North Tyneside Council
Report to Cabinet
Date: 24 January 2018

ITEM 4

Title: 2018-2020 Financial Planning and Budget Process: Cabinet's Draft Budget and Council Tax Requirement proposals

Portfolio(s):	**Elected Mayor**	**Cabinet Member(s):**	**Mrs Norma Redfearn**
	Deputy Mayor		**Councillor Bruce Pickard**
	Finance		**Councillor Ray Glindon**

Report from:	**Senior Leadership Team**	
Responsible Officer:	**Janice Gillespie, Head of Finance (Chief Finance Officer)**	**Tel: 643 5701**
Wards affected:	**All**	

<u>PART 1</u>

1.1 Executive Summary:

1.1.1 North Tyneside Council continues to operate in a very difficult financial climate. Resources continue to reduce in both the General Fund and the Housing Revenue Account and costs continue to rise; particularly the need to continue to deliver statutory social care services for adults and children. Whilst the Government has made some steps toward recognising those rising costs, Government's recommended increase in Council Tax and Better Care Fund place the risks with local authorities and do not cover the full cost of rising demand and the impact of the National Living Wage in the care sector.

1.1.2 These draft budget proposals therefore include for consideration the Government's recommended 3% Council Tax increase to fund Adult Social Care and the Government's recommended 1.99% general Council Tax increase.

1.1.3 That said, the budget proposals set out in this report have been developed in the context of the Our North Tyneside Plan and reflect the draft Plan priorities. The proposals aim to reflect those matters which are important to residents and to protect vulnerable adults and children.

1.1.4 At its meeting on 11 September 2017, Cabinet approved the process and timetable to be adopted for the preparation of the draft Financial Plan, 2018-19 revenue budgets in respect of the General Fund, Dedicated Schools Grant (DSG) and Housing Revenue Account (HRA), the 2018-2021 Investment Plan and the 2018-19 Treasury Management Statement and Annual Investment Strategy, as part of the overall Financial Planning and Budget process for 2018-2020. Cabinet also approved the budget engagement strategy as part of that report.

1.1.5 This report presents, for consideration, the outcomes of that process with Cabinet's draft budget proposals, in accordance with the time-scales set down in the Authority's Constitutional requirements in the Budget and Policy Framework Procedure Rules. This report presents proposals to cover a two-year planning period from 2018-2020 for the revenue budget and a three year planning horizon for the Investment Plan. The two year planning period for the revenue budget reflects the time remaining of the current Spending Review period to 2019-20. As there is no concrete financial information from Central Government available to local authorities post 2019-20, a two year planning period in line with this timescale has been determined to be the most meaningful.

1.1.6 An Efficiency Plan was submitted to Central Government on 14 October 2016 in order to secure as far as possible the proposed level of Revenue Support Grant for this Authority announced as part of the 2016 Local Government Finance Settlement. The Efficiency Statement is included as a background paper to this report.

1.1.7 On the 19 December 2017, the Provisional Local Government Finance Settlement for 2018/19 was announced. The announcement has not led to a significant change to the Governments local funding reductions previously announced other than confirmation of the announcement made in the Autumn Budget that Business Rates would be increased by CPI (the Consumer Price Index) as opposed to RPI (Retail Price Index), and that authorities would be compensated for this change. In addition the provisional settlement included an increase of 1% to the Council Tax referendum limit for 2018/19. A settlement Consultation was published with a closing date of 16 January 2018.

1.1.8 On 27 November 2017, Cabinet considered its initial budget proposals, based on information available at that point in time. Cabinet now needs to receive this report and consider its estimates of amounts for the 2018/19 Council Tax requirement including the General Fund Budget, the 2018-2021 Investment Plan, and the Treasury Management Statement and Annual Investment Strategy for 2018/19 (Annex 1, refers).

1.1.9 There are a number of assumptions and judgements built into the figures presented here that lie mainly outside the control of the Authority and need to be finalised. The estimates of amounts will therefore need to be subject to further review before they can be confirmed.

1.2 Recommendation(s):

1.2.1 It is recommended that Cabinet:

(a) Note the progress made in relation to this year's Financial Planning and Budget process;

(b) Note that Cabinet's estimates of amounts in the setting of the Council Tax requirement will be submitted to full Council for its meeting on 1 February 2018, in accordance with the Authority's Constitution and Budget and Policy Framework Procedure Rules;

(c) Note that Cabinet's proposals for the 2018-2021 Investment Plan (Appendix D (i), including the Investment Strategy (Appendix D (iii)) and prudential indicators (Appendix D (ii)) for 2018-2021 in accordance with the Chartered Institute of Public Finance & Accountancy's (CIPFA's) Prudential Framework and the proposed Minimum Revenue Provision (MRP) Policy in line with capital finance regulations will be submitted to full Council for its meeting on 1 February 2018;

(d) Note that Cabinet's proposals for the Treasury Management Statement and Annual Investment Strategy for 2018/19 will be submitted to full Council for its meeting on 1 February 2018;

(e) Note that any implications that impact on this report arising from decisions of full Council on the 18 January 2018 and Cabinet on the 24 January 2018 will be provided as a supplementary report to full Council on the 1 February 2018;

(f) Note the key messages that have emerged from the Budget Engagement process and how the results of this have influenced the draft Financial Planning and Budget proposals for 2018/19 and future years (Appendix F);

(g) Note the key aspects of the 2018/19 Local Government Finance Settlement announced on 19 December 2017, and how this has been incorporated into the financial strategy and financial plan of the Authority. In addition Cabinet should note the outstanding information required to allow the Elected Mayor and Cabinet to finalise the proposals;

(h) Agree the refreshed Our North Tyneside Council Plan, covering the period 2018-2020, and note that the Plan will be submitted to full Council for its meeting on 1 February 2018 and subsequent approval;

(i) Agree the key principles being adopted in preparing the Financial Strategy for the Authority, subject to an annual review;

(j) Note the medium-term financial challenges and financial risks facing the Authority and agree to address these issues through the Target Operating Model as part of the Creating a Brighter Future Programme for the Authority, to deliver continued financial stability and prudent management of our financial resources;

(k) Agree the approach being taken in relation to the Target Operating Model and the Creating a Brighter Future Programme for the next two years in order to deliver the 'Our North Tyneside' Plan;

(l) Agree the formal Reserves and Balances Policy for the Authority, subject to review at least annually (Appendix G);

(m) Consider and agree the estimates of amounts for the 2018/19 setting of the Council Tax requirement including the General Fund Revenue Budget and Dedicated Schools Grant, thereby calculating the proposed level of Council Tax, to be recommended to full Council for approval, including the assessment in relation to the current year's budget monitoring information (2017/18) and indications of the Financial Plan for 2019/20;

(n) Request the Chief Finance Officer to prepare the appropriate Council Tax Requirement and Budget resolution document for full Council's consideration at its meeting on 15 February 2018, based upon the outcomes of recommendation 1.2.1 (g) above;

(o) Consider and agree the estimates of amounts in relation to the 2018-2021 Investment Plan, including prudential indicators for 2018-2021 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Framework and a proposed Minimum Revenue Provision (MRP) policy in line with capital finance regulations (Appendices D(i) and D(ii));

(p) Note that all approved schemes within the 2018-2021 Investment Plan will be kept under corporate review by the Investment Programme Board;

(q) Approve the Treasury Management Statement and Annual Investment Strategy 2018/19;

(r) Note the conclusions of the Overview, Scrutiny and Policy Development Committee's review of the 2018/19 budget proposals;

(s) Note the Provisional Statement by the Chief Finance Officer;

(t) Authorise the Elected Mayor to make any final amendments to the Cabinet's proposals in relation to that information which is still outstanding to enable due consideration to be given to the final level of Council Tax the Cabinet proposes to full Council for approval for 2018/19;

(u) Authorise the Chief Executive, in consultation with the Elected Mayor, Deputy Mayor, Cabinet Member for Finance and Resources and the Senior Leadership Team to manage the overall Creating a Brighter Future Programme and note that decisions made under this delegated authority will be reported to Cabinet as part of the regular budget monitoring information provided;

(v) Grant delegated authority to the Elected Mayor, in consultation with the Deputy Mayor, Cabinet Member for Finance and Resources, the Chief Executive and the Head of Finance to consider any further comments received from residents after the drafting of this Cabinet report to the conclusion of the Budget Engagement process, and present these as addenda to the report to full Council on 1 February 2018 and 15 February 2018; and

(w) Grant delegated authority to the Chief Executive, in consultation with the Elected Mayor and Head of Finance to authorise the purchase of homes, on the open market, providing value for money is demonstrated and the cost can be contained within existing financial resources of the Authority. This is to ensure the programme of delivery of affordable homes and homes at market rent is progressed in line with the Cabinet's priorities.

1.3 Forward plan:

Twenty eight days notice of this report has been given and it first appeared on the Forward Plan that was published on 18 December 2017.

1.4 Council plan and policy framework:

1.4.1 The Budget and Policy Framework Procedure Rules are set out in Part 4.7 of the Authority's Constitution. The Budget is guided by paragraph 4.7.3 covering the process for the preparation, consideration and final approval of the Authority's Council Tax requirement and Council Tax level. The statutory and constitutional requirements for preparing, considering and approving these issues drive the timetable for the Financial Planning and Council Tax setting process of the Authority.

1.4.2 The development of the Financial Plan and Budget has followed the same timetable as in previous years. The priorities in the refreshed 2018-2020 Council Plan - 'Our North Tyneside' provide the strategic framework within which budget resources are allocated.

1.4.3 The Financial Planning and Budget process is a fundamental part of the overall governance and assurance framework of the Authority. This in turn provides assurance that is considered as part of preparing the Annual Governance Statement each year.

1.5 Information

General Fund

1.5.1 Cabinet has worked to consider options to meet the financial challenges and considered proposals that would meet a funding gap in the region of £41m over the next two financial years. Sustained cuts in government funding and unfunded pressures together with unfunded new burdens mean that since 2010, the Authority, along with other local authorities, has already made substantial efficiency savings. These sustained cuts come at a time when demand for some of the Authority's most costly services such as support to vulnerable adults and children's social care is increasing. Currently the cost of Looked after Children

(LAC) care packages range from £0.016m for Internal Fostering support through to £0.207m for External Residential placements. In Adult Social Care the average cost of care packages range from £0.008m for Homecare/Extra care (over 1200 clients), £0.022m for Older People and those with Physical Disabilities (over 960 clients), £0.048m for over 100 clients with Learning Disabilities and Mental Health needs, and an average cost of over £0.055m for over 230 clients being supported through Independent Supported Living.

1.5.2 Cabinet will recall that as part of the 2016 Spending Review the Government at that time included assumptions regarding the increase in levels of Council Tax when determining the Settlement Funding Assessment for each Local Authority, and therefore these draft proposals include a 1.99% general increase in Council Tax.

1.5.3 As part of the 2017 Local Government Finance Settlement, in order to address the pressures faced by Adult Social Care Services, Central Government introduced a social care precept of up to 6% across the period 2017/18 through to 2019/20. In line with this, these draft proposals include a 3% Adult Social Care precept. In addition to this, an improved Better Care Fund was made available as part of the 2017 Spring Budget. These draft proposals are based on the assumption this funding is applied to the Local Authority's spend on Adult Social Care services. When the impact of the Central Government's assumed increase in Council Tax and the improved Better Care Fund are taken into consideration the resulting net efficiency requirement is in the region of £32m.

1.5.4 The Authority is experiencing an incredibly difficult period and it is faced with steeply declining government funding as well as relentless pressure on its already reduced budgets. In light of this challenge, the Authority has engaged with residents and has developed a clear plan for the future. The draft budget proposals in this report aim to protect essential services for the people of North Tyneside, invest in the future of the borough, grow the local economy, create more jobs and opportunities and build a more modern Authority that enables residents to do more for themselves.

1.5.5 With so many competing demands to pay for services the Elected Mayor and Cabinet have carefully scrutinised the Authority's finances. With the scale of the funding reductions, very difficult decisions have had to be made and unfortunately many more lie ahead, if the Authority is to manage with less money. These proposals aim to protect essential services and make sure that the Authority operates in as an efficient a way as possible to provide excellent value for money for local taxpayers.

1.5.6 The 'Our North Tyneside' Plan is being refreshed as part of the 2018-2020 Financial Planning and Budget process to ensure it continues to reflect the updated priorities of the Elected Mayor and Cabinet and residents. The Budget proposals set out in this report have therefore been developed in the context of the draft 2018-2020 'Our North Tyneside' Plan and reflect the Plan priorities. The overall direction is outlined in Annex 1 to this report. The savings to be delivered will be managed through the four service delivery themes of the Creating a Brighter Future programme which will continue to redefine, reshape and redesign how the Authority delivers the required outcomes through a Target Operating Model.

1.5.8 Between July and September 2017 there has been an extensive programme of public engagement throughout the borough through the Big Community Conversation. The feedback from this programme and other activity throughout the year, including the State of the Area event informed the initial Cabinet budget proposals which were reported to Cabinet on the 27 November 2017. Further engagement on Cabinet's initial budget proposals took place from end November 2017 and continues through January 2018. The engagement has involved information and feedback through the Authority's website as well as focus group activity with staff, residents, businesses and strategic partners. Full details of the engagement which has been carried out is included in Annex 1 to this report with the results of this engagement included as Appendix F.

1.5.9 Annex 1 to this report sets down in detail the Cabinet's 2018-2020 draft Budget proposals for the General Fund Revenue Budget, Dedicated Schools Grant and the 2018-2021 Investment Plan.

1.5.10For the 2018/19 Financial Planning and Budget process a two-year financial planning process is proposed covering the years 2018-2020. The Provisional Local Government Finance Settlement for 2018/19 was issued on the 19 December 2017 and is summarised in Annex 1 to this report. A Consultation on the Settlement was issued with a closing date of 16 January 2018.

1.6 Decision options:

1.6.1 The following decision options are available for consideration by Cabinet:

<u>Option 1</u>

Cabinet can agree the proposals set down in this report.

<u>Option 2</u>

Cabinet can agree a selection of the proposals and suggest that further / different options are considered by the Senior Leadership Team before submission to full Council on 1 February 2018.

<u>Option 3</u>

Cabinet can disagree with the proposals

Option 1 is the recommended option.

1.7 Reasons for recommended option:

1.7.1 Option 1 is the recommended option as the Budget proposals have been worked through with all Cabinet Members and have taken due consideration of the Budget Engagement suggestions. The reasons for recommendations are mainly legal in nature, as stated in paragraphs 2.1 and 2.2 of this report.

1.8 Appendices:

Annex 1:	2018-2020 Financial Planning and Budget Process – Cabinet's draft Budget Proposals and Council Tax Requirement
Appendix A:	2018-2020 Our North Tyneside Plan
Appendix B	General Fund 2018-2020 Financial Pressures Summary
Appendix C	General Fund 2018-2020 CBF Savings
Appendix D (i):	2018-2021 Investment Plan Summary
Appendix D (ii)	Prudential Indicators
Appendix D(iii)	Investment Strategy
Appendix E	2018/19 Treasury Management Statement and Annual Investment Strategy
Appendix F	Budget Engagement Summary
Appendix G	Reserves and Balances Policy
Appendix H	2018/19 Financial Planning and Budget Timetable of Key Future Decision Milestones
Appendix I	Glossary of Terms
Appendix J	Report of the Overview, Scrutiny and Policy Development Committee

1.9 Contact officers:

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1.10 Background information:

The following background papers and research reports have been used in the compilation of this report and are available at the offices of the author:

(a) 2018-2020 Financial Planning and Budget Process: Cabinet's Initial Budget proposals, Cabinet 27 November 2017
http://my.northtyneside.gov.uk/sites/default/files/meeting/related-documents/cabinet%20for%2027%2011%202017.pdf

(b) 2018-2020 Financial Planning and Budget Process, incorporating the Council Plan and associated Engagement Strategy, Cabinet 11 September 2017

http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=569752

http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=569753

http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=569754

(c) 2017 Autumn Statement

Autumn Budget 2017: documents - GOV.UK

(d) Efficiency Statement

http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=566926

http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=566927

(e) http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/local-authority-accounting-panel/laap-bulletins/laap-99

(f) 2017/18 Financial Management Report to 30 November 2017 – Cabinet 15 January 2018 Cabinet 15-Jan-2018 | North Tyneside Council

(g) Cumulative Equality Impact Assessment

(h) Business Cases

(i) General Fund Budget Summaries

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

2.1.1 The financial implications arising from this report are appraised as part of the decisions made about what will be included in the Authority's Financial Plan, incorporating the 2018/19 Budget setting process. Decisions on the Budget in relation to the General Fund, Dedicated Schools Grant (DSG), Treasury Management Statement and Annual Investment Strategy and Investment Plan need to be made within the overall context of the resources available to this Authority and within the legal framework for setting budgets. The Authority will need to examine closely the links with its key funding partners and their proposed financial plans, including an assessment of the impact of any grant fall-out over the proposed two-year resource planning period.

2.1.2 Cabinet and full Council need to have due regard to the Chief Finance Officer's advice in relation to the levels of reserves and balances proposed as part of the two-year Financial Plan for 2018-2020, as issued in guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA) in July 2014. A provisional statement to Council by the Chief Finance Officer is included in Annex 1 to this report.

2.2 Legal

2.2.1 The Local Government Finance Act 1992 (Section 32: Calculation of Budget Requirement) requires the Council to set a balanced budget in the context of the resources available, including Central Government Grants, Business Rates and Council Tax income. The Localism Act 2011 inserted a new Section 31 into the Local Government Finance Act 1992, which requires the calculation of a council tax requirement by billing authorities, rather than a budget requirement calculation, as previously. The Localism Act 2011 also abolished Council Tax capping in England. It instead introduced new provisions into the 1992 Act, making provision for council tax referendums to be held in England if an authority increases its Council Tax by an amount exceeding the principles determined by the Secretary of State.

2.2.2 The Local Government Act 2003 imposes duties on local authorities in relation to budget setting. The Act requires that, when an authority is deciding its annual Budget and Council Tax level, Members and officers must take into account a report from the Chief Finance Officer on the robustness of the budget and the adequacy of the authority's financial reserves. The Government has a back-up power to impose a minimum level of reserves on an authority that it considers to be making inadequate provisions.

2.2.3 The 2018-2020 Financial Planning and Budget process has been prepared to comply with the time-scales required within the Budget & Policy Framework Procedure Rules contained in the Authority's Constitution and legislative requirements that the Council Tax requirement is determined before the 11 March in any year.

2.3 Consultation / Community engagement

Internal consultation

2.3.1 Each Cabinet Member has been consulted on the individual proposals put forward in this report, with regular discussions held between the Chief Executive, Deputy Chief Executive, Head of Finance, Heads of Service, the Elected Mayor and Cabinet.

Community engagement

2.3.1 The 2018/19 Budget Engagement Strategy was agreed at Cabinet on 11 September 2017. The Authority's overall approach to engagement ensures that the public should have opportunities to have their say throughout the year. Between June and September 2017 there has been an extensive programme of engagement across the Borough through the 'Big Community Conversation'. Further engagement on the Cabinet's initial budget proposals and Our North Tyneside Plan priorities has taken place from 28 November 2017 to late January 2018. The Budget proposals have been shaped in the context of the refreshed 'Our North Tyneside Plan 2018 -2020.

2.3.2 The further engagement phase gave residents the opportunity to have their say online, via social media and at discussion events. There have also been meetings with key groups of stakeholders to discuss the Budget proposals.

2.4 Human rights

2.4.1 All actions and spending plans contained within the Budget are fully compliant with national and international Human Rights Law. For example, Article 10 of the European Convention on Human Rights guarantees freedom of expression, including the freedom to 'hold opinions and to receive and impart information and ideas'. Article 8 of the Convention guarantees the right to respect for private and family life.

2.5 Equalities and diversity

2.5.1 In undertaking the process of the Budget setting the Authority's aim will at all times be to secure compliance with its responsibilities under the Equality Act 2010 and in particular the Public Sector Equality Duty under that Act.

To achieve this, an Equality Impact Assessment has been carried out on the Budget Engagement process. The aim is to remove or minimise any disadvantage for people wishing to take part in the engagement programme. Specific proposals on how services will seek to meet budgetary requirements have been subject to EIAs. A cumulative impact assessment of all of these has been undertaken.

2.6 Risk management

2.6.1 Individual projects within the Financial Plan and Budget are subject to full risk reviews. For larger projects, individual project risk registers are / will be established as part of the Authority's agreed approach to project management. Risks will be entered into the appropriate operational, strategic, corporate or project risk register(s) and will be subject to ongoing management to reduce the likelihood and impact of each risk.

2.7 Crime and disorder

2.7.1 Projects within the Financial Plan and Budget will promote the reduction of crime and disorder within the Borough. Under the 1998 Crime and Disorder Act, local authorities have a statutory duty to work with partners on the reduction of crime and disorder.

2.8 Environment and sustainability

2.8.1 The Our North Tyneside plan states that "We will reduce the carbon footprint of our operations and will work with partners to reduce the Boroughs carbon footprint." A number of the proposals will contribute to this including those to reduce the Authority's energy consumption. The environmental and sustainability aspects of individual proposals will be assessed in detail as and when agreed and implemented.

PART 3 - SIGN OFF

• Deputy Chief Executive	X
• Head(s) of Service	X
• Mayor/Cabinet Member(s)	X
• Chief Finance Officer	X
• Monitoring Officer	X
• Head of Corporate Strategy	X

2018-2020 Financial Planning and Budget Process:

Cabinet's Draft Council Tax Requirement and Budget Proposals

24 January 2018

North Tyneside Council

Introduction

This Annex sets out North Tyneside Council's proposed General Fund and Housing Revenue Account (HRA) Budget for the financial year 2018/19, together with indicative plans for the next year (2019/20). This follows on from the initial Cabinet Budget proposals of 27 November 2017, which formed the basis on which we have sought the views of residents, tenants and partners.

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

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

The Council is legally required to set a balanced budget for the General Fund to meet statutory duties and provide services such as social care and environmental services. For the HRA, the Council Tax payer cannot subsidise those living in social housing and the rents and service charges paid by the tenants cannot be used to fund unrelated council services. It is also illegal for an authority to budget for a deficit in its HRA.

Engagement Approach

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

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

Between July and September 2017 there has been an extensive programme of engagement out and about across the borough through the Big Community Conversation. The feedback from this programme and other activity throughout the year including the State of the Area event has informed the refresh of the Council Plan as the framework for the Cabinet budget proposals which are set out in this report.

Further engagement on Cabinet's initial budget proposals has taken place from the end of November 2017 to January 2018 as set out below.

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

Target Audiences

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

Specific external audiences are:

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

Internal audiences are:

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

Approach

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

- Inclusive: making sure that everyone is able to engage in the process
- Clear: being clear on the aims of each engagement activity at the outset and the extent to which residents can be involved
- Integrated: ensuring that engagement activities are joined up with the relevant decision making processes
- Tailored: aiming to better understand our audience and using different methods appropriately to enable and encourage people to be involved
- Feedback: giving feedback through agreed channels when engagement activity is completed

- Timely: aiming to give sufficient notice to make opportunities available to all and taking into account those times when it is more appropriate to engage depending on our target audience.

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

Members of the Residents Panel were invited to attend 3 sessions throughout December 2017 and January 2018 which provided a number of them with further context to the budget setting process, enabled them to listen to the proposals directly from Heads of Service and to provide feedback face to face. The sessions aimed to give residents a clearer understanding of local authority finance and budget setting processes that enabled them to critically appraise the draft proposals and then feedback accordingly. Residents were given the opportunity to sign up to the Residents Panel, specifically to attend these sessions.

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

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

Our North Tyneside Plan

The proposed refresh of the Our North Tyneside Plan 2018-2020 (Council Plan) will set out the overall vision and policy context within which the Financial Plan and Budget proposals are set.

This vision and policy context reflects the updated priorities of the Elected Mayor and Cabinet for the next 4 years and the work of the North Tyneside Strategic Partnership, which includes all of the organisations and sectors who work together with the Authority to deliver an improved future for the Borough and its residents.

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

The Our North Tyneside plan is focused on ensuring that the Authority works better for residents.

The plan has three key themes – Our People, Our Places and Our Economy. These themes are based on the Mayor's priorities for her second term. For example the Plan describes how the organisation will support people to access high quality education, deliver regeneration projects across the borough and ensure that North Tyneside is business friendly.

Our People will:

- Be listened to so that their experience helps the Council work better for residents.
- Be ready for school – giving our children and their families the best start in life.
- Be ready for work and life – with the right skills and abilities to achieve their full potential, economic independence and meet business needs.
- Be healthy and well – with the information, skills and opportunities to maintain and improve their health, well-being and independence, especially if they are carers.
- Be cared for, protected and supported if they become vulnerable including if they become homeless.
- Be encouraged and enabled to, when ever possible, be more independent, to volunteer and to do more for themselves and their local communities.

Our Places will:

- Be great places to live by focusing on what is important to local people, such as by tackling the derelict properties that are blighting some of our neighbourhoods.
- Offer a good choice of quality housing appropriate to need, including affordable homes that will be available to buy or rent.

- Benefit from the completion of the North Tyneside Living project and by North Tyneside Council's housing stock being decent, well managed and its potential use maximised.
- Provide a clean, green, healthy, attractive, safe and sustainable environment. This will involve creating a cycle friendly borough, investing in energy efficiency schemes and by encouraging more recycling.
- Have an effective transport and physical infrastructure - including our roads, pavements, street lighting, drainage and public transport.
- Continue to be regenerated in Wallsend and Whitley Bay, through effective public, private and community partnerships, while ambitious plans will be developed for North Shields, Forest Hall and Killingworth.
- Be a thriving place of choice for visitors through the promotion of our award winning parks, beaches, festivals and seasonal activities.

Our Economy will:

- Grow by supporting new businesses and building on our strengths, including our existing world class companies, and small and growing enterprises.
- Be business friendly, ensuring the right skills and conditions are in place to support investment, and create and sustain new high quality jobs and apprenticeships for working age people.
- Continue to support investment in our business parks, units and Town Centres.

<u>Performance</u>

The Our North Tyneside Plan sets out a range of measures for ensuring that Our People are ready for school, ready for work and life and are cared for safeguarded and healthy if required.

The latest performance report shows that:

For the fifth year in a row, there has been an increase in the number of children who are ready for school. There has been an increase of over 20% in the number of children who have reached a Good Level of Development, compared to 2012/13. This overall success is further supported by a reduction in the gap, linked to deprivation, for children achieving the expected level at Foundation Stage. This gap has been reduced by all children improving but those on Free School Meals improving at a faster rate.

There has been a reduction in the number of young people who are not in education, employment or training over the lifetime of this plan. In addition there has also been a reduction in the number of 18-24 year olds who are claiming Job Seekers Allowance. This is part of a wider reduction in the number of people claiming unemployment benefits, which has reduced from 4.8% in 2012/13 to 2.7% in 2016/17.

There has been progress in addressing those key issues that are known to be significant factors in the health gap. Residents are more physically active than the regional average and this is expected to increase with the introduction of programmes such as Active North Tyneside. In addition there has been a reduction in the number of people who smoke. In addition initiatives are increasingly targeted, for example the NHS Health Checks and the Stop Smoking Service.

More residents are indicating, through the Residents' Survey, that they are satisfied with where they live. This has increased from 73% at the start of the plan to 81% this year. The issues that residents have highlighted as most important for them to judge the quality of the local area include the quality of local education, local environmental standards and low levels of crime. These issues are key parts of the boroughs strengths and are part of the reason why there has been an eight percentage point improvement in local residents thinking that their area has improved in the last twelve months.

House building is a key signifier of the desirability of North Tyneside as a place to live and it has increased this year, with 892 net additional homes provided. The increase in the number of affordable homes being delivered has seen 347 homes delivered this year, bringing the total number of affordable homes delivered in the last 3 years to a level which exceeds the total number in the previous decade.

As a result of these housing developments residents are increasingly satisfied with the quality and choice of housing in the borough; both measures of housing choice and quality in the Residents Survey have increased this year. Over a quarter of residents are very satisfied with the choice of housing that is now available.

North Tyneside is now a great place to work for over 5,000 businesses. This is an increase from 3,890 in 2012. The growth in the number of businesses has been seen in every year of the plan.

There continues to be an increase in the number of jobs in the Borough. There are now 81,900 jobs in the Borough, which is an increase of more than ten thousand since 2012. This has been achieved through a mixture of supporting businesses to start, survive and through success in attracting new businesses to invest in the Borough.

Ensuring that young people in North Tyneside have the right high level skills and qualifications to progress and succeed in the job market are important for their happiness and the regions' prosperity. 88% of young people progress to Key Stage 5 (A level). Of those, 90% progress into a positive destination after Key Stage 5. Young people are proceeding to a positive destination at an increasing rate and have continued the trend from the past few years. The figure continues to be higher than national rate for this measure, which is 88%.

<u>Local Plan</u>

The latest population projections from the Office of National Statistics project an increase of 15,800 people between 2014 and 2032. The population of North Tyneside in 2032 is expected to be 218,500. The Local Plan is the second key strategic element that drives the direction of resources in the Borough and was adopted by North Tyneside Council in July 2017. The Local Plan sets out how the Borough can be a thriving, prosperous and attractive place to live and work. It details how the Borough will require around 9,800 homes (in addition to the 2,170 already provided since 2011/12 and the 4,700 that already have planning permission) and employment land for at least 12,700 new jobs.

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

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

- coastal regeneration
- Swans/the North Bank of the Tyne
- town centres, including North Shields, Forest Hall and Killingworth.
- new and improved schools
- roads, pavements and other transport improvements in line with the agreed Transport Strategy
- housing (particularly affordable homes) in line with agreed Housing Strategy
- support for businesses
- marketing the Borough to secure more inward investment and generate more visitors as a tourist destination

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

Financial Strategy

A Financial Strategy is critical in order to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term. This Financial Strategy needs to support delivery of the refreshed Our North Tyneside Plan 2018-2020, as set out above, which is the key driver of our resources allocation. The Budget setting process helps the Authority respond appropriately to responsibilities and duties placed upon Local Government through legislative requirements, increasing demand and cost for certain services and the Government's drive to deliver savings.

Whilst decisions around Budget setting are approved on an annual basis, the Authority must demonstrate medium-term financial and resource planning. Annual budget decisions should be taken in the context of the overall Financial Strategy that looks at all Authority services and takes into account the Government's Local Government finance agenda.

The detailed Financial Strategy was approved by Cabinet on 11 September 2017 and is a background paper as part of this report.

General Fund

The Provisional Local Government Settlement for 2018/19 was issued on the 19 December 2017. The key change included in the provisional settlement was the option for local authority's to raise additional resources by the increase on the Council Tax referendum limit to 3% for 2018/19.

The main points from the Ministerial statement were as follows:

- The Council Tax referendum limit has been increased by 1% for 2018/19, based on the Minister stating *"…….giving councils the ability to increase their core Council Tax requirement by an additional 1% without a local referendum";*

- For 2018/19, there are no changes to how the award of New Homes Bonus will be made and, as announced at last year's settlement, New Homes Bonus grant in 2018/19 will be paid on the basis of 4 years award with growth above 0.4% rewarded (the reduction in NHB for 2018/19 is £793k);

- Rural Service Delivery Grant in 2018/19 will remain at a national level of £65m rather than being reduced by £15m in 2018/19 as had been planned (no impact for NTC);

- There will be a consultation in the Spring of 2018 on negative Revenue Support Grant (RSG) planned for 2019/20;

- Proposals for new Business Rates Pilots in 2018/19 have been approved for 10 areas in addition to London;

- There will be a reset of business rates baselines in 2020/21;

- There will be a move to 75% business rates retention for 2020/21 which will see RSG and Public Health grant replaced by business rates income.

In addition to the Local Government Finance Settlement, a consultation was published on Fair Funding, with the new funding formula planned to be introduced for the financial year 2020/21.

Medium Term General Fund Position

Medium term financial planning remains difficult and is prepared against the continuing funding cuts for local government coupled with increased demand for social care and managing the impacts of welfare reform. The March 2017 Budget (Spring Budget) reported a further deterioration in the public finances and the expectation now that the national budget deficit will not be eradicated until the end of the next Parliament. Uncertainty remains in respect of the future impact of Brexit. In terms of managing the increasing demands for both Adult and Children's Social Care, there are also indications that many authorities are overspending against budgets for both Adults and Children's Services in order to meet increasing demand and cost. These pressures are evident in our own authority and we need to continue explore new financial and organisational initiatives to meet this significant challenge.

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

The likely continuing requirement and scale of budget savings, over and above the £110m already taken from budgets since 2010/11, presents an increasing challenge for the Authority. The Government's approach to "continue the work of bringing the public finances under control and reducing the deficit, so Britain lives within its means" will result in further significant funding reductions and cost pressures for Local Government.

Cabinet has worked to consider options to meet the financial challenges and considered proposals that would address the funding gap over the next two financial years. Sustained cuts in government funding and unfunded pressures together with unfunded new burdens mean that since 2010, the Authority, along with other local authorities, has already made substantial efficiency savings. These sustained cuts come at a time when demand for some of the Authority's most costly services such as support to vulnerable adults and children's social care is increasing.

Funding Social Care pressures

As part of the 2016 Spending Review an Improved Better Care Fund offer was included to begin to address the pressures being felt in Adult Social Care. This was enhanced by a further allocation of £4.579m for 2017/18 (£2.936m for 2018/19 and £1.456m for 2019/20) in the Spring Budget and these draft budget proposals include an assumption this funding will stay with the Authority when delivering services associated with the Better Care fund.

In addition, whilst retaining the Council Tax referendum limit at 2% as part of the 2017 Local Government Financial Settlement, an Adult Social Care precept was proposed with a limit of no more than 6% over the period 2017/18 to 2019/20. This Authority chose to raise a 3% Adult Social Care precept for the current financial year, and as part of Cabinet's initial proposals consulted on a further 3% Adult Social Care precept. These draft proposals include an assumed 3% Adult Social Care precept.

These packages of additional funding and resources, if approved, go some way to addressing the pressure being felt in Adult Social Care. However like many other authorities North Tyneside Council continue to see pressure in respect of Children Social Care; in terms of a sustained level of children and young people requiring appropriate support, the costly nature of that work and the scarcity of children's social workers creating work force retention issues across the region.

Council Tax Support

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

Pensioners are not subject to the cap referred to above and may still be awarded reductions of up to 100% of their Council Tax liability.

Council Tax Support under our current scheme is capped at 87.5% of an individual's Council Tax liability, meaning that working age people are charged 12.5% of their Council Tax before they receive Council Tax Support.

Changes to the Local Council Tax Support Scheme are currently under consideration and public consultation has recently taken place. Consultation outcomes were presented back to Cabinet at its meeting on 11 December 2017. The final decision on the Council Tax Support Scheme is the responsibility of Full Council and the scheme for 2018/19 will be considered at the Council meeting on 18 January 2018.

The current budget proposals include an assumption that the charge to working age recipients is increased to 15%. In relation to a band A property (as 90% of the cases fall into a band A) this will result in residents paying £2.45 per week as a single person and £3.27 for a couple. This amounts to an increase of £0.50 per week for a single person and £0.67 for a couple.

Business Rates

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

The 2017 national revaluation of Business Rates resulted in a slight reduction in total rateable value in North Tyneside, as was also experienced across the North East region. The Government adjusted our top-up grant to ensure the Authority is no worse off as a result of the revaluation.

The Authority is currently exposed to the risk of Business Rate appeals, which are determined by the Valuation Office Agency. Since 2013/14 the level of appeals has been higher than were originally anticipated and resulted in a Collection Fund deficit as at 31 March 2017. Government introduced a new check, challenge and appeal process in April 2017 which appears to have improved the efficiency of the appeals process, as challenges against rateable values have significantly reduced in 2017/18. Based on further data in respect of appeals an updated position on the Authority's share of business rates forecast for 2018/19 brings an estimated additional £2.00m of resources into the Authority's budget for 2018/19.

The Government's 2017 Autumn budget introduced further changes to Business Rates which include:

- Bringing forward, by two years, the switch from using the retail prices index (RPI) to the consumer prices index (CPI). This will happen in April 2018;
- Extending the £1,000 discount for pubs with a rateable value of less than £100,000 for another year, to March 2019; and
- Legislating to address the 'staircase tax', with business rates bills for affected businesses to be based on previous practice backdated to April 2010.

The current estimate of compensation for these changes through a S31 grant is £0.968m and this has been reflected in the updated financial plan.

<u>General Fund Financial Plan</u>

As set out in the report to Cabinet of 27 November 2017, Cabinet's overall approach to developing the 2018/19 budget has been to take as far as possible a balanced approach to developing the budget in order to maintain those services most residents wish to access as well as investing in those services for our more vulnerable residents. Since this previous report to Cabinet, the 2018 Provisional Local Government Finance Settlement has been issued which indicated no material change to the Settlement position.

As part of the 2016 Spending Review Central Government included in their assumptions annual increases in Council Tax and therefore a 1.99% general increase in Council Tax was included in Cabinet's initial budget proposals which were considered by Cabinet on the 27 November 2017, in order to fund cost pressures in other services areas. This assumption remains in these draft budget proposals now being considered.

In summary Table 1 below sets out the updated estimate of resources available to fund the Authority's net budget based on an overall Council tax increase of 4.99%, and an updated NNDR position.

Table 1: 2018-2020 General Fund Financial Plan Resources Assumptions

	2017/18 £m		**2018/19 £m**	**2019/20 £m**
Council Tax	*84.403*		89.909	90.192
Estimated Collection Fund surplus from Council Tax	*0.370*		0.400	0.000
Revenue Support Grant	*22.596*		16.915	11.198
Business Rates	*25.802*		27.811	28.753
Business Rates top up	*19.189*		19.703	20.140
TOTAL	***152.360***		**154.738**	**150.283**

Cost pressures

The need to find savings in 2018/19 and future years is driven by significant unfunded cost pressures arising from a number of sources as well as the net reduction in resources from Central Government. The Authority is experiencing the same service pressures as many other Metropolitan Authorities. These cost pressures arise for a number of reasons including:

- Legislative / regulatory changes mainly relating to external funding changes – cuts in specific grants, for example Public Health Grant (£328k), New Homes Bonus (£793k), Adult Social Care Grant (£1,036k), SEND Grant (£129k) and Education Services Grant (£778k);

- Pay and price inflationary increases – increases in pay based on an assumed 2% pay increase (£1,569k), the impact of the National Living Wage increases on social care providers (£3,000k) and the impact of increased waste demand and the RPI impact on the contract the Council has for waste disposal and environmental contracts (£425k);

- Increasing demand for services – increased demand for social care services, for example increased numbers of adults with complex learning disabilities (900k), home to school transport (£450k) and contingency backed pressures within Adults Social Care and Looked After Children (£1,800k and £2,000k);

- The impact of the improved Better Care Fund (iBCF) grant and contribution from the Clinical Commissioning Group (£6,655k) including the additional impact for 2018/19. The iBCF was announced after the 2017/18 budget had been agreed; and

- Corporate pressures including pressures during 2017/18 within Adult Social Care (£900k) and the absorption of payroll inflation (£1,000k) across the Authority where savings targets are not achievable. The impact of investment decisions on likely interest costs and the reversal of an element of the Minimum Revenue Provision (MRP) holiday adopted during 2017/18 (£6,318k).

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

In terms of the 2017/18 in-year budget monitoring position, the first report of the year reported a pressure of £8.842m. The last report to Cabinet on 15 January 2018 saw a much improved position of a forecast surplus of £0.286m. That said, underlying demand pressures in Adults and Children's social care services remain and have been reflected in additional cost pressure for 2018/19, with £3.800m included within the contingency budget to cover these risks.

Taking into consideration the updated cost pressures and changes to Council Tax and Business Rates resources alongside the continued reduction in Revenue Support Grant in the future, the gap/efficiency requirement for 2018/19 is currently estimated at £10.143m with a total of circa £31.552m to the end of 2019/20 as set out in Table 2 below which is the summary of the draft financial plan.

Table 2: 2018-2020 General Fund Financial Plan

	2017/18 *£m*		2018/19 £m	2019/20 £m	2018/19-2019/20 £m
General Fund Base Budget	*153.945*		152.360	154.738	152.360
Pay & Price Increases, Demand Led, Corporate, Legislative/Changes to Responsibilities Resource changes and 2017/18 in year pressures	*16.753*		12.521	16.954	29.475
Creating a Brighter Future Programme	*-18.338*		-10.143	-21.409	-31.552
Total General Fund Financial Plan	*152.360*		154.738	150.283	150.283

Efficiency Savings

The approach for 2018-2020 is to achieve savings early where possible, to mitigate against future financial risks whilst working in a very different way. Expensive services will continue to be more effectively targeted only at the people who need them, ensuring that our most vulnerable residents have a successful, healthy and safe future no matter where they live in the Borough. Cabinet has protected where possible those universal services accessed by all e.g. Libraries, Customer Service Centres, Sport and Leisure. Work continues to improve understanding and management of demand, concentrating wherever possible on enabling people to help themselves. Intelligence is being used to target scarce resources to best effect, income is maximised and long-term cost reduced, work continues in partnership to improve outcomes, with an innovative use of technology.

In terms of delivering the overall budget, the CBF programme will necessarily continue to be a cross cutting programme to transform every part of the Authority and the relationship with the residents of North Tyneside as set out in the “Our North Tyneside Plan”. The Efficiency Plan, which was first agreed under a delegation to the Mayor on 10 October 2016, sets out a number of proposals to be delivered that are designed to support the Authority in managing the change required to meet the significant financial challenge it faces. The proposals consider how service delivery can be reshaped in order that the Authority is able to meet the demands it faces, consider how residents are supported to help themselves, and continue to develop the Borough in terms of a place to live, being attractive to businesses and have effective transport and physical infrastructure.

Appendix C sets out in more detail the proposals for 2018/19, which are summarised in Table 3 below:

Table 3: Efficiency Savings 2018-2020

CBF Theme	2018/19 £m	2019/20 £m
Existing Business Cases	-0.991	-0.459
Cared For, Safeguarded and Healthy	-0.980	-0.130
Fit for Purpose	-6.005	-0.063
Great Place to Live, Work & Visit	-0.477	-0.770
Maximising Resources	-1.690	0.000
Efficiency proposals	0	-19.987
TOTAL	**-10.143**	**-21.409**

Dedicated Schools Grant (DSG)

The Dedicated Schools Grant (DSG) can only be used for the purposes of the Schools Budget as defined in the School and Early Years Finance Regulations. The DSG funds delegated budgets which are allocated to individual schools, nurseries and other early years settings, high needs provision including special schools and alternative provision.

On 14 September 2017 the Department for Education (DfE) published the response to the Stage 2 National Funding Formula consultation and confirmed the final formulae. From 2018/19 the DSG, which provides the allocations for each block, will comprise of four blocks: schools, high needs, early years and the new central school services block. Each of the four blocks has their own funding formula.

In 2018/19 and 2019/20 the Authority will receive its funding based on the DfE national funding formula and during this transition period local authorities will continue to set a local formula to distribute funding and distribute individual schools budgets.

The consultation response included illustrative data to show the impact of the new formulas for both the Authority and each school, using 2016 census data. The allocations take into account the additional national investment in schools revenue funding of £1.3 billion for 2018/19 and 2019/20, which the Secretary of State announced in July 2017. The final DSG allocation was published in December 2017 on basis of the latest October 2017 pupil census data. The Education Funding Agency (EFA) is not expected to confirm 2018/19 high needs SEN funding block allocations to authorities until March 2018 at the earliest.

Table 4: Published Allocations for DSG Blocks in 2018/19

	2018/19 schools block units of funding (£'s)	Schools Block	CSS Block	Early Years Block	High Needs Block	Total DSG 2018/19
		£m	£m	£m	£m	£m
Primary per pupil rate (£)	3,769.62					
Secondary per pupil rate (£)	5,272.53					
Block Value		116.594	2.314	13.115	19.977	152.000
Deduction for direct funding of high needs places by ESFA					0.674	0.674
Total Settlement		**116.594**	**2.314**	**13.115**	**19.303**	**151.326**

Officers have been in discussion with North Tyneside Schools Forum regarding the local application of a funding formula for the Schools Block and a consultation exercise with all schools has been completed. The outcome of this was reported to

Schools Forum on 10 December 2017. Forum accepted the prevailing view of schools that maintaining stability of funding within the local formula would give individual schools time to plan for the implementation of the National Funding Formula.

At the meeting on 10 January 2018, Schools Forum considered elements of funding that are held centrally within the funding allocations (known as centrally retained and de-delegated items) which are applied to benefit pupils across the borough.

The key dates which must be met in setting 2018/19 school budgets are shown in the table below. This report is requesting authorisation for the Head of Finance, in consultation with the Head of Commissioning and Investment, the Cabinet Member for Children, Young People and Learning and the Cabinet Member for Finance and Resources, to undertake resource allocations to schools to meet these deadlines. Members will be kept informed of progress through the bi-monthly financial management reports to Cabinet.

Table 5: Key dates for 2018/19 school budget setting

Date	**Action**
10 January 2018	Schools Forum approves centrally retained and de-delegated sums and receives further information on the DSG allocations.
19 January 2018	Local authorities submit final data for Schools Budget formula pro forma for 2018/19 to the EFA
31 January 2018 (mandatory date 28 February 2018)	North Tyneside issue maintained schools their mainstream funding allocations for 2018/19

Cabinet's Draft Budget proposals for the 2018-2021 Investment Plan

Capital Investment generally relates to spending on physical assets that have a useful life of more than one year. This can be new assets, improvements to existing assets, or loans to third parties for a capital purpose.

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

An Investment Strategy has been developed to help support the delivery of capital investment and ensure that the investment programme builds on previous success, with a strong focus on delivery of the 'Our North Tyneside' Council Plan outcomes. The Strategy also provides a framework to enable projects to be developed with the aim of helping to deliver revenue savings to assist the Authority in managing the financial pressure it faces. The Investment Strategy is attached as Appendix D(iii).

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

The Investment Programme Board (IPB) meets on a monthly basis and, as part of its monthly meetings, receives an update on all ongoing projects included in the approved Investment Plan (currently 2017-2020).

Table 6 below shows a summary of the draft 2018-2021 Investment Plan.

Table 6: Summary of Investment Plan 2018-2021

Spend	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's
General Fund	54,365	16,365	8,243	78,973
Housing	27,914	23,291	20,270	71,475
Total	**82,279**	**39,656**	**28,513**	**150,448**

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

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

Table 7: Summary of Financing 2018-2021

Spend	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's
General Fund				
Council Contribution:				
Unsupported Borrowing	30,067	11,434	7,810	49,311
Capital Receipts	0	1,080	0	1,080
Revenue Contribution	68	0	0	68
	30,135	12,514	7,810	50,459
Grants & Contributions	24,230	3,851	433	28,514
Total General Fund Resources	**54,365**	**16,365**	**8,243**	**78,973**
Housing - HRA				
Capital Receipts	2,261	4,763	1,367	8,391
Revenue Contribution	9,570	6,136	6,079	21,785
Major Repairs Reserve	12,583	12,392	12,824	37,799
House Building Reserve	3,500	0	0	3,500
Total Housing HRA Resources	**27,914**	**23,291**	**20,270**	**71,475**
TOTAL RESOURCES	**82,279**	**39,656**	**28,513**	**150,448**

The draft 2018-2021 Investment Plan for the General Fund includes expenditure of £54.365m in 2018/19. Of this expenditure £24.230m (45%) is funded through grants and other external funding contributions.

Capital receipts of £9.471m (£1.080m General Fund and £8.391m Housing) have been assumed in the financing of the draft Plan.

Across the life of the draft plan, unsupported borrowing totals £49.311m. The cost of borrowing is included within the General Fund Revenue budget and Financial Plan.

Flexible Use of Capital Receipts

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

Consideration will be given to the use of capital receipts for some elements of the ICT citizen interaction and self serve project and redundancies and other costs arising from the restructure of services.

Capital Allocations 2018/19

A number of capital allocations (grants) are announced by Central Government as part of the Local Government Finance Settlement. These include Education Funding (Capital Maintenance and Devolved Formula Capital) (Department for Education), the Local Transport Plan (Department for the Environment) and Disabled Facilities Grants (through the Better Care Fund). Figures for 2018/19 have not yet been announced but will be included in subsequent reports as soon as they are available. We have seen these allocations reduce over the previous 2 years as set out in Table 8 below.

Table 8: Capital Allocations for 2016/17 and 2017/18

	2016/17 £000's	**2017/18 £000's**
Education	4,604	3,988
Transport	3,338	3,156
Disabled Facilities Grants	1,307	1,417
Total	**9,249**	**8,561**

Annual Minimum Revenue Provision (MRP)

The Department for Communities and Local Government (now the Ministry of Housing, Communities and Local Government (MHCLG)) released a consultation paper on proposed changes to the prudential framework for capital finance on 10 November 2017. This document proposes a number of significant changes to the calculation of MRP which would take effect from 2018/19. A response was submitted by the due date of 22 December 2017. As the outcome of the consultation has not yet been announced the proposed MRP policy, for 2018/19, below has been prepared based on existing regulations. Any amendments subsequently required when the new regulations are announced will be included in future budget reports.

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

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

Prudential Indicators

CIPFA published the revised Prudential Code for Local Authorities in late December 2017. The proposed indicators for 2018-2021 have been prepared using this new guidance and are attached as Appendix D(ii).

2018/19 Treasury Management Statement and Annual Investment Strategy

Background

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

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

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

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

Reporting Arrangements

In line with best practice, the Treasury Strategy is considered as part of the budget approval process.

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

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

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

Treasury Management Strategy for 2018/19

The proposed strategy for 2018/19 in respect of the following aspects of the treasury management function is based upon the treasury management officers' view on interest rates, supplemented with market forecasts provided by the Authority's treasury advisor, Link Asset Services. This strategy covers:

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

Current Treasury Portfolio Position

The Authority's debt and investment position at 31st December 2017 is set down in Table 9 below.

Table 9: Current Treasury Portfolio Position as at 31st December 2017

	Principal Outstanding	Average Rate
	£m	%
Fixed Rate Funding		
PWLB*	175.250	4.81
PWLB – (HRA Self Financing)	128.193	3.49
Market Loans	20.000	4.35
Temp Loans	137.704	0.66
Total External Debt	**461.147**	
Less **Investments**		
(UK) DMO**	23.050	0.25
Total Investments	**23.050**	
Net Position	**438.097**	**3.18**

*Public Works Loan Board
**Debt Management Office

Prospects for Interest Rates

The Authority has appointed Link Asset Services (previously known as Capita Asset Services) as its external treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 10 below sets out Link Asset Services professional view of interest rates.

Table 10: Link Asset Services forecast interest rates – (2nd January 2018)

	Bank Rate %	5 year PWLB %	10 year PWLB %	25 year PWLB %	50 year PWLB %
Now	0.50	1.60	2.11	2.68	2.41
Mar 2018	0.50	1.60	2.20	2.90	2.60
Jun 2018	0.50	1.60	2.30	3.00	2.70
Sep 2018	0.50	1.70	2.40	3.00	2.80
Dec 2018	0.75	1.80	2.40	3.10	2.90
Mar 2019	0.75	1.80	2.50	3.10	2.90
Jun 2019	0.75	1.90	2.60	3.20	3.00
Sep 2019	0.75	1.90	2.60	3.20	3.00
Dec 2019	1.00	2.00	2.70	3.30	3.10
Mar 2020	1.00	2.10	2.70	3.40	3.20

At its meeting on 2 November 2017, The Monetary Policy Committee, (MPC), increased the Bank Rate from 0.25% to 0.50%. The MPC also gave forward guidance that they expected to increase the Bank rate only twice more in the next three years to reach 1.0% by 2020. This is a relaxed rate of increases predicted in the Bank Rate in line with previous statements that the Bank Rate would go up very gradually and to a limited extent.

Economic Outlook

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

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years;

- Borrowing interest rates increased after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank rate increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served the Authority well over the last few years. However, this needs to be reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and / or the refinancing of maturing debt; and

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

Borrowing Strategy

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

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

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

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

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

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

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

Municipal Bond Agency – The possibility remains that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the PWLB. The Authority may make use of this new source of borrowing as and when appropriate.

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

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Head of Finance will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet or full Council, as appropriate, at the next available opportunity. Such circumstances include a situation where:

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

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

Policy on borrowing in advance of need

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

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

Debt Rescheduling

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

In order to generate the most attractive debt rescheduling opportunities, it is proposed that the strategy for 2018/19 should remain flexible. The reason for any rescheduling to take place may include:

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

- to help fulfil the strategy outlined above; and

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

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

Annual Investment Strategy

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

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

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

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

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

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

Bank Rate is forecast to remain unchanged at 0.50% before starting to rise to 0.75% from quarter 3 of 2018. The rate will not to rise above 1.00% until quarter 3 2019. Bank Rate forecasts for financial year ends (March) are:

Table 11: Bank Rate Forecast for Financial Year Ends

Year End (March)	Bank Rate Forecast (%)
2017/18	0.50
2018/19	0.75
2019/20	1.00
2020/21	1.25

There is a downside risk to these forecasts in view of the uncertainty over the final terms of Brexit. However, should the pace of growth quicken or forecasts for increases in inflation rise, there could be an upside risk.

The strategy for 2017/18 agreed on 16 February 2017 was set against a background of uncertainty and a prudent approach was taken with nearly all investments being made on a short term basis. In the current economic climate it is essential that a prudent approach is maintained. This will primarily be achieved through investing with selected banks and funds which meet the Authority's credit rating criteria, set out in Appendix E.

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

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

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

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

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

Creditworthiness

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

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

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

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

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

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

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

Policy on the use of external service providers

The Authority uses Link Asset Services as its external treasury management advisor.

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

The Authority also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subject to regular review. The Authority's contract with Link Asset Services ends on 9 February 2018. The Authority will now seek to ensure that following a tender process, a suitable treasury management advisor will be in place on 12 February 2018.

<u>Response to the Overview, Scrutiny and Policy Development Committee Recommendations</u>

Summary

This section of the document proposes how to consider responding to any recommendations made by the Overview, Scrutiny and Policy Development Committee following its scrutiny and challenge of the 2018-2020 Financial Planning and Budget process.

The Cabinet must formally respond to any recommendations made by the Overview, Scrutiny and Policy Development Committee in considering its final Budget proposals. It is therefore proposed that Cabinet consider any recommendations in relation to the General Fund Budget, the 2018-2021 Investment Plan and the Treasury Management Statement and Annual Investment Strategy for 2018/19 at this meeting of 24 January 2018 prior to approving this report.

The meeting of the Overview, Scrutiny and Policy Committee on the 9 January 2018 considered a report by the Budget sub-group in relation to the initial Budget proposals for 2018/19. The Budget sub-group met on the 8 and 11 December 2017, where the Head of Finance and Senior Officers presented the 2018/20 Business Cases for:

a. Cared For.
b. Great Place
c. Housing Revenue Account
d. Maximising Resources
e. Fit for Purpose
f. Investment Plan

The following Cabinet Members were in also in attendance to provide further insight if/when required.

Councillor B Pickard
Councillor Ray Glindon

A further meeting was held on the 20 December 2017 in order to consider the additional information which had been provided to members of the group following requests at the initial meetings.

The group considered the engagement approach appropriate but raised slight concerns to the membership of the groups that were to be targeted. The group sought assurance that those groups targeted were from all wards of the borough and were a good reflection of the residents on North Tyneside in respect ensuring all 9 protected characteristics as set out in the Equality Act 2010 were represented.

The group concluded that the understanding where any increase in Council Tax will be spent needs to be understood by all residents of North Tyneside.

There was a view that some residents still did not understand the full impact that local authorities face and more is still needed to be done to inform and ensure the pressures the Authority is under to continue to provide services with less money and higher demand in those services with a greatest cost is understood.

The Budget sub-group noted that they can only consider and comment on the information that has been provided to them.

As with previous years the timely provision of information to the scrutiny sub-group was again an issue and raises concerns that an effective and comprehensive scrutiny cannot be undertaken.

The group acknowledged that the Authority is continuing facing an incredibly tough and challenging time and is faced with steeply declining government funding as well as relentless pressure on already reduced budgets.

The proposals aim was to continue to protect essential services and make sure that the Authority operates in as efficient a way as possible. However, there is continued concern that some service users could be missed or resistant to access services online and the move to further self service using the Target Operating Model.

The sub-group recognised that the delivery of the proposals and financial savings have an impact on the size and shape of the workforce.

It was reassured that the Authority's Restructure and Redundancy Procedure would be used to try to prevent any compulsory job losses and the Authority would continue to seek expressions of interest for voluntary redundancy.

There was a desire that the Authority develops greater commercial opportunities by advertising and selling its services to other local authorities, schools, businesses and residents. It also believed the North Tyneside Trading Company with is associated benefits should be utilised more to provide increased revenue into the Authority.

There is still a lot of uncertainty in respect of the impact of Central Government's devolution agenda as well as the future impact of Brexit. There continues to be real concern to the how the managing of the increasing demands for both Adult and Children's Social Care. There were also concerns as the Cabinet report (27 November 2017) also indicated that many authorities were overspending against budgets for both Adults and Children's Services in order to meet increasing demand and cost and these pressures were evident for North Tyneside and there was a need to continue explore new financial and organisational initiatives to meet this significant challenge.

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

Statement to Council by the Chief Finance Officer

The Local Government Act 2003 imposes duties on local authorities in relation to Budget setting. The Act requires that when an authority is deciding its annual Budget and council tax level, Members and officers must take into account a report from the Chief Finance Officer on the robustness of the Budget and the adequacy of the Authority's financial reserves.

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

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

The intention would be to make a full Statement as part of the report to the Council meeting on 15 February 2018, when all outstanding information should be available.

Robustness of Estimates

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

- The general financial standing of the Authority;
- The underlying Budget assumptions from the financial strategy;
- Future budget pressures and growth proposals, including the impact of prudential borrowing for the 2018-2021 Investment Plan;
- The adequacy of the budget monitoring and financial reporting arrangements in place;
- The adequacy of the Authority's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2016/17 Statement of Accounts, presented to full Council on 28 September 2017;
- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority; and
- The outcome of the 2016-2020 Local Government Finance Settlement, the Autumn Statement 2017 of 22 November 2017 and the Provisional Local Government Finance Settlement released on 19 December 2017 and the implications for North Tyneside Council.

The level of contingencies will be £3.8m in recognition of the on-going demand pressures in Adult and Children's Social care.

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

The Cabinet is aware it must keep under review its medium-term Financial Strategy and two year Financial Plan, in the context of the 2018-2020 'Our North Tyneside' Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2018/19 in isolation to future years' needs and pressures. Each year's Budget must continue to be considered within the context of the two-year Financial Plan, the three-year Investment Plan, the Financial Strategy and the global economic position prevailing at the time.

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

Investment Strategy (Capital)

In line with the 2017 changes to the Prudential Code's new requirement that the Chief Finance Officer of an Authority should report explicitly on the 'deliverability, affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions', North Tyneside Council have ensured that that all projects within the 2018-2021 Investment Plan follow the full gateway and governance procedure prior to inclusion on the Plan which ensures the deliverability, affordability and risk associated with each decision is fully understood prior to any decisions being made.

In terms of the overall investment position of the Authority, as set out above, an Investment Strategy has been developed to help support the delivery of capital investment and ensure that the investment programme, builds on previous success, with a strong focus on delivery of the Council Plan outcomes.

Adequacy of Financial Reserves

General Fund

The 2018-2020 Financial Plan currently assumes no use of reserves to support the budget. The current Financial Plan, maintains the Strategic Reserve at at least the planned level of £5.000m over the life of the Financial Plan. This is in line with the Authority's agreed Reserves and Balances Policy. Any unplanned use of the Strategic Reserve over the 2018-2020 Financial Plan may take the level outside of this boundary and corrective action would be needed to demonstrate how the £5.000m agreed level would be restored.

Guidance on Local Authority Reserves and Balances is given in Accounting Bulletin LAAP (Local Authority Accounting Practice) 99. This states that *"Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short term option",* and so the proposed 2018/19 Budget does not contradict the issued guidance. The Bulletin does then go on to say *that "It is not normally prudent for reserves to be deployed to finance current expenditure"*. The 2018-

2020 Financial Plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long term reliance on reserves.

Overall Financial Risk Assessment

Financial risks are driven by changes to Government policy and the national financial climate, issues arising throughout the year and reported as part of the financial management reporting process and those risks highlighted as part of the Authority's risk management procedures and monitored through the Authority's risk registers. As part of the monitoring process the Authority's Corporate Risk Register is monitored twice yearly by Cabinet.

Key Financial Risks

The key financial risks for the Authority (including the HRA), which have been considered as part of the Financial Planning and Budget process, are set out in the table below along with mitigating actions.

Table 12: Key Financial Risks and mitigating actions

Potential Risk	Initial Response
There is a risk that the levels of savings and income the Authority has included in the Budget proposals are not fully deliverable.	A robust challenge process has taken place to align proposals to the Target Operating Model (TOM) and how this enables the Authority to deliver its Creating a Brighter Future (CBF) Programme. This programme will then be monitored throughout the year to identify any areas which are not delivering savings as planned so corrective action can be taken.
There is a risk that if the Creating a Brighter Future (CBF) programme / Target Operating Model (TOM) are not successfully implemented we may be unable to deliver improved services and meet the increased demand on Council services within reducing resources. This could have the financial impact of the Authority not delivering on its Budget.	An overall Project Initiation Document and Terms of Reference are in place for all CBF projects which are in varying stages of delivery. This spans all service redesign projects (Ready for School, Ready for Work and Life; Cared For, Safeguarded and Healthy; and a Great Place to Live, Work and Visit) plus the Maximising Resources and Fit For Purpose projects. Heads of Service have ownership for delivering the projects. Monthly Programme Board meetings via SLT take place which help ensure that there is visibility and accountability. It also enables reporting of progress against the plans. The agreed Efficiency Statement secures the Revenue Support Grant (RSG) (subject to Central Government Change) and giving a degree of certainty

	for the next 2 years.
There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2019/20 may be wrong, resulting in changes to the current targeted savings of a further £33m by 2019/20, for the General fund and £1.350m for the HRA which was considered by Cabinet in January 2018.	There is flexibility within the CBF Programme which will allow us to reconfigure if the assumptions that have been made prove to be incorrect. We work closely with national, regional and sub-regional financial networks to help ensure we are informed and aware of any national developments. Being involved in the consultation process enables any issues or concerns specific to NTC to be highlighted before final decisions are made. Development and acceptance of the Efficiency Plan has secured the Revenue Support Grant (RSG) (subject to Central Government Change) which gives a degree of certainty for the next 2 years.
There is a risk that, because of financial pressures within the Clinical Commissioning Group (CCG), the Council does not receive a full transfer of funding from health to social care and the continuation of funding for existing services funded through the Better Care Fund (BCF) and s256 agreements. This would have a significant financial impact to the Council.	The Policy and Framework and Guidance for the BCF specifically requires that funding transferred for social care should, as a minimum, be at the equivalent level as that of 2016/17 plus inflation. Following escalation to a national panel, the BCF contribution from the CCG has been agreed at an equivalent level for 2018/19 and 2019/20 and a Section 75 legal agreement is being drawn up on this basis. The Authority remains in dialogue with the CCG over its proposed reduction in mental health funding.
There is a risk that not all growth pressures have been identified in the 2018/19 proposed Budget.	Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand - led pressures exceed Budget provision.	Demand - led pressures continue in areas such as Adults and Children's Social Care and the impact of the Living Wage on our care providers (and the price for services the Authority then has to pay) have been taken into consideration as part of these initial Budget proposals.
There is a risk that specific factors arising during 2017/18 have not been fully taken into account when preparing the 2018/19 Budget.	The 2017/18 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures factors arising during the year

	are highlighted.
There is a risk that the in year pressures being reported through the 2017/18 financial management process impact on the deliverability of the 2018/19 budget.	As at 30 November 2017, a surplus of £0.286m was reported against the 2017/18 budget. All services continue to develop and deliver actions to mitigate these financial pressures and expect the out-turn forecast to improve as we move through the year. In addition, non essential spend continues to be minimised along with a detailed review of demand led projections in order to reduce the over-commitment. Progress will be monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team.
There is a risk that the contingency provision included in the Financial Plan for 2018/19 is insufficient.	The review of the base budget and the reflection of the 2017/18 pressures into 2018/19 are considered to be such that specific contingency is required for demand pressures in Adults and Children's Social Care.
There is a risk that there are insufficient levels of reserves and balances.	A full review of reserves and balances is undertaken on a regular basis as part of both the in-year monitoring process and planning process.
There is a risk that the level of capital receipts included in the Budget proposals are not deliverable.	Capital receipts of £9.471m (£1.080m General Fund and £8.391m Housing) have been assumed in the financing of the draft plan. There are a number of actions being progressed that are expected to realise this requirement.
There is a risk that the Council will be unable to protect its housing assets and services to tenants as a consequence of reduced income to the Housing Revenue Account. Government policy on Welfare Reform is resulting in a number of direct challenges to rent collection; the Spare Room Subsidy and the Benefit Cap have already had an impact. Further Welfare Reform changes, including the implementation of Universal Credit and its revised payment period, and changes proposed in the new Welfare Reform and Work Act 2016; reducing social housing rents by 1% each year for the 4 years from April 2016. This has the potential financial impact of reducing rental income by over £440m over a 30 year period.	The budget setting process incorporates a review of the HRA business plan to reflect the changes. The cost and quantity of work within the 30 year Investment Plan is revised annually to help mitigate the impact of changes. In addition, the Financial Inclusion Strategy sets out how the Council and its partners will support its residents to better manage their finances and maximise their income. North Tyneside Council has representation on the MHCLG and CIPFA HRA working groups. This enables specific NTC issues to be raised and allows the Authority to comment and influence change on HRA regulation.

There are financial risks attached to the insourcing of the Kier North Tyneside Joint Venture project over the next 18 months, both in terms of ensuring efficient and effective mobilisation plans are put in place, that all the requisite assets and support systems are secured to achieve the desired outcomes, and that monitoring takes place to ensure performance improvements and value for money are adequately captured moving forward.	Dedicated project resources have been identified to ensure a full project plan is developed and implemented, and a governance process created to wrap around the project and ensure all target timescales and milestones are being achieved. This will include developing a Benefits Realisation framework to capture the efficiencies identified within the project.
There is a risk that there may be a significant financial impact on school resources if the number of schools requesting deficit continues to rise at its current rate. This risk is currently driven by the number of surplus places at secondary schools.	The school deficit has been identified as a priority for the Authority and Head Teachers and Governing Bodies. A programme of work has been identified, working with schools to improve the schools deficit position. This will highlight the work that is required and through working with the schools a number of initiatives will be identified and progressed.
There is a risk that North Tyneside may be placed at a disadvantage following the decision to leave the European Union in both financial and economic growth terms. The full extent of the impact will not be clear until we know the precise trade terms which will apply once we formally leave the EU. This has a potentially significant financial impact due to loss of revenue grant and a potential loss of opportunities, i.e. capital grant and other revenue sources.	The potential impact from leaving the EU has been included in the Council's Financial Strategy. This is helping to ensure that potential areas of impact following the EU exit are highlighted and included (where relevant) in budget planning. The Council is a member of various regional groups which will help us keep up to speed on progress and have the opportunity to exert any influence that we can. It is inevitable that there will be some impact from the decision to leave to EU, the challenge is to manage the impact where possible.
The former DCLG (now the Ministry of Housing, Communities and Local Government) released a consultation on proposed changes to the prudential framework for capital finance on 10 November with a closing date for responses of 22 December 2017. If implemented the new regulations would impact significantly on the 2018/19 budget and proposals contained in this report.	Work has taken place to assess the impact of the proposed changes on the revenue budget. A response was submitted to DCLG (now the Ministry of Housing, Communities and Local Government) by the due date. As the new regulations are 'guidance', as such, it is therefore taken into consideration when determining the specific and appropriate approach to the Prudential Framework in North Tyneside Council.

Appendix A

2018-2020 Our North Tyneside Plan

The proposed priorities for the new Our North Tyneside plan are

Our People will:

- Be listened to so that their experience helps the Council work better for residents
- Be ready for school – giving our children and their families the best start in life
- Be ready for work and life – with the right skills and abilities to achieve their full potential, economic independence and meet business needs.
- Be healthy and well – with the information, skills and opportunities to maintain and improve their health, well-being and independence, especially if they are carers
- Be cared for, protected and supported if they become vulnerable including if they become homeless
- Be encouraged and enabled to, when ever possible, be more independent, to volunteer and to do more for themselves and their local communities.

Our Places will:

- Be great places to live by focusing on what is important to local people, such as by tackling the derelict properties that are blighting some of our neighbourhoods
- Offer a good choice of quality housing appropriate to need, including affordable homes that will be available to buy or rent
- Benefit from the completion of the North Tyneside Living project and by North Tyneside Council's housing stock being decent, well managed and its potential use maximised
- Provide a clean, green, healthy, attractive, safe and sustainable environment. This will involve creating a cycle friendly borough, investing in energy efficiency schemes and by encouraging more recycling
- Have an effective transport and physical infrastructure - including our roads, pavements, street lighting, drainage and public transport.
- Continue to be regenerated in Wallsend and Whitley Bay, through effective public, private and community partnerships, while ambitious plans will be developed for North Shields, Forest Hall and Killingworth
- Be a thriving place of choice for visitors through the promotion of our award winning parks, beaches, festivals and seasonal activities

Our Economy will:

- Grow by supporting new businesses and building on our strengths, including our existing world class companies, and small and growing enterprises.
- Be business friendly, ensuring the right skills and conditions are in place to support investment, and create and sustain new high quality jobs and apprenticeships for working age people
- Continue to support investment in our business parks, units and Town Centres

Appendix B – Breakdown of Financial Plan cost pressures 2018/19 to 2019/20

All figures in £'000s	**2018/19**	**2019/20**
Legislative / regulatory changes	**3,282**	**1,308**
- Schools Funding Changes	50	54
- Grant related changes (mainly reductions in relation to Adult Social Care, Education Services Grant and New Homes Bonus)	3,232	1,163
- Land charges	0	91
Inflationary changes (pay and prices)	**4,749**	**4,214**
- Pay award	1,569	917
- Waste management & environmental contracts	425	405
- Impact of the National Living Wage	3,000	3,000
- Transport Levy	(245)	(108)
Resource changes	**(6,655)**	**(1,493)**
- Better Care Fund	(6,655)	(1,493)
Demand led	**4,275**	**5,675**
- Learning Disability	900	1,000
- Home to school transport	450	(75)
- Potential future pressures (2018/19 - Contingencies)	2,925	4,750
Corporate pressures	**6,870**	**7,250**
- Funding for 2017/18 CBF targets not achieved	1,900	0
- S31 grant NNDR	(1,273)	0
- Investment cost of borrowing	6,318	5,650
- Corporate changes	(75)	1,600
TOTAL	**12,521**	**16,954**

Description (Amount)	**Schools Funding Changes (£50k in 2018/19)**
How have the above amounts been calculated?	Estimate of changes to resources approved by the Schools Forum.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	The Authority secures funding from the Dedicated Schools Grant approved by the Schools Forum. This is reviewed on an annual basis by the Forum to determine the level of funding and associated activity required.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	Costs associated with the activities funded are reviewed to consider actions to mitigate the reduction in funding.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Some areas of cost do continue such as pension costs.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2018/19 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Grant related changes (£3,232k in 2018/19)
How have the above amounts been calculated?	The value in 2018/19 represents the reduction in Public Health grant (£328k), Education Services Grant (£778k), Local Council Tax Support and Housing Benefit Admin Subsidy (£88k), High Needs Review Grant (£80k), New Homes Bonus (£793k), SEND grant (£129k) and Adult Social Care Grant (£1,036k)
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Fall out of external funding.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Where savings are possible they have been included in the savings proposals for 2018/19.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2018/19 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Pay award (£1,569k in 2018/19)
How have the above amounts been calculated?	The annual pay award (£1,569k) calculation is based on an agreed pay award of 2% for all staff with larger increases for those on lower grades applied to 2017/18 staffing budgets (including salary, employer's national insurance, and employer's pension contributions).
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Annual pay award agreed by employers as part of national pay bargaining / contractual obligation to move staff up an increment towards the top of the relevant pay scale.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Assumed public sector pay increase of 2%
Does the activity causing the cost pressure need to continue?	Yes, staff are involved in delivering a range of statutory and discretionary services, which are being reviewed as part of the identification of savings to meet the Council's budget gap in 2018/19.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2018/19 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	**Waste management & environmental contract (£425k in 2018/19)**
How have the above amounts been calculated?	This cost pressure is based on a range of RPI-related inflation factors built into long-term contracts with third parties in addition to an increase in the number of households in the borough.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Contractual / market-led inflation on payments to third parties and increase in demand mainly related to the growth in households in the borough generating waste.
If the cost pressure is due to increased demand, what evidence exists to support this?	Contractual / market-led inflation on payments to third parties. In addition a long term grant supporting weekly refuse collection has ended.
What, if anything, can be done to mitigate the cost pressure?	Further behavioural change to divert waste away from landfill.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Inflation factors to be used to calculate inflationary increases are set out in the relevant contracts.
Does the activity causing the cost pressure need to continue?	Yes, the Council has a statutory duty to dispose of all waste collected.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2018/19 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	**Impact of the National Living Wage (£3,000k in 2018/19)**
How have the above amounts been calculated?	This cost pressure is based on potential increases in rates payable to third party providers for 2018/19 reflecting in particular the impact of the National Living Wage increases.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Inflation on payments to independent sector providers.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	Any savings from greater investment in preventative services and improved partnership working are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Cost pressure is based on likely increases in rates with third party providers. Benchmarking will be used to ensure that actual rates agreed are appropriate.
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2018/19 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	**Transport Levy (-£245k in 2018/19)**
How have the above amounts been calculated?	These are estimates based on information provided by the third parties.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Is a cost reduction in 2018/19. .
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a – reduction in cost
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a – reduction in cost

Description (Amount)	**Better Care Fund (£-6,655k in 2018/19)**
How have the above amounts been calculated?	This value reflects the increased Improved Better Care Fund provided by Government and the agreement by the Clinical Commissioning Group (CCG) to comply with Better Care Fund National Guidance on contributions to be made to Local Authority spend through the Better Care Fund.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	n/a – additional resources to reflect costs already being borne by the Local Authority.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Description (Amount)	Learning Disabilities (£900k in 2018/19)
How have the above amounts been calculated?	This cost pressure is based on estimated client population growth in 2018/19 along with known growth pressures for 2017/18.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increasing adult population (18+) with learning disabilities.
If the cost pressure is due to increased demand, what evidence exists to support this?	Future population projections and review of those clients or potential currently known to Adult Services.
What, if anything, can be done to mitigate the cost pressure?	Any savings from the services are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2018/19 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Home to School Transport (£450k in 2018/19)
How have the above amounts been calculated?	This cost pressure is based on known continuing unfunded costs in 2017/18 as a result of demand for transport provided by the Local Authority to school pupils, the majority of whom have special needs.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increasing costs despite work to combine pupils in single runs which is not covered by grant funding.
If the cost pressure is due to increased demand, what evidence exists to support this?	Growth built in relates to pressure in 2017/18.
What, if anything, can be done to mitigate the cost pressure?	Any savings from the services are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, the vast majority of activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2018/19 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	**Potential future pressures (Contingency - £2,925k in 2018/19)**
How have the above amounts been calculated?	This is an estimate of potential unfunded pressures to be held as a contingency against in year unforeseen issues. Elements will be held specifically for Looked After Children placements and Adult Social Care pressures.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increased demand and volume of savings required suggests holding a contingency for unforeseen pressures would be prudent.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Description (Amount)	**Funding for 2017/18 CBF targets not achieved (£1,900k in 2018/19)**
How have the above amounts been calculated?	This cost pressure is based on CBF savings targets which are not achieved during 2017/18, which are therefore built into plans for 2018/19.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Target set for 2017/18 that has not been achieved.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2018/19 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	**Section 31 Grant re NNDR (£-1,273k in 2018/19)**
How have the above amounts been calculated?	The value in 2018/19 represents increased grant receipt following the increasing of the small business rates relief threshold and an additional relief announced to mitigate the impact of the Government bringing forward the change from RPI to CPI for the multiplier.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Target set for 2017/18 that has not been achieved.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Description (Amount)	**Investment Cost of borrowing (£6,318k in 2018/19)**
How have the above amounts been calculated?	The £6,318k is an estimate of likely interest savings based on treasury forecasts and the reversal of part of the MRP holiday adopted during 2017/18.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Investment decisions and the reversal of part of the MRP holiday adopted in 2017/18.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2018/19 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	**Corporate changes (£-75k in 2018/19)**
How have the above amounts been calculated?	The 2018/19 amount reflects the reversal of the growth required to fund the Mayoral election in 2017/18.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	n/a
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Appendix C - Efficiency Savings 2018/19

Business Case	Sum of Proposal for 18/19 £
Existing Business Case	**-991,000**
Cared For Safeguarded and Healthy	**-980,000**
Value for Money Tested Social Care; long term national policy direction in social care has created a situation which is sometimes at odds with realistic outcomes and the financial position. This project will make changes to day to day commissioning and assessment processes to re-set the outcome of funded social care. This will include a review of block contracts, ensuring customers healthcare needs are appropriately funded, and a review of the direct payment rate. In partnership with the Clinical Commissioning Group and using a single trusted assessor, outcomes will be shaped by working with individuals to set realistic goals for independence and applying a value for money test to care at home versus other settings. We have to ensure we test the longstanding orthodoxy that care is always better at home. In addition we propose to develop extra care schemes for older people as well as supported living schemes for learning disability and mental health. A review and restructure of an integrated rehabilitation offer to remove any duplication of tasks will also be completed. We have to ensure that the provision of the right quality of care is affordable.	-915,000
A New Model to Support Children: national policy direction, inspection and demand pressures are creating an environment where local authorities are looking at alternative models to deliver services to support children, including collaboration.. This project aims to review best practice and the alternatives to our current approach. It will continue to build on the practical collaborations proposed on Fostering and Additional Needs as well as the strengths of the current North Tyneside team. It will continue to explore the capability to grow direct provision as the dynamics of the market change and our capability to deliver specialist housing and support grows. This means a continuation of the "Transforming Children's services" programme which includes increasing the accommodation available to improve the early help offer and reduce the demand for external residential placements, with the potential to trade surplus capacity. There will also be a review of the approach to the provision of financial support through the "S117 budget" to ensure the application and approval pathway for support follows a set of appropriate principles	-65,000
Fit for Purpose Organisation	**-6,005,000**
How we are organised; as services change the organisation must change with them. This project aims to ensure the organisation is reshaped to reflect changes in services and reductions in resources. In addition to changes in service delivery it also aims to ensure the organisation's infrastructure is changed and shrinks in line with the rest of the organisation with resultant changes in overheads and recharges. This will include taking opportunities to streamline the Council's processes where appropriate. In addition making sure that infrastructure is tested against best practice, the priorities of the Mayor and Cabinet and the market	-3,505,000
Optimise the customer journey and the way people access services. This project will build on work already done by the Authority to ensure customers can access services and support in the most efficient and effective way. This includes further improving the digital offer as the first point of contact; streamlining the referral, assessment and gateway process ensuring that only those in need make direct contact with specialist services; and further developing a single front door for people who need support that extends beyond Children's' and Adults leading to a smaller single team. Teams and functions will be redesigned around customer requirements.	-2,500,000
Maximising Resources	**-1,690,000**

Appendix C - Efficiency Savings 2018/19

Business Case	Sum of Proposal for 18/19 £
Sourcing, supply chain and commercials; more than half of the Authority's expenditure is to third parties and with a supply chain of almost 5000 organisations and individuals it is critical that the sourcing, supply and commercial arrangements are as sharp as possible. This project aims to look beyond the large scale commissioning and major partnerships to ensure all of the supply chain is subject to a rigorous value for money test and best practice category management is applied.	-1,500,000
Delivering our Fees and Charges Policy; the Authority has an agreed Fees and Charges Policy that reflects policy priorities, need and the wider market in which we operate. This project will continue our work to regularly review our Fees and Charges.	-190,000
Great Place	**-477,000**
Develop a 10 year plan for waste; for ecological and financial reasons it is imperative that local authorities have long term plans for waste. In collaboration with our partners this project aims to establish a 10 year plan to increase recycling and contain the growth of waste costs as well as developing a post 2022 solution for disposal of residual waste and exploring opportunities to enter the recycling business. The authority received a grant that funded weekly collection which ended in 2016/17 and North Tyneside is currently one of the few remaining authorities to collect weekly. As part of the consideration in developing the plan following the cessation of grant, this proposal is to move to fortnightly collection of waste. Over 76% of all local authorities collect waste on a two weekly cycle; this in part assists in the drive to increase recycling thereby reducing the cost of waste collection.	-218,000
Protect our environmental standards; having responded to Government cuts by adjusting standards and tested different approaches, significant savings have been made. However, in the present climate the challenge for the authority is to find a way to deliver a consistent standard that reflects residents' priorities with less cash. A review will mean a more streamlined approach to all grounds maintenance across the borough with the intention is to ensure the service is delivered in line with relevant legislation and to a decent baseline standard.	-100,000
Protect and Develop North Tyneside's Cultural Offer; in a period of significant financial pressure, North Tyneside Council has managed to sustain and develop a rich cultural offer. The Mayor and Cabinet have already publicly committed to protecting and developing this offer. This is demonstrated by the Investment Plan which includes Whitley Bay Regeneration Programme; The Dome, the North and South Promenade, St Mary's Island; The Wallsend Regeneration Programme; Segedunum Master Plan and the North Shields Master Plan. This project aims to work with cultural partners to protect and develop the offer where we can, making the most of the Authority's assets, with an optimum sport, leisure and library offer that makes the maximum difference to residents, business and visitors delivering a developed and sharpened events programme while exploiting opportunities to maximise income and reduce costs. As there is less cash there will be a reduction in opening hours of our Libraries and Customer Service Centres but the approach being taken to this is based on current levels of activity to ensure we continue, as far as possible, to maintain appropriate access to facilities for our residents.	-159,000
Grand Total	**-10,143,000**

2018-2020 Investment Plan Summary

APPENDIX D (i)

Project Ref	Project Title	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's	Funding Source	£000's
	GENERAL FUND **Great Place to live, work and visit**						
BS026	Asset Planned Maintenance programme	1,500	1,500	1,500	4,500	Council Contribution	4,500
CO075	Park - The Parks Sports Centre	50		0	50	Council Contribution Section 106	10 40
DV054	Coastal Regeneration	3,494	0	0	3,494	Council Contribution Heritage Lottery Fund	2,913 581
DV058	Swan Hunters Redevelopment	10,608	0	0	10,608	Single Local Growth Fund (SLGF) LGF (LEP) Council Contribution	5,605 1,841 3,162
DV059	Pilot Fund to Tackle Empty Properties	80	0	0	80	Council Countribution	80
DV062	St Mary's Lighthouse and Visitor Centre	35	1,852	481	2,368	Heritage Lottery Fund grant (HLF) Council Contribution	2,131 237
DVxxx	Forest Hall regeneration	500	0	0	500	Council Contribution	500
EV034	Local Transport Plan	1,817	0	0	1,817	Local Transport Plan (LTP) Grant	1,817
EV055	Surface Water Management Improvements	500	0	0	500	Environment Agency Grant	500

APPENDIX D (i)

Project Ref	Project Title	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's	Funding Source	£000's
EV056	Additional Highways Maintenance	2,000	2,000	2,000	6,000	Council Contribution	6,000
EV073	A1058 Coast Road Improvements to junctions	802	0	0	802	NELEP Growth Deal	802
EV080	Coast Road Cycle Route	141	0	0	141	Cycle City Ambition Fund	141
EV082	North Bank of the Tyne Infrastructure	3,431	0	0	3,431	NELEP Growth Deal	3,431
EV084	A189 Improvements Haddricks Mill to West Moor	3,474	2,000		5,474	DfT National Productivity Investment Fund (NPIF) Section 106 Section 106/278	3,663 57 1,754
GEN12	Local infrastructure projects	100	100	100	300	Council Contribution	300
HS046	Housing Private Landlord Refurbishment	68	0	0	68	Revenue Contribution	68
EV083	Streelighting LED	507	0	0	507	Council contribution	507
DV064	Council Property Investment	550	0	0	550	Council contribution	550
DV066	Investment in North Tyneside Trading Company	7,800	1,770	0	9,570	Council contribution	9,570
	Total Great Place to live, work and visit	**37,457**	**9,222**	**4,081**	**50,760**		**50,760**

APPENDIX D (i)

Project Ref	Project Title	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's	Funding Source	 £000's
	Cared for, Safeguarding and Healthy						
CO064	Social Care Information System	265	0	0	265	Department of Health grant	265
HS003	Private Sector Homes Renovation	270	268	267	805	Council Contribution	805
HS004	Disabled Facility Grants	2,307	0	0	2,307	Better Care Fund	2,307
HS036	North Tyneside Warm Zone	42	0	0	42	Council Contribution	42
	Total Cared for, Safeguarding and Healthy	**2,884**	**268**	**267**	**3,419**		**3,419**
	Corporate and Enabling						
EV069	Vehicle Replacement	1,899	962	500	3,361	Council Contribution	3,361
EV076	Operational Depot Accomodation review	5,200	3,295	1,895	10,390	Council contribution	10,390
GEN03	Contingency Provision	3,954	1,320	500	5,774	Council Contribution	5,774
IT020	ICT Strategy	1,000	1,000	1,000	3,000	Council Contribution	3,000
IT025	BDUK (Broadband)	75	0	0	75	Council Contribution	75
IT026	ICT citizen interaction and self serve	386	114	0	500	Council Contribution	500

APPENDIX D (i)

Project Ref	Project Title	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's	Funding Source	£000's
	Total Corporate and Enabling	**12,514**	**6,691**	**3,895**	**23,100**		**23,100**
	Ready for School and Work						
ED075	Devolved Formula Capital	397	0	0	397	Education Funding Agency	397
ED120	Basic Need	0	184	0	184	Education Funding Agency	184
ED186	Backworth Park Primary - relocation and expansion	1,113	0	0	1,113	Section 106 Basic Need Grant Council Contribution Education Funding Agency	2,833 162 -1,885 3
	Total Ready for School and Work	**1,510**	**184**	**0**	**1,694**		**1,694**
	TOTAL: GENERAL FUND	**54,365**	**16,365**	**8,243**	**78,973**		**78,973**
	HOUSING						
	Great Place to live, work and visit						
HS015	Refurbishment / Decent Homes	20,403	18,960	17,576	56,939	Revenue Contribution	21,785
HS017	Disabled Adaptations (HRA)	1,030	1,041	1,051	3,122	Capital Receipts	8,391
HS039	ICT Infrastructure Works	104	105	106	315	Major Repairs Reserve (MRR)	37,799
HS044	HRA New build	4,927	2,985	1,537	9,449	House Building Fund	3,500
HS050	Construction project	1,450	200	0	1,650		
	Total: HOUSING	**27,914**	**23,291**	**20,270**	**71,475**		**71,475**
	TOTAL INVESTMENT PLAN	**82,279**	**39,656**	**28,513**	**150,448**		**150,448**

Project Ref	Project Title	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's	Funding Source	£000's

FINANCING				
GENERAL FUND				
Unsupported Borrowing	30,067	11,434	7,810	49,311
Capital Receipts	0	1,080	0	1,080
Revenue Contribution	68	0	0	68
Grants & Contributions	24,230	3,851	433	28,514
	54,365	16,365	8,243	78,973
HOUSING				
Capital Receipts	2,261	4,763	1,367	8,391
Revenue Contribution	9,570	6,136	6,079	21,785
Contribution from Reserves (House Building Fund)	3,500	0	0	3,500
Grants & Contributions	0	0	0	0
Major Repairs Reserve	12,583	12,392	12,824	37,799
	27,914	23,291	20,270	71,475
	82,279	39,656	28,513	150,448

2018-2021 Prudential Indicators

Introduction

1.0 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and produce prudential indicators. The framework established by the Prudential Code is designed to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation. In exceptional cases the Prudential Code should provide a framework which will demonstrate that there is a danger of not ensuring this, so that the local authority concerned can take timely remedial action.

1.1 The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the authority. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt. The Investment Strategy is included as Appendix D (iii).

1.2 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Prudential Code does not include suggested indicative limits or ratios. These will be for the local authority to set itself. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Authority's underlying investment appraisal systems.

1.3 Within this overall prudential framework there is an impact on the Authority's treasury management activity as it will directly impact on borrowing and investment activity. The draft Treasury Management Strategy for 2018/19 is included as Appendix E of the annex to the report.

1.4 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 Housing rents
f) Practicality – e.g. achievability of the forward plan

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

1.6 The revenue consequences of capital expenditure relating to the HRA must to be paid for from HRA resources.

1.7 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 HRA's borrowing need.

1.8 The key risks to the plans are that the level of funding, such as capital receipt levels or revenue contributions may change as capital receipts are reliant on an active property market.

1.9 The indicators cover:

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

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

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

1.12 The following sets down the draft Prudential Indicators as calculated and proposed for North Tyneside Council for 2018–2021. The indicators include those for the Housing Revenue Account.

Prudential Indicators for Affordability

1.13The fundamental objective in considering affordability of the Authority's Investment Plan is to ensure that the total capital investment of the Authority remains within sustainable limits, and in particular to consider the impact on the "bottom line" and hence Council Tax and Housing rents. Affordability is ultimately determined by a judgement on acceptable Council Tax or housing rent levels.

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

Financial Plan, three-year forecasts have been provided for the prudential indicators.

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

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

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

Ratio of financing costs to net revenue stream

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

Table 1: Ratio of Financing Costs to Net Revenue Stream

	2017/18	2018/19	2019/20	2020/21
	Est.	Est.	Est.	Est.
General Fund	9.96%	15.57%	18.97%	19.67%
HRA	30.34%	28.08%	28.70%	31.01%

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

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

	2017/18	2018/19	2019/20	2020/21
	Est.	Est.	Est.	Est.
General Fund	8.12%	10.15%	11.84%	12.34%
HRA	7.02%	3.63%	3.89%	6.59%

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

<u>Prudential Indicators for Prudence</u>

1.20 A key indicator of prudence is that, over the medium term, gross debt will only be used for a capital purpose. Under the Code the underlying need to borrow for a capital purpose is measured by the Capital Financing Requirement (CFR). Gross debt includes external borrowing and also other liabilities including PFI schemes and Finance Leases.

<u>Gross debt and Capital Financing Requirement (CFR)</u>

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

Table 5: Gross external debt compared to CFR

	2017/18	2018/19	2019/20	2020/21
	Est.	Est.	Est.	Est.
	£'000s	£'000s	£'000s	£'000s
External Borrowing	482,415	496,882	508,303	497,469
Other Liabilities (including PFI and Finance Leases)	124,889	123,455	120,123	116,873
Total Gross debt	607,304	620,337	628,426	614,342
Capital Financing requirement	653,379	665,817	654,319	637,264

<u>Prudential Indicators for Capital Expenditure</u>

<u>Estimate of capital expenditure</u>

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

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

Table 6: Capital Expenditure

	2017/18	2018/19	2019/20	2020/21
	Est £000's	Est £000's	Est £000's	Est £000's
General Fund	63,007	54,365	16,365	8,243
HRA	24,979	27,914	23,291	20,270
Total	87,986	82,279	39,656	28,513

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

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

Estimate of Capital Financing Requirement (CFR)

1.26The CFR can be understood as the Authority's underlying need to borrow money long term for a capital purpose. The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The CFR will increase annually by the amount of capital expenditure which is not immediately paid for by grants, contributions, direct revenue funding or capital receipts. The General Fund CFR will also be reduced each year by the amount of Minimum Revenue Provision (MRP) that is set aside in the revenue budget. In addition, the CFR may be reduced by additional voluntary contributions in the form of capital receipts or revenue contributions. The HRA business plan includes provision to reduce the HRA CFR in this way.

1.27The CFR also includes any other long term liabilities eg PFI schemes and finance leases.

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

Table 7: Capital Financing Requirement

	2017/18 Est. £000's	2018/19 Est. £000's	2019/20 Est. £000's	2020/21 Est. £000's
General Fund	317,154	333,160	325,558	315,044
HRA	336,225	332,656	328,761	322,219
Total	**653,379**	**665,816**	**654,319**	**637,263**

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

Table 8: Capital Financing Requirement for Unsupported Borrowing

	2017/18 Est. £000's	2018/19 Est. £000's	2019/20 Est. £000's	2020/21 Est. £000's
General Fund	169,739	208,115	205,139	199,015
HRA	31,746	27,781	25,979	21,687
Total	**201,485**	**235,896**	**231,118**	**220,702**

Prudential Indicators for External Debt

Authorised limit for total external debt

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

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

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

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

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

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

Table 9: Authorised Limit for External Debt

	2017/18 £000’s Est.	2018/19 £000’s Est.	2019/20 £000’s Est.	2020/21 £000’s Est.
Borrowing	1,120,000	1,120,000	1,110,000	1,100,000
Other Long Term Liabilities	160,000	160,000	160,000	160,000
Total	**1,280,000**	**1,280,000**	**1,270,000**	**1,260,000**

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

Operational Boundary for total external debt

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

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

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

Table 10: Operational Boundary for External Debt

	2017/18 £000's Est.	2018/19 £000's Est.	2019/20 £000's Est.	2020/21 £000's Est.
Borrowing	560,000	560,000	550,000	550,000
Other Long Term Liabilities	140,000	140,000	140,000	140,000
Total	**700,000**	**700,000**	**690,000**	**690,000**

HRA limit on indebtedness

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

Table 11: HRA limit on indebtedness

	2017/18 £000's Est.	2018/19 £000's Est.	2019/20 £000's Est.	2020/21 £000's Est.
Gross HRA capital financing requirement	336,225	332,656	328,761	322,219
Less HRA PFI schemes	76,163	75,009	73,716	72,266
Adjusted HRA capital financing requirement	260,062	257,647	255,045	249,953
HRA limit on indebtedness	290,824	290,824	290,824	290,824

Prudential Indicators for Treasury Management

Adoption of the CIPFA Code of Practice for Treasury Management

1.39 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 to 2020/21**

1.40 Full Council will be requested to set an upper limit on its fixed interest rate exposures for 2018/19, 2019/20 and 2020/21 of 100% of its net outstanding principal sums.

1.41 Full Council will be requested to set an upper limit on its variable interest rate exposures for 2018/19, 2019/20 and 2020/21 of 50% of its net outstanding principal sums.

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

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

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

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

	2018/19	2019/20	2020/21
% of Investments with Maturity over 364 days	25%	25%	25%

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

NORTH TYNESIDE COUNCIL
INVESTMENT STRATEGY

2018-21

CONTENTS

1. Introduction

The Investment Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Authority's services and informs decisions on capital spending priorities within the Authority's Investment Plan.

Investment Priorities are considered in the context of the strategic objectives of the Our North Tyneside Plan and other key strategies and plans that support the delivery of Our North Tyneside Plan (Appendix1).

Principles for Capital Investment:

1. Investment must be strategically aligned to deliver the Our North Tyneside plan priorities (see below);
2. A borrowing ceiling will be applied for the Authority in terms of both value and revenue cost, reviewed annually;
3. Whole life costs are considered as part of a capital investment appraisal; including provision to ensure the asset is maintained;
4. For every potential scheme the Authority will explore all possible funding and delivery options; and,
5. Unsupported (prudential) borrowing is funding of the last resort.

Our Investment Plan priorities are as follows:

- Policy priorities;
- Maintaining existing assets;
- Income generating projects;
- Invest to save projects; and,
- Regeneration and key infrastructure enhancements.

Capital investment is technically described as "Expenditure on the acquisition, creation, or enhancement of 'non-current assets". This is items of land, property and plant which have a useful life of more than one year. A fuller definition is attached at Appendix 2. Expenditure outside this definition will be revenue expenditure.

Most non-current assets are properties that are used in service delivery. As at 31 March 2017 the Authority's land, buildings and infrastructure asset base of some 456 properties has a current use Balance Sheet value of approximately £485 million, approximately 945 kilometres of highways and 235 bridges, subways, culverts and other structures with a historic value of £136 million, council housing stock comprising 14,924 properties with a balance sheet value of £615 million and ICT and other equipment with a balance sheet value of £12m. In addition the Authority has an interest in assets of companies in which the Council has a financial interest.

Although this Strategy focuses on the Authority's management of its own investment in assets, a wider view of capital investment throughout the Borough by both the public and private sectors will have a major influence on meeting the Authority's aims and objectives. The Authority works in close partnership with its partners including the NHS, Schools, Highways England, the Environment Agency, NEXUS and Northumbrian Water.

The Investment Strategy is presented to Council as a Policy Framework document, and links with both the Treasury Management Strategy and the Corporate Asset Management Plan. Links to both documents are shown in Appendix 1.

In considering the principles, the Authority needs a balance between guidance and prescription to allow a flexible approach to be taken. This Strategy focuses on the key policies for the allocation of capital resources to schemes in line with Authority's priorities and statutory responsibilities.

The management of the Investment Plan is supported by the Authority's approved Financial Regulations and capital governance process through the Investment Programme Board (see Appendix 4) and the Strategic Property Group.

2. Guiding Principles

2.1 Prioritisation and Approval

Delivery of the "Our North Tyneside Plan" sets the challenge of meeting competing priorities against limited financial resources.

A 'scoring matrix' has been developed to help inform priority schemes and evaluate competing projects for inclusion in the Investment Plan.

The matrix is an aid to evaluate priorities between often very disparate schemes; the overall value of council contribution to capital is ultimately a full Council decision.

All schemes bidding for inclusion on the Investment Plan must follow the approved Investment Plan Gateway process (attached as Appendix 4) and will be subject to a process of prioritisation using the capital scoring matrix (attached as Appendix 3). This process will take place as a minimum on an annual basis. Any bids outside this timescale should be by exception only and will follow the same process.

All schemes will be required to develop a robust business case detailing full capital costs and full life revenue costs, including provision for ensuring that assets are maintained. This will be provided as part of the Gateway 2 submission to the Investment Programme Board for approval prior to commencement of the scheme.

Where funding has been allocated to a programme without individual schemes being identified at the time of approval, (such as a general allocation to a regeneration project, Local Transport Plan, schools for capital maintenance projects), individual schemes within that allocation are subject to each individual scheme being approved by the Investment Programme Board.

2.2 Alternative Funding and Delivery Opportunities

For every potential scheme the Authority will explore all funding options. As capital funding is reduced the Authority will continue to consider alternative methods of supporting capital expenditure within the Authority, using alternative funding, such as social investment, private sector finance and third sector funding or by other bodies delivering capital schemes instead of the Authority.

The Authority can use its assets to support schemes or aim to maximise funding from any source possible, such as Heritage Lottery or Local Enterprise Partnership funding.

The Authority will continue to bid for additional external funding and/or work with other bodies to secure capital investment or consider use of its own assets in a development, but restricts schemes to those which support corporate priorities or statutory service objectives.

Investments on projects should demonstrate sustainablility and any requirements for match-funding and future revenue consequences have been considered and approved along with an assessment of the opportunity costs of alternative options. All bids are to be agreed by the Investment Programme Board prior to submission.

The Authority receives capital grant funding from government and is able to bid for grant funding direct to particular government departments or from other grant awarding bodies.

Any un-ring fenced capital grants received, even where these are allocated with service intentions of the identified government body awarding the grant, will be required to be approved by the Authority. Consequently once capital grants have been allocated to a specific service by the Authority, individual schemes within that allocation are subject to each individual scheme being approved by the Investment Programme Board.

2.3 Capital Receipts and Capital Contributions

The Council receives capital receipts and capital contributions from:

- Asset disposals
- Right to Buy Clawback
- Section 106 and Community Infrastructure Levy (CIL)
- Section 278
- Repayment of loans for a capital purpose

Asset disposals

The proposed disposal of land and buildings is reported to Cabinet for approval and receipts from the sale of all assets sold are used to support the Investment Plan in line with funding the Authority's priorities. An asset disposal will be deemed to occur when the Authority transfers the freehold or a long lease (usually over 40 years).

The Authority will aim to ensure best value when disposing of assets, by enhancing the land prior to disposal, where appropriate; e.g. by obtaining planning permission or providing a development plan. As appropriate the Authority may dispose of assets by tender or by public auction.

The Authority will consider exceptions to this policy where rationalisation of assets used for service delivery is undertaken and in respect of school sites where the Secretary of State has approved the disposal – such exceptions will require a Cabinet decision.

Asset disposals at nil consideration or below market value

The disposal of an asset at below Market Value requires Cabinet approval.

In considering asset disposals, the Authority also needs to take into account the policy on Community Asset Transfers where the Authority will consider, on a case by case basis, the potential transfer of assets to an alternative provider after a full assessment of the long term (full life) risks and rewards of the transfer, including the achievement of best value including potential market value, linked to the Authority's aims and objectives.

The Localism Act 2011 introduced the “Community Right to Bid” and placed a duty upon local authorities in England to maintain a list of assets of community value. Once an asset is “Listed” any disposal will be under the Community Asset Transfer policy or for market value by tender/auction.

Where the Authority proposes to dispose of, or grant a long lease, at nil consideration or at a value below market value this is required to be approved by Cabinet. This will also apply where the disposal is for a community or service benefit.

There may be circumstances, such as the transfer of community school assets under the Academies Act, where assets will also be disposed of at nil consideration.

Right-to-Buy Clawback

In line with statutory regulations, 100% of these receipts are currently used to support the provision of the housing function.

Section 106 contributions and Community Infrastructure Levy (CIL)

Section 106 (S106) monies come from developer contributions through the planning system. There are specific conditions attached to the use of the S106 and the monies are used accordingly to support the Authority’s priorities.

Any monies received from the Community Infrastructure Levy (CIL) will be allocated under the CIL arrangements (“the Regulation 123 List”) in line with the Authority’s investment priorities including any specific funding requirements.

Section 278 Contributions

Funding can be made available under Section 278 (S278) of the Highways Act 1980 whereby a developer may be required to contribute to the provision, alteration or improvement to highways in order to facilitate development.

Repayment of loans for a capital purpose

Where the Authority provides a loan for a capital purpose this will be approved and accounted for as capital expenditure. The repayment of a loan by the borrower will be treated as a capital receipt; however any receipts of this nature will be specifically applied to reduce the value of the outstanding loan.

2.4 Flexible use of Capital Receipts

DCLG have revised their statutory guidance in relation to the Local Government Act 2003 on the use of capital receipts for the period from April 2016 to March 2019. This now provides Authorities the flexibility to use capital receipts for “the revenue costs of service reform”. This flexibility is subject to a Strategy for the use of capital receipts being approved by full Council. By approving this document Council will be approving this flexibility to be used as appropriate with any use reported to Cabinet.

Potential uses for capital receipts, (subject to the capital receipts being received and approval of the use of receipts), would be to support any implementation costs for the Authority’s transformation programme. A number of transformation schemes were identified in the Efficiency Plan approved by Council in September 2016.

2.5 Revenue and Reserves

The Authority is able to use revenue funding and reserves for capital schemes. However, as a result of competing revenue budget pressures and the continued reduction in government support for revenue expenditure the Authority’ does not generally budget to use revenue or reserve funds to directly fund capital projects, within the General Fund, after the feasibility stage. This policy is reviewed on an annual basis.

The Housing Revenue Account business plan recognises revenue contributions to the HRA investment plan through the Major Repairs Reserve and other general revenue contributions.

2.6 Approach to Borrowing

In line with the Treasury Management Strategy, the Authority is able to borrow money on the money market or from the Public Works Loans Board to fund capital schemes or, use its own internal resources (i.e. cash flow). However for all schemes funded from borrowing, the Authority must fund the repayment and interest costs as since 2011 any central government “supported borrowing” allocations and related revenue support ceased. There is an intention that a cap is placed on the overall level of borrowing and that over a 10 year cycle the level of borrowing should reduce. The policy governing the repayment of this borrowing for the General Fund, the Minimum Revenue Provision (MRP) policy, is approved annually by full Council. Repayment of Housing Revenue Account borrowing is laid out in the 30 year Business Plan.

The Authority is only able to borrow for “unsupported borrowing” (also known as Prudential Borrowing) under the guidance contained in the CIPFA Prudential Code whereby, in summary, the Authority is required to ensure that all borrowing is both prudent and affordable. Under the Prudential Code a number of indicators showing ratios of costs and levels of borrowing, are required to be considered and approved by full Council. All schemes funded from prudential borrowing are approved by full Council and in line with Financial Regulations.

The Authority’s Treasury Management Strategy recognises the need to take borrowing to support a number of capital projects, included within the Investment Plan approved by full Council, and reduce the level of internal borrowing. Based on current projected Public Works Board Lending rates, the cost of 0.5 -3% should be assumed for new borrowing in 2018/19.

The Authority takes a prudent approach to new borrowing, paying particular regard to the robustness of the business case to include forward predictions of affordability, with the aim that projects should be self-funding (i.e. create a revenue stream so that the cost of borrowing is cost neutral on Council Tax). It is essential that any new proposals for a self-funding or invest to save scheme supported by borrowing has a robust business case that is presented to the Investment Programme Board prior to approval by Council.

To support its revenue budget the Authority will continue to evaluate any capital investment projects either acting alone or with partners that will produce an on-going revenue income stream for the Authority. This is one of the scoring criteria now adopted by the Authority when assessing competing capital projects.

There may be the need for borrowing that has no identifiable future revenue stream, for example, to repair or construct key infrastructure assets. Here a broader view can be taken of the value of repairing the asset to the overall economy of the Authority. The cost of such borrowing falls on the tax payer through payments of debt interest on the Authority's General Fund revenue account and repayment of debt over a specified period of time. There may still be a need for such borrowing but each proposal should be reviewed on a case by case basis, using the Gateway and prioritisation process, with the project evaluation clearly stating how the borrowing is to be afforded.

2.7 Investment Opportunities (including capital loans)

The Authority will consider, if the opportunities arise, the purchase of land and property as an investment – to both generate an on-going income stream or to realise an increased capital value in the future. This could include the purchase of land or property or the purchase of "shares" in a property fund. Depending on the capital funding proposed the appropriate approvals will be requested at that time. Loans for a capital purpose can also be approved subject to a business case and due diligence on the borrower including as appropriate guarantees and bonds to secure the repayment of the loan. Any such opportunities would be considered in the first instance by the Investment Programme Board and Cabinet for approval in accordance with Financial Regulations.

Appendix 1 – Key Strategies and Plans linked to the Investment Strategy

Our North Tyneside Plan

People	Place	Economy	Partners	Organisation
Joint Strategic Needs Assessment	Local Plan and Master Plans • Community Infrastructure Levy Schedule (Regulation 123 List)	Strategic Economic Plan	Plans appropriate to each theme	ICT- Digital Strategy
Health and Wellbeing Strategy	Transport Strategy • Highways Asset Management Plan (HAMP) • Parking	Employment and Skills Strategy		Human Resources- Workforce Strategy
	Housing Strategy • Strategic Housing Market Assessment (SHMA) • Strategic Housing Land Availability Assessment (SHLAA) • HRA business plan • HRA Asset Management Plan			Financial Strategy
		Estates Strategy		Asset Management Plan
				Treasury Management Strategy Statement
				Minimum Revenue Provision Policy
				Prudential Indicators

Appendix 2 – Definition of Capital Expenditure

Capital investment is simply described as:

> *Expenditure on the acquisition, creation or enhancement of "non-current assets"*
>
> *(non-current assets are items of land and property which have a useful life of more than 1 year)*

This definition of capital expenditure that the Authority has to comply with for the classification and, therefore, the funding of capital expenditure in linked to International Financial Reporting Standards. "Qualifying Capital Expenditure" under s25 of Local Government Act 2003 is defined when:

> "The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with "proper practices""

"Proper Practice" (from 1 April 2010) is under International Financial Reporting Standards (IFRS) rules. The relevant standard is IAS16 which has the following definition of capital expenditure:

> "Expenses that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management".

"Directly attributable" means that, for examples, if building a school, it is the costs linked to the actual construction of the building, not temporary accommodation, moving people around etc.

Subsequent Capital Expenditure on an asset is defined as:

> "Expenses that make it probable that future economic benefits will flow to the authority and whose cost can be measured reliably" subject to "if the expenditure is to replace a component, the old component must be written out of the balance sheet".

Future economic benefits means that it is not necessary for the expenditure to improve the condition of the asset beyond its previously assessed standard of performance. The measurement is against the actual standard of performance at the date of expenditure; e.g. if service potential or asset life is increased.

Appendix 3 – Capital Scoring Matrix

Capital Projects Assessment Criteria

Possible Weightings

1. Council Plan Priorities

3 points	Specifically identified in Council Plan		PASS/FAIL
2 points	Identified as a key Project/Activity in the Council Plan or directly supports a number of specific outcomes		
1 point	Generally supports specific Actions or outcomes		
0 points	Will not deliver any identified outcomes		

2. Potential to generate future investment return

3 points	Considerable additional net revenue income stream meets both £100k pa and > 25% of project cost)	factor = x	**5**
2 points	Moderate additional net revenue income stream (meets both £50k - £100k pa and 10-25% of project cost)	Max score	**15**
1 point	Small additional net revenue income stream (meets both <£50k pa and < 10% of project cost)		
0 points	No potential net revenue income		

3. Potential to generate future revenue savings

3 points	Considerable additional net revenue savings meets both £100k pa and > 25% of project cost)	factor = x	**5**
2 points	Moderate additional net revenue savings (meets both £50k - £100k pa and 10-25% of project cost)	Max score	**15**
1 point	Small additional net revenue savings (meets both <£50k pa and < 10% of project cost)		
0 points	No potential net revenue saving		

4. Specific External resources to support scheme (including Regional funding)

3 points	Specific (ring fenced) funding requires no additional Council funds (capital or revenue)	factor = x	**4**
2 points	Specific (ring fenced) funding and requires Council funds of both 10% match funding or up to £250k (capital or revenue)	Max score	**12**
	Specific (ring fenced) funding and requires Council funds of both 50% match funding or between £250-500k (capital or revenue)		
	Specific (ring fenced) funding but requires Council funds of both 75% match funding or > £500k (capital or revenue)		

5. Statutory Status: includes support of a statutory Service requirement

3 points	Meets a specific immediate or forthcoming statutory requirement	factor = x	**3**
2 points	Meets an underlying statutory duty	Max score	**9**
1 point	Meets a discretionary requirement		
0 points	no indication of status		

6. Ongoing revenue costs over the life of the asset

2 points	Revenue saving or income exceeds borrowing and running costs	factor = x	**3**
1 points	Revenue saving or income exceeds running costs	Max score	**6**
0 points	Additional costs can be met solely from within existing resources		
-2 points	Additional on-going resources required over existing budgets		

7. Risk to Community of NOT doing (i.e. identified in Risk Register)

3 points	High Risk (9-16)	factor = x	**2**
2 points	Medium Risk (5-8)	Max score	**6**
1 point	Low Risk (1-4)		
0 points	no Risk identified		

8. Risk of Doing (Can project be delivered?) - achievability,timescale, resources required

3 points	Low Risk (1-4)	factor = x	**2**
2 points	Medium Risk (5-8)	Max score	**6**
1 point	High Risk (9-16) with Mitigation		
0 points	High Risk (9-16) with no Mitigation		

9. Equality , Diversity & Deprivation Issues

3 points	Will achieve improvement in 3 issues	factor = x	**1**
2 points	Will achieve improvement in at least 1 issue	Max score	**3**
1 point	Possibility of improvement in at least 1 issue		
0 points	No demonstrated improvement in any issues		

10. Condition, Health and Safety risk and Strategic Importance of Asset Issues

3 points	Expenditure on asset will reduce impact of 3 issues	factor = x	**1**
2 points	Expenditure on asset will reduce impact of at least 1 issue	Max score	**3**
1 point	Expenditure will have a possibility of reduced impact in at least 1 issue		
0 points	No demonstrated impact on any issues		

11. Outcomes, Added Value, Cross-service benefit

3 points	Good - Large number of beneficiaries / target groups (>25,000)	factor = x	**1**
2 points	Satisfactory - Significant number of beneficiaries / target groups (10,000-25,000)	Max score	**3**
1 point	Fair - Reasonable number of beneficiaries / target groups (1,000-10,000)		
0 points	Poor - Few beneficiaries / target groups (<1,000)		

Max score	**84**

Appendix 4 – Investment Plan Gateway Process

Investment Programme Board
Governance arrangements for Capital Projects

The purpose of the Gateway process is to ensure that all necessary approvals are secured at all key stages of any Capital project.

Project Officers are responsible for the completion and submission of all Gateway Forms to the Strategic Investment and Property Team (FAO Iain Betham / Fiona Lucas). The team will then ensure that all Gateway Forms are presented to IPB as required.

Regional Projects

All regional projects come through the IPB Governance arrangements, even if they have already passed regional Gateways. North Tyneside Council to sign off and govern its involvement. All proposals come through Gateway 0—go out to the regional processes—the outputs from that and all necessary information then come back into Gateway 1.

Gateway 0 Strategic Fit

Purpose: Information contained in this submission should be brief but sufficient to demonstrate that a mandate exists, the project or programme has been prioritised and an outline business case has been developed. There is also a requirement to convey how far the idea has been developed in terms of feasibility.
Role: The submission will be scrutinised by the IPB in terms of strategic fit, corporate priorities, available capital resources and estimated revenue implications.
Available options: Approve or advise / refer back / reject

Associated Form—Gateway 0

Gateway 1 Feasibility

Purpose: This document constitutes a formal bid for capital investment including inclusion in the Investment Plan. It should provide sufficient information to enable effective financial and technical scrutiny ahead of further review at strategic and member level. Figures on cost and funding should be as accurate as possible. At Gateway 1 there is a focus on viability, affordability, procurement and delivery.
Role: The IPB will scrutinise the bid in terms of its financial and technical viability and management of risk. The IPB will be briefed on outcomes and recommended actions and may wish to prioritise, amend or modify the submission in light of these comments. The IPB provide recommendations to Cabinet to form part of the budget setting and financial management processes, if required.
Available options: Approve or advise / refer back / reject

Associated Form—Gateway 1

Gateway 2 Approval and Delivery

Purpose: Spending approval at Gateway 2 must be secured before any capital expenditure is incurred on a programme / project. This template brings together all the information needed for an appraisal and approval to be given. If the request varies from the budget either in terms of expenditure, funding or both you must explain this variance in Section A8. **In addition this Gateway Form MUST provide information on the spend profile which will be monitored as part of the overall investment plan.** Part A is normally completed by the Programme / Project Manager in consultation with the Finance Link Officer. Part B should be completed by the Programme / Project Manager
Role: Officers in both the Strategic Investment & Property Team and the Client Finance Team will complete final checks to confirm that relevant information has been submitted correctly in Part A & relevant sections of Part C.
Available options: Approve or advise / refer back / reject

Associated Form—Gateway 2

Gateway 3 Exception Report

Purpose: Information contained in this submission should provide the IPB with information on the project & the specific issues as to why the matter has been escalated to the IPB. This could cover project delays, financial concerns or new information that may now have an impact on the project. **In addition this Gateway Form MUST provide information on the spend profile which will be monitored as part of the overall investment plan.** A Gateway 3 submission may be required on more than 1 occasion subject to the issues / matters that may / may not be raised regarding a particular project. **The relevant Project Officer responsible for the project will be expected to attend the IPB to present the Gateway 3 submission.**

Role: The submission will be scrutinised by the IPB in terms of the wider strategic fit, corporate priorities together with the associated implications for capital resources and revenue budgets, prior to submission to Cabinet or Council as required.
Available options: Approve or advise / refer back / reject

Associated Form – Gateway 3

Gateway 4 Project Close

Purpose of Document: The purpose of this document is to confirm financial completion, transfer or the abandonment of a project and to report on the status of associated records. Responsibility for completion of this template should be identified in the follow-on actions and handover plan. Completion of all relevant sections is mandatory to enable consolidated reporting on the Investment Plan.
Scrutiny and Review: The Investment Programme Board will review this submission including for capital accounting and financial closure purposes.
Available options: Approve or request additional information

AssociatForm – Gateway 4

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2018/19

Investment Instruments and Credit Criteria

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

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

Table 1: Specified Investments and Credit Criteria

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

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

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

Table 2: Non-Specified Investments

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

Budget Engagement

Engagement with residents and others took place between 28 November 2017 and 10 January 2018. This was via an online survey published on the North Tyneside Council website and face to face sessions with the Residents Panel and others key stakeholder groups.

In the face to face discussions, attendees were provided with information about the Council's budget and they were asked to give views on Cabinet's initial proposals. The on-line questionnaire asked people for their views on whether the initial proposals met the needs and priorities of the Borough and whether or not there were additional issues that needed to be considered.

Overall, the response to the engagement has been positive and there has been an appreciation of the very challenging financial situation facing the Council as well as the very tough decisions that have to be taken.

Through the face to face sessions, residents and others have been able to better understand the context for the initial proposals and have had the opportunity put forward ideas around how they could be implemented.

During the engagement period, residents and some community groups have raised concerns in relation to the future provision of library services. This was because they had seen or been incorrectly advised about some potential changes which had not been part of Cabinet's initial proposals. In discussion to clarify the position that no libraries would be closing, residents and community groups have expressed an interest in doing more to volunteer to support the service.

Residents have also been interested in finding out more about the proposals to move to alternate weekly bin collections and have made some suggestions as to how this might be implemented, recognising the particular needs of some individual residents or families. There has been support for how the proposals around waste will enable more recycling.

Residents welcomed the approach taken in the face to face engagement discussions and felt it was an improved way to consult around budget proposals. In particular the provision of additional information and the opportunity to discuss in more detail.

There was support for the proposals to continue investment in : roads, pavements, regeneration across the borough, housing, maintaining environmental standards.

There was also support for the need to enable people to do more for themselves and for people or community groups to be more involved in supporting services through volunteering.

Reserves and Balances Policy

Date: 24 January 2018 **Version:** V1 **Author:** Janice Gillespie

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

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

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

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

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

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

Local Authority Accounting Practice (LAAP) Bulletin 99 (released July 2014) sets out guidance to local authority chief finance officers on the establishment and maintenance of reserves and balances. The Bulletin states that its guidance "represents good financial management and should be followed as a matter of course". The guidance covers the legislative and regulatory framework relating to reserves; types of reserves; the principles to be used to assess the adequacy of reserves and the Chief Finance Officer's advice to full Council.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Authority holds two types of reserves

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

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

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

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

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

The use of the Strategic Reserve to balance budgets (either revenue or capital) should be very closely considered in line with LAAP (Local Authority Accounting Practice note) 99, which states that, although "balancing the annual budget by drawing on general reserves may be viewed as a legitimate short term option. It is not normally prudent for reserves to be deployed to finance recurrent expenditure". In principle, although the Strategic Reserve may, under certain circumstances, be used to balance the budget of the Authority, it should not be used as a year on year measure to support ongoing revenue spend. The level of the Strategic Reserve and the potential calls against it will therefore be reviewed on a continuous basis, and in the context of the overall financial planning process of the Authority.

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

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

7 The Reporting Framework

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

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

The Reporting Policy of North Tyneside Council is:

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

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

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

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

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

Appendix H

2018-2020 Financial Planning and Budget Process

Timetable of Remaining Key Milestones for 2018/19

Date / Meeting	**Detail**
24 January 2018 **Cabinet**	2018/19 Council Taxbase agreed by Cabinet.
1 February 2018 **Council**	Cabinet submits to the Council its estimates of amounts for the 2018-2020 Financial Plan and 2018/19 Budget & council tax levels and the Council Plan.
15 February 2018 **Council**	Reconvened Council meeting to consider Cabinet's estimates of amounts for the 2018-2020 Financial Planning and Budget process and council tax levels and the Council Plan. Consideration of any Notices of Objection.
19 February 2018 (if required) **Cabinet**	Cabinet Meeting to consider any objections to Cabinet's Budget and Council plan proposals.
27 February 2018 (if required) **Council**	Council meeting to agree the general fund revenue budget for 2018/19; the council tax level for 2018/19 & the North Tyneside Investment Plan for 2018-2020 and the Council Plan

Glossary of Terms

Asset Management Strategy	Asset Management Strategy is a high-level document that guides the overall investment in existing and new assets within an organisation. Being a strategy it explores long term issues and ensures that the overall plan is linked to the key "strategic" priorities of the organisation.
Authorised Limit	Borrowing is prohibited beyond this limit. This limit reflects the level of borrowing that, while not desired or sustainable, could be required with some headroom for unexpected cash flow movements. It includes both temporary borrowing for cash flow purposes and long-term borrowing to finance capital expenditure.
Balances	The reserves of the Authority, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.
Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short-term interest rates in the money markets.
Better Care Fund (BCF)	A pooled budget arrangement between the Authority and the local Clinical Commissioning Group, which aims to bring greater integration between health and social care.
B/Fwd	The balance in the Statement of Accounts that has been brought forward from the previous period, normally the previous financial year.
Borrowing	Refers to external borrowing.
Brexit	The potential departure of the United Kingdom from the European Union.
Budget	A plan of expected expenditure and income over a set period of time for example the Authority's revenue budget covers a financial year.
Budget Holder	A nominated officer in a Service area who has responsibility for the control and monitoring of a particular budget.
Budget Manager	A nominated officer in a Service area who has responsibility for the control and monitoring of the budgets within a service area.
Budget Monitoring	The analysis and reporting of expenditure/ income against budget. Budget monitoring is carried out by Service area alongside the Finance Service on a monthly basis.
Budgetary Control	The use of budget monitoring information to manage the budget and bring spend in on target for the year.
Business Rates	Business Rates also known as Non Domestic Rates (NDR) is a charge levied upon all non-domestic properties. The rateable value of non-domestic premises is determined by the Valuation Office Agency (part of the Inland Revenue). This rateable value is multiplied by a national multiplier (set each year by central Government) to arrive at the gross annual amount each business must pay. This can be reduced by reliefs, dependent on the size and circumstances of the business, to arrive at the net amount payable. Business Rate Retention Regulations were introduced in April 2013. These determine the proportion of Business Rates retained by Local Authorities and its preceptors, or transferred to Central Government.
Capital Financing	The resources required to fund capital payments e.g. • borrowing • the application of useable capital receipts

	• a direct charge to revenue • the application of a capital grant or contribution.
Capital Financing Requirement (CFR)	This measures the Authority's underlying need to borrow for a capital purpose. It is a calculation of capital costs less funding from capital receipts, grants and contributions to give the balance to be funded by borrowing. The Authority needs to ensure that over the medium term net borrowing does not exceed the CFR. The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code.
Capital Investment / Expenditure	The total amount spent on capital including all those items capitalised under statute e.g. equal pay and grants to third parties.
C/Fwd	The balance in the Statement of Accounts that is "carried forward" to a future period, normally the next financial year.
CIPFA	Chartered Institute of Public Finance and Accountancy, which is the leading accountancy body for public services.
CLG	Department for Communities and Local Government. Following the 2018 Provisional Local Government Finance Settlement this became part of the Ministry of Housing, Communities and Local Government.
CCG	Clinical Commissioning Group – an NHS body which commissions community and hospital based healthcare for a local area.
Consumer Price Index (CPI)	The index has been designed as a macro-economic measure of consumer price inflation. The official measure is calculated each month by taking a sample of goods and services that a typical household might buy, including food, heating, household goods and travel costs. It forms the basis for the Government's inflation target, which the Bank of England's Monetary Policy Committee is required to achieve.
Contingencies	Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.
Cost Centre	A code created in General Ledger to record expenditure and income for a particular activity. For example a library or a school.
Council Tax	The main source of local taxation for local authorities. It is a banded property tax (using 1 April 1991 property values), which is levied on households within its area by the billing authority and is set annually for the properties in its area. Council Tax income is paid into the billing authority's Collection Fund for distribution to precepting authorities and for use by the billing authority's own General Fund.
Counterparty	The 2rganizations responsible for repaying the Authority's investment upon maturity and for making interest payments.
Credit Default Swap (CDS)	These contracts reflect the market perception of an institution's credit quality unlike credit ratings, which often focus on a longer-term view. CDS contracts can be compared with insurance, as a buyer of a CDS pays a premium insuring against a debt default.
Credit Rating	This is a scoring system that lenders use and publish to determine how credit worthy individuals and businesses are.
DCLG	Department for Communities and Local Government. Following the 2018 Provisional Local Government Finance Settlement this became part of the Ministry of Housing, Communities and Local Government.
Debt	The sum of borrowing and other long-term liabilities.
Debt Management	Debt Management Office (DMO) is the executive agency responsible for carrying out UK Government's debt management.

Office (DMO)	
Depreciation	The gradual conversion of the cost of an asset into an operational expense over the asset's estimated useful life. Depreciation reflects a reduction in the book value of the asset due to obsolescence or wear and tear and it spreads the purchase cost proportionately over a fixed period to match the income generated by the asset.
DfE	Department for Education.
DWP	Department for Work and Pensions.
External debt	All borrowing, whether for capital or revenue purposes.
Fees and Charges	Income arising from the provision of a service.
Financial Regulations	Rules that set out the financial policies of the Authority and help to ensure that the assets of the Authority are protected and properly deployed.
Financial Year	1 April to 31 March.
Forecast Out-turn	A prediction of the final income and expenditure based at the year-end.
General Ledger (GL)	The prime financial record for the Authority. The General Ledger records all the expenditure incurred and all the income generated by the Authority.
Gilts	The UK Government issues gilts in order to finance public expenditure. They are generally issued for a set period and pay a fixed rate of interest for this period.
Holding Accounts	These are accounts within the General Ledger relating to a specific building or service (internal to the Authority) where costs are collected then shared out to the users of the building or service.
Housing Revenue Account (HRA)	Those authorities with a council-owned housing stock have a duty to maintain an additional account called the Housing Revenue Account (HRA).The HRA specifically accounts for spending and income relating to the management and maintenance of the council-owned housing stock. By law it must be kept separate from other Authority accounts.
IFRS	International Financial Reporting Standards – the basis on which the Authority's accounts are prepared from 2010/11 onwards.
IBCF	Improved Better Care Fund is a Grant paid directly to Local Authorities to support Adult Social Care in ways, which also benefit Health. This was paid for the first time in 2017/18 and continues into 2018/19 and 2019/20.
Journal Transfer	A journal transfer is used to correct miscoded transactions or to allocate costs/income within or across Service areas in the General Ledger.
Lenders Option Borrowers Option (LOBOs)	A form of long-term borrowing where loans run at a fixed rate of interest for a fixed period, after which the Lender has the option to ask for repayment or change the interest rate on pre-determined dates. If the Lender decides to exercise the option to change the interest rate, the borrower can then decide whether to accept the new terms or repay the loan.
LGPS	Local Government Pension Scheme.
Local Government Finance Settlement	The Local Government Finance Settlement is the annual distribution of funding determined by the Government and debated by Parliament. It has two key elements:

	1. A Provisional Local Government Finance settlement, which is normally received in December. This is then subject to a specific Government Consultation. 2. A Final Local Government Finance settlement that is normally received in late January / early February after the government has had time to consider the representations made to the Provisional Local Government Finance Settlement.
Long Stop Control	The Secretary of State may, by direction, set limits in relation to the level of borrowing of money by a particular local authority to ensure that the authority does not borrow more than it can afford.
Long term	A period of one year or more.
Major Repair Allowance (MRA)	Before Self Financing was introduced in April 2012, the rent payable across to Central Government as part of subsidy was calculated taking into account several factors including a major repairs allowance, which was intended to ensure that councils retained sufficient money to be able to maintain their housing assets.
Maturity	The date when an investment or loan is repaid or the period covered by a fixed term investment or loan.
Ministry of Housing Communities and Local Government (MHCLG)	Created following the 2018 Provisional Local Government Finance Settlement - Formally the Communities for Local Government (CLG)
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation within plus or minus 1% of a central target of 2% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Money Market	This is where financial instruments are traded. Participants use it as a means for borrowing and lending in the short term, with maturities that usually range from overnight to just under a year.
Minimum Revenue Provision (MRP)	Minimum Revenue Provision (MRP) is statutory requirement to make a charge to the Council's General Fund to make provision for the repayment of the Council's past capital debt and other credit liabilities
National Living Wage	The National Living Wage is an obligatory minimum wage payable to workers in the United Kingdom aged over 25, which came into effect on 1 April 2016.
Net Revenue Stream	This is the net revenue budget.
Operational Boundary	This is the most likely, prudent view of the level of gross external indebtedness. External debt includes both borrowing and long-term liabilities (e.g. finance leases and PFI), with separate boundaries having to be identified for each of these. It encompasses all borrowing, whether for capital or revenue purposes.
Other Long Term Liabilities	The sum of the amounts on the face of the Balance Sheet that are classified as liabilities and are for periods in excess of 12 months, other

	than borrowing repayable within a period in excess of 12 months e.g. finance leases, PFI and Longbenton transferred debt.
"Pay to stay"	Pay to Stay was the name of a government policy in the United Kingdom whereby council tenants earning £30,000 (£40,000 in London) would have to pay "market or near market rents".
PFI	The private finance initiative is a way of creating "public–private partnerships" by funding public infrastructure projects with private capital.
Precept	The levy determined by precepting authorities on billing authorities. It requires the billing authority to collect income from council taxpayers on their behalf. In the case of North Tyneside Council, the precepting authorities are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.
Profiling	A method by which budgets are spread across the year to reflect patterns of spend.
Projections	A forecast of expenditure and income to the year-end based on known commitments and trends.
Prudential Borrowing	See Unsupported borrowing.
Prudential Code	The current system of financial controls for capital financing introduced on 1 April 2004 that local authorities are required to operate within.
Public Works Loan Board (PWLB)	Part of the Government's Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions.
Quantitative Easing	The printing of money by the country's central bank in order to increase the supply of money.
Reprogramming	Refers to changes to the timing of projects in the Investment Plan between years.
Reserves	Amounts which are set aside in the accounts to meet expenditure which the Authority may decide to incur in a future period, but which are not allocated to specific liabilities that are certain or very likely to occur. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves are often described as 'balances', and usually arise as unplanned surpluses of income over expenditure. This will include the House Building Fund, Strategic Reserve, Insurance Reserve and the Support Change Fund Programme.
Revenue Expenditure	Expenditure on the day-to-day running costs of a service for example employees and transport.
Revenue Support Grant (RSG)	A central government grant paid to each local authority to help to finance its general expenditure, as opposed to specific grants.
Right to Buy	The Right to Buy scheme is a policy in the United Kingdom (with the exception of Scotland since August 1st 2016) which gives secure tenants of councils and some housing associations the legal right to buy, at a large discount, the council house they are living in
RPI – Retail Price Index	The Retail Price Index (RPI) is published on a monthly basis and it shows the changes in the cost of living. It reflects the movement of prices in a representative sample of goods and services used regularly, such as food, housing, clothing, household goods and transport. Items considered the most important are given a higher weighting in the overall index.

S256 agreements	Legal agreements that allow Health to transfer money to Local authorities using powers listed under Section 256 (s256) of the Health & Social Care Act
Self Financing	Housing Revenue Account (HRA) self-financing commenced in April 2012. Local housing authorities from this date were able to fully retain the money they received in rent in order to plan and provide services to their current and future tenants and in return took on a level of historical debt.
SEN	The term 'special educational needs' has a legal definition, referring to children who have learning problems or disabilities that make it harder for them to learn than most children of the same age.
Service Area	Groups of related cost centres.
Settlement Funding Assessment	For individual local authorities, this comprises of the Revenue Support Grant for the year in question and the Baseline Funding Level.
Short-term	A period of less than one year.
SLT	Senior Leadership Team – this includes the Chief and Deputy Chief Executive and all Heads of Service.
Subjective	A subjective is a code within the General Ledger that indicates the type of expenditure incurred, for example basic pay. A subjective can also be used to record the type of income generated, for example rents and fees.
Supported Borrowing	This is borrowing to fund expenditure in the Investment Plan where the annual financing costs of such borrowing are supported by government through formula grant. No new supported borrowing has been awarded since 2010/11.
Target Operating Model	An operating model is a description is both an abstract or visual representation (model) of how an organisation delivers value to its customers or beneficiaries as well as how an organisation actually runs itself. A Target Operating Model (TOM) is the desired state for this model and it is used to help convert strategy ideas into operational plans.
Trading Account	These accounts within the General Ledger hold the values of both the cost and income of a traded or recharged service e.g. cleaning or transport. Customers can be internal or external to the Authority.
Transitional Protection	North Tyneside agreed that for those tenants who were already residents of an NTC sheltered property at the point of the Sheltered Housing PFI works would have their rent held at the level they paid before the investment.
Treasury Management	The management of the Authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
Unitary charge	A PFI contract bundles the payment to the private sector as a single ('unitary') charge for both the initial capital spend and the ongoing maintenance and operation costs.
Universal Credit	Universal Credit is a social security benefit in the United Kingdom introduced in 2013 to replace six means-tested benefits and tax credits: income based Jobseeker's Allowance, Housing Benefit, Working Tax Credit, Child Tax Credit, income based Employment and Support Allowance and Income Support.

Unsupported Borrowing	This relates to borrowing to fund expenditure where the annual financing costs have to be met from the Authority's own revenue resources. This is also known as prudential borrowing.
Variance	The difference between net budgeted expenditure and income compared to net actual expenditure and income i.e. the actual or predicted overspend or underspend against budget.
Virement	A transfer of budgets from one area of the budget to another.
Yield	Return on an investor's capital investment.
Yield Curve	Graph plotting the yield of all bonds of the same credit quality with maturities ranging from the shortest to the longest available. If the resulting curve shows that short-term yields are lower than longer-term yields then it is called a positive yield curve. If short-term yields are higher than longer-term yields it is called an inverted yield curve. If there is little difference between short and long-term yields then it is a flat yield curve.

Meeting: Overview, Scrutiny & Policy Development Committee

Date: 9 January 2018

Title: Budget Sub - group report

Author: **Budget Sub-group** Tel: 0191 643 5318

Wards: **All**

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1 Purpose of Report

To inform Overview, Scrutiny & Policy Development Committee of the work undertaken by the Budget Sub-group in scrutinising the 2018/20 Financial Planning and Budget proposals.

2 Recommendations

The Overview, Scrutiny & Policy Development Committee is recommended to refer the recommendations and views of the Budget Sub-group, as set out in the report below, to Cabinet for consideration as part of the 2018/19 budget setting process.

3 Background

The Council's constitution places a duty on the Overview, Scrutiny and Policy Development Committee to examine and contribute to the formulation of the Cabinet's budget and strategic planning proposals.

Invitations were extended to all non executive members of the Council to seek volunteers to serve on the Budget sub group.

The following Members served on the group:

Councillor Sandra Graham	Councillor Anthony McMullen
Councillor Jim Allan	Councillor David McMeekan
Councillor Muriel Green	Councillor John O'Shea
Councillor Janet Hunter	Councillor Lesley Spillard
Councillor Paul Mason	Councillor Judith Wallace

The group met on the 8 & 11 December where the Head of Finance and Senior Officers presented the 2018/20 Business Cases under the headings of:

a. Cared For
b. Great Place
c. Housing Revenue Account
d. Maximising Resources
e. Fit for Purpose
f. Investment Plan

The following Cabinet Members were in also in attendance to provide further insight if/when required.

Councillor B Pickard
Councillor Ray Glindon

The group raised its concern at the delay in provision of the Business Cases and considered this insufficient time to fully review them before the meeting. It should be highlighted that some business cases were provided the day before, whilst others were tabled at the start of the meeting, this was felt to be completely unsatisfactory and not conducive to good scrutiny.

Following the consideration of Cabinets Initial budget proposals and associated business cases, the group requested further information. Again due to the timing of the provision of the information a meeting was convened at short notice on the 20 December to consider the provided information so the group could formulate its views and recommendations. This was again a concern to the group as not all Members were able to participate fully.

The concerns of the sub-group were acknowledged by officers who explained that a lot of effort had been placed in trying to ensure that all the Business Cases presented were as complete as possible with the most up to date information. That the proposals were based on several years of cumulative effort to respond to reducing resources and rising cost and so contained a greater cumulative risk and require close attention to ensure delivery.

It was stated that budget process was extremely challenging and difficult as the Authority had to plan under an umbrella of uncertainty to what level the Local Government Finance Settlement would be received. The settlement was expected to be available in mid-December 2017.

It was noted that having a yearly Local Government Settlement has an impact on resources that could otherwise be channelled elsewhere and benefit other services of the Authority.

4 Budget Proposals

North Tyneside Council continues to operate in a very challenging financial climate. Resources continue to reduce in both the General Fund and the Housing Revenue Account, however, there are continued cost rises; particularly for the delivery of statutory social care services for adults and children.

It was acknowledged that in recognition to this the Government took some steps by nationally recommending an increase in Council Tax and the Better Care Fund, however this does not cover the full cost of rising demand and the impact of the National Living Wage in the care sector.

With this in consideration the initial budget proposals included the nationally recommended 3% Council Tax increase to fund Adult Social Care and nationally recommended 1.99% general Council Tax increase.

The initial budget proposals had been developed in the context of the Our North Tyneside Plan and reflected the Plan priorities. The proposals were aimed to reflect those services that residents had indicated were important to them and to protect vulnerable adults and children.

The initial budget included the proposed General Fund and Housing Revenue Account (HRA) Budget for the financial years 2018/19, together with indicative plans for year 2019/20 and a three year planning horizon for the Investment Plan.

The two year planning period for the revenue budget reflected the remaining time of the current spending review period to 2019/20.

The budget was developed in line with the challenges and opportunities facing the Authority the Borough, this was in respect of what the Authority has control and it can change itself, where its choices were constrained and how money would be raised and spent over the next two years.

It was important to understand that the Council was legally required to set a balanced budget for the General Fund to meet its statutory duties to provide services such as social care and environmental services.

In respect to the HRA, the Council tax payer cannot subsidise those living in social housing and therefore the rents and services charges paid by tenants cannot be used to fund unrelated council services.

On completion of the base budget review it was determined that there would be a funding gap in the region of £37m over the next two financial periods, with £11m identified for 2018/19.

<u>Cost pressures</u>

The need to find savings in 2018/19 and future years is driven by significant unfunded cost pressures arising from a number of sources as well as the net reduction in resources from Central Government. The Authority is experiencing the same service pressures as many other Metropolitan Authorities.

These cost pressures arise for a number of reasons including:

- Legislative / regulatory changes mainly relating to external funding changes – cuts in specific grants (for example Housing Benefit Subsidy Administration Grant, Public Health Grant, New Homes Bonus and Education Services Grant);

- Pay and price inflationary increases – increases in pay based on an assumed 1% pay increase, the impact of the National Living Wage increases on social care providers and the impact of increased waste demand and the Retail Price Index (RPI) impact on the contract the council has for waste disposal;

- Increasing demand for services – increased demand for social care services (for example increased numbers of adults with complex learning disabilities) and for home to school transport;

- The impact of the improved Better Care Fund grant announced after the 2017/18 budget had been agreed including the additional impact for 2018/19;and
- Corporate pressures including pressures during 2017/18 within Adult Social Care where savings targets are not achievable, the impact of investment decisions on likely interest costs and the reversal of an element of the Minimum Revenue Provision (MRP) holiday adopted during 2017/18.

Taking into consideration the cost pressures and the reduction in resources in the future, the gap/efficiency requirement for 2018/19 is currently estimated at £11m with a total of circa £33m to the end of 2019/20 as set out in Table 1.

Table 1 2018-2020 General Fund Financial Plan

	2017/18 £m		**2018/19 £m**	**2019/20 £m**	**2018/19-2019/20 £m**
General Fund Base Budget	*153.945*		152.360	147.979	152.360
Pay & Price Increases, Demand Led, Corporate, Legislative/Changes to Responsibilities Resource changes and 2017/18 in year pressures	*16.753*		11.504	16.304	27.808
Creating a Brighter Future Programme	*-18.338*		-11.023	-21.433	-32.456
Changes to Council Tax and LCTS			-4.862		-4.862
Total General Fund Financial Plan	*152.360*		147.979	142.850	142.850

With regard to inflationary pressures there had been an assumption in the initial budget that the employee pay award for 2018/19 would be 1% rise as in previous years, the sub-group were informed that local government employees had received a two-year offer of 2%, with lower graded staff receiving a higher percentage rise.

It was acknowledged that this would see further pressure and would need to be reflected in the final budget.

The Provisional Local Government Settlement 2018/19 was issued on the 19 December with no significant announcement included that impact on the 2018/19, with the only change to Council Tax referendum limit, with the option for a further 1% Council Tax increase which for North Tyneside would be in the region of £850k.

Efficiency Savings

In terms of delivering the overall budget, the Creating a Brighter Future (CBF) programme would continue to be a cross cutting programme to transform all parts of the Authority and the relationship with the residents of North Tyneside as set out in the “Our North Tyneside Plan”.

As with previous budgets the approach for 2018-20 was to achieve savings early where possible, to mitigate against future financial risks whilst working in different ways.

Expensive services would continue to be more effectively targeted only at the people who need them, ensuring that the most vulnerable residents had successful, healthy and safe future.

Universal services had been protected where possible e.g. Libraries, Customer Service Centres, Sport and Leisure and work to improve understanding and management of demand, concentrating wherever possible on enabling people to help themselves was continuing.

The Efficiency Plan that was first agreed in October 2016, set out a number of proposals for delivery that were designed to support the Authority in managing the change required to meet the significant financial challenge it faces.

The proposals consider how service delivery can be reshaped in order that the Authority is able to meet the demands it faces, consider how residents are supported to help themselves, and continue to develop the Borough in terms of a place to live, being attractive to businesses and have effective transport and physical infrastructure.

The sub-group received business cases that detailed the proposals for 2018/19, with the associated savings per theme as shown in Table 2:

Table 2: Efficiency Savings 2018-2020

CBF Theme	2018/19 £m	2019/20 £m
Existing Business Cases	-0.991	-0.459
Cared For, Safeguarded and Healthy	-0.980	-0.130
Fit for Purpose	-7.508	-0.063
Great Place to Live, Work & Visit	-0.777	-0.870
Maximising Resources	-0.190	0.000
Efficiency proposals	-0.577	-20.311
TOTAL	**-11.023**	**-21.233**

5 Business Cases

The sub-group considered the 9 Business Cases in detail, that were proposed would deliver the required efficiencies.

5.1 Cared For (total saving of £980k)

Value for Money Tested Social Care (saving £915k); long term national policy direction in social care had created a situation which was sometimes at odds with realistic outcomes and the financial position. The project would make changes to day to day commissioning and assessment processes to re-set the outcome of funded social care.

In partnership with the Clinical Commissioning Group and using a single trusted assessor, outcomes would be shaped by working with individuals to set realistic goals for independence and applying a value for money test to care at home versus other settings.

The business case included the following areas:

Ensuring customers with healthcare needs are appropriately funded

The Care Act 2014 is clear that Local Authorities must assess people to identify their eligible social care needs and arrange for those needs to be met. It is very clear that local authorities cannot and must not arrange to meet health care needs as this is a level of need that is outside of the social care remit.

The only exception to this is if the health need is ancillary or incidental to any social care needs.

The proposal ensures that all social work staff assess clients only for social care needs and ensure that support plans only encompass the care/support/services required to meet those needs. Anything outside of this would be escalated to the CCG for NHS funding for that part of the support service. **Providing a saving of £400k in 2018/19**.

Review Direct Payment rate

To review current Direct Payment rate payable to Personal Assistant's as there had been no change since April 2014; to identify any potential savings and to understand rates applied by other local authorities in the region. The rates paid for Direct Payments Support Services were outside the scope of the review. **Providing a saving of £100k in 2018/19.**

Residential care costs and Quality bands

The Local Authority commissions residential and nursing care placements for individuals who have been assessed as requiring a level of care and support. As part of this, the Local Authority is required to set its rate for these services and to communicate this to the provider market.

There are different fee levels for residential care and for nursing care with a further differential for general care and elderly mentally ill (EMI) care.

The Local Authority also operates a banding system whereby the quality of provision is assessed on an annual basis and each home is banded through band 1 to band 4. Therefore each placement is paid for at a specific rate taking account of the nature of care and support being delivered and also the latest banding level. The banding level takes account of the completion of an annual quality assessment tool (70%) and also an environmental assessment (30%).

The proposal was to review the current Local Authority quality payment banding system and take account of the Care Quality Commission rating as part of the overall assessment. This would replace the environmental score within the current version of the quality monitoring tool. The impact of this would be to change the numbers of homes at band 1 and band 2 and the consequential payments to care home providers would change from April 2018, **with a proposed saving of £300k pa from 2018-19**.

Review and restructure Integrated Services Rehabilitation offer

The Community Occupational Therapy team is made up of Qualified Occupational Therapists and non-qualified Occupational Assessment Officers as well as Rehabilitation Officers. The team assess people predominantly in their own home for bathing, access and egress to their property or any mobility issues which prevent independence.

The outcome of the assessments could result in adaptations and/or equipment i.e. Stair lifts, grab rails, ramps etc. or advice and signposting. The Reablement service also has rehabilitation officers and staff who are carrying out a similar role whilst promoting independence.

Due to the potential to duplicate tasks this business case will review the roles and responsibilities of each team and seek to align the staff accordingly in order to create efficiencies from staff resources.

There had been a natural reduction in staffing hours due to flexible retirements and returns to work following maternity leave with reduced hours, which would go toward the efficiency target. By reviewing the rehabilitation offer across Integrated Services would result in a service restructure to maximise resources and create capacity in localities without the duplication of tasks. It is therefore proposed to consider Service Management, Occupational Therapy and non-qualified staff roles within this restructure providing **a saving of £50k in 2018/19**.

Review of block contracts

In the previous 5 years, Adult Social Care has moved from having large block contracts to more flexible and responsive framework agreements where payment are made based on service levels delivered or commissioned. In the main this is determined from a social work led assessment of need and a budget to meet that need. However there are a small number of block contracts still in place that cover a range of different service areas and service types that support a wider population base.

Some of these are preventative in nature and have different referral routes into them, rather than a social work led assessment process. As part of ensuring that value for money was being achieved in all aspects of Adult Social Care spend, these block contracts had been reviewed and there were options available to allow for an efficiency to be made from the spend in these areas.

In some cases, the amalgamation of services and service types and in others, it would be about reviewing the cost profile with the organisation delivering the service with an associated **saving of £65k in 2018/19.**

A New Model to Support Children (saving £65k): national policy direction, inspection and demand pressures have created an environment where local authorities are looking at alternative models to deliver services to support children, including collaboration.
The project aim was to review best practice and the alternative approaches that would continue to build on the practical collaborations proposed on Fostering and Additional Needs as well as the strengths of the current North Tyneside team.

A continued look into the capability to grow direct provision as the market changes and the capability to deliver specialist housing and support grows. This continuation of the "Transforming Children's services" programme that included increasing the accommodation available to improve the early help offer and reduce the demand for external residential placements, with the potential to trade surplus capacity.

There would also be a review of the approach to the provision of financial support through the "S17 (assessment of financial resources) budget" to ensure the application and approval pathway for support follows a set of appropriate principles.

5.2 Fit for Purpose

How we are organised; as services change the organisation must change with them. This project aims to ensure the organisation is reshaped to reflect changes in services and reductions in resources. In addition to changes in service delivery it also aims to ensure the organisation’s infrastructure is changed and shrinks in line with the rest of the organisation with resultant changes in overheads and recharges. This will include taking opportunities to streamline the Council’s processes where appropriate. In addition making sure that infrastructure is tested against best practice, the priorities of the Mayor and Cabinet and the market

Renegotiation of fee paid to Engie (£150k)
Renegotiation of fee paid to Engie from commercial dialogue re contact centre and customer services offer

Feasibility fund (£100k)
Feasibility fund will reduce from £300k to £200k. The budget available for feasibility was previously increased from £100k to £300k and it is felt that £200k would be an appropriate figure based on our knowledge of likely projects

Reduce service Improvement fund (£100k)
The Service Improvement fund is currently £300k per annum but we have not required this entire budget and propose to reduce it to £200k.

Pensions from Revenue (£250k)
Where pension enhancements were made, all pre 2000, these were funded through this revenue budget. As the number of these enhancements reduces over time a budget saving can be made in this area.

Management and Staffing savings (£2.5m)

Management and structures - In line with service redesign and the review of the Council’s Core Offer is a fundamental look at the organisation and how it will continue to be reorganised to deliver the policy direction and redesigned services. This includes shrinking the management of the organisation to reflect reductions in resources and bringing together similar and linked services to ensure consistency and lowest possible cost

Business & Economic Development
Swans site management saving following improved security arrangements
The site has recently been protected by 2.4 metres high palisade fencing and a service level agreement for remote surveillance by the North Tyneside security team. The use of

the site for load outs necessitates 24 hour specialised security whilst vessels are berthed, so a revenue stream is still required but the capital expenditure together with the service level agreement will result in a phased saving on security services. In addition, in 2019/20 we will look to recover security costs from shipping agents visiting the Quay. It is considered too early to introduce this fee whilst the site is in a transitional state.
Also in 2019/20, it is proposed to recharge elements of the cost of staff employed on Swans through load out and berthing fees. **(saving £28k)**

Restructure of the external funding team: taking into account the loss of European funding and reshaping of the business factory enterprise programme to deliver more services electronically is expected to release a Grade 9 post

The Funding Team will be reduced from 3 staff to 2 as there are fewer European Funding opportunities to bid for since the decision to leave the European Union. This will result in staffing **savings of £40k**

Commissioning & Investment

Supporting Commissioning arrangements around High Needs & Additional Support (saving of £100k)

Income to support Commissioned High Needs provision.
The Dedicated Schools Grant (DSG) income for 2018-19 will support the Local Authority statutory duty that included:

- Leading the strategic needs analysis for our cohort of children and young people with Special Educational Needs and Disabilities (SEND) and those with additional needs requiring access to alternative education provision through the High Needs Block

- Working strategically with schools and colleges to review the current sufficiency and cost of our education placement and wider support offer 0-25, including special schools, outreach provision, Additional Resourced Provision (ARPs), SEN support in mainstream schools, the Pupil Referral Unit and alternative education, FE and specialist colleges for post-16 placements. To include access to personal budgets and spend on ‘top-up’ budgets for those with the most complex SEND needs.

- Understanding government High Needs funding policy, preparing briefings, responding to consultations on behalf of Schools Forum

- Commissioning the right mix of provision in-borough and, where needed, externally e.g. for independent and non-maintained special schools and colleges via the collaborative commissioning arrangements of the NE12 group of NE Authorities

- Agreeing with the Schools Forum the annual High Needs funding allocations for all schools and providers

- Undertaking monitoring visits to schools and providers

- Costs associated with information systems covering placement monitoring and review, financial monitoring and reporting on quality and outcomes

- Sharing MI information with Schools Forum, NE12 group or other forums, including submitting returns and reports to DfE / EFSA.

An appropriate charge to the DSG High Needs Block from 2018/19 would be **circa £50-75K**

Facilities and Fair Access

An inflationary increase in annual charge to Schools for Cleaning and Catering Services would generate circa **£30k per year**.

Additional business opportunities within the borough and beyond its boundaries could secure an additional **£20k per year**.

Restructure Investment Service
Restructure within the service that would result in the deletion of Major contract Officer post (Grade 9) resulting in a net revenue **saving of circa £20k**.

Facilities and Fair Access
Restructure within the service that would result in the deletion of Education Welfare Officer post (Grade 11) resulting in a net revenue **saving of circa £50k.**

HR - Reduce Workforce development budget spend on corporate training
Reduce the workforce development budget spend on training provision **by £25k**. This will be achieved through a refocus on priority development and the move towards online/e-learning provision

Finance – reduction in fee paid to Engie due to the return of work to the Council Finance team **£57k**

Commercial & Business Redesign

Reorganisation of the C&BR team including separation of the team in to two distinct areas:

- Digital First (Customer Journey)
- CBF Projects and Commercial.

The Digital First team will be funded (subject to agreement) separately via either Change Reserves or Capital Funds.
Savings will be made from the Information Systems Team via the re-negotiation of systems support and maintenance costs. The total savings on the General Fund of the activities above will **be c£25k**

Law & Governance

Currently all complaints against the Authority are managed centrally. The centralised administration provides for central recording of complaints on the CRM Complaints System, and advice and guidance on the complaints procedure, timescales etc. The Complaints Manager fulfils the Statutory Complaints Officer role and undertakes a key liaison role with the Local Government and Social Care Ombudsman/Housing Ombudsman and determines whether complaints proceed to consideration by Regulation and Review Committee within the Authority's Corporate Complaints process. **(£35k)**

Reduce the spend of the civic functions by one third **(£18k)**

Removal of catering budgets for council, cabinet and committee meetings. **(£10k)**

This business case indicated the largest reduction of FTE staff, however the group had difficulty to understand from the information provided the effect these reductions would have and which services would be affected. It therefore feels that this could not be scrutinised fully to the groups satisfaction.

The group therefore were unable to make any recommendation to the delivery of this business case.

5.3 Maximising Resources (Total saving £190k)

Sourcing, supply chain and commercials (saving £1.5m through maximising resources and fit for purpose activities) -More than half of the Authority's expenditure was to third parties and with a supply chain of over 4,000 organisations and individuals it was critical that sourcing, supply chain and commercial arrangements are as sharp as possible. The project aim was to look beyond the large-scale commissioning and major partnerships to ensure all of the supply chain was subject to a rigorous value for money test and best practice category management is applied.

Building upon the recently agreed Procurement strategy there is an opportunity for the Authority in conjunction with its partners to re-engineer its procurement function to realise additional savings and enhance its commercial support to the service areas.

Through some initial analysis carried out by Capita Procurement Solutions saving opportunities had been identified which were ambitious and only achievable alongside changes to the current operating model.

The savings projects identified considered both how to unlock benefits from large areas of spend (be that in existing contracts or strategic sourcing exercises) and how to manage the lower values of spend to achieve best value

Savings projects had been identified and work was being undertaken to realise the savings and a summary of savings opportunities initially identified for 2018/19 were presented.

In addition, work was underway that broaden the savings categories and potential projects under consideration, that would broaden the range of projects for future years' savings.

Through the consideration of this business case the group raised some apprehension to the use of an intermediary partner to conduct analysis for the Authority with regards to Health & Social Care.
It was questioned if this analysis could not be undertaken by the Authority internally. It was hoped that if the Authority needed to access specialist help in this area that all possible providers were considered to ensure best value to the Council and its residents.

Deliver our Fees and Charges Policy (saving £190k)

In 2012 work was carried out to set some guiding principles for discretionary charges which are set out below. These principles have subsequently been reviewed on an annual basis as part of the annual financial planning and budget process to test that they remain relevant and appropriate in the current planning horizon.

- **Fee set by statute;** a range of services provided by the Council are statutory functions and fees and charges are set by Government or within Government Guidelines, for example Planning Applications

- **Universal services are paid for universally – differentiated services are paid for by the user;** universal services the Council offer will be paid from the money the Council; where the service is differentiated and chosen by the consumer, then the services the Council offers will be paid for by the user

- **Matching the market;** where the Council operates in a market fees and charges will match that market and the quality of the product,

- **Staying in line with our neighbours;** where the Council operates a service that is statutory in nature or normal business for a local authority, North Tyneside will stay in line with its neighbours.

- **Considering ability to pay;** given the gap between the standard of living between the richest and poorest in the Borough and the Council's stated aim to raise aspirations and widen horizons the Council will consider and assess an individual's ability to pay for a service where that makes sense,

- **Differentiated pricing;** in addition to an individual's ability to pay, the Council will consider the personal circumstances and differentiate some services to reflect the fact that residents already pay tax in the Borough and that some activities are good for the health and wellbeing of the people of North Tyneside and therefore we might wish to incentivise some types of residents to participate by paying less.

The business case presented an update following a review of our Fees and Charges Contributions and Payments from Customers.

The group understood the need to ensure the correct level of fees and charges for residents, businesses and visitors was essential to ensure the use and uptake of services available. However it also understood the greater pressure the Authority has to ensure its children, young people and aged were provided good education, opportunities and were healthy and safe.

Recommendation 1: That consideration be taken to increase all Fees and Charges in line with inflation.

Recommendation 2: That a review of all charges for events carried out in the borough be reviewed to ascertain if the Authority is receiving value for money for the use of its resources to facilitate these events.

Court of Protection Team Charges (income £60k)

The Court of Protection team helps people who have lost capacity to manage their money safely – this includes cases of financial abuse where people entrusted with managing the money of vulnerable people have mismanaged the finances, sometimes to the point of jeopardizing a person's care.

The team currently provides Deputyship under the Court of Protection where people need someone to fully manage finance and sale of property. Consideration was to an appropriate level of fee to assist people with Court of Protection services.

Changes to the Social Care Charging Policy for Non-Residential Services (income £100k)

Through the Care Act 2014, the Department of Health prescribed the minimum amount of income support a person must be left with after charging for care and support whilst living in the community. This is referred to as the Minimum Income Guarantee (MIG).

North Tyneside Council currently uses the MIG +25%, which means that service users are left with a basic income plus a 25% buffer.

The Department of Health circular LAC (DH) 2017 (1), advises that the MIG allowances for 2017/18
is to remain frozen at the rates first set in 2015/16. This means that North Tyneside is applying a higher buffer than it could otherwise do; the buffer within DH guidance is 18.6%.

The impact of the changes would see

- (30%) make a financial contribution towards the cost of their care.
- 70% of service users are currently on a zero charge would not be affected by this change in policy.
- It was proposed that full consultation be undertaken to seek the views of key stakeholders and the wider public including the community and voluntary sector, running from December 2017 to February 2018.
- The proposal would be implemented for new clients only from 1 April 2018, subject to the outcome of the consultation process

Bereavement Services (income £30k)

It is proposed to increase cremation, burial and purchase of grave fees between 1 and 3%.

5.4 Great Place (total saving of £777k)

Develop a 10 year plan for waste; for ecological and financial reasons it is necessary that local authorities have long term plans for waste. In collaboration with partners the project aim was to establish a 10 year plan to increase recycling and contain the growth of waste costs as well as developing a post 2022 solution for disposal of residual waste and exploring opportunities to enter the recycling business.

The authority received a grant that funded weekly collection that ended in 2016/17 and North Tyneside was currently one of the few remaining authorities to collect weekly. Consideration in developing the plan followed the cessation of grant, and the proposal was to move to fortnightly collection of waste. Over 76% of all local authorities collected waste on a two weekly cycle and this assists in the drive to increase recycling and therefore reducing the cost of waste collection providing a **saving of £318k** in 2018/19.

The group was in agreement that as the Government 's Weekly Collections Support Scheme was coming to an end it was wholly appropriate to look at alternative ways to provide cost effective approach to manage the borough waste collection for the next 10 years.

This was an area that the Budget sub – group 2017/18 recommended to be considered for review and it's Environment Sub-committee undertook an in- depth study, looking at alternatives and best practice both locally and nationally and provided a number of recommendations to aid the Cabinet.

The sub-group was in agreement with the proposed approach and recognised that the savings would benefit the wider service delivery to residents.

However concerns were raised that some concerns for residents using communal waste storage, such as Independent Living Homes and Care Homes.

Recommendation 3: That a review of the impact to Alternative Weekly collections be undertaken to provide assurance that this method of collection is the most appropriate, where communal waste storage in place.

Recommendation 4: That all residents be provided clear information to how Alternative Weekly Collection of their waste will have an overall benefit to the community.

Protect our environmental standards; in response to Government cuts the adjustment to standards and tested different approaches, significant savings had been realised.

The authority continues to find a way to deliver a consistent standard that reflects residents' priorities with less cost. A review would look to streamline all grounds maintenance across the borough with the intention to ensure the service was delivered in line with relevant legislation and to a decent baseline standard, providing a **saving of £100k in 2018/19**.

Protect and Develop North Tyneside's Cultural Offer; through financial pressures, North Tyneside Council had managed to sustain and develop a rich cultural offer. The Council was committed to protecting and developing the offer and had seen Investment that included Whitley Bay Regeneration Programme; The Dome, the North and South Promenade, St Mary's Island; The Wallsend Regeneration Programme; Segedunum Master Plan and the North Shields Master Plan.

The project aim was to work with cultural partners to protect and develop the offer where possible whilst making the most of the Authority's assets, with an optimum sport, leisure and library offer for residents, business and visitors. The business case proposed a reduction in opening hours of Libraries and Customer Service Centres with the approach being taken to being based on current levels of activity to ensure continuing to maintain appropriate access to facilities for residents, whilst providing a saving of **£359k in 2018/19.**

The sub group requested and received analytical data that provided a clear understanding to the rationale to how this business case was developed. The group considered the approach to reduce opening hours was more preferable to a possible alternative that would see the much needed community facilities under threat of closure.

It was also reassured that the measure proposed would ensure all areas of the borough would continue to have locally accessible library service.

Recommendation 5: That the scheduling of opening hours of Customer Service Centres and Library Services be in place to ensure that the service are available when residents most need them.

The group was also reassured that buildings would continue to be available for use by community groups.

Recommendation 6: That the use of Customer First Centre & Library buildings be promoted for the use by community groups to ensure that these facilities continue to be used in the most cost effective way for the local community.

Housing Revenue Account (saving £858k)

Service Charges – income from North Tyneside Living Schemes

Income from service charges, specifically in relation to the North Tyneside Living project, does not as yet fully reflect the full operation and potential take up of the schemes and hence the increased level of charges to be collected. These charges would continue to be reviewed as the schemes become embedded and move towards full occupancy.

North Tyneside Living – Transitional Protection

The agreed policy of providing transitional protection on rents for tenants who were existing tenants before the NTL scheme commenced, to protect them from large increases in rental charges. This has now reached the maximum level of protection, as the schemes are all complete and the properties are being let, there will be a gradual reduction in the protection provided.

Garage & Other Rents – rent increases and rebasing.

Garage rents are not subject to any legislation and are at subject to market conditions. It was recommended that they are increased in line with the government's long-term aim for Consumer Prices Index (CPI), which is 2% per annum. A review was ongoing of the whole Garage Rent system and the levels of charge applied. Shops and commercial premises rents are subject to a rolling programme of asset management reviews of the commercial leases in place. Any community buildings are subject to application of the Council's Community Lettings policy, which determines the level of potential discounts on rent.

North Tyneside Living – PFI Contract Monitoring and operational Client team costs.

The level of funding provided for monitoring arrangements within the contract as per the financial model. The construction phase of the contract is completed and thus changes to the resources required for the team that handle Tenant Liaison and monitoring of the contract and to help to manage tenant moves between schemes during construction. This work has come to a natural end and a phased reduction in the staffing resources required is being managed.

HRA Existing (pre self-financing) Debt – Interest Charges

The financing charges paid on the HRA's share of the Council's overall debt portfolio allocated prior to the self-financing deal. As loans mature some debt would be repaid by debt set aside that would reduce the overall liability and, for the elements that require to be re-financed, opportunities would be taken to look at a mix of temporary and long-term borrowing options, that would realise some interest savings according to debt profile, particularly in the current climate of low interest rates.

Repairs – Kier North Tyneside Joint Venture (JV) - VFM savings – 1% reduction in Guaranteed Maximum Price (GMP).

Overall levels of rental income continue to be reduced by the Government's decision to reduce rent by 1% per annum for 4 years from 2016-17. The JV was initially protected from the direct impact of this change, as well as the direct impact of reducing stock numbers. It was decided for 2017-18 and the remaining two years of the policy, that the Business Plan could no longer afford not to pass on the impact of the legislative change and Cabinet agreed, that the available budget to fund Workstream 1 GMP (Housing Repairs) of £11.3m for 2016-17 is reduced by 1% per annum for the remaining 3 years of the rent reduction policy.

5.5 Investment Plan

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

As part of the 2018/19 budget process, there were two additional projects considered.

(a) Forest Hall district shopping area improvements

Improvements include for 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. This was proposed to be funded through the Council's Investment Plan for 2018/19.

Total cost £500,000 spend profile as follows:-
£250,000 2018/2019 QRT1
£250,000 2018/2019 QRT2

(b) A189 Improvements – Haddricks Mill to West Moor

The project involves improving accessibility in the A189 corridor, a strategic link serving substantial employment sites, dovetailing with adjacent A189 Haddricks Mill improvements in Newcastle. It would involve upgrading and signalising A188-A189 West Moor roundabout; provision of a new southbound bus lane linking from Quorum, Balliol and Gosforth business parks; introduction of cycling infrastructure and a link into traffic management technology using the Tyne and Wear UTMC (Urban Traffic Management and Control) system.

Total value of bid including match funding – £5,473,840

6 Engagement

North Tyneside Council had a commitment to being a resident-focused, listening Authority and included giving residents and other key stakeholders an opportunity to be involved in shaping the decision making in relation to the Financial Planning and Budget process.

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

Between July and September 2017 there had been a programme of engagement across the borough through the Big Community Conversation. The feedback from this programme and other activity throughout the year including the State of the Area event had informed the initial Cabinet budget proposals.

Further engagement on Cabinet's initial budget proposals would continue through November 2017 to January 2018.

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

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

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

The group considered the engagement approach appropriate but raised slight concerns to the membership of the groups that were to be targeted. The group sought assurance that those groups targeted were from all wards of the borough and were a good reflection of the residents on North Tyneside in respect ensuring all 9 protected characteristics as set out in the Equality Act 2010 were represented.

At the point of writing this report this information was still outstanding.

7 Conclusions

The understanding where any increase in Council Tax will be spent needs to be understood by all residents of North Tyneside.

There was a view that some residents still did not understand the full impact that local authority's face and more is still needed to be done to inform and ensure the pressures the authority is under to continue to provide services with less money and higher demand in those services with a greatest cost is understood

The Budget Sub-group can only consider and comment on the information that has been provided to them.

As with previous years the timely provision of information to the scrutiny sub-group was again an issue and raises concerns that an effective and comprehensive scrutiny cannot be undertaken.

Recommendation 7: That following the decision to implement the 2018/19 Council Budget. A review be undertaken to investigate and determine what information should be supplied to enable good comprehensive scrutiny of future Council Budgets and therefore reduce delays to the budget process.

It is acknowledged that the Authority is continuing facing an incredibly tough and challenging time and is faced with steeply declining government funding as well as relentless pressure on already reduced budgets.

The proposals aim was to continue to protect essential services and make sure that the Authority operates in as efficient a way as possible. However, there is continued concern that some service users could be missed or resistant to access services online and the move to further self service using the Target Operating Model.

The sub-group recognised that the delivery of the proposals and financial savings have an impact on the size and shape of the workforce.

It was reassured that the Council's Restructure and Redundancy Procedure would be used to try to prevent any compulsory job losses and the council would continue to seek expressions of interest for voluntary redundancy.

There was a desire that the Authority develops greater commercial opportunities by advertising and selling its services to other Local Authority's, schools, businesses and residents. It also believed the North Tyneside Trading Company with is associated benefits should be utilised more to provide increased revenue into the authority.

Recommendation 8: That greater emphasis be given to increase the commercial opportunities of the North Tyneside Trading Company to increase revenue.

There is still a lot of uncertainty in respect of the impact of Central Government's devolution agenda as well as the future impact of Brexit. There continues to be real concern to the how the managing of the increasing demands for both Adult and Children's Social Care. There were also concerns as the Cabinet report (27 November 2017) also indicated that many authorities were overspending against budgets for both Adults and Children's Services in order to meet increasing demand and cost and these pressures were evident for North Tyneside and there was a need to continue explore new financial and organisational initiatives to meet this significant challenge.

8 Presenting Officers

The following officers presented to the sub-group:

Janice Gillespie - Head of Finance
Phil Scott - Head of Environment, Housing & Leisure
Mark Longstaff - Head of Commissioning and Investment
Jacqui Old - Head of Health, Education, Care and Safeguarding
Darrell Campbell – Principal Accountant
Scott Woodhouse - Strategic Commissioning Manager, Adults
Ellie Anderson - Assistant Director Business and Quality Assurance
Haley Hudson - Assistant Director Strategy and Transformation
Gill Baker - Assistant Director Prevention and Early Help
Samantha Dand - Senior Manager Local Environmental Services
Dave Foster - Senior Manager (Housing Property and Highways Investment)

9 Background Information

The following documents have been used in the compilation of this report and may be inspected at the offices of the author:

2018-2020 Financial Planning and Budget Process: Cabinet's Initial Budget proposals

2018/20 Business Cases for:

a. Cared For
b. Great Place
c. Housing Revenue Account
d. Maximising Resources
e. Fit for Purpose
f. Investment Plan

10 Recommendations

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