleet Services/Facilities Management

3.4.13 The Fleet Services and Facilities Management service area continues to forecast an underspend against budget. The additional cost of new vehicles continues to be offset by the associated reduction in servicing and maintenance costs. In addition, the service area is benefitting from reduced fuel costs associated with more efficient vehicles.

Waste Strategy

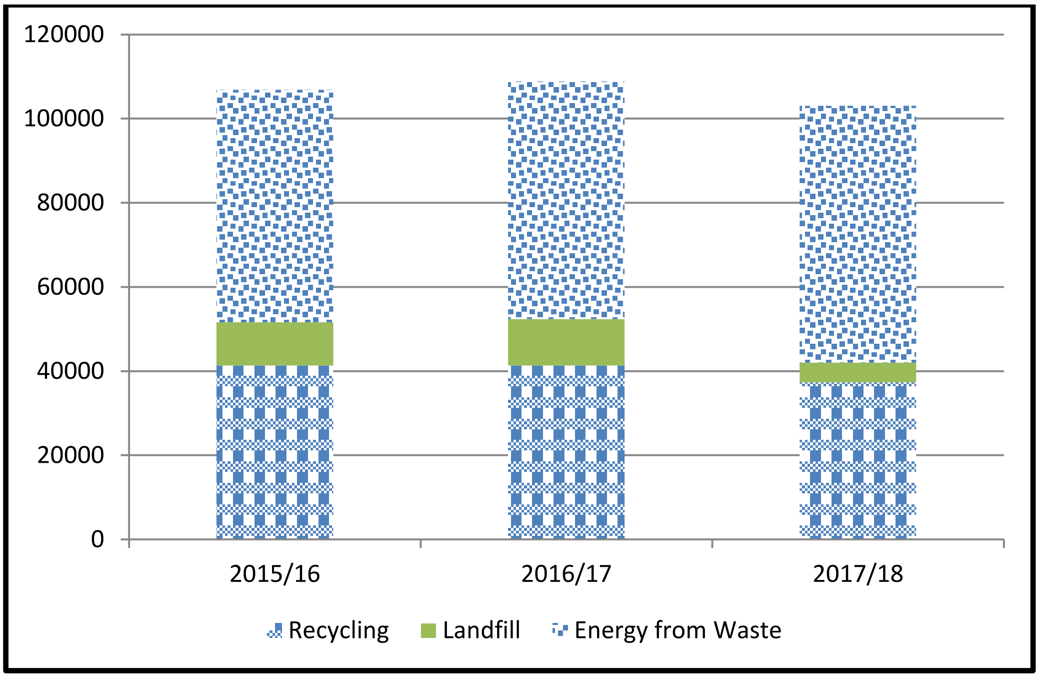
3.4.14 Waste Strategy is forecasting an underspend for 2018/19 of £0.084m, an improvement from July's reported underspend of £0.035m. The Service is currently expecting that the additional costs for the first year of introducing the alternate weekly collections and expanding garden waste collection will be met within this forecast. As the waste market can be volatile, the Service's forecast is based on prudent assumptions, including expecting an increase in the recycling disposal cost per tonne rate for the second half of the year based on anticipated unfavourable market conditions. Even taking this into account, the service is forecasting a £0.140m underspend on recycling related costs.

3.4.15 Recycling Disposal Price per Tonne Fluctuations



3.4.16 The volume changes between the different methods of waste disposal, as shown in 3.4.17 below, can be volatile and clearly have a significant impact on costs.

3.4.17 Overall Waste Tonnage



The Authority sent the lowest tonnage for decades to landfill during 2017/18 partly as a result of less waste coming through the household waste recycling centre (HWRC) but also because a larger proportion of waste was sent to the Energy from Waste (EfW) plant.

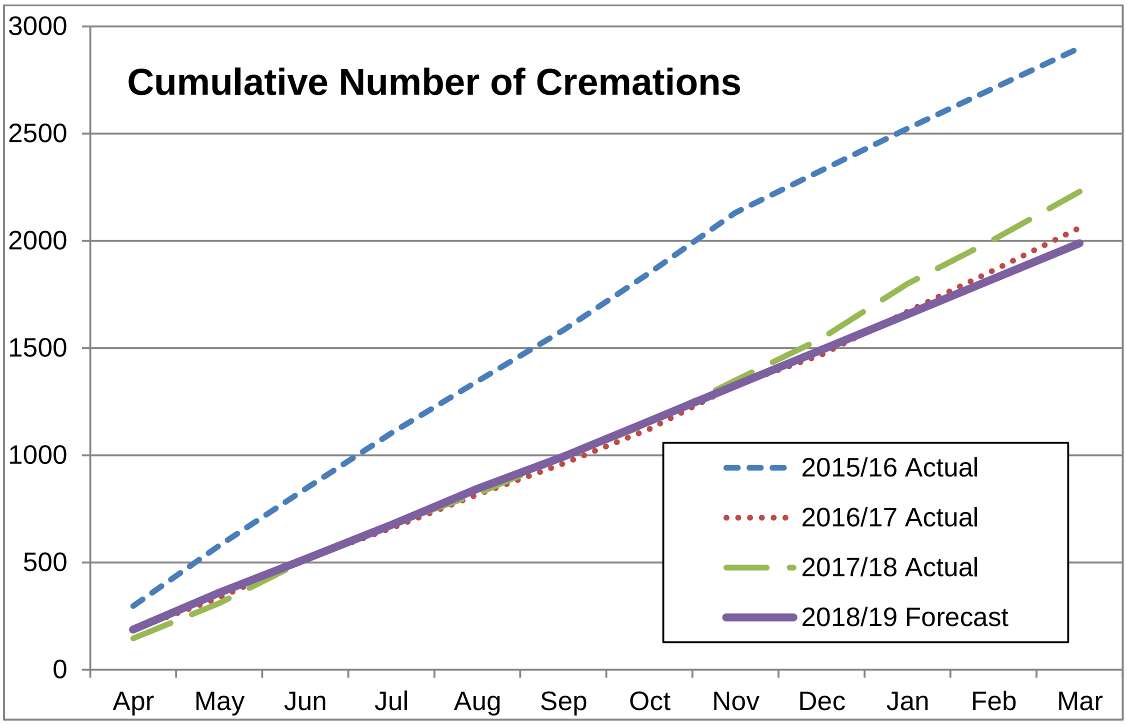
3.4.18 The impact of the new arrangements for alternative weekly collections from August 2018 and the full year impact of the changes introduced at the HWRC in 2017/18 will be carefully monitored as part of ensuring the environmental and financial benefits are secured.

Bereavement

3.4.19 The Bereavement service area is forecasting a small overspend of £0.014m, mainly due to carrying additional staff costs, which are partially due to higher sickness levels within the service.

3.4.20 The service's income is difficult to predict, being demand led. To reflect this, the service is currently forecasting a prudent level of cremation income at this point, though traditionally uptake tends to increase over the latter part of the year. This is further illustrated by the graph at 3.4.21 below. Note the high levels of cremations in 2015/16 were due to the closure of the crematorium in Blyth following a fire.

3.4.21 Annual cumulative Number of Cremations (2018/19 forecast on trend to date)



Street Environment

3.4.22 The net £0.062m pressure is primarily due to an on-going shortfall against challenging income targets of £0.036m (mainly at the Rising Sun) plus other operational pressures from grounds maintenance, offset in part by operational savings mainly in street cleansing. The remaining net pressure is expected to be further reduced over the year through continued management of discretionary spend.

Street Lighting PFI

3.4.23 Although this service areas is forecast to be on budget, cost pressures of £0.306m are forecast mainly around the PFI Contract & electricity costs. However, a contribution from the specific PFI reserve established for this purpose is expected to fully meet this pressure.

Consumer Protection & Building Control

3.4.24 This service area includes taxi licencing where there is a £0.095m income shortfall. In recent years the taxi license charges to the trade were topped up by a planned release of a historic surplus in the taxi-licensing account. The last of the surplus was released in 2017-18. Some Taxi drivers have also choosen to renew their licenses with another authorityThe forecast has been adjusted to reflect an expected drop in licence income against budget of £0.095m

3.5 Business & Economic Development

3.5.1 This Service is now forecasting a pressure of £0.043m as shown in the table below compared to an underspend of £0.163m reported at July. The movement in the forecasted position is due to significantly lower berthing fees income at Swan Hunter's Quay and reduced income forecasts within the business units available for rent on the site. Berthing fees are volatile and the position could improve by the year end but at this stage it is prudent to reduce the forecasted income in line with bookings. The service is proactively marketing all available business unit space with a view to securing additional tenants before the year end.

3.5.2 **Table: Forecast Variation Business and Economic Development**

	Budget (£m)	Forecast (£m)	Variance Sept(£m)	Variance July(£m)
Regeneration	0.344	0.405	0.061	(0.144)
Business & Enterprise	0.795	0.803	0.008	0.008
Resources & Performance	0.052	0.026	(0.026)	(0.027)
Total Business & Economic Development	**1.191**	**1.234**	**0.043**	**(0.163)**

3.6 Commercial & Business Redesign

3.6.1 This Service is showing an expected overspend of £0.400m (July, £0.158m) as shown in table 3.6.2 below. This movement in position is largely due to the costs of the OutSystems, a software development and online hosting platform previously assumed to be capitalised (£0.144m). The balance of the movement relates to staff engaged in delivering the Council's change programme whose costs are also no longer planned to be allocated to capital projects. The Service is actively reviewing the staffing structure in line with the priorities of the Council's change programme with a view to identifying offsetting savings.

3.6.2 **Table: Forecast Variation Commercial and Business Redesign**

	Budget (£m)	Forecast (£m)	Variance Sept(£m)	Variance July(£m)
Head of Commercial & Business Redesign	(0.132)	0.235	0.367	0.094
ICT	1.560	1.593	0.033	0.064
Total Commercial and Business Redesign	**1.428**	**1.828**	**0.400**	**0.158**

3.7 Corporate Strategy

3.7.1 Corporate Strategy is forecasting an over-commitment of £0.114m as set out in Table 3.7.3 below (July, £0.124m). This over-commitment is primarily staffing cost pressure where resources are in place to support the organisation through the changes arising from the implementation of the Creating a Brighter Future programme and resources supporting work in respect of devolution. Consideration is being given to this on-going support and funding opportunities that will arise following the implementation of devolution in addition to the requirements to deliver the change programme.

3.7.2 The overall staffing pressures are partially offset by reductions in grant payments to third parties. The Service area is looking to manage some of the pressures through the year by focused vacancy management and identifying opportunities to increase income and reduce non-essential spend. There has been a small reduction in the pressure due to two new vacancies in Marketing.

3.7.3 **Table: Forecast Variation Corporate Strategy**

	Budget (£m)	Forecast (£m)	Variance Sept(£m)	Variance July(£m)
Corporate Strategy Management	0.078	0.098	0.020	0.016
Policy, Performance & Research	(0.172)	(0.113)	0.059	0.036
Community and Voluntary Sector Liaison	0.438	0.434	(0.004)	(0.004)
Marketing	0.122	0.168	0.046	0.063
Elected Mayor and Executive Support	(0.005)	(0.005)	0.000	0.005
Children's Participation & Advocacy	0.179	0.172	(0.007)	0.008
Total Corporate Strategy	**0.640**	**0.754**	**0.114**	**0.124**

3.8 Finance including Revenues & Benefits and Customer Services

3.8.1 The forecast pressure of £0.566m in the Finance Service (July, £0.459m) as set out in the table below relates to Revenues & Benefits and Customer Services. There are three main causes of this pressure which are detailed below. At this stage in the year, a prudent estimate of the position continues to be reported.

3.8.2 **Table: Forecast Variation Finance**

	Budget (£m)	Forecast (£m)	Variance Sept(£m)	Variance July(£m)
Finance Service	(0.542)	(0.542)	0.000	0.000
Internal Audit	(0.038)	(0.040)	(0.002)	0.000
Revenue & Benefits and Customer Services	(0.279)	0.289	0.568	0.459
Total Finance	**(0.859)**	**(0.293)**	**0.566**	**0.459**

Revenues and Benefits

3.8.3 In the early part of the financial year a prudent assessment of the impact of the move to Universal Credit on the Benefits position has been made, in particular in relation to overpayment recovery (£0.309m)

3.8.4 We continue to monitor closely the impact that residents moving to Universal Credit in North Tyneside is having on the Benefit Subsidy Claim and Housing Benefit Overpayment income reduction. The pressure on Housing Benefit

Overpayment income has increased due to more residents moving on to Universal Credit. This is positive as less overpayments are being created, but has also meant that a reduced opportunity to gain additional income from overpayments. This increase in Housing Benefit Overpayment income pressure has been offset in part by the associated reduction in subsidy loss and a consequential reduction in bad debt provision needing to be provided.

3.8.5 The movement since the reported forecast at July is mainly due to the changed assumption around delivery of a savings target of £0.150m referred to in section 2.11 which is now considered as yet to be achieved. The service is working closely with ENGIE to identify efficiencies.

3.9 Human Resources & Organisational Development

3.9.1 The pressure of £0.054m is unchanged from the reported position for July and relates mainly to a savings target which was applied to budgets for staff which, having originally transferred out to the Authority's business partner, were subsequently transferred back in.

3.9.2 **Table: Forecast Variance Human Resources and Organisational Development**

	Budget (£m)	Forecast (£m)	Variance Sept(£m)	Variance July(£m)
Human Resources & Organisational Development	(0.119)	(0.065)	0.054	0.054

3.10 Law & Governance

3.10.1 Law & Governance is forecasting an overspend of £0.210m which compares to £0.214 at July. The underlying issue is a staffing pressure of £0.213m. There has been an improvement in Legal Services as successful recruitment has reduced the need for costly locums but this has been offset by an increased forecast within the courier service and necessary steps to strengthen the team dealing with members' enquiries.

3.10.2 **Table: Forecast Variation Law and Governance**

	Budget (£m)	Forecast (£m)	Variance Sept(£m)	Variance July(£m)
Customer, Governance & Registration	(0.391)	(0.319)	0.072	0.034
Democratic & Electoral Services	(0.076)	(0.074)	0.002	0.004
Information Governance	0.270	0.317	0.047	(0.001)
Legal Services	(0.206)	(0.114)	0.092	0.180
North Tyneside Coroner	0.293	0.290	(0.003)	(0.003)
Total Law and Governance	**(0.110)**	**0.100**	**0.210**	**0.214**

3.11 Central Budgets & Contingencies

3.11.1 The 2018/19 forecast outturn set out in Table 3.11.2 below reflects an underspend of £5.191m on central budgets (July, underspend of £4.612m).

3.11.2 **Table: Forecast Variation Central Budgets and Contingencies**

	Budget (£m)	Forecast (£m)	Variance Sept(£m)	Variance July(£m)
Corporate & Democratic Core	9.546	9.371	(0.175)	(0.175)
Other Central Items	0.652	(4.364)	(5.016))	(4.437)
Total Central Items	**10.198**	**5.007**	**(5.191)**	**(4.612)**

3.11.3 The forecast underspend in Corporate and Democratic Core relates to savings against Pensions out of Revenue of £0.100m and Corporate and Democratic Core recharges to the Housing Revenue Account (HRA) from the General Fund of £0.075m.

3.11.4 There are several other areas where spend and income is forecast to deviate from the budget. Forecast underspends of £2.358m against external interest charges and of £0.369m, reflecting the impact of a detailed review of the level of internal borrowing and temporary borrowing to be maintained over the course of the year and reprogramming within the Investment Plan.

3.11.5 There is £0.204m of additional income forecast relating to recharges to services for costs of borrowing to finance investment in new vehicles and other assets being higher than originally planned. As part of the budget setting process for 2018/19 contingency budgets were created and held corporately for demand pressures within Adult Services (£1.800m) and Children's Services (£2.616m). The demand pressures are shown within the HECS service and the Central budget within Other Central Items is shown as underspent to offset this pressure. This continues to be monitored and any proposed permanent allocation of contingency would be reported to Cabinet for their expressed decision. In addition, there are minor underspends of £0.010m across a range of cost centres.

3.11.6 These underspends are partially offset by forecast pressures relating to the £2.291m of savings pressure relating to in year targets (See Section 2.6 to 2.8) and the £0.500m forecast pressure relating to the 2017/18 procurement saving. These savings targets are held corporately and coded out as savings are identified. This has reduced by £0.129m since the July forecast and it is anticipated that this pressure will continue to fall as we move through the year.

3.11.7 In addition to the improved position on centrally held savings targets, the remaining movement within Central Items is explained by a total of £0.450m of back dated business rates revaluation relating to Segenundum as referred to in section 3.4.4.

3.12 New Revenue Grants

3.12.1 The following revenue grants have been received during August and September 2018. Note that the new grant of £1.031m in respect of adult social care support for NHS winter pressures has not been included below pending receipt of the final grant determination letter.

Service	Grant Provider	Grant	Purpose	2018/19 value £m
Commissioning and Investment	Department for Education	Local Service Support Grant	Extended Rights for Free Home to School Travel (increase in funding allocation from £13,000 to £16,300)	0.003
Housing Revenue Account	Police and Crime Commissioner for Northumbria	Supporting Victims Fund	To support and strengthen the overall offer of victim services in Northumbria	0.005
Health, Education, Care and Safeguarding	Education and Skills Funding Agency	Key Stage 2 Moderation and Key Stage 1 Phonics Funding	Statutory duties for KS2 Teacher Assessment and monitoring of the phonics screening check.	0.011
Total				**0.019**

SECTION 4 - SCHOOLS FINANCE

Update on the 2018/19 Position of Deficit Schools

4.1 As reported to Cabinet in July, as part of schools' budget setting processes for 2018/19, ten schools indicated that they needed the Authority's approval to set a deficit budget. Further work has been ongoing with Beacon Hill School which has led to a revised budget plan and the withdrawal of their request for deficit approval. Formal approval has now been granted to all nine remaining schools. Note that the final deficit approval value for Backworth Park Primary was increased by £0.020m compared to the value of £0.071m reported to Cabinet in September. This was agreed in relation to the provision of furnishings and equipment for the new building.

4.2 The first set of budget monitoring for the financial year was completed in October. Forecast results have been established for the deficit schools and are shown below. This position shows an improvement of £0.272m across the deficit schools.

4.3 Table: Schools seeking deficit approval for 2018/19

School	Outturn Balance 2017/18 £m	Deficit Approval Sought 2018/19 £m	Monitoring 1 position £m	Improvement £m
Backworth Park Primary	0.000	(0.091)	(0.079)	0.012
Ivy Road Primary	(0.123)	(0.278)	(0.263)	0.015
Percy Main Primary	0.001	(0.086)	(0.059)	0.027
Monkseaton Middle	0.034	(0.088)	(0.056)	0.032
Marden High	(0.429)	(0.646)	(0.635)	0.011
Norham High	(1.168)	(1.549)	(1.510)	0.039
Longbenton High	(0.916)	(1.702)	(1.691)	0.011
Monkseaton High	(2.464)	(3.652)	(3.647)	0.005
Whitley Bay High	(0.516)	(0.393)	(0.273)	0.120
Total	(5.581)	(8.485)	(8.213)	0.272

4.4 Additional governance arrangements and monitoring meetings have been put in place with schools in deficit. School Improvement, HR and Finance officers will continue to meet with Head Teachers and Governing Body representatives to monitor the specific requirements of each individual school's deficit approval.

4.5 A programme of work is in progress with schools to consider further actions required to address the longer term approach to financial planning in North Tyneside. The programme is focussing on three new work streams and is also consolidating work on two existing projects. The workstreams are:-

- Financial review and analysis;
- Planning and modelling;
- Tools for schools;

- Keeping Children and Young People in school
- Closing the Gap.

4.6 Schools Forum is regularly updated on progress in relation to these work streams which includes development of a modelling tool specific to North Tyneside which forecasts income levels for schools in future years and the development of a support and challenge framework for schools in financial difficulty. In addition, consultation sessions have been held with head teachers and school business managers on services provided by the Local Authority to support robust financial management.

Pay Award Grant

4.7 Details of the pay award for teachers, payable from September 2018, were announced by Government in July 2018. This involves uplifts to the minima and maxima at 3.5% for the main pay range, 2% for the upper pay range and 1.5% for the leadership pay range. These new pay rates have been built into the school's budget monitoring tool and were forecasted in the first set of monitoring with schools for 2018/19 which took place in September and October 2018. The DfE announced that a grant will be paid to all schools to offset the additional impact of the pay award above the 1% rise which was originally planned. Details of the allocations for this grant were published on 24 October 2018 and North Tyneside is to receive £0.589m for passporting to schools.

High Needs Block in 2018/19

4.8 The final position in 2017/18 on the High Needs Block within the Designated Schools Grant (DSG) was an over commitment of £0.430m. Cabinet will be aware of significant media interest in the pressures within High Needs budgets across the county. A parliamentary select committee is currently examining evidence in relation to these pressures and their impact on children and families. A High Needs Strategic Plan was agreed by Schools Forum in May 2018 and this outlined a work plan to review the current offer to ensure it meets needs appropriately at a sustainable cost. The High Needs Block remains under significant pressure from rising costs and increasing complexity of needs of our children and young people. This pressure is retained within the ringfenced DSG and work is ongoing to assess needs and review current service provision. The Authority is considering a request to transfer funding from the Schools Block to the High Needs Block in 2019/20. National guidance allows a transfer of 0.5% of the block value with the approval of Schools Forum (approximately £0.580m). A larger transfer would require approval of the Secretary of State.

Planning for 2019/20 Schools Funding

4.9 Schools Forum is due to meet on 19 December 2018 to agree the basis of the funding allocations to individual schools for 2019/20. A draft timetable for this process is shown below.

Date	Activity
July 2018	Department for Education (DfE) guidance issued for for 2019/20
22 October 2018	Subgroup convenes and reviews proposed consultation paper for all schools
5 November 2018	Local consultation documents issued to stakeholders
30 November 2018	Consultation returns received and reviewed
Early December 2018	Subgroup convenes and discusses findings – financial modelling undertaken as required
19 December 2018	Schools Forum considers consultation response and agrees proposals for local funding allocation formula to individual schools, de-delegated and centrally retained budgets and any transfers between funding blocks
19 December 2018 (estimate)	Local Government Finance settlement announced incl school funding amounts
9 January 2019	Additional Schools Forum meeting (if required)
21 January 2019	Deadline for submission of final local School Allocations to DfE (the APT)
28 February 2019	Deadline for confirmation of schools budget shares to maintained schools (in North Tyneside the intention is to issue in advance of this deadline)

4.10 A further update will be provided in the budget monitoring report brought to Cabinet in January 2019.

SECTION 5 - HOUSING REVENUE ACCOUNT

Forecast Outturn

5.1 The forecast set out in Table 5.5 below is based on the forecast results at September 2018 and reflects an improved position since July. Rental income continues to perform well against budget due to the reduction in the number of empty homes being maintained (£0.339m) with expectations that, if the trend continues, this position could improve further before the end of the year. In addition, the income from temporary dispersed accommodation continues to trend above budget (£0.083m), whilst service charge income, including furniture packs, is also maintaining a positive trend linked to the improving position on empty homes (£0.221m).

5.2 There has been a significant improvement of £1.030m in the position for HRA Management Costs, mainly down to the progress of the Construction Options Project (£0.758m). These savings are in three main areas;

- £0.251m for materials. The majority of this budget line was created to fund the purchase the stock held by Kier North Tyneside at point of transfer or purchase new materials. However it is now assumed that the majority of materials would be transferred at value to the HRA balance sheet as a stock asset and therefore no revenue costs would be incurred in 2018/19.
- £0.300m due to savings against assumed interest costs for vehicle purchases no longer required as a result of the Steering Group's decision to purchase the new fleet using a contribution from the North Tyneside Living PFI reserve surplus.
- £0.207m savings in staffing and consultancy costs partly as a result of appointments not commencing until part way through the year..

The remaining HRA Management Cost underspend reflects a large number of smaller variations including current vacancy forecasts of £0.082m and increased water rates commission of £0.100m with the balance of £0.090m spread across a wide range of cost centres.

5.3 Although there is an increasing take-up of Universal Credit which has an increasing impact on the in-year bad debt provision requirement, this is still forecast to be (£0.050m) under budget based on current estimate. In addition, it is anticipated that the HRA general contingency provision will not be fully required resulting in a saving of £0.030m and the Transitional Protection fund used to maintain PFI tenants rents at pre PFI levels is continuing to show a reduction in payments resulting in a saving of £0.015m.

5.4 All of the £0.858m of savings identified in the 2018/19 budget approved by Cabinet are on target to be delivered in full.

5.5 Table: Forecast Variance Housing Revenue Account

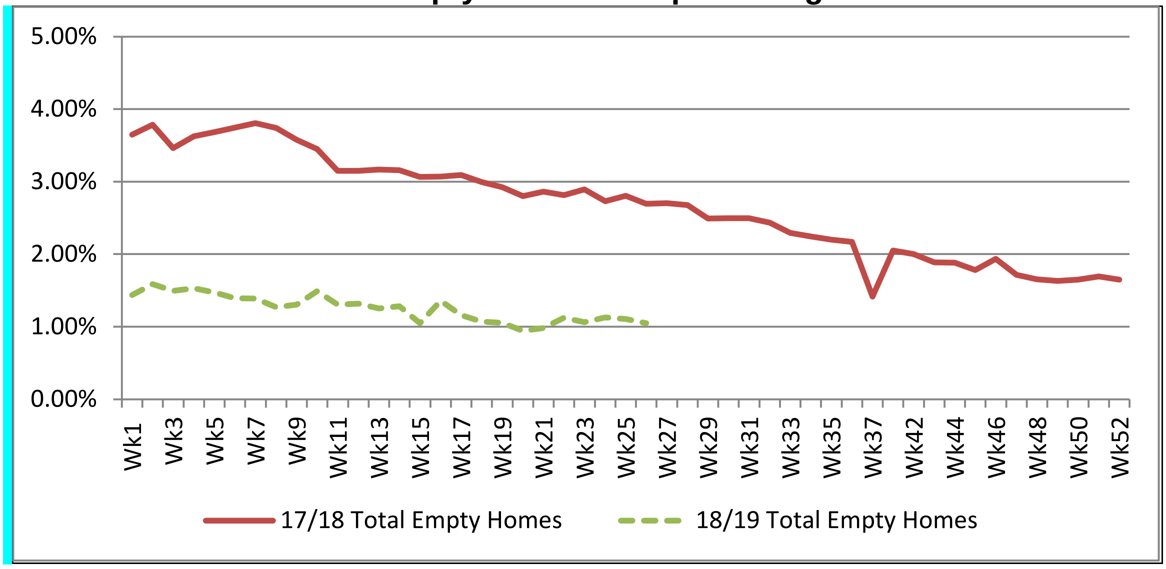
	FULL YEAR - 2018/19			Variance
		Forecast Outturn		
	Full Year Budget £m	Actual £m	Sept. 2018 Variance £m	July 2018 £m
INCOME				
Rental Income	(58.960)	(59.610)	(0.650)	(0.450)
Other Rental Income - Shops & Offices etc.	(0.260)	(0.283)	(0.023)	(0.008)
Interest on Balances	(0.030)	(0.050)	(0.020)	0.000
PFI Credits	(7.693)	(7.693)	0.000	0.000
	(66.943)	**(67.636)**	**(0.693)**	**(0.458)**
EXPENDITURE				
Capital Charges - Net Effect	12.093	12.080	(0.013)	0.002
HRA Management Costs	12.338	11.318	(1.020)	0.010
PFI Contract Costs	9.597	9.597	0.000	0.000
Repairs	11.478	11.468	(0.010)	0.000
Revenue Support to Capital Programme	9.570	9.570	0.000	0.000
Contribution to Major Repairs Reserve – Depreciation	11.972	11.972	0.000	0.000
Contingencies, Bad debt Provision & Transitional Protection Payments	1.010	0.915	(0.095)	0.000
Pension Fund Deficit Funding	0.855	0.855	0.000	0.000
	68.913	**67.775**	**(1.138)**	**0.012**
	1.970	**0.139**	**(1.831)**	**(0.446)**
BALANCES BROUGHT FORWARD	**(4.640)**	**(6.083)**	**(1.443)**	**(1.443)**
BALANCES TO CARRY FORWARD	**(2.670)**	**(5.944)**	**(3.274)**	**(1.889)**

5.6 Universal Credit was fully implemented across North Tyneside on 2 May 2018. The Authority continues to work with residents to provide ICT support to help them make applications and to provide personalised budget support to help residents manage their household finances. At the end of September, 1,062 North Tyneside Homes tenants have moved on to Universal Credit and a team is working proactively with tenants to minimise arrears. This will be closely monitored as the year progresses to identify any adverse impacts on the budget position.

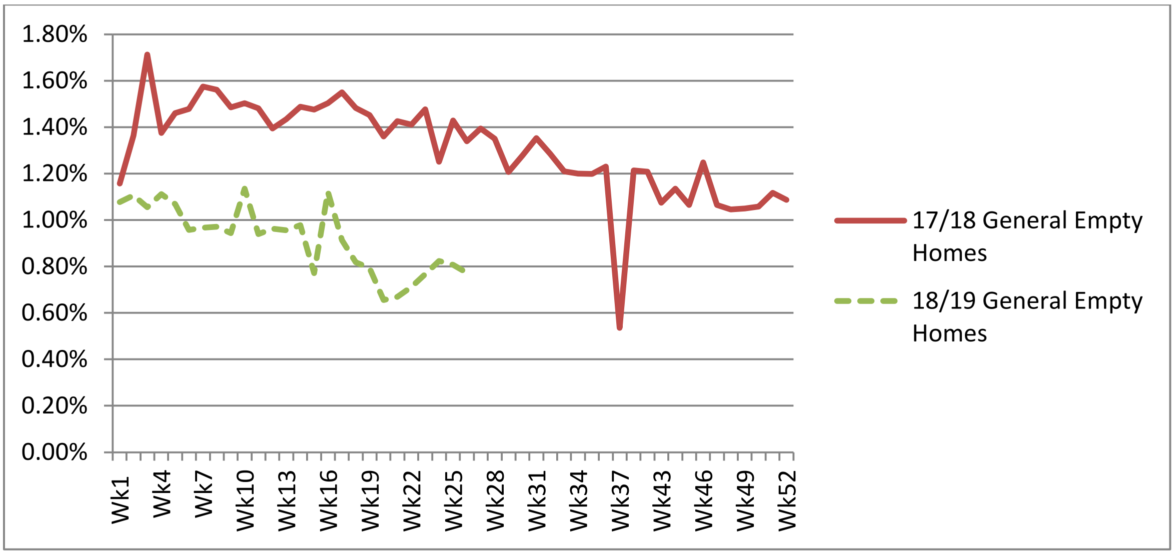
Empty Homes

5.7 In terms of the impact of empty homes on the financial picture to date, rates are below 2017/18 levels overall so far this year and this positive performance continues the trend over the last couple of years following the completion of the North Tyneside Living Schemes. As a result, income forecasts are again exceeding budget projections. Tables 5.8 to 5.10 illustrate the movement in levels of empty homes for 2018/19 compared to 2017/18.

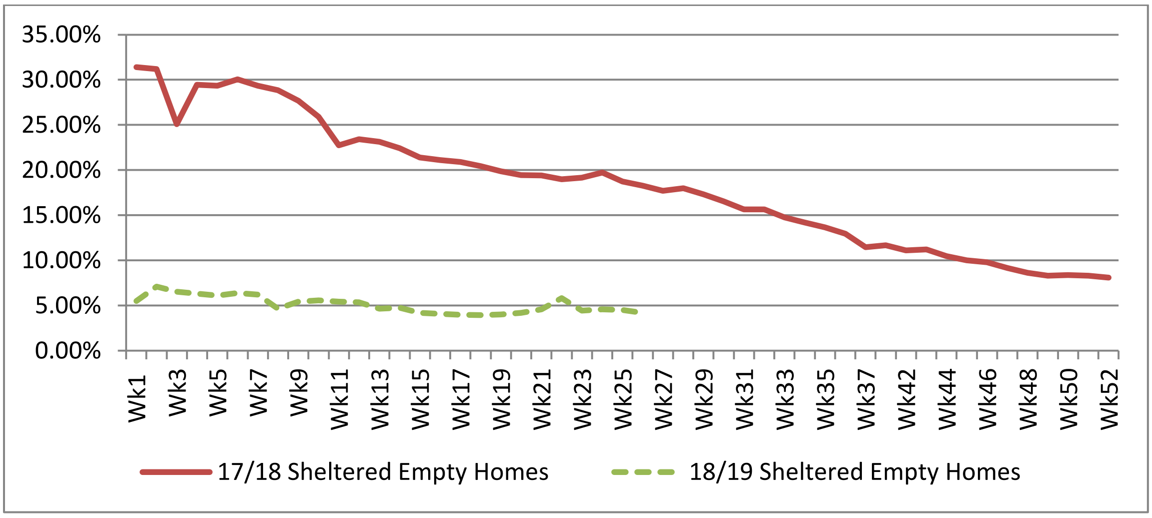
5.8 Table: All stock Empty homes as a percentage of total homes



5.9 Table: General Stock Empty homes as a percentage of total homes



5.10 Table: Sheltered Stock Empty homes as a percentage of total homes



Right to Buy (RTB) Trends

5.11 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 income for the HRA.

5.12 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 (£m)	Capital Receipts (£m)
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
2018-19 YTD	28	75	47	0.351	3.628
	334	811	477	3.284	34.938

5.13 In the period (2012-2018), the Authority has built over 130 new homes through the HRA, which has helped mitigate a portion of the revenue loss from the 811 sales in the same period. However, the cumulative impact on HRA annual rental income from RTB over this period is circa £3m.

SECTION 6 - INVESTMENT PLAN

Review of Investment Plan - Position Statement

6.1 The Authority's Investment Plan represents the capital investment in projects across all Service areas. The vast majority of the 50+ projects are currently on target to deliver on time and on budget. Some of the key highlights of the Investment Plan due to be delivered during 2018/19 are summarised below:

Affordable Homes New Build and Conversion Works

6.2 There are currently 4 projects that have already completed or will complete during 2018/19; these are:

- The construction of 20 new affordable units in Dudley, on the former Dudley & Weetslade Club site. Work completed in July 2018;
- The conversion of Perth Gardens into 7 new affordable units. Work is due for completion in October 2018;
- The construction of 13 new affordable homes in Battle Hill, on the former Bonchester Court site. Works are due to complete March 2019; and
- The construction of 9 new affordable homes in Battle Hill, on the former Beadnell Court site. Works are due to complete March 2019.

In addition to the above projects that will be complete in year, there will be a number of other schemes progressed through the design, planning and procurement process during 2018/19 that will subsequently complete in future financial years.

Housing Investment Work

6.3 The Housing Capital delivery programme will see the following works delivered across the borough during 2018/19:

- Kitchen and bathroom improvements to 549 homes;
- Heating upgrades to 600 homes;
- Boundary improvements to 1,310 homes;
- External decoration to 2,181 homes;
- Roof replacements to 347 homes;
- External brickwork repairs to 359 homes;
- Footpath repairs throughout the borough; and
- Fire door replacement to 74 blocks of flats.

Education Investment Works

6.4 Capital investment in schools will see the following works delivered during 2018/19:

- Delivery of the priority condition related projects across the school estate as part of the schools condition investment programme;
- Priority Schools Building Programme 2 (PSBP2)(Off Balance Sheet);
- Cullercoats Primary School – this project is being delivered as part of PSBP2 as a heavy refurbishment programme rather than a new build. Discussions have now been finalised between the Education and Skills Funding Agency (ESFA), the appointed contractor, Kier North East, and the school. The enabling works

commenced end of May 2018 and the main contract commenced in June 2018. It is expected that the works programme will conclude early 2020; and
- Backworth Park Primary School – the relocation to a new site to accommodate local increase in pupil population as a consequence of existing and newly approved residential developments was completed in September 2018.

Highways and Infrastructure Works

6.5 The main Highways & Infrastructure works include:
- Delivery of the LTP including the annual resurfacing programme and integrated transport projects;
- Completion of Central Promenade Reconstruction Scheme;
- Completion of the final phase of the A1058 Coast Road major scheme (Norham Road Bridge) in August 2018;
- Completion of the North Bank of Tyne highway improvements;
- Commencement of construction on the A189 Salters Lane major highways scheme; and
- Completion of Briar Vale major drainage improvements which will be the final phase of surface water works at Murton Gap.

Regeneration Works

6.6 Regeneration Works for 2018/19 include:
- The Spanish City was officially opened on 21 July 2018 with 16,000 people visiting over the weekend. The Spanish City started operating on 23 July and is now fully operational. Public feedback has been overwhelmingly positive;
- Empress Gardens is complete and was open to the public from 21st July 2018;
- High Point development – the new show home was officially opened by the Mayor on 5 June 2018 and two promotional launch events took place on 22 and 23 June 2018;
- Forest Hall – improvements to include: footpath widening and resurfacing, replacement street lighting, introduction of trees, reconfiguration of parking arrangements, improvements to Station Road and Forest Hall Road Junction and refreshing street furniture; and
- Swans – the next phase of works will cover feasibility and upgrade of the Swans Quay and load out facilities plus further asbestos removal, demolition works and Centre for Innovation (CFI) Phase 2 and 3 refurbishment.

Variations to the 2018-21 Investment Plan

6.7 As part of the regular investment programme monitoring £14.126m credit variations and £0.740m reprogramming have been identified.

Table 6.7.1 details the changes to the approved 3-year Investment Plan, as agreed at Council on 15 February 2018.

6.7.1 Table: 2018 - 21 Investment Plan changes identified

	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Approved Investment Plan – Council 15 February 2018	**84.059**	**43.216**	**32.073**	**159.348**
Previously Approved Reprogramming/Variations				
Cabinet 12 March 2018	0.709	0	0	0.709
Cabinet 29 May 2018	8.130	0	0	8.130
Cabinet 30 July 2018	(14.613)	15.582	5.100	6.069
Cabinet 10 September 2018	4.111	(0.117)	0.257	4.251
Approved Investment Plan	**82.396**	**58.681**	**37.430**	**178.507**
August/September				
Variations	0.974	(7.750)	(7.350)	(14.126)
Reprogramming	(0.740)	0.338	0.402	0
Total Variations	**0.234**	**(7.412)**	**(6.948)**	**(14.126)**
Revised Investment Plan	**82.630**	**51.269**	**30.482**	**164.381**

6.8 The details of the main elements of the £14.126m credit variations are shown below. The revised 2018-21 Investment Plan is attached as **Appendix 1**:

(a) **ED188 Special Education Needs and Disabilities £0.116m (2019/20)** – In August 2018, the Education Skills & Funding Agency announced an additional £0.116m funding. This has been included in the plan for 2019/20 and will be allocated once the priorities have be agreed;

(b) **DV054 Coastal Regeneration £1.600m** – Two contingency allocations have been made in respect of Coastal Regeneration, £1.300m towards the final costs associasted with the delivery of a Turn Key operation at the Dome and additional final construction costs and £0.300m towards the High Point Development loan to assist with the cash flow of the project until the sales have been completed;

(c) **HS036 North Tyneside Warm Zones £0.030m** – A contingency allocation of £0.030m has been made to allow the continuation of the scheme for the remainder of 2018/19;

(d) **ED186 Backworth Park Primary £0.162m** – Index linked Section 106 monies have generated additional funds above the expected contribution. This increase has allowed additional project costs relating to internal management charges, removal of spoil dump and design costs to be fully financed;

(e) **DV066 North Tyneside Development Co. £0.793m –** It is requested that the amount of Section 106 shown in the plan is increased by £0.793m to £1.242m. This is to align the capital budget with the planned purchase of 6 affordable homes made by the North Tyneside Development Company

(f) **DV062 St Mary's Island and Visitor Centre £2.368m credit** – Due to the unsuccessful Heritage Lottery Fund Bid this project is to be removed from the Investment plan pending a further review arouind a potential new project;

(g) **DV070 Forest Hall Regeneration £0.206m -** Contractor prices have now been received and these exceed the overall budget for the project. A review of works to be delivered have been considered to reduce pressures leaving a requirement of £0.141m allocation from contingencies, £0.015m transfer from LTP budget for traffic calming measures and £0.050m from the feasibility fund to finance the initial study;

(h) **DV058 Swan Hunters Regeneration £6.817m credit** – Following a request from Investment Programme Board, a review of the budget has been undertaken to remove £4.216m external funding that is not subject to a firm offer. Council Contribution match funding of £2.601m has also been transferred to contingencies;

(i) **HS052 Killingworth Moor Infrastructure £8.900m credit** – This project has been removed from the Investment plan until a firm offer from the Housing Investment Fund is approved; and

(j) **GEN03 Contingencies £1.067m** – allocations to Coastal Regeneration £1.300m for Spanish City Dome, £0.300m for an increase in the High Point Development Loan to aid cash flow and £0.030m to North Tyneside Warm Zones project to allow project completion and £0.141m towards Forest Hall Regeneration. £0.237m has been returned to contingencies from the St Mary's Island and Museum project following unsuccessful grant bid and £2.601m from Swan Hunters Regeneration.

6.9 The details of the reprogramming are shown below.

(a) **ED075 Devolved Formula Capital £0.500m -** Following the late announcement of funding for 2018/19 it it not expected that this spend will take place in 2018/19. As this grant is school led and can be accrued over a three year period, it is to be carried forward to fund future years priorities;

(b) **EV076 Operational Depot Accommodation Review £2.193m reverse reprogramming** –to enable the acceleration of the programme to allow Block A refurbishment to be completed by end March 2019;

(c) **DV058 Swan Hunters Regeneration £0.533m** – Reprogramming to reflect expected project delivery following a financial review of the budgets; and,

(d) I**T026 ICT Citizen Interaction and Self Serve £0.500m** – The data and analytics element of this project is currently under review and funding will not be required this financial year.

6.10 The impact of the changes detailed above on capital financing is shown in Table 6.10.1 below.

6.10.1 Table: Impact of variations on Capital Financing

	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Approved Investment Plan – Cabinet 10 September 2018	**82.396**	**58.681**	**37.430**	**178.507**
Council Contribution	0.210	(0.612)	0.402	0.000
Grants and Contributions	(0.026)	(6.800)	(7.350)	(14.176)
Revenue Contribution (Feasibility Pot)	0.050	0.000	0.000	0.050
Total Financing Variations	**0.234**	**(7.412)**	**(6.948)**	**(14.126)**
Revised Investment Plan	**82.630**	**51.269**	**30.482**	**164.381**

Capital Receipts – General Fund

6.11 There were no General Fund Capital Receipts brought forward at 1 April 2018. All receipts received in 2017/18 were either applied to finance capital expenditure or to pay off debt. The capital receipts requirement for 2018/19 approved by Council on 15 February 2018 was £Nil (£1.080m for 2018-21). To date £0.085m capital receipts have been received in 2018/19. The receipts position is shown in Table 6.11.1 below.

6.11.1 Table: Capital Receipt Requirement – General Fund

	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Requirement reported to 15 February 2018 Council	0.000	1.080	0.000	1.080
Reprogramming from 2017/18	0	0	0	0
Revised requirement	**0.000**	**1.080**	**0.000**	**1.080**
Receipts Brought Forward	0.000	(0.085)	0.000	0.000
Useable Receipts received 2018/19	0.085	0.000	0.000	0.085
Balance to be generated	**(0.085)**	**0.995**	**0.000**	**0.995**

Capital receipts – Housing Revenue Account

6.12 Housing Capital Receipts brought forward at 1 April 2018 were £7.014m. The Housing receipts are committed against projects included in the 2018-21 Investment Plan. The approved Capital Receipt requirement for 2018/19 was £2.261m. This, together with the reprogramming of £1.482m credit reported to Cabinet meeting on 29 May 2018 and 30 July 2018 Cabinet, gives a revised requirement of £0.779m. To date, £3.247m receipts have been received in 2018/19 of which £0.468m has been pooled as part of the quarterly returns to Central Government. In total, subject to future pooling, this leaves a surplus balance of £9.014m to be carried forward to fund future years.

6.12.1Table: Capital Receipt Requirement - Housing Revenue Account

	2018/19 £m	2019/20 £m	2020/21 £m	2018-21 £m
Requirement reported to 15 February 2018 Council	2.261	4.763	1.367	8.391
Reprogramming from 2017/18	0.518	0	0	0.518
Reprogramming 2018/19	(2.000)	2.000	0	0.000
Revised Requirement	**0.779**	**6.763**	**1.367**	**8.909**
Receipts Brought Forward	(7.014)	(9.014)	(2.251)	(7.014)
Receipts Received 2018/19	(3.247)	0	0	(3.247)
Receipts Pooled Central Government	0.468	0	0	0.468
Surplus Balance to fund future years (subject to further pooling)	**(9.014)**	**(2.251)**	**(0.884)**	**(0.884)**

The final figure for useable receipts and pooled receipts in year will depend on the final number of Right to Buy properties sold during 2018/19.

Investment Plan Monitoring Position to 30 September 2018

6.13 Actual expenditure in the General Ledger was £28.849m, 34.91% of the total revised Investment Plan at 30 September 2018.

6.13.1Table: Total Investment Plan Budget & Expenditure to 30 September 2018

	2018/19 Revised Investment Plan £m	Actual Spend to 30 September 2018 £m	Spend as % of revised Investment Plan %
General Fund	52.428	20.616	39.32%
Housing	30.202	8.233	27.26%
TOTAL	**82.630**	**28.849**	**34.91%**

SECTION 7 - TREASURY MANAGEMENT

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-Year Review Report 2018/19

7.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management was revised in 2017. The Code stipulates that the Chief Finance Officer should set out in advance the Treasury Management Strategy for the forthcoming financial year, and subsequently report the treasury management activities during that year.

7.2 The primary requirements of the Code are as follows:

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

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

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

7.3 This section of the document contains the required mid-year review report for 2018/19.

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

- An economic update for the first six months of 2018/19;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19;
- A review of the Authority's investment portfolio for 2018/19;
- A review of the Authority's borrowing strategy for 2018/19; and,
- A review of compliance with Treasury and Prudential Limits for 2018/19 (in Section 8).

Economic Performance and Outlook

United Kingdom (UK)

7.5 The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously vote to increase Bank Rate on 2nd August from 0.50% to 0.75%. Although growth looks as if it will only be modest at around 1.50% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.80% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

7.6 Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value against both the dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from

2.40% in June to 2.70% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.50% to March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

7.7 As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. Wage inflation picked up to 2.90%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.10%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.40%, near to the joint high service sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

United States of America (USA)

7.8 President Trump's easing of fiscal policy is fuelling a temporary boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.20%, (annualised rate), in quarter 1 to 4.20% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Federal Reserve (Fed) increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the USA, China in particular, could see a switch to USA production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

Eurozone

7.9 Growth was unchanged at 0.40% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany had been mixed and it could be negatively impacted by USA tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

China and Japan

7.10 Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; 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. Japan is struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Interest Rate Forecasts

7.11 Link Asset Services, the Authority's treasury advisor, have provided their current Interest Rate Forecast, which is detailed in the table below:

Table : Interest Rate Forecast

	Dec 2018 (%)	**Mar 2019 (%)**	**Jun 2019 (%)**	**Sep 2019 (%)**	**Dec 2019 (%)**	**Mar 2020 (%)**	**Jun 2020 (%)**	**Sep 2020 (%)**	**Dec 2020 (%)**
Bank Rate	0.75	0.75	0.75	1.00	1.00	1.00	1.25	01.25	1.50
5yr PWLB*	2.00	2.10	2.20	2.20	2.30	2.30	2.40	2.50	2.50
10yr PWLB	2.50	2.50	2.60	2.70	2.70	2.80	2.90	2.90	3.00
25yr PWLB	2.90	3.00	3.10	3.10	3.20	3.30	3.30	3.40	3.50
50yr PWLB	2.70	2.80	2.90	2.90	3.00	3.10	3.10	3.20	3.30

*****Public Works Loan Board (PWLB)

7.12 The flow of generally positive economic statistics after the end of the quarter ended 30 June 2018 meant that it came as no surprise that the MPC came to a decision on 2nd August to make the first increase in Bank Rate above 0.50% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, than before the crash, thy gave a figure for this of around 2.50% in ten years' time but they declined to give a medium term forecast. Link Asset Services do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. They also feel that the MPC is more likely to wait until August 2019 before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.50%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

7.13 The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners – the EU and USA.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc with the EU while Italy, this year, has also elected a strong anti-immigration government.
- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposure to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the USA could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geographical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

7.15 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates:-

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the USA and causing further sell offs of government bonds in major western countries.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Treasury Management Strategy Statement and Annual Investment Strategy update

7.16 The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by Council on 15th February 2018. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Authority's investment priorities as follows:

- Security of capital; and,
- Liquidity

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

7.18 Details of the Authority's investment portfolio at 30 September 2018 is shown in Section 7.24 of this report.

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

7.20 As outlined in Section 7.7 above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 15th February 2018 is still fit for purpose in the current economic climate.

Investment Portfolio 2018/19

7.21 In accordance with the Code, it is the Authority's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Authority's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

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

7.23 The Authority currently uses the Government's Debt Management and Deposit Facility (DMADF) for investments, the maximum rate available from the facility is currently 0.50%. This situation of maintaining shorter term, high quality investments will continue until sufficient strength has returned to banks globally and that there are signs of significantly renewed strength in the UK and global economy.

7.24 Investments held as at 30 September 2018 are summarised in the table below:

Table : Investments 2018/19

Investments	30 Sept 2018 £m	Average Rate of Return %
Debt Management Office Deposit	22.150	0.50

7.25 The Head of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2018/19.

Borrowing

7.26 The Authority's estimated Capital Financing Requirement (CFR) to 31 March 2019 is £657.780m (including Private Finance Initiative (PFI) and Finance Leases). The CFR denotes the Authority's underlying need to borrow for capital purposes. If the CFR is positive the Authority may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

7.27 Total external debt at 30 September 2018 was £576.603m as shown in the table below.

Table : Total external debt at 30 September 2018

Principal £m	
	External borrowing
318.443	Public Works Loans Board (PWLB)
20.000	Lender Option Borrower Option (LOBO)
117.712	Other Local Authorities
456.155	Total
	Other external debt
120.452	PFI and Finance Leases (as at 1 April 2018)
576.607	TOTAL EXTERNAL DEBT
	Split of external borrowing:
266,569	Housing Revenue Account
189,586.	General Fund
456.155	Total

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

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

7.30 Maturing PWLB long term loans of £5m have been repaid since 1 April 2018 as detailed in the table below:

Table Maturing long term loans repaid since 1 April 2018

Principal £m	Interest Rate %	Date Repaid
5.000	10.375	14 August 2018

As at 30 September no new or replacement long term borrowing has taken place during 2018/19.

7.31 Short term borrowing rates for periods up to 1 year continue at relatively low levels. The Authority's borrowing strategy this year has been to borrow short term where possible, to take advantage of these lower rates. As at 30 September 2018, the Council had £117.712m of temporary loans (as seen in the table at 7.30 above) at an average rate of 0.72%.

Debt Rescheduling

7.32 Debt rescheduling opportunities have been limited in the current economic climate and the consequent structure of interest rates. Therefore, no debt rescheduling was undertaken during the first six months of 2018/19.

SECTION 8- PRUDENTIAL INDICATORS

Introduction

8.1 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.

8.2 Within this overall prudential framework there is an impact on the Authority's treasury management activity, as it will have a direct impact on borrowing and investment activity. Section 6 above provides a review of the Authority's activity to date during 2018/19.

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

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

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

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

8.6 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.

8.7 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.

8.8 In total there are fifteen prudential indicators, covering:

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

8.9 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.

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

8.11 The following part of the report shows the estimated 2018/19 Prudential Indicators as at 30 September 2018 compared to the indicators approved by Council on 15 February 2018 as part of the budget setting process.

Prudential Indicators for Affordability

Ratio of financing costs to net revenue stream

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

8.13 The budgeted figures for 2018/19 are set out in the table below together with the estimated 2018/19 position at 30 September 2018:

Table : Ratio of Financing Costs to Net Revenue Stream

	2018/19	2018/19
	Budget	Estimate
General Fund	17.27%	15.32%
HRA	28.08%	27.77%

The current forecast is lower than that budgeted reflecting the savings in the cost of borrowing, for 2018/19 for both the General Fund and the Housing Revenue Account.

8.14 The above indicator reflects costs for all borrowing, both supported and unsupported. It also includes the financing costs of PFI schemes. 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:

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

	2018/19	2018/19
	Budget	Estimate
General Fund	10.04%	9.18%
HRA	3.63%	3.44%

Prudential Indicators for Prudence

8.15 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 other liabilities including PFI schemes and Finance Leases.

Gross debt and Capital Financing Requirement (CFR)

8.16 This key indicator shows that gross debt is not expected to exceed the total CFR at 31 March 2019. Gross debt is expected to be lower than budgeted reflecting both the continued use of internal borrowing and reprogramming during 2018/19.

Table: Gross external debt less than CFR

	2018/19 Budget	2018/19 Estimate
	£m	£m
Gross External Borrowing	498.881	492.996
Other Liabilities (including PFI)	123.456	120.452
Total Gross debt	622.337	613.448
Capital Financing requirement	**668.034**	**657.780**

Prudential Indicators for Capital Expenditure

Capital expenditure

8.17 This indicator reflects the expected level of capital spend as shown in section 6 of this annex.

Table: Capital Expenditure

	2018/19	2018/19
	Budget £m	Estimate £m
General Fund	56.145	52.978
HRA	27.914	30.202
Total	**84.059**	**83.180**

Capital Financing Requirement (CFR)

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

8.19 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.

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

Table: Capital Financing Requirement

	2018/19 Budget £m	2018/19 Estimate £m
General Fund	335.378	326.176
HRA	332.656	331.604
Total	**668.034**	**657.780**

The estimated CFR is lower than that budgeted due to reprogramming during 2017/18 and 2018/19.

8.21 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 the table below:

Table: Capital Financing Requirement for Unsupported Borrowing

	2018/19 Budget £m	2018/19 Estimate £m
General Fund	208.332	178.459
HRA	27.781	23.109
Total	**220.994**	**201.568**

Prudential Indicators for External Debt

<u>Authorised limit for total external debt</u>

8.22 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.

8.23 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.

8.24 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.

8.25 The following limits were set by full Council as part of the budget setting process.

Table: Authorised Limit for External Debt

	2018/19 £m
Borrowing	1,120.000
Other Long Term Liabilities	160.000
Total	**1,280.000**

8.26 All transactions are expected to be within the Authorised Limit for External Debt for 2018/19.

Operational Boundary for total external debt

8.27 The operational boundary represents a key management tool for in year monitoring by the Chief Finance Officer. Within the operational boundary, figures for borrowing and other long-term liabilities are identified separately.

Table: Operational Boundary for External Debt

	2018/19 £m
Borrowing	560.000
Other Long Term Liabilities	140.000
Total	**700.000**

8.28 All transactions are expected to be within the Operational Boundary during 2018/19.

HRA limit on indebtedness

8.29 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 2019 is expected to be lower than the cap set. The Budget announcement on 29th of October suggested this cap is to be removed and we await details of these proposals.

Table: HRA limit on indebtedness

	2018/19	2018/19
	Budget £m	Estimate £m
Gross HRA capital financing requirement	332.656	331.604
Less HRA PFI schemes	75.009	74.487
Adjusted HRA capital financing requirement	257.647	257.117
HRA limit on indebtedness	290.824	290.824

Prudential Indicators for Treasury Management

Adoption of the CIPFA Code of Practice for Treasury Management

8.30 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 2018/19

8.31 Full Council set an upper limit on its fixed interest rate exposures for 2018/19 of 100% of its net outstanding principal sums. Borrowing is expected to remain within this limit during 2018/19.

8.32 Full Council set an upper limit on its variable interest rate exposures for 2018/19 of 50% of its net outstanding principal sums. Borrowing is expected to remain within this limit during 2018/19.

8.33 Upper and lower limits for the maturity structure of the Authority's borrowings were set as shown in the table below. Borrowing is expected to remain within these limits during 2018/19.

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%

8.34 Full Council agreed the indicator for exposure of investments in excess of 364 days at no more than 25% of the portfolio. Investments are expected to remain within this limit during 2018/19.

SECTION 9 – COUNCIL TAX AND BUSINESS RATES RECOVERY

Council Tax and Business Rates Collection

9.1 The budgeted Council Tax debit for 2018/2019 is £101.137m, of which the retained share for the Authority is £89.902m. For Business Rates (NNDR) the opening net debit for 2018/2019 is £56.769m, following adjustment for the previous year's deficit position on NNDR the budget retained share for the Council for 2018/19 is £27.825m. Business Rates income is supplemented by a top up grant from Government of £19.684m, providing an anticipated combined budgeted income from Business Rates to the Council of £47.509m. Tables below set out the in-year collection performance against the Council Tax and Business Rates net debit.

9.2 As at 30 September 2018, the actual current year Council Tax net liability has increased to £103.933m. The Council has collected £55.923m (53.8%) compared to £52.751m (54.7%) at the same point in 2017/18. Further details are shown in the table below.

9.3 The reduction in collection rate compared to 2017/18 is due to a number of factors including, the increase in Council Tax including the higher level of adult social care precept, the removal of discounts and exemptions for empty properties and the reduction in Council Tax Support. Additionally there has been an increase of 2,500 payers since 2017/18 who have opted to extend the payment terms over 12 monthly instalments rather than the original 10 instalments. A fall in in-year collection at the half year point is therefore to be expected, however the long term rate of collection is expected to be maintained at the budgeted level of 98.5%.

Table Council Tax Collection as at 30 September Each Year

	2015/16	2016/17	2017/18	2018/19
Dwellings administered	95,874	96,428	97,123	98,199
In year collection £m	44.477	49.574	52.751	55.923
In year %	52.39	55.19	54.7	53.8
Target %	53.19	52.39	55.0	55.0

9.4 In relation to Business rates, as at 30 September 2018, the Authority had collected £34.780m (57.4%) of the current net liability of £60.630m compared to £35.564m (58.7%) at the same point in 2017/18. Collections are currently ahead of target rates. Further details are shown in the table below.

Table: Business Rates Collection as at 30 September Each Year

	2015/16	2016/17	2017/18	2018/19
Properties administered	5,464	5,564	5,618	6,031
In year collection £m	35.783	35.770	35.564	34.780
In year %	59.12	57.03	58.70	57.36
Target %	57.67	59.12	56.53	56.5