North Tyneside Council

Finance Sub-Committee

22 November 2017

Wednesday 29 November 2017 in Room 0.01, Ground Floor, Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside commencing at 6.00pm.

Agenda Item		Page
1.	**Apologies for Absence** To receive apologies for absence from the meeting.	
2.	**Appointment of Substitute Members** To be notified of the appointment of any Substitute Members*.*	
3.	**Declarations of Interest** You are invited to declare any registerable and/or non-registerable interests in matters appearing on the agenda, and the nature of that interest. You are also invited to disclose any dispensations in relation to any registerable and/or non-registerable interests that have been granted to you in respect of any matters appearing on the agenda. Please complete the Declarations of Interests card available at the meeting and return it to the Democratic Services Officer before leaving the meeting.	

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Contact Officer – Joanne Holmes – (0191) 643 5315

Agenda		Page
4.	**Minutes**	
	To confirm the minutes of the meeting held on 18 October 2017.	3 - 5
5.	**Financial Management Report to 30 September 2017**	6
	To examine the Council's financial position as at 30 September 2017, including the forecast outturn positions for 2017/18 for the General Fund, the Housing Revenue Account, school finances and the Investment Plan. (This report was considered by the Cabinet at its meeting on 13 November 2017)	

Members of the Finance Sub-Committee

Councillor Debbie Cox (Deputy Chair)
Councillor Naomi Craven
Councillor Karen Lee
Councillor Anthony McMullen (Chair)
Councillor Les Miller
Councillor John O'Shea
Councillor Frances Weetman

Finance Sub-Committee

18 October 2017

Present: Councillor A McMullen (Chair)
Councillors D Cox, N Craven, L Miller, and J O'Shea

F22/10/17 Apologies

Apologies were received from Cllrs K Lee and F Weetman.

F23/10/17 Substitute Members

There were no substitute members.

F24/10/17 Declarations of Interest and Dispensations

There were no declarations of interest or dispensations reported for this meeting.

F25/10/17 Minutes

It was noted that the information set out on page 5 would be provided to future meetings as stated.

Resolved that the Minutes of the meeting held on 20 September be confirmed and signed by the Chair.

F26/10/17 Welfare Reform

The Sub-Committee considered the report which set out a quarterly update on the three schemes that are being implemented or revised as a consequence of ongoing welfare reform.

- Discretionary Housing Payment Fund

It was noted that at the end of quarter two, 55% of the fund remained. However officers are confident that there won't be an underspend on this budget by the end of the year.

There was some discussion about the impact of the roll out of Universal Credit. It was noted that the fund was currently providing assistance to those moving on to Universal Credit with the first few weeks of housing costs where needed. However, officers were expecting to see an increase in claims in the next financial year and it may then not be possible to provide support to all Universal Credit claimants in the first few weeks.

- Local Council Tax Support Scheme

It was noted that the maximum amount of support provided to working age claimants for the financial year 2017/18 is 87.5% of the claimants Council Tax liability. Despite the burden on claimants of changes to the scheme, the in-year collection rates continue to hold up, and although the total impact on the in-year collection rate won't be known until the end of the year, it is expected that the long term collection rate will be unaffected at 98.5%. A consultation is currently underway on reducing support to either 80%, 82.5% or 85% for 2018-19 and this consultation will end at the beginning of November.

- Local Welfare Provision Scheme (LWPS)

The sub-committee noted the information on applications to the LWPS. During the period of 1 July 2017 to 30 September 2017 there were 436 applications for Local Welfare Support. All applications received a full screening and further advice and information was offered where appropriate and 207 applications were eligible for further practical support (47%). It was noted that applications were expected to increase following the roll out of universal credit.

The sub-committee was informed that 9 applications were ineligible for immediate practical support because the team were able to get benefit into payment for the customer. There was some discussion about the need for implicit consent in these cases to allow the Council to speak to the DWP on behalf of the individual. Members were reassured that this was not generally an issue.

It was **AGREED** that the report be noted.

F27/10/17 Energy Costs – Street Lighting PFI

The sub-committee considered the report which provided information on recent investment leading to a reduction in energy usage.

It was noted that when the Street Lighting PFI scheme commenced in 2004 it was projected that an increase in the number of lighting columns and an improvement in lighting levels would culminate in an increased electricity consumption of 17.612m KWH per annum from 2009/10 to the end of the contract in 2029/30. Any energy consumption over this amount would be the responsibility of the service provider to fund. It was noted that, as part of the contract, energy savings resulting from a service provider investment or initiative are shared 50/50 between the service provider and the Authority, and energy savings resulting from an Authority investment or initiative are fully retained by the Authority. Since 2012/13, there have been a number of initiatives that have reduced energy consumption to current levels.

The sub-committee noted the energy saving projects that have been implemented, including: de-illumination of traffic bollards; traffic signs LEDs; GE Streetwise/ Trimming and Dimming; Part Night Switch Off; SOX to Cosmo lamps; dimming on Coast Road; Sensor changes; SOX to LED lamps; and replacement LED lamps. These electricity reduction projects have contributed to an overall reduction in electricity consumption below the contractual cap of 21% and have helped to reduce the carbon footprint of the street lighting portfolio by 3,873 tonnes, or 40%. However, although the projects have significantly reduced the electricity consumption, the electricity rate has increased from 0.038p per kwh at the start of the contract to 0.11385p per kwh at current rate.

The sub-committee noted that the projects have led to a notional reduction of £837,000 in electricity costs. However, the budget was initially set based on the costs at the time of the contract and the actual costs have increased by 3 times this amount. The electricity budget has not increased sufficiently to meet the increased energy price, despite the reductions in energy usage. Unfortunately this means there have been no savings against the budget, although the overspend has been mitigated by the reduction in Kwhs.

It was noted that the current overspend is around £220,000 which is half due to electricity costs and half relates to the unitary charge. However, this would have been over £1million without the energy reduction projects.

Members asked about the carbon reduction charges and where this is recorded in the budget management report. It was highlighted that this is part of a central pot within Environment, Housing and Leisure and this is showing an underspend.

There was some discussion about the unitary charge and how this is linked to the number of street lighting columns. Members requested information on the total number of columns in the borough by type.

A question was raised about maintenance charges for new lights and whether reduced maintenance charges would be reflected in the budget. It was noted that this was not clear from the information in the report but the decision to invest in new lights would have been based on a significant saving overall.

It was **AGREED** that:

- the report be noted;
- Officers to provide the information requested on the number and type of street lighting columns.

F28/10/17 Exclusion of the Press and Public

Resolved that under Section 100A (4) of the Local Government Act 1972 (as amended) and having applied a public interest test as defined in Part 3 of Schedule 12A of the Act, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act.

F29/10/17 Business and Technical Partnerships Risks

The sub-committee considered the report which set out the latest monitoring update on risks which are rated high (red) within the Strategic and Operational Risk Registers of the Business and Technical Partnerships with ENGIE and Capita respectively.

It was **AGREED** that report be noted.

Signed by: ______________________

Date: ____________________________

Cllr A McMullen, Chair of the Finance Sub-committee

18 October 2017

North Tyneside Authority
Report to Cabinet
13 November 2017

Item 6(a)

Title: 2017/18 Financial Management Report to 30 September 2017

Portfolios:	**Elected Mayor**	**Cabinet Member:**	**Norma Redfearn**
	Finance and Resources		**Cllr Ray Glindon**

Report from Service Area:	**Finance**	
Responsible Officer:	**Janice Gillespie, Head of Finance**	**Tel: 643 5701**
Wards affected:	**All**	

PART 1

1.1 Executive Summary:

This report is the third monitoring report to Cabinet on the 2017/18 financial position. The report continues to be developed such that the format brings together financial and relevant performance information with the intention of explaining the current financial position in the context of the Policy priorities in the Our North Tyneside Plan.

The report covers:

- The forecast outturn of the Authority's General Fund and HRA revenue budget including details of where the Authority continues to manage financial pressures and what management mitigations are in place where issues have been identified;
- An update on the delivery of 2017/18 approved budget savings plans;
- An update on 2017/18 schools budgets;
- An update on delivery of the Capital Investment Plan including details of variations and reprogramming that is recommended for approval;
- An update on the delivery of the Treasury Management Strategy;
- An update on the Prudential Indicators;
- An update on performance of the Collection Fund;
- An update and overview of current performance against the policy priorities in the 2016-2019 Our North Tyneside Council Plan as context for the financial position; and,
- The report includes details of additional grants received by the Authority during August and September 2017.

1.2 Recommendations:

It is recommended that Cabinet:

(a) note the forecast budget monitoring position for the General Fund, Housing Revenue Account (HRA) and Schools' Finance as at 30 September 2017 (Annex Sections 1 to 5);

(b) approves the receipt of £0.205m new revenue grants (Table 1);

(c) note the Authority's Investment Plan spend of £25.891m to 30 September 2017 and the financing of the Plan to the end of the year (Annex Section 6);

(d) approve variations of £0.471m credit and re-programming of £8.846m within the 2017 - 2020 Investment Plan (Annex Section 6);

(e) note the performance of the Treasury Management Strategy (Annex Section 7);

(f) note the performance against the Prudential Indicators (Annex Section 8); and,

(g) note the performance of the Collection Fund (Annex Section 9).

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 31 July 2017.

1.4 Authority plan and policy framework:

The budget is a key strand of the Authority's Budget and Policy Framework.

1.5 Information:

1.5.1 Financial Position

This report is the third monitoring report in the new format presented to Members on the Authority's 2017/18 financial position. It provides an update on the expected revenue and capital financial position of the Authority as at 31 March 2018.

The report covers:

- The forecast outturn of the Authority's General Fund and HRA revenue budget including details of where the Authority continues to manage financial pressures and what management mitigations are in place where issues have been identified;
- An update on the delivery of 2017/18 approved budget savings plans;
- An update on 2017/18 schools budgets;
- An update on delivery of the Capital Investment Plan including details of variations and reprogramming that is recommended for approval;
- An update on the delivery of the Treasury Management Strategy;

- An update on the Prudential Indicators;
- An update on performance of the Collection Fund; and,
- An update and overview of current performance against the policy priorities in the 2016-2019 Our North Tyneside Council Plan as context for the financial position.

General Fund Revenue Account:

The budget for 2017/18 was approved by full Council at its meeting on the 16 February 2017. The net General Fund revenue budget was set at £152.361m. This included £18.338m of savings to be achieved.

The forecast overall pressure is estimated at £2.067m against an approved net budget of £152.361m. The inclusion of the Improved Better Care fund (IBCF) of £4.579m has a significant impact on the outturn position. Aside from the IBCF there has been some marginal underlying improvement in most areas of the risks associated with the delivery of the 2017/18 budget, however there is continued pressure in Health, Education, Care and Safeguarding (HECS) of £8.047m (July 2017 £7.208m). Included in this projection is £2.816m of pressures in Corporate Parenting and Placements and £4.286m in Social Care package provision within Adult Social Care Services, the drivers for these pressures continue from 2017/18 and arise from:

- Continued growth in changes in demand for Adult and Children's Social Care Services;
- The timing of delivery of some aspects of the Creating a Brighter Future Programme to the extent that achievement of some savings may be at risk;
- Ongoing issues around agreeing adequate levels of contributions from the North Tyneside Clinical Commissioning Group for clients with health needs and to support social care;
- The impact of the National Living Wage on our care providers (and the consequential impact on our Commissioning costs).

The 2017/18 budget setting process made provision for many of the pressures identified during 2016/17, however, demand pressures have continued into 2017/18. Negotiations with care providers continue for 2017/18 in terms of the National Living Wage and at this point not all savings built into the Creating a Brighter Future Programme can be assumed as being delivered. Over the course of May, June and July and September a number of working groups were held with senior officer and Cabinet members looking in detail at the financial position and progress against the action plans developed since the start of the financial year. Some progress is being made against these plans and it is expected that the out-turn forecast will improve over the course of the year as planned remedial actions begin to have an impact on spend and income. The forecast outturn now includes the additional funding for Adult Social Care announced as part of the Spring Budget on 8 March 2017. For 2017/18 this amounts to £4.579m, and does mitigate the cost pressures across Adult Social Care.

Housing Revenue Account (HRA):

The HRA is forecast to have year-end balances at 31 March 2018 of £4.544m, which is £1.683m higher than budget. The higher than forecast balances are mainly as a result of higher opening balances due to the impact of the previous years' financial performance (£1.339m) but there is also an in-year estimated overall underspend of £0.344m. Total overall income is currently expected to be higher than budget (£0.037m) due to an improved position of empty properties, reduced spending on contingencies and bad debt provision of £0.307 brings the forecast outturn for the year to a £0.344m surplus.

School Funding:

The Annex to this report includes an update in respect of work in progress with regard to school funding (Annex, Section 4). There is an increase in the number of schools requesting deficit approval and at the time of writing this report ten schools have made requests compared to eight in 2016/17. The 10 July Cabinet report Education for North Tyneside set out a series of actions to address schools finance and specifically further deficit clinics have taken place during September to agree actions with the schools to manage and improve those deficit positions.

Investment Plan:

The 2017-2020 Investment Plan, as adjusted for proposed variations, totals £201.004 and is shown in Appendix 1. The Annex to this report also sets out in Section 6 delivery progress to date, planned delivery for 2017/18, reprogramming and other variations identified through the Investment Programme Governance process.

New Revenue Grants:

The following revenue grants have been received during August and September 2017:

Table 1: Revenue Grants Received during August and September 2017

Service	Description	Amount £m
Finance	One off payment to assist implementation of new Business Rates system	0.012
Environment, Housing & Leisure	To assist in the development of the Care Village concept at Murton Gap	0.095
Environment, Housing & Leisure	To support a more flexible approach in the prevention of homelessness	0.098
Total		0.205

1.5.2 Performance against Council Plan

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

The 2016-2019 Our North Tyneside Plan has three key themes – Our People, Our Places and Our Economy. For each one there is a set of policy outcomes that the

Authority is seeking to deliver as set out below.

Our People will:

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

Our Places will:

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

Our Economy will:

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

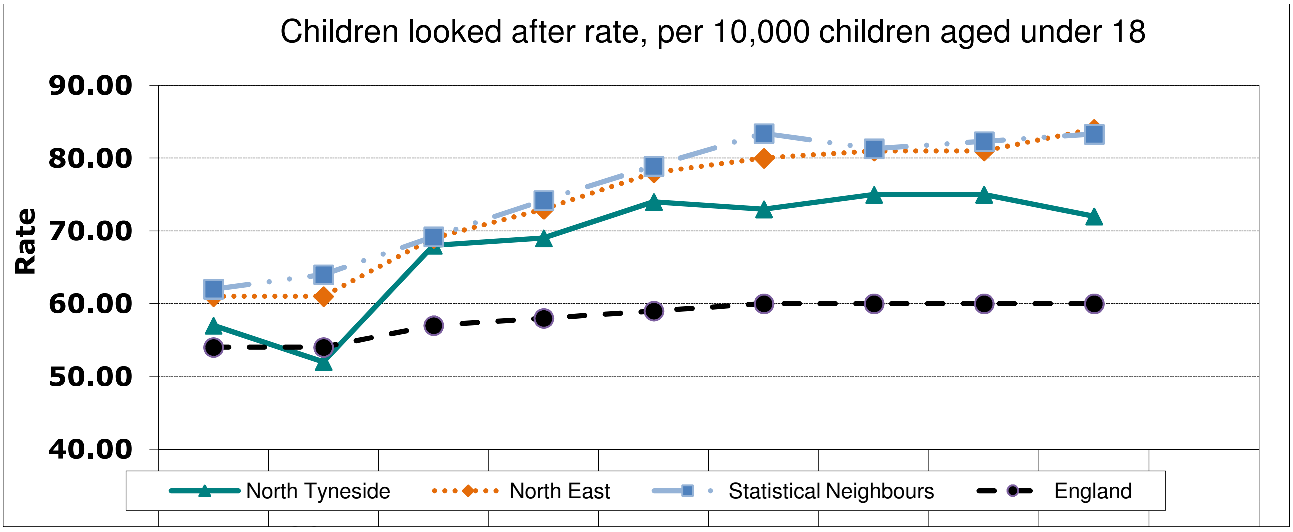
Current Progress of Services against the Council Plan

In Adult Social Care the focus remains on providing support which allows people to live independent lives by providing preventative services and keeping people living at home for as long as possible. There is an increase in short term placements to residential care and reablement in-house provision as a result of a lack of capacity in the local domiciliary care market and this is driving some of the cost pressure within Adult Social Care as highlighted in the Annex to this report.

In Children's Services good progress continues to be made on engaging with children in the early years of life to ensure that they are ready for school. Safeguarding vulnerable children and maximising their educational attainment remain key priorities. The recently published Ofsted report following the review of Children's services put the service as joint 8th nationwide of the 136 authorities inspected under the new regime with a "Good" rating overall and recognition of an excellent focus on seeking the views of children to shape services. In addition 94% of our pupils attend a Good or Outstanding School.

The levels of looked after children (LAC) and children who require supervision after leaving care continue to generate a significant financial pressure. In year data continues to demonstrate that our LAC levels are reducing (as shown in the Graph below) but there are a wide range of levels of care provided and current demand continues to drive financial pressure in 2017/18. The Authority is forecasting a pressure of £2.816m in corporate parenting and placements (2016/17 £2.525m). The new model for children has been designed in part to address the financial pressures and more details are set out in the Annex to this report. Although above the England rate, the North Tyneside LAC rate compares favourably with the rate for the North East and with our statistical neighbours (as shown in Graph below).

Graph: Looked After Children comparators



In Housing, the Authority is seeing some impact of Welfare Reform, as well as the on-going consequences of the current Right to Buy Scheme. The proportion of rent collected has fallen from 97.03% in 2015/16 to a position of 96.6% for 2016/17 which is expected to continue into 2017/18. We are also seeing pressure on empty homes turnaround from both a housing management and repair perspective with average re-let times in 2016/17 of 38.25 days, substantially increased from 29.39 days in 2015/16. This increase in turnaround times is driven by an increased number of transfers of older people moving from properties they have lived in for many years into the PFI sheltered housing as it has become available as part of the North Tyneside Living PFI Scheme. Often these residents have chosen not to be included in planned improvements in their areas to avoid the disruption to their lives. This has resulted in many of the properties requiring more substantial works than normal to meet the void standards before they can be re-let. The Authority continues to work with Kier to reduce the void turnaround times.

1.5.3 **Investment Plan**

Variations of £0.471m credit and re-programming of £8.846m are proposed in this report as set out in Section 6 of the Annex to this report, the revised Investment Plan stands at £90.002m for 2017/18. To the end of September 2017 £25.891m (28.77%) of spend had been incurred.

1.5.4 **Implications for 2018/19 and Following Years**

This is an important report not only because it gives the financial position of the mid-point of this financial year, but also it informs the starting point for the financial planning process which is underway for 2018/19 and following years. As such Cabinet need to be aware of the main implications of the report for those future years' budgets. The main issues identified in 2017/18 that will need to be considered in forward planning are as follows:

- Living Wage: since it was introduced we have seen signifcant pressure with regard to Social Care budgets arising from additional costs that contracted providers are seeking from the authority;
- CBF programme; consideration needs to be given to the impact of any CBF savings not being achieved and actions required to secure savings in 2017/18;
- Demand led pressures in areas such as Looked After children and Adult Social Care; and,
- Use of Reserves; whilst currently there is no planned use of reserves cosnideration needs to be given to the potential impact of a call on the Strategic Reserve should there be no improvement in the General Fund revenue position for this financial year.

1.6 Decision options:

The following decision options are available for consideration by Cabinet:

Option 1

Cabinet may approve the recommendations at paragraph 1.2 of this report.

Options 2

Cabinet may decide not to approve to recommendations at paragraph 1.2 of this report.

1.7 Reasons for recommended option:

Option 1 is recommended for the following reasons:

Cabinet is recommended to agree the proposals set out in section 1.2 of this report as it is important that Cabinet continues to monitor performance against the budget, especially given the current level of financial pressures faced by the public sector.

1.8 Appendices:

Annex : Financial Management Report to 30 September 2017
Appendix 1: 2017-2020 Investment Plans

1.9 Contact officers:

Janice Gillespie - Corporate Finance matters – Tel. (0191) 643 5701
Margaret Keith –Treasury Management matters – Tel. (0191) 643 5747
Cathy Davison - Investment Plan matters- Tel. (0191) 643 5727

Alison Campbell – Senior Business Partner – Tel. (0191) 643 7038
Darrell Campbell - Housing Revenue Account matters – Tel. (0191) 643 7052

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) Revenue budget 2017/18
http://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/Budget%20Book%20170427.pdf

(b) Investment Plan 2017-20
http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=567811

(c) Reserves and Balances Policy
http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=567815

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

As this is a financial report, implications are covered in the body of the report. This report will also be presented to the Authority's Finance Sub-Committee at its meeting on 29 November 2017.

2.2 Legal

The Authority has a duty to ensure it can deliver a balanced budget. The Local Government Act 2003 imposes a duty on an authority to monitor its budgets during the year and consider what action to take if a potential deterioration is identified.

2.3 Consultation/community engagement

2.3.1 Internal Consultation

Internal consultation has taken place with the Cabinet Member for Finance and Resources, the Elected Mayor, Cabinet Members, the Senior Leadership Team and Senior Finance Officers.

2.3.2 External Consultation / Engagement

The 2017/18 budget was completed after widespread consultation and community engagement in line with the Authority's approved Budget Engagement Strategy.

2.4 Human rights

The proposals within this report do not have direct implications in respect of the Human Rights Act 1998.

2.5 Equalities and diversity

There are no direct equalities and diversity implications arising from this report.

2.6 Risk management

Potential future financial pressures against the Authority are covered in this report and registered through the Authority's risk management process.

2.7 Crime and disorder

There are no direct crime and disorder implications arising from this report.

2.8 Environment and sustainability

There are no direct environmental and sustainability implications arising from this report.

PART 3 - SIGN OFF

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

2017/18 Financial Management Report Annex

SECTION 1 - GENERAL FUND SUMMARY

1 General Fund Revenue Forecast

1.1 The Authority's approved net revenue Budget of £152.361m is forecast to overspend by £6.646m (July, £7.052m). This position reflects £18.338m of budget savings as agreed at Council on 16 February 2017. Table 1 below sets out the variation summary across the General Fund.

Table 1: 2017/18 General Fund Revenue Forecast Outturn as 30 September 2017

	Gross Expenditure			Income			Net Expenditure			July
	Budget	Forecast	Var	Budget	Forecast	Var	Budget	Forecast	Var	Var
	£m	£m	£m	£m	£m	£m	**£m**	**£m**	**£m**	**£m**
Health, Education, Care & Safeguarding HECS)	161.732	170.651	8.919	-88.768	-89.640	-0.872	72.964	81.011	8.047	7.208
Improved Better Care fund	0.000	0.000	0.000	0.000	-4.579	-4.579	0.000	-4.579	-4.579	0.000
Commissioning & Investment	195.991	198.324	2.333	-176.701	-178.096	-1.395	19.290	20.228	0.938	0.985
Environment, Housing & Leisure (EHL)	73.003	75.148	2.145	-27.857	-28.984	-1.127	45.146	46.164	1.018	1.262
Chief Executive Office	0.576	0.577	0.001	-0.440	-0.440	0.000	0.136	0.137	0.001	0.003
Business & Econ Development	2.506	2.515	0.009	-0.899	-0.891	0.008	1.607	1.624	0.017	0.016
Commercial & Bus Redesign	8.012	8.378	0.366	-5.471	-5.685	-0.214	2.541	2.693	0.152	0.171
Corporate Strategy	2.351	2.451	0.100	-1.451	-1.456	-0.005	0.900	0.995	0.095	0.122
Finance	80.569	80.300	-0.269	-79.332	-79.041	0.291	1.237	1.259	0.022	-0.039
Human Resources & Organisational Development	2.449	2.672	0.223	-2.187	-2.243	-0.056	0.262	0.429	0.167	0.186
Law & Governance	4.232	4.355	0.123	-3.995	-4.035	-0.040	0.237	0.320	0.083	0.176
Central Items	17.431	13.835	-3.596	-9.390	-9.688	-0.298	8.041	4.147	-3.894	-3.065
Total Authority	**548.852**	**559.206**	**10.354**	**-396.491**	**-404.778**	**-8.010**	**152.361**	**154.428**	**2.067**	**7.025**

1.2 The Improved Better Care Fund (IBCF) Grant

The Chancellor announced additional support for Adult Social Care in the Spring Budget statement on 3 March 2017. This announcement was after the Authority's budget had been set on 16 February 2017. This additional funding is being distributed and managed as part of the Better Care Fund with the allocation for North Tyneside for 2017/18 being £4.579m. The Better Care Fund Agreement between the North Tyneside Clinical Commissioning Group (CCG) and the Authority is in the process of being finalised and the outturn position reflects the full allocation of the grant against expenditure by the Authority. The grant conditions determine that the funding should contribute to;

- Meeting Adult Social Care needs;
- Reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready;
- Ensuring the local social care provider market is supported.

The Improved Better Care Fund Grant is in addition to the social care precept funding raised by increased Council Tax. For the purpose of transparency the Spring IBCF has been shown as a separate line in Table 1 above but will be reported as part of the HECS position moving forward.

SECTION 2 - DELIVERY OF BUDGET SAVINGS PROPOSALS

2.1 The combined budget savings of £18.338m in 2017/18 approved by Council in February 2017 brings the total savings the Authority has had to find in the seven years following the 2010 Comprehensive Spending Review (CSR) to £109.9m.

Table 2: Year on Year savings since 2010 CSR

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

2.2 In tracking progress made against each individual saving proposal (as set out in Table 3 below), £14.989m, which is 81.7% of the £18.338m is currently forecast to be delivered in 2017/18 (July £14.847m and 81.0%). The Tables below show the delivery against each plan followed by a summary table by Service. The remaining balance to be secured at 30 September 2017 is forecast at £3.350m (July, £3.491m). A prudent approach is taken to reporting efficiency savings, and they will only be reported in the forecast position when the impact can be seen flowing into the financial ledger system.

Table 3: Savings Tracker 2017/18 at September 2017

	Forecast shortfall in savings at September 2017 (£'000)											
	Business & Economic Development	Central	Commercial Business,Redesign	Commissioning, Investment	Corporate Strategy	Environment Housing , Leisure	Finance	HECS	Human Resources	Law & Governacne	Total	17/18 Savings Total
Cared for, Safe & Healthy								**718**			**718**	**2,693**
Assess at Home								0			0	884
New Model for Children								310			310	1,019
VfM Tested Social Care								408			408	790
Fit for Purpose Org	**7**	**500**	**0**	**247**	**13**	**531**	**0**	**328**	**23**	**14**	**1,663**	**4,657**
Customer Journey								12			12	50
How We Are Organised	7		0	247	13	531	0	316	23	14	1,151	3,495
Sourcing, Supply Chain		500			0			0			500	1,112
Great Place		**121**				**56**		**240**			**417**	**1,282**
Define NT Culture & Leisure Offer						0					0	123
Deliver Transport Strategy						0					0	200
10-Year Waste Plan						20					20	200
Develop Our Community Hubs						36					36	154
Securing Income from Trading		121									121	330
Specialist Housing Products								240			240	275
Maximising Resources		**0**		**0**		**64**				**8**	**72**	**8,050**
Balancing the Investment Plan		0									0	7,700
Deliver Fees & Chargs Policy				0		64				8	72	350
Ready for School								**130**			**130**	580
Redesign 0-19 Services								130			130	580
Ready for Work & Life				**0**				**350**			**350**	**1,076**

Empl & Skills Strategy								0			0	300
NoT Collab-Children								350			350	350
Trade Services to Schools				0				0			0	426
Total	**7**	**621**	**0**	**247**	**13**	**651**	**0**	**1,766**	**23**	**22**	**3,350**	**18,338**

	Budgeted Saving £m	**Forecast Saving £m**	**Forecast Variance £m**	**Forecast Variance at July £m**
Health, Education, Care & Safeguarding	5.527	3.762	**1.766**	1.878
Commissioning & Investment	1.067	0.820	**0.247**	0.292
Environment, Housing & Leisure	1.578	0.927	**0.651**	0.731
Finance	0.191	0.191	**0.000**	0.000
Law & Governance	0.258	0.236	**0.022**	0.030
Human Resources & OD	0.185	0.162	**0.023**	0.023
Business & Econ Development	0.162	0.155	**0.007**	0.004
Commercial & Bus Redesign	0.235	0.235	**0.000**	0.000
Corporate Strategy	0.355	0.342	**0.013**	0.033
Non Service Budgets & Cross cutting	8.780	8.159	**0.621**	0.500
Total	18.338	14.989	**3.350**	3.491

2.3 The governance structure of the Creating Brighter Futures (CBF) programme includes a monthly review of progress at the CBF Board. In addition, in-year finance and performance progress meetings are being held between officers, the Cabinet Member for Finance and Resources, the Deputy Mayor and the relevant Cabinet Members to consider progress and actions being taken to deliver savings.

2.4 The main areas of variation from business cases are:

2.4.1 HECS - £5.527m Savings Target, current £1.766m forecast variance (July £1.878m)

Cared For Safeguarded & Healthy

i. £0.310m of the £1.019m savings remains to be secured within the New Model for Children Budget proposals (July £0.310m). The new model, which includes multi-agency working, is being implemented in order to respond to the increasing demand, increasing recognition and expectation but also to address cost pressures. Whilst there is a plan of changes to be made with a resulting impact on placement mix, it is too early to assume all of these will be delivered given current demographic pressures. The detailed service commentary in Section 3 shows that there has been additional demand in August and September resulting in new placements. The Service can demonstrate however, that actions carried out in relation to this business case have resulted in savings being made which have mitigated the overall pressure relating to Looked After Children expenditure.

ii. Work is in progress to consider further actions in respect of the Carecall income target (within VFM Tested business case) of £0.250m, which is being forecast as achieving £0.043m at this stage. This leaves £0.207m to be identified in year (£0.165m at July). This is being mitigated in-year by additional income of £0.119m relating to a falls prevention pilot. On-going actions outlined in the business case include; a targeted marketing campaign, discussion with our Health partners about the benefits that Carecall brings to them in terms of cost avoidance and opportunities to promote the service to businesses. Additionally the service is reviewing the support provided to North Tyneside Living as the monitoring and response currently provided by Carecall is at no additional cost for some of the residents whilst others contribute, which is inequitable. The forecast achievement has been reduced since the July report due to delays in agreeing options. The team are looking at other income sources and were recently named as a first responder by the North East Ambulance Service.

iii. A target of a £0.200m relating to a revised homecare model is forecasted as not being secured at this stage (£0.200m not achieved in July). This is due to delays in identifying an appropriate training partner and issues raised by providers around scheduling of visits. The service is working hard and expect to bring this project back on track but in the interests of prudent forecasting this saving is currently forecasted as unachieved.

Fit for Purpose

iv. The £0.050m savings target re DOLS (Deprivation of Liberty) assessments is forecasted to show an underachievement in year of £0.012m (£0.012m at July) due to delays in ICT delivery, however, the Service is confident that the full saving will be in place for 2018/19 as the new solution is expected to be fully implemented later this year.

v. Pay Award and Pension Increase - £0.316m of savings included in the Budget to reflect the service finding its own element of the pay award are currently not secured (July, £0.323m). The Service continues to work towards identifying how they will meet this remaining pressure through a review of working hours, managing vacancies and non-essential spend that should reduce this shortfall.

Great Place

vi. Specialist Housing - £0.240m of the £0.275m Specialist Housing solution remains to be secured partly due to the complexity of the cases involved (July, £0.240m). The conversion of a block of flats at Mitford gardens into a 6-bedded unit for care-leavers is complete and young people will move into this new provision over the coming months. Work has also commenced on Elm House for new staying close provision for post-16 LAC. We would hope to be able to improve our forecasts once we can identify which service users will be accommodated. An officer working group continues to consider potential housing growth plans to include specialist housing products and services for children and adults with additional needs, Looked After Children and Older People.

Ready for School.

vii. The services for 0-19 business case included a rebranding of the provision as a 'Ready for school, work and life' offer which focused upon getting children school ready and their families able to work and participate in their community and in doing so supports the Creating a Brighter Future Together programme, the TOM principles and the Riverside/Chirton action plan. We have successfully transferred 84 school nurses and health visitors into the Local Authority and they are now key components of our new locality team model for 0-19 year services. The new Ready for School Centre at Riverside officially opened later than envisaged on 4 September meaning £0.130m of the £0.580m savings target remains to be secured (£0.247m at July). This has been partially mitigated in year by additional Troubled Families Grant, which has increased again since the July report by £0.117m, and work continues to identify other options to plug the in-year gap, through vacancies and non-staffing budgets.

Ready for Work & Life

viii. Disability Services - £0.350m (July, £0.350m). This proposal relates to reviewing the internally provided residential care and respite services and the commissioned services from external suppliers provided to children with additional needs including approximately 170 children in the Borough who have a profound disability. To date these reviews have not yet provided any savings that can be measured directly against budgets. Delivering the savings involves some significant changes for families and working through these with families is taking longer than had been expected.

2.4.2 Commissioning & Investment £1.067m saving, £0.247m forecast variance (£0.292m at July)

Fit for Purpose

£0.055m is yet to be identified of a £0.133m saving relating to a restructure of a post in child protection. The Service is continuing to review its non-essential spend and team structure as the numbers have not come down as far as the Business Case had anticipated.

£0.192m of savings included in the budget to reflect the service finding its own element of the pay award and pension costs (£0.217m at July). The Service continues to work to identify how they will meet the additional costs through a review of working hours, the management of vacancies, stretching sales targets, reviewing appropriate recharging and by reducing non-essential spend.

2.4.3 Environment, Housing & Leisure £1.578m saving, £0.651m variance (£0.731m at July)

Fit for Purpose

£0.531m of savings included in the Budget to reflect the service finding its own element of the pay award and pension costs of which none is currently forecast to be achieved (£0.531m at July). The service continues to work hard to identify how they will meet the additional costs through a review of working hours, the management of vacancies and by reducing non-essential spend and we expect to be able to start recognising these in the next budget monitoring forecast.

Great Place

£0.020m of a £0.200m target remains to be secured with regard to the implementation of the new approach to waste introduced at the Recycling Centre from July 2017 (£0.100m at July). This approach appears to be reducing waste from traders resulting in disposal cost savings although this is still a very recent change. Results continue to be carefully monitored to evaluate fully the impact on costs but the Authority is confident that this position will improve during the rest of the year if the permit system is introduced as described in another report before Cabinet tonight.
£0.036m of a £0.211m saving relating to Howdon Community Centre is reported as not yet delivered (£0.036m at July). The transfer of the lease of Howden Community Centre is now concluded and we expect that the next monitoring will indicate an improved position.

Maximising Resources

£0.064m of a £0.070m savings target relating to bereavement income is reported yet to be secured. The Service has implemented a fee increase in October and once the impact of this is clearer, it will be built into budget forecasts. Volumes of cremations so far this year are slightly up on 2016/17 levels at 990 by the end of September 2017 compared to 961 at September 2016.

2.4.4 Non Service Budgets and Cross Cutting savings £8.780m saving, £0.621m forecast variance (£0.500m at July)

Fit for Purpose
A £0.500m saving yet to be delivered is linked to the project in respect of procurement savings (£0.500m at July). A detailed review of the procurement of services and the Authority's spend with suppliers has been completed and options to deliver the target level of saving have been considered. Work by Capita on delivering the changes in procurement has started but, at this stage, it is considered prudent to assume that the savings will not be achieved.

Great Place
A variance of £0.121m has now been identified within a savings target relating to Property Development activities where the Authority is now expected to receive less interest on loans provided to deliver the projects than originally anticipated, the timing of which are driven by the granting of planning permission on the sites. Work has commenced on the property developments at Northumberland Square in North Shields and continues on the sites at The High Point, The Avenue and Wallington Court.

2.4.5 2016-17 Savings Targets not yet achieved

Savings targets of £1.273m relating to 2016/17 schemes are still not met. The largest item within this is a target of £0.900m relating to taking on the management of Continuing Healthcare (CHC) from the North Tyneside Clinical Commissioning Group. The HECS service is continuing to analyse and understand the data in relation to this work and is working with NHS partners to deliver CHC in a cost effective manner. There remains a significant risk this saving will not be secured and will be required to be reconsidered as part of the 2018/19 financial planning and budget process.

SECTION 3 – SERVICE COMMENTARIES

3.1 As well as the usual budget monitoring process between finance staff and budget managers, meetings have been held with Officers, Cabinet Member for Finance and Resources, the Deputy Mayor and the relevant Cabinet Member to discuss the in-year finance and performance position with each Head of Service and their senior team, and to discuss plans in progress to mitigate any pressures.

3.2 Health, Education, Care & Safeguarding (HECS)

3.2.1 HECS is forecast to overspend its £72.964m net expenditure budget by £8.047m (£7.208 at July) as shown in Table 4 below. The forecast overspend is caused mainly by over-commitments on third party payments within Older People Services, services for clients with a learning disability and Corporate Parenting and Placements within Children's Services alongside the timing of delivery of some of the CBF targets.

Table 4: Financial Summary for HECS

	2017/18 Budget £000	September Variance £000	July Variance £'000	Movement £'000
Adults	49,753	**4,286**	4,030	256
Children, Young People & Learning	23,190	**3,761**	3,178	583
Public Health	21	**0**	0	0
TOTAL HECS	**72,964**	**8,047**	**7,208**	**839**

Adult Social Care

3.2.2 The Adult Social Care services are forecasting a pressure of £4.286m at the end of September (£4.030m at July). The pressure is largely driven by the cost of provision of care packages, the vast majority of which are delivered by external organisations and so can be seen as a pressure in third party payments as illustrated in Table 5 below.

Table 5: Analysis of Variation across Adults Social Care spend/income type

Figures exclude Continuing Health Care which is administered on behalf of the CCG	2017/18 Budget £000	Sep Variance £000	July Variance £000	Movement £'000
3rd Party Payment	65,190	4,422	3,653	769
Employees	15,203	139	193	-54
Other Costs - Premises, Supplies & Transport	2,411	-167	-128	-39
Fees & Sales	-9,862	-950	-957	7
Grants & Contributions	-23,251	841	1,106	-265
Recharges, Support Services etc	61	1	163	-162
Total – Adults Social Care	**49,753**	**4,286**	**4,030**	**256**

3.2.3 Table 6 below sets out further analysis of the £4.422m pressure in third party payments. This illustrates that pressures are being experienced across all client categories but most notably within services for older people and services for people with a learning disability. There has been an overall increase in the forecast for third party payments of £0.769m since the July report.

3.2.4 Table 6 indicates that there have been some significant movements within the different categories of spend types shown below. Some of these movements have resulted from a realignment of budgets, which was carried out in September. This realignment was discussed with the Cabinet Member for Finance and Resources and represents corrections to budgets to reflect that services are now grouped differently. The reduction of over spend in Homecare/Extra Care is the result of some budget from the Older People ISL category and 'other' category being moved to Homecare/Extra Care as we now are showing Extra Care separately to improve clarity of where Authority money is being spent.

3.2.5 There has been an overall decrease in Learning Disability pressures due to a correction/reclassification of former supporting people budgets from Mental Health to Learning Disabilities and a corresponding increase in pressure is shown in Mental Health third party payments where the pressure has been further exacerbated by an extension of a floating support contract to the end of September which was originally planned to end in April 2017. This additional £0.227m has arisen, as it has taken longer than anticipated to move clients who have Care Act eligible needs to Individual Service Fund (ISF) arrangements.

3.2.6 The overall increase in pressure in third party payments relating to Older People is due to one new costly placement for a client with additional needs (£0.193m) and an overall increase in costs for residential care. Work focusing on short term placements for older people and the delayed transfers of care (between Health and Social Care) target continues even though the Authority is already a high performer nationally.

3.2.7 The increase in over spend within services for younger adults with a physical disability is due to two new clients and eight existing clients with increases in their package costs.

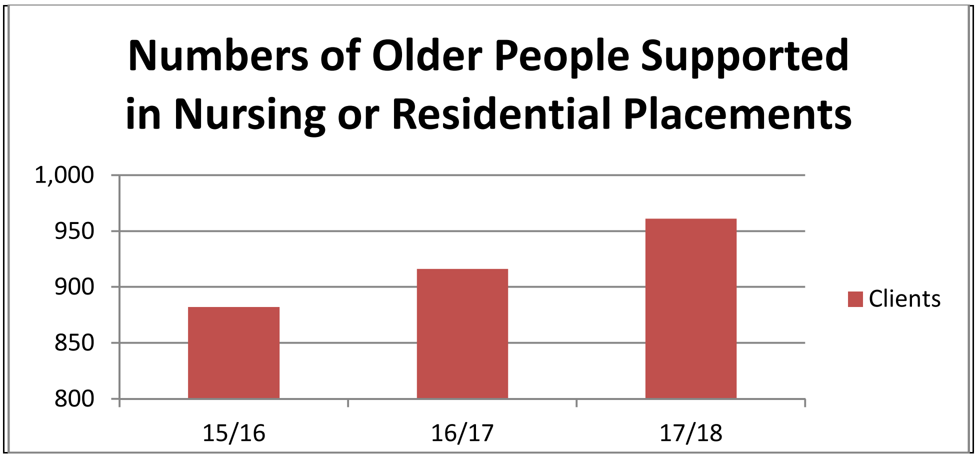
Table 6: Analysis by type of service provision/client type - 3rd party pressure variance

	Learning Disability (LD) £000	Mental Health (MH) £000	Older People (OP) £000	Physical Disability (PD) £000	Total £000
Direct Payments	876	82	220	868	2,046
Homecare/ Extra Care	0	0	1227	0	1,227
Nursing	86	11	-125	-126	-154
Other	1,176	19	-474	81	802
Residential	137	-396	1150	398	1,289
ISL	-937	385	0	-236	-788
Total Sept Forecast	**1,338**	**101**	**1,998**	**985**	**4,422**
Direct Payments	839	47	235	790	1,911
Homecare/ Extra Care	0	0	2185	0	2,185
Nursing	86	-89	-100	-154	-257
Other	1,210	-100	-630	57	537
Residential	85	-429	760	267	683
ISL	-656	173	-682	-241	-1,406
Total July Forecast	**1,564**	**-398**	**1,768**	**719**	**3,653**
Direct Payments	37	35	-15	78	135
Homecare/ Extra Care	0	0	-958	0	-958
Nursing	0	100	-25	28	103
Other	-34	119	156	24	265
Residential	52	33	390	131	606
ISL	-281	212	682	5	618
Total Movement	**-226**	**499**	**230**	**266**	**769**

Services for Older People

3.2.8 Adult Social Care continues to suffer from demographic pressures principally within services for older people and services for people with a learning disability. The table below shows the rise in clients over 65 in nursing and residential placements since 2015/16.

Table 7: Changes in numbers of older people in nursing and residential placements



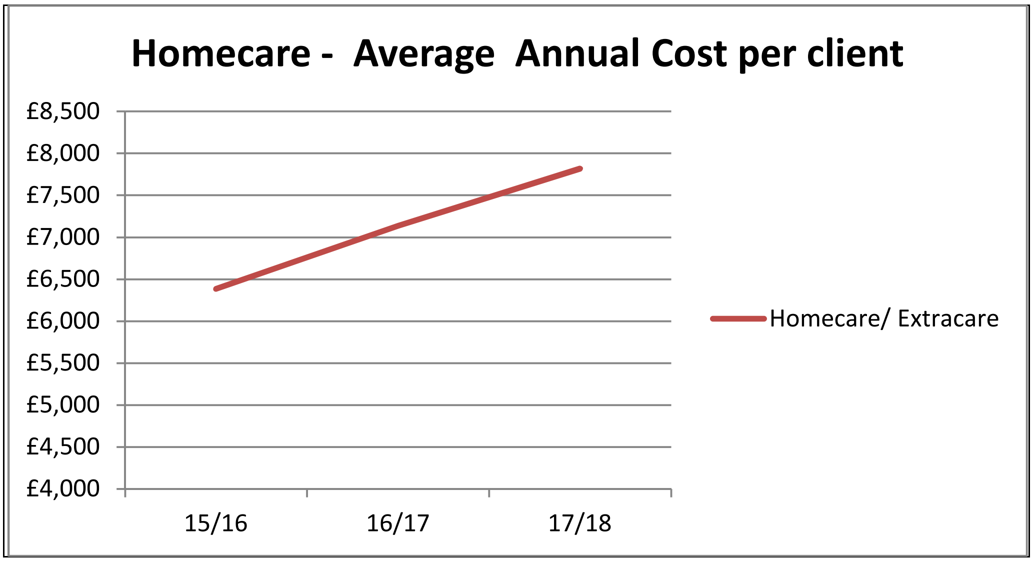
3.2.9 The numbers of older people receiving homecare services has not shown the same trend although numbers in 2017/18 so far are slightly up (1.6%) on 2016/17. The static profile is likely to be due to the lack of capacity in the homecare market as providers struggle to recruit sufficient carers. This, in turn, is contributing to the additional short term and ultimately long term residential placements shown above. The cost of short-term residential care placements in 2017/18 is forecasted to be £0.820m. Greater capacity in the homecare market could reduce this cost to the Authority.

Table 8: Changes in the Number of Older People with Homecare Services

	2015/16	2016/17	2017/18
Number of Older People with a homecare package	1318	1243	1263

3.2.10 The average cost of a homecare package is however increasing as an aging population with higher levels of need require more intense support. The graph below shows an increase of 22.5% since 2015/16 of which only 5% is due to price inflation on the hourly rate of homecare.

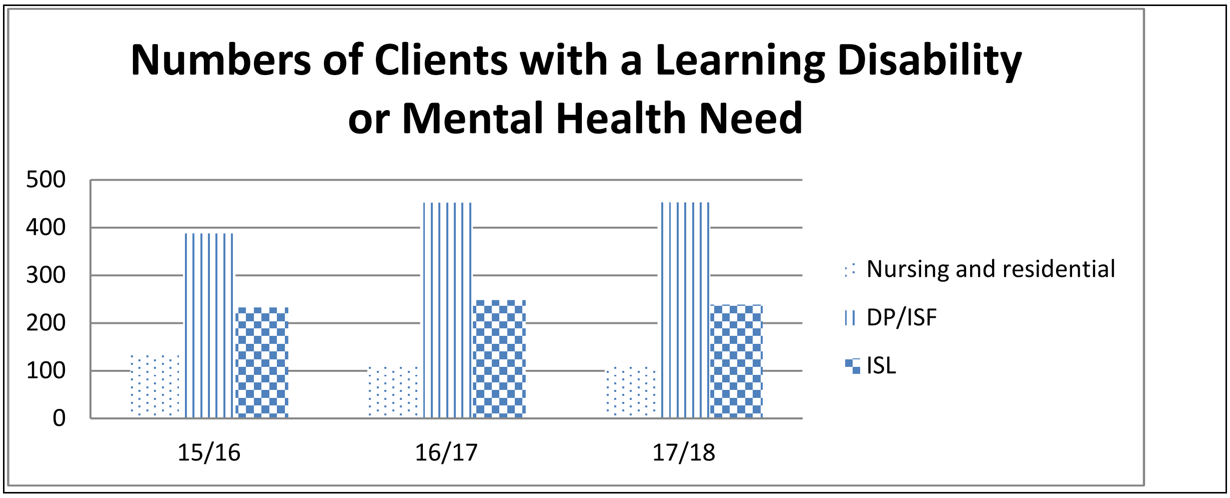
Table 9: Trend in Annual Cost per Older Person of Homecare Services



Services for People with a Learning Disability

3.2.11 Total numbers of clients within services have been relatively static (Table 9) with a small decrease in residential services and Independent Supported Living Services (ISLs) offset by an increase in numbers with a direct payment (DP) or Individual Service Fund (ISF – this is a fund held by a provider for an individual client to provide services on a more flexible and tailored basis for that client).

Table 10: Changes in numbers of clients receiving services

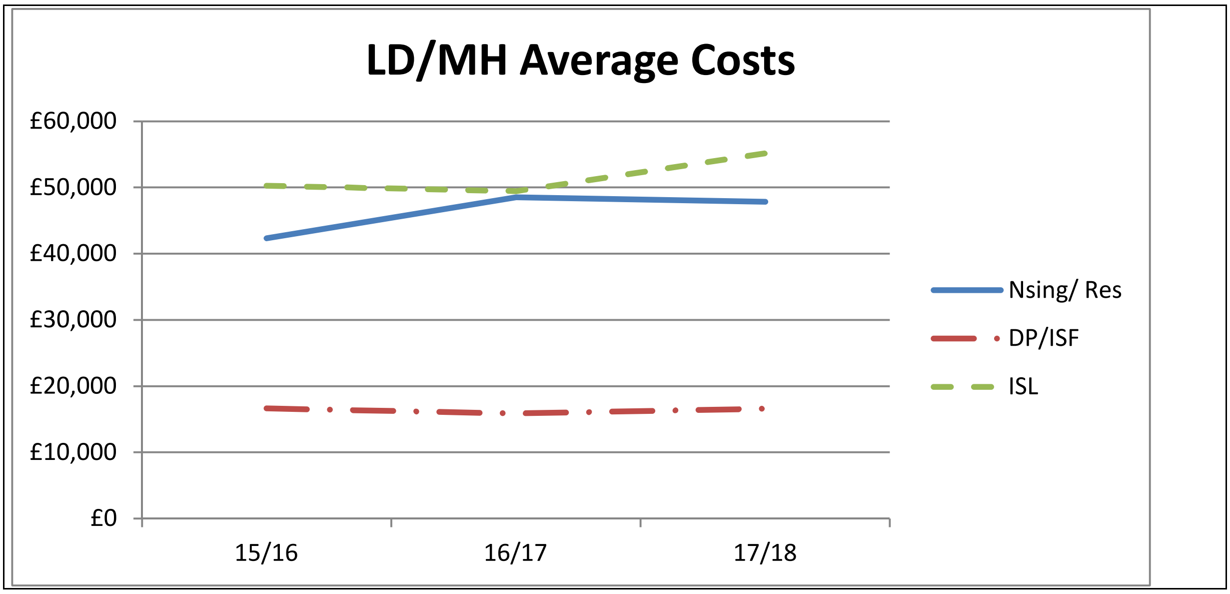


3.2.12 Average annual costs per client in for DPs and ISFs have been steady however, there has been an increase in average ISL costs and a decrease in residential care average annual costs. The increase in ISL unit costs is 9.8% since 2015/16 and is explained by increases in care fees due largely to National Living Wage rises. These trends are illustrated in Table 11 below.

The reduction in residential care has been due to a change in the client base with some clients moving from residential services to an ISL service.

3.2.13 ISL services commissioned by the Authority for clients with a learning disability are on average more expensive than the residential care services provided. The Valuing People Now policy (2009) was brought in to improve quality of life and promote greater independence for people with learning disabilities. This led to the development of ISL services, which can be more costly than equivalent residential care. The Service is working hard to move to more cost effective models of delivering ISLs with larger services like the 13 bedded Emery Court in Dudley, which offer greater economies of scale.

Table 11: Changes in average Annual costs of packages for Clients with a Learning Disability or Mental Health Need.



3.2.14 Adult Social Care is experiencing a reducing pressure within employee costs in respect of the remaining savings target relating to absorbing pay pressures. There has been a further reduction in overspend within employees shown in Table 5 above is largely due to the settling out of major restructures.

3.2.15 Fees and sales income, of which the majority share is client contribution income towards care costs, is £0.950m higher than the budget.

3.2.16 The forecast pressure in Grants and Contributions has reduced since the July report by £0.265m. Actual recharges have been built into the forecast and these were higher than originally estimated particularly in relation to s117 Mental Health Aftercare.

3.2.17 The overall forecast continues to reflect a significant reduction of income from the CCG who are themselves under significant financial pressure. Although overall Continuing Healthcare and S117 recharges are forecast to be above budget, all other areas are seeing the impact of actions by the CCG to ensure that as much cost as possible stays with the Authority, particularly for clients who have Learning Disability or Mental Health issues. Dialogue with the CCG continues at the most senior officer level in order to agree the funding position.

Children's Services

3.2.18 Children's Services are forecasting a pressure of £3.761m (July, £3.178m) against a net budget of £23.190m. Analysis of the variance across the service areas is shown in Table 12 below.

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Table12: Forecast Variation across Children's Services

Service Area	2017/18 Budget £'000	September Variance £'000	July Variance £'000	Movement £'000
Corporate Parenting and Placements	16,886	**2,816**	**2,168**	648
Early Help and Vulnerable Families	3,008	**130**	**155**	-25
Employment and Skills	598	**164**	**164**	0
Integrated Disability and Additional Needs Service	2,170	**700**	**691**	9
School Improvement	528	**-49**	**0**	49
Total Children, Young People & Learning	**23,190**	**3,761**	**3,178**	**583**

Corporate Parenting and Placements

3.2.19 The forecast pressure in Children's Services remains mainly within Corporate Parenting and Placements with a pressure of £2.816m in September (£2.168m in July and £2.618m at May). Although we continue to be a strong performer compared to our regional neighbours and the national picture and we are seeing a reduction in the total number of children, the children we are supporting have complex needs that are expensive to meet.

3.2.20 There is a staffing pressure of £0.430m partially relating to the cost of agency staff covering vacant social work posts (£0.172m) and the decision to pay a market supplement to social workers (£0.148m). This is showing a small improvement from the July position of £0.470m over spent. The successful recruitment of 11 new social workers has seen a reduction in the dependency on agency. A second recruitment drive is currently underway, and combined with the finalisation of the social work teams restructure, it is expected that the use of agency staff will be minimal by December 2017 resulting in further forecast reductions.

3.2.21 A total of £2.211m of the pressure relates to demand within Looked After Children particularly at the high cost end of placements, of which £0.512m has been estimated as the potential additional cost of moving to a revised model of means testing Special Guardianship Orders. Table 13 below illustrates the types and average costs of placements and shows a range of pressures across all placement types.

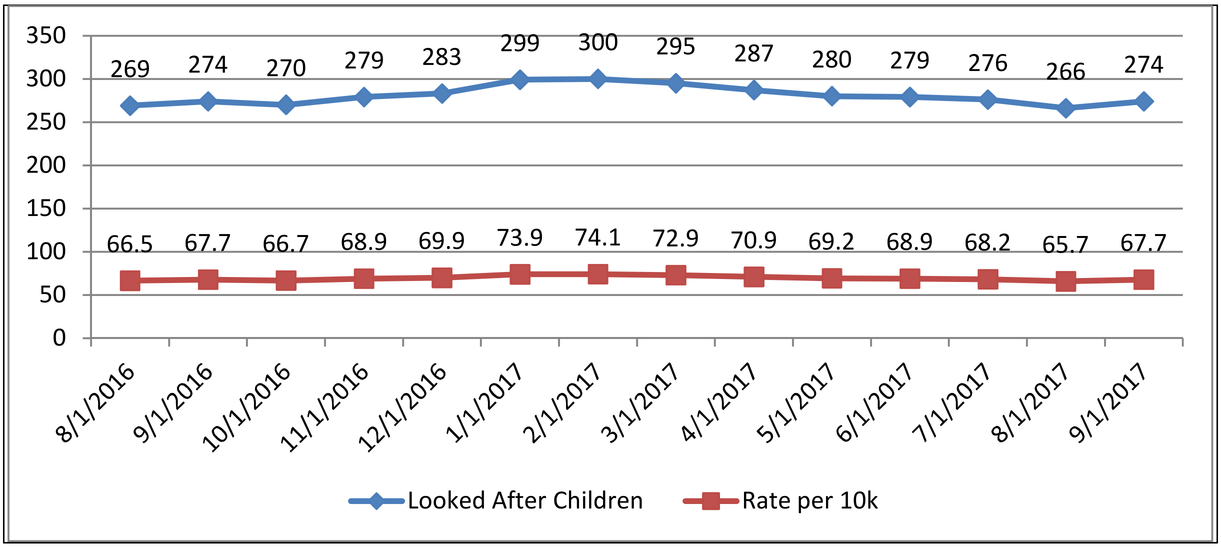
Table 13: Analysis of variation in Corporate Parenting and Placements

Placement Type	No of LAC at Mar 2016	No of LAC at Mar 2017	No of LAC at May 2017	No of LAC at July 2017	No of LAC at Sep 2017	Average Cost of Placement £m	Forecast Variance Sept 2017 £m	Forecast Variance July 2017 £m
External Residential	25	18	19	15	15	0.207	**0.027**	-0.338
External Fostering	26	32	34	29	25	0.041	**0.432**	0.429
Internal Fostering	194	188	173	178	183	0.016	**0.183**	0.172
Supported Residence	13	17	15	18	16	0.095	**0.717**	0.393
Other *	33	42	39	35	35	Various	**-0.046**	-0.048
Total LAC	**291**	**295**	**279**	**275**	**274**		**1.313**	**0.608**
Leaving Care Post 18	68	63	56	57	55	Various	**0.156**	0.173
Special Guardianship Orders	120	140	142	152	152	Various	**0.742**	0.742
Net placement costs							**2.211**	**1.523**
Additional staffing costs							**0.430**	0.470
Signs of Safety and Darlington							**0.175**	0.175
Total							**2.816**	**2.168**

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

3.2.22 The forecast has increased since the July report due to a small number of costly new and extended placements. These are in the main external residential placements and supported residence placements. Table 14 below shows the movement in the total number of LAC. Work continues within the Service to embed the New Model for Children outlined in the CBF business case referred to in Section 2 of this report and this approach has been demonstrated to be effective in managing some cases however, there are a number of children within the Borough with very complex needs who must be cared for in the appropriate setting.

Table 14: Number of Looked after Children



Early Help and Vulnerable Families

3.2.23 £0.294m of the predicted shortfall relates to the necessary delay in implementing the proposals for childcare settings as previously highlighted in Section 2 above. In addition there is an estimated pressure of circa £0.177m in relation to a staffing requirement in Supporting Families following changes to implementation of 2016/17 proposals. Work progressing in respect of the development of community hubs and the wider council estate is anticipated to support resolution of the pressure. The pressure has been partly mitigated by drawing down the full allocation of Troubled Families grant income for families already attached to the programme, and generating additional grant funding following achievement of outcomes for families. This additional income, coupled with further savings achieved in relation to delays in filling vacant posts, has partly mitigated these pressures, and therefore reduced the CBF savings still to be delivered to £0.130m.

3.2.24 The Service currently has one young person placed in a Young Offenders Institution whilst on remand, which is estimated to cost approximately £0.016m. The Authority only receive a small grant of £0.001m towards this type of placement, however historically, North Tyneside have experienced low numbers of Remand placements.

Employment & Skills

3.2.25 An historical income pressure remains from when services were funded by specific individual grants, mainly from the Department of Education, and it was appropriate that these grants make a contribution to overheads (£0.164m). The service is working through options to mitigate this pressure.

Integrated Disability and Additional Needs Service

3.2.26 There is an over spend of £0.700m in this service area. This is further broken down to; Staffing £0.543m, Service User Packages £0.283m, shortfall of CCG income of £0.057m due to prior year CBF targets and income target re short break care selling beds of £0.043m. These pressures are partly offset by additional income generation within Education Psychology of £0.226m.

School Improvement

3.2.27 The under spend in the School Improvement Service relates primarily to savings achieved on staffing (£0.210m) and Education ICT contracts (£0.36m), offset by shortfall of income generation in Education ICT (£0.196m) and High Borrans (£0.030m)

Public Health

3.2.28 The service area is forecasting that it will balance the budget to spend the £12.758m Public Health Grant and deliver all the savings planned for 2017/18 to match reductions in funding from the Department of Health. This funding is also reducing in the next two years and plans are in place to manage these reductions. The Service is working hard to identify further in-year savings to support budget pressures across the Authority. 84 staff successfully transferred in from the Health Service on 1 April 2017 to deliver the school nurse and health visitor role as part of a wider Authority team.

3.3 Commissioning & Investment

3.3.1 Commissioning and Investment is forecasting a pressure of £0.938m as set out in Table 15 below. This is a slight improvement compared to the July position of £0.985m. The main areas of pressure remains within Facilities and Fair Access where, in addition to expenditure pressures within the Cleaning and Catering services, there are demand pressures for the Home to School transport service. Property services is forecasting a pressure of £0.252m (July £0.255m), this service is managed on the Authority's behalf by Capita as part of the managed budget.

Table 15: Commissioning and Investment forecast variation

	2017/18 Budget £000	2017/18 Sep Variance £000	2017/18 July Variance £'000	Movement £000's
School Funding & Statutory staff costs	15,245	**0**	0	0
Commissioning Service	539	**45**	45	0
Child Protection Independent Assurance & Review	680	**70**	70	0
Facilities and Fair Access (including Home to School Transport)	507	**534**	545	-11
Strategic Property & Investment	388	**17**	25	-8

High Needs Special Educational Needs	-80	**0**	0	0
Property	1,843	**252**	255	-3
Management & Support	143	**20**	20	0
Internal Audit & Risk	2	**0**	25	-25
Procurement	0	**0**	0	0
Total Commissioning & Investment	**19,267**	**938**	**985**	**-47**

Home to School Transport

3.3.2 Table 16 below sets out details of the cost and number of pupils accessing home to schools transport service provision during 2016/17 and forecasted to access the service in 2017/18. Although the numbers of pupils being transported had a slight reduction between 2015/16 and 2016/17 and are not expected to increase in year, the overspend in this area for the Authority is expected to increase to £0.439m because of pressure on the Discretionary Schools Grant which is no longer available to contribute towards supporting this service at the previous levels. As can be seen below much of the provision is statutory with the most significant level of expenditure being in respect of special schools. The Authority is using appropriate opportunities to review the level of provision given, particularly when other elements of a child's package are reviewed. The Authority has a panel supporting work on this issue and is drawing on the knowledge of Special School Head teachers.

Table 16: Analysis of Home to School Transport

		Forecast 17/18		**2016/17**	
	Description	Net Exp. £	**Pupil Nos.**	Net Exp £	**Pupil Nos.**
Statutory	Bus Passes*	113,437	**592**	107,231	**592**
Statutory & Non Stat.	Post 16 Transport*	203,712	**190**	183,196	**187**
Statutory	Mainstream Schools	47,841	**9**	30,261	**13**
Statutory	SEN Resource Provision	310,170	**107**	301,771	**90**
Statutory	Special Schools	1,432,989	**415**	1,278,772	**426**
Statutory	Moorbridge PRU	50,238	**17**	45,391	**18**
Total		**2,158,387**	**1330**	**1,946,622**	**1326**
Budget		1,719,387		1,719,297	
Shortfall		439,000		227,325	
* Includes Voluntary Aided Bus Passes, Support for Low Income Families, Excess distance & Independent Travel arrangements & SEN					

Property

3.3.3 Although there is an overspend predicted in this managed budget, following the deed of variation with Capita, signed in March 2017, the Authority now has assurance that Capita will deliver the savings and the service within the managed budget envelope overall. This means that the pressure within Property in the Commissioning & Investment service is compensated for by an under spend within the services provided by Capita for the Authority within Environment, Housing & Leisure.

3.4 Environment, Housing & Leisure

3.4.1 Environmental, Housing and Leisure service is reporting a pressure of £1.018m as set out in Table 17 below (July £1.262m).

Table17: Forecast Variation in Environment Housing and Leisure

	2017/18 Budget £000	Sept 2017/18 Variance £000	July 2017/18 Variance £000	Movement £'000
Sport & Leisure	4,462	**443**	**313**	130
Arts Tourism & Heritage	1,960	**81**	**76**	5
Libraries and Community Centres	6,268	**464**	**507**	-43
Security & Community Safety	249	**148**	**141**	7
Fleet/Facilities Management	459	**-119**	**-141**	22
Waste Strategy	11,891	**105**	**169**	-64
Bereavement	-741	**129**	**133**	-4
Street Environment	8,772	**19**	**0**	19
Head of Service & Resilience	287	**24**	**33**	-9
Street Lighting PFI	4,242	**0**	**277**	-277
Consumer Prot & Building Control	980	**36**	**29**	7
Transport & Highways	5,009	**-333**	**-327**	-6
Planning	216	**16**	**43**	-27
General Fund Housing	1,092	**5**	**9**	-4
TOTAL Environment Housing & Leisure	**45,146**	**1,018**	**1,262**	**-244**

Sport & Leisure

3.4.2 The variance change from the last reporting period reflects increased pay & backfill costs for covering sickness and holidays as well as reduced income generation forecast at the main indoor facilities of £0.130m. There are premises costs variances of £0.147m relating to energy and rates pressures now included which have historically been reported centrally.

Arts Tourism & Heritage

3.4.3 There continues to be a small (£0.033m) pressure arising from the Playhouse due to reduced Authority income and operational cost inflation. As with Sports and Leisure, the Service is now reflecting its own energy and rates pressures (£0.035m) which had historically been recorded centrally.

Libraries & Community Centres

3.4.4 The majority of the pressures in this service area are premises related. The outturn variance reflects forecast cost pressures in the following areas; Building Cleaning (£0.079m) & Libraries Telephones/ICT/Computer Costs (£0.040m), as well as energy and rates costs (£0.081m), PFI Contract Costs (£0.149m); Howdon & Shiremoor Community Centres (£0.110m); and other Employee/Pay and Pension and operational expenditure costs across the service (£0.005m). The variance change from the last reporting period reflects a reduction in the cost pressures associated with Shiremoor Community Centre proposed transfer to the school (£0.013m), as well as reduced employee pressures linked to vacant posts across the service (£0.030m).

Security & Community Safety

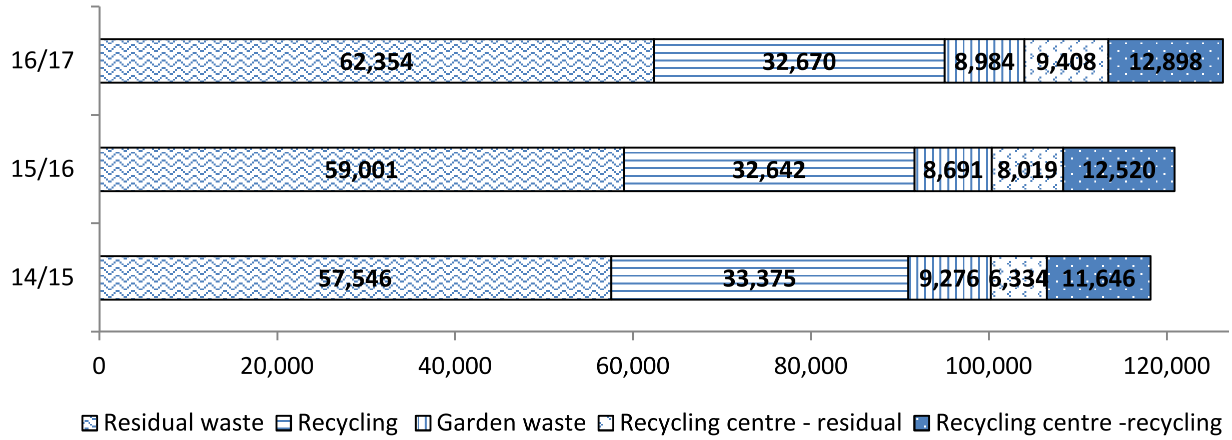
3.4.5 The £0.148m pressure relates in the main to current forecast underachievement of income (£0.128m). The service intends to move to the White Swan Centre during 2017/18 and have identified additional income generating opportunities as a result of this move which are anticipated will improve this position.

Waste

3.4.6 The pressure in Waste has reduced from £0.169m in July to £0.105m in September largely because of a reduced disposal costs.

3.4.7 The growth of housing across the Borough has put pressure on waste growth but the main area of growth in demand for the Authority comes from increased waste being presented at the Household Recycling Centre rather than from doorstep collections. Table 18 below illustrates the changes in waste volumes over the last three years.

Table 18: Waste Tonnage volumes '000s



3.4.8 In response to this increase in volume, the Authority has made changes at its Household Waste Recycling Centre (HWRC) in North Shields, to ensure the on-going safety and sustainability of the site. The Authority has introduced a ban on very large vehicles such as 'Luton' vans, tippers, minibuses, and long trailers, in response to concerns about site safety and the suspected misuse of the site by commercial operators. The ban is one of several measures being phased in to ensure the facility continues to run safely, and to reduce costs. A permit scheme for specified vehicles will also be introduced in the autumn, along with charges for non-household waste.

3.4.9 The ban applies to any vehicles over six metres long or two metres tall, as well as trailers over three metres in length. New signage has been installed to make it clear which vehicles are prohibited and which ones need permits. These actions are expected to result in a reduction in the cost pressure.

3.4.10 The ban came in on 01/07/17 and the Service is still waiting to see what effect this will have on the waste at HWRC before a more accurate forecast of total tonnages for 2017/18 can be made. Early indications are that this change has been successful in reducing waste with a reduction of 451 tonnes during July and August 2017 compared with the same months in 2016. This represents a waste disposal reduction of 29% and a saving of approximately £0.055m. This trend will continue to be carefully monitored and we expect that in future reporting we should be able to report additional progress.

Bereavement

3.4.11 The Bereavement service has introduced fee increases in October 2017 however, at this stage, forecasts for income levels have not been increased to reflect these changes. It is anticipated that the remaining savings target of £0.064m will be achieved over the remaining part of the year. The service also has pay award savings pressures and pressures around security costs of £0.016m.

Street Environment and Fleet Service Areas

3.4.12 The Service has been successful in reducing its non-pay costs to contribute towards the pay award savings pressures in its own service area and across the service. A budget saving can be seen within the Fleet service area due to reduced maintenance costs and other related expenditure following capital programme replacement of vehicles.

Street Lighting PFI

3.4.13 Electricity pressures of £0.100m and unitary charge inflation pressures of £0.257m are partially mitigated by PFI interest and one-off income for officer time of £0.080m. A review of all PFI models has been undertaken, and it is now envisaged that the overall pressure on the street lighting PFI budget will be removed as part of a reworking of all PFI models across the Authority.

Transport & Highways

3.4.14 The underspend is mainly due an overachievement of income relating to parking (£0.528m) offset partially by increased parking running costs of £0.234m. This service area, along with Consumer Protection and Building Control and Planning within Environment, Housing & Leisure and Property within Commissioning & Investment form the managed budget. Capita, as our Technical Partner, is responsible for delivering savings and a balanced budget in total across these areas.

3.5 Business & Economic Development

3.5.1 There is a small pressure as set out in Table 19 below, which relate to the delivery of payroll savings. The service is looking to manage this through the management of vacancies and non-essential spends.

Table 19: Forecast Variation Business and Economic Development

	2017/18 Budget £000	Sep 2017/18 Variance £000	Jul 2017/18 Variance £'000	Movement £'000
Regeneration	499	5	1	4
Business & Enterprise	932	15	18	-3
Resources & Performance	176	-3	-3	0
Total Business And Economic Development	**1,607**	**17**	**16**	**1**

3.6 Commercial & Business Redesign

3.6.1 The main area of variation as shown in Table 20 below relates to cost pressures arising from a number of new systems and enhancements largely in the area of automated customer contacts and internet connectivity.

Table 20: Forecast Variation Commercial and Business Redesign

	2017/18 Budget £000	Sep 2017/18 Variance £000	July 2017/18 Variance £'000	Movement £'000
Head of Commercial & Business Redesign	3	12	15	-3
ICT Retained Services	557	3	5	-2
ICT Client	1,985	137	151	-14
Total Commercial and Business Redesign	**2,545**	**152**	**171**	**-19**

3.7 Corporate Strategy

3.7.1 Corporate Strategy is forecasting an over-commitment of £0.095m as set out in Table 21 below. This is made up of staff cost pressures - these will be managed through the year in part through opportunities to increase income, and through vacancy management**.**

Table 21: Forecast Variation Corporate Strategy

	2017/18 Budget £000	Sep 2017/18 Variance £000	July 2017/18 Variance £000	Movement £'000
Corporate Strategy Management	131	**23**	9	14
Policy, Performance & Research	2	**4**	18	-14
Community and Voluntary Sector Liaison	453	**7**	7	0
Marketing	128	**31**	48	-17
Elected Mayor and Executive Support	1	**-3**	4	-7
Children's Participation & Advocacy	197	**33**	36	-3
Total Corporate Strategy	**912**	**95**	**122**	**-27**

3.8 Finance

3.8.1 The under spend in the Finance service as set out in Table 22 relates to the pension rebate estimated as due to the Local Authority from Engie under the partnership contract, reduced audit fee and staff savings. Within Revenue & Benefits and Customer Services there is a pressure of £0.271m resulting from a pressure on enforcement income of £0.103m and £0.168m on housing subsidy budgets. This reflects in an overall variance of 0.36% of the gross expenditure of the Service of £75.866m.

Table 22: Forecast Variation Finance

	2017/18 Budget £000	Sep 2017/18 Variance £000	July 2017/18 Variance £000	Movement £'000
Finance Service	2	-249	-250	1
Revs & Bens & Cust Services	1,235	271	211	60
Total Finance	**1,237**	**22**	**-39**	**61**

3.9 Human Resources & Organisational Development

3.9.1 The pressure relates to the additional HR staff supporting the Target Operating Model projects. Improvements have followed a restructure.

Table 23: Forecast Variance Human Resources and Organisational Development

	2017/18 Budget £000	Sep 2017/18 Variance £000	July 2017/18 Variance £000	Movement £'000
HR & OD and Total	**285**	**167**	**186**	**-19**

3.10 Law & Governance

3.10.1 The overall pressures in Law and Governance of £0.083m are analysed in Table 24 below. The main pressure relates to Information Governance where additional staffing costs (£0.100m) are in place to deal with the Authority's response to the General Data Protection Regulation (GDPR), which will apply in the UK from 25 May 2018, and the implementation of data management systems to replace the Optech systems. The Government has confirmed that the UK's decision to leave the EU will not affect the commencement of the GDPR. The main variances are due increased funding (mainly for the parliamentary election and land charges).

Table 24: Forecast Variation Law and Governance

	2017/18 Budget £000	Sep 2017/18 Variance £000	July 2017/18 Var £000	Movement £'000
Customer, Governance & Registration	-89	79	77	2
Democratic & Electoral Services	2	-44	29	-73
Information Governance	27	71	100	-29
Legal Services	4	-27	-17	-10
North Tyneside Coroner	293	4	-13	17
Total Law and Gov	**237**	**83**	**176**	**-93**

3.11 Central Budgets & Contingencies

3.11.1 The 2017/18 forecast outturn set out in Table 25 below reflects savings of circa £2.010m (increased from £1.347m in July) on interest charges and a revised forecast resulting in an under spend of £0.333m in relation to MRP. These savings result from 2016/17 Investment Plan reprogramming and internal borrowing. Cabinet will recall during 2016/17 significant in-year savings were achieved through the application of the Treasury Management Strategy. Additional savings were factored into budget setting for 2017/18 however the approach to Treasury Management is continually reviewed in order to minimise borrowing costs to the Authority and maximise the opportunity to achieve in-year budget savings. That will be dependent on movements in interest rates, which are monitored on a daily basis.

3.11.2 The assumption that £1.426m of contingencies and Service Improvement Fund not be drawn down continues (these pressures have been forecast within the Service figures reported above). A backdated rates rebate of £0.344m relating to the John Willie Sams Centre has been agreed and is shown here.

3.11.3 Included in Central items is the budgeted saving on Procurement activity £0.500m which is currently being forecast as a pressure. As highlighted previously a detailed review of the procurement of services and the Authority's spend with suppliers is in progress. Options have been identified and work is now commencing to change how the Authority approaches procuring supplies and services across a number of areas. As the exercise is still in an early stage, it is prudent to assume at that the saving will not be achieved but the practical work has started and progress will be kept under careful review. There are also pressures totalling £0.287m relating to the bad debt provision and to payments relating to NECA and the LEP, plus NTC Enterprise zone payment and shortfall on trading company interest.

Table 25: Forecast Variation Central Budgets and Contingencies

	2017/18 Budget £000	Sep 2017/18 Variance £000	July 2017/18 Variance £'000	Movement £'000
Corporate & Democratic Core	15,608	-568	-411	-157
Other Central Items – corporate accounting, contingencies and levies	-7,584	-3,326	-2,654	-672
Total Central Items	**8,024**	**-3,894**	**-3,065**	**-829**

3.12 The following table shows a additional grants received since July 2017. Cabinet is requested to approve receipt of these grants.

Table 26: 2017/18 Revenue Grants awarded since July 2017

Service	Description	Amount £m
Finance	One off payment to assist implementation of new Business Rates system	0.012
Environment, Housing & Leisure	To assist in the development of the Care Village concept at Murton Gap	0.095
Environment, Housing & Leisure	To support a more flexible approach in the prevention of homelessness	0.098
Total		0.205

SECTION 4 - SCHOOLS FINANCE

2017/18 School Budgets

4.1 In June 2017, ten schools indicated that they needed the Authority’s approval to set a deficit budget. This compares to eight schools in 2016/17 being managed under the deficit approval process. All schools requesting deficit approval have now met with the Head of Finance and the Director of Children's and Adult Services to ensure all appropriate steps have been taken to improve each school’s position prior to formally approving deficit arrangements.

4.2 Budget monitoring is being conducted with all schools during September and October with particular attention given to the ten schools requesting deficit approval.

4.3 A programme of work is being developed with schools to consider further actions required to address the longer term approach to financial planning for schools in North Tyneside.

Announcement on Additional Funding for Schools

4.4 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 Dedicated Schools Grant (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.

4.5 In 2018/19 & 2019/20 the local 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.

4.6 The consultation response includes illustrative data to show the impact of the new formulas for both the local authority and each school, using 2016 census data. The allocations take into account the additional investment in schools revenue funding of £1.3billion for 2018/2019 and 2019/2020 which the Secretary of State announced in July 2017. The final DSG allocation will be available mid-December 2017 and will be updated with the latest October 2017 census data.

4.7 The Schools Forum funding subgroup is meeting in October 2017 to discuss each element of the funding formula and recommendations will be presented at the next Schools Forum scheduled for 15 November 2017. Further consultation with all schools will be undertaken in the autumn term.

SECTION 5 - HOUSING REVENUE ACCOUNT

Forecast Outturn

5.1 The forecast set out in Table 27 below based on the results to September 2017 reflects balance or under spends across all cost areas except HRA Management costs where there is a small pressure £0.023m and other rental income where there is a pressure of £0.001m. This reflects an overall improving position. The early pressures on rental income existed largely because of higher levels of empty homes than forecast (£0.087m), particularly in Sheltered Housing but this continues to reduce as properties are filled. In addition, the income from temporary dispersed accommodation is projected to be slightly above budget (£0.067m), whilst service charge income (including furniture packs) is now slightly better than budget (£0.045m). All of the £0.873m of savings identified in the 2017/18 budget approved by Cabinet are on target to be delivered in full.

Table 27: Forecast Variance Housing Revenue Account

	FULL YEAR - 2017/18			Variance	Movement
		September Forecast Outturn			
	Full Year Budget	Forecast	Variance	July 2017/18	
	£000	£000	£000	£000	£000
INCOME					
Rental Income	-59,689	-59,717	**-28**	55	-83
Other Rental Income, Shops etc.	-255	-254	**1**	1	0
Interest on Balances	-30	-40	**-10**	-10	0
PFI Credits	-7,693	-7,693	**-0**	0	0
	-67,667	**-67,704**	**-37**	46	-83
EXPENDITURE					
Capital Charges - Net Effect	13,848	13,822	**-25**	-25	0
HRA Management Costs	10,197	10,219	**23**	19	4
PFI Contract Costs	9,551	9,551	**0**	0	0
Repairs	11,481	11,476	**-5**	-1	-4
Revenue Support to Capital Programme	6,771	6,771	**0**	0	0
Contribution to Major Repairs Reserve – Depreciation	15,650	15,650	**0**	0	0
Contingencies, Bad debt Provision & Transitional Protection Payments	1,080	781	**-300**	-220	-80
Pension Fund Deficit Funding	855	855	**0**	0	0
	69,432	**69,125**	**-307**	-227	-80
	1,766	**1,422**	**-344**	-181	-163
BALANCES BROUGHT FORWARD	**-4,627**	**-5,966**	**-1,339**	-1,339	0
BALANCES TO CARRY FORWARD	**-2,861**	**-4,544**	**-1,683**	-1,520	-163

5.2 **Empty homes**

In terms of the impact of empty homes on the financial picture to date, rates are actually below 16/17 levels overall so far this year but had been budgeted to improve more significantly following the completion of the North Tyneside Living Schemes. Stock handover was delayed but is now complete and although the level of empty homes within sheltered stock is still high, the trend does indicate that this position is now starting to improve. Tables 28-30 illustrate the movement in stock levels for 17/18 compared to 16/17.

Table 28: All stock Empty homes debit as percentage of total debit

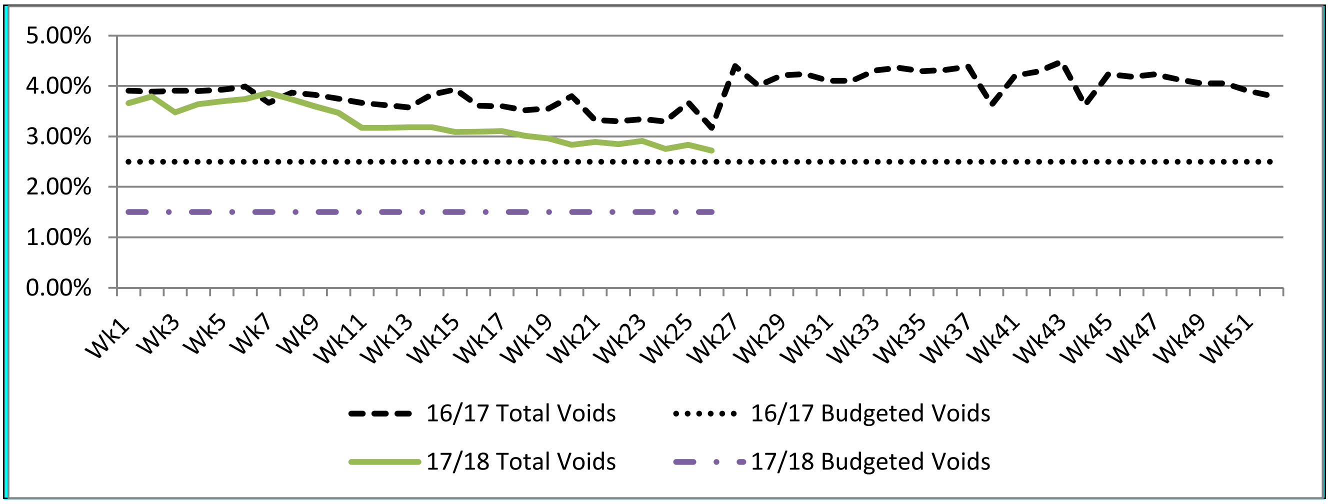


Table 29: General Stock Empty homes debit as percentage of total debit

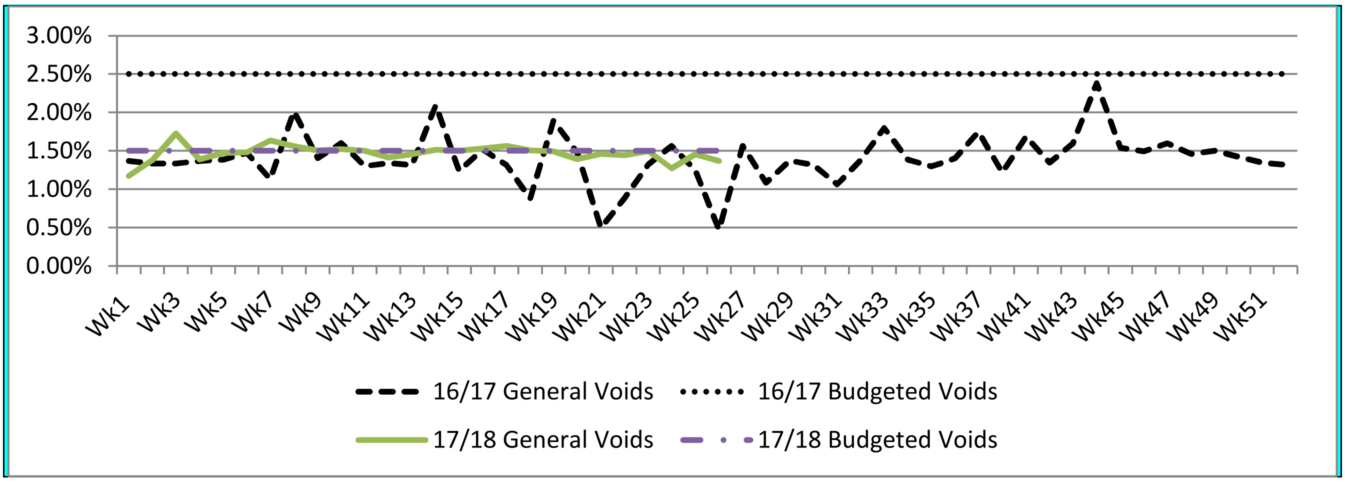
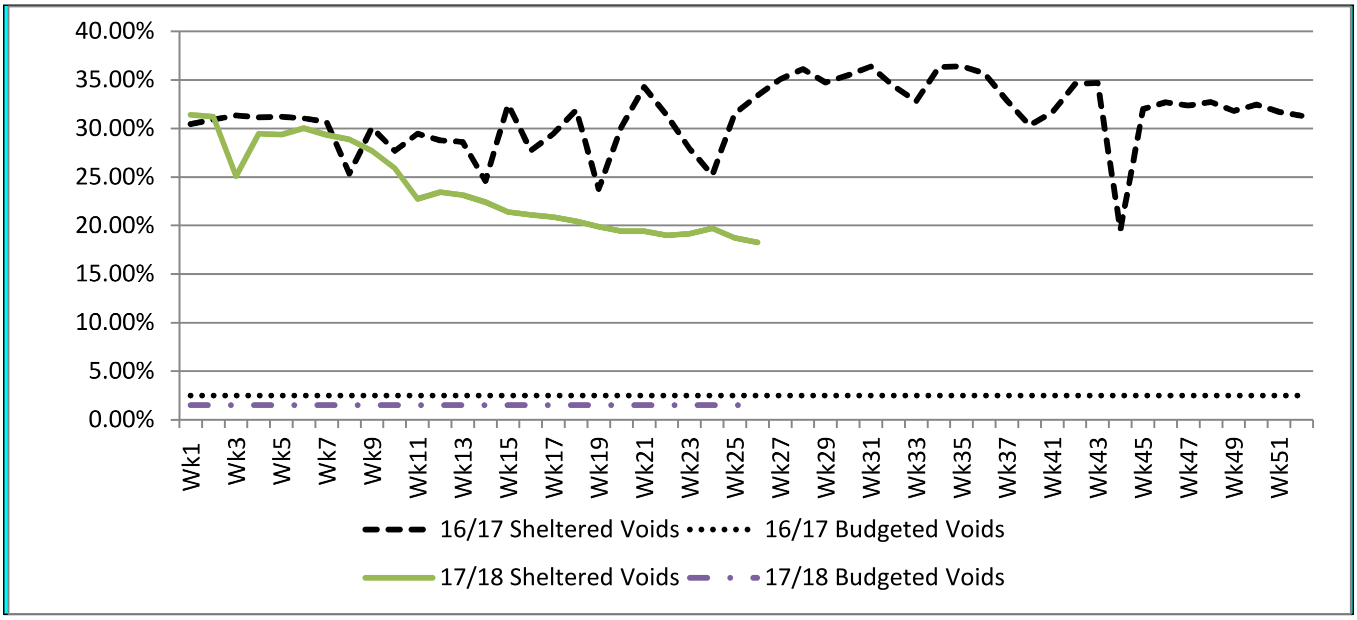


Table 30: Sheltered Stock Empty homes – debit as percentage of total debit



5.3 The net forecast overspend of £0.023m in HRA Management costs includes a pressure from the impact of Council tax payable on higher level of empty homes (£0.283m), additional water rates commission income negotiated (£0.166m) and staff vacancies (£0.150m), plus potential pressures around broadband costs for sheltered accommodation (£0.059m).

5.4 The £0.300m projected underspend on Contingencies, Bad debt provision and transitional protection payments includes an expected reduction in costs for transitional protection as a result of higher than budgeted empty homes in sheltered accommodation. There is a predicted reduction in bad debt provision (£0.180m) required based on a lower level of arrears than expected which will be monitored closely as the wider roll out of Universal Credit commences. The go-live on full-service Universal Credit in North Tyneside is 19 February 2018 so the impact for 2017/18 is expected to be minimal. Currently only around 2,000 North Tyneside residents are on Universal Credit, many of whom were not previously entitled to Housing Benefit. At the end of September 2017 there were 257 Authority tenants claiming universal credit, of these 223 (87%) are in arrears, with average current arrears per tenant of £789, compared to average current tenant arrears of circa £344. This is a trend that has been seen across those authorities who are live with full service and remains a risk for the HRA in future years.

Right to Buy (RTB) Trends

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

Table 31 – RTB Trends and Financial Impact

	Sales assumed by self-financing	Actual RTB Sales	Additional RTB Sales above budget assumptions	Estimated lost rent per annum (£000)	Capital Receipts (£000)
2012-13	40	85	45	315	3,477
2013-14	47	122	75	457	4,957
2014-15	53	100	47	397	3,938
2015-16	55	135	80	577	5,548
2016-17	55	136	81	557	5,632
2017-18 (Apr-Sept)	28	61	33	271	2,737
	278	639	361	2,574	26,289

5.6 In the period (2012-2017) we have built just over 130 new homes through the HRA, which has helped mitigate a portion of the revenue loss from the 578 sales in the same period, but in essence the HRA has lost £2.3m in rental income from the annual rent over this period.

5.7 In terms of the total Capital Receipts from the sales of these properties over the last 5 years (£23.552m), the Authority has been required to pay a proportion over to Government (£8.326m) but is allowed to keep a proportion to cover administration costs (£0.753m). The Authority can also retain some proceeds to cover the additional debt burden from the extra sales (£8.507m), plus the Local Authority share of the "pooled" assumption (£3.425m). Any sum left over is called the "retained" receipt (£2.570m) and this must be used purely for new build housing, under the "one-for-one" policy. As can be seen from the figures above the Authority has sold an "additional" 361 properties in 5 years and only replaced circa 130 to-date, so the policy intention of "one-for-one" replacement is currently not being achieved in North Tyneside.

SECTION 6 - INVESTMENT PLAN

Review of Investment Plan - Position Statement

6.1 The Authority's Investment Plan represents the capital investment in projects across all service areas. Some of the key highlights of the Investment Plan due to be delivered during 2017/18 are summarised below:

Affordable Homes New Build and Conversion Works

6.2 There are currently 3 projects that will complete during 2017/18, namely:

- The construction of 20 new affordable units in Dudley, on the former Dudley & Weetslade Club site. Work is due for completion in March 2018;
- The construction of 6 new affordable units in Seaton Burn on the old Chapelville sheltered unit site. Work is due for completion in November 2017; and,
- The conversion of Perth Gardens into 7 new affordable units. Work is due for completion in March 2018.

In addition to the above there will be a number of other schemes progressed through the design, planning and procurement process during 2017/18 that will subsequently complete in future financial years.

Housing Investment Work

6.3 The Housing Capital delivery programme will see the following works delivered across the Borough during 2017/18:

- Kitchens and bathrooms to 605 homes;
- Heating upgrades to 600 homes;
- Boundary improvements to 830 homes;
- External decoration to 1,906 homes;
- Roof replacements to 292 homes;
- External Brickwork Repairs to 367 homes;
- Insulation / Structural works to 24 Non-traditional homes ; and,
- Infrastructure Projects to 7 locations.

Education Investment Works

6.4 The delivery of the Investment in schools will see the following works delivered over 2017/18:

- Delivery of an initial 26 priority condition related projects across the school estate;
- Priority Schools Building Programme (Off Balance Sheet) ;
    - The projects at both Whitehouse Primary School and Longbenton High School are now fully completed;
    - The new build projects for both Marden and John Spence High Schools have been completed. Demolition works are also complete on both sites;

- The external works for Marden High School were completed in September 2017;
- The external works for John Spence High School are scheduled for completion in December 2017; and,
- Cullercoats Primary School – this project is being delivered as part of Priority Schools Building Programme 2 (PSBP2). The preferred solution is to be a refurbishment programme rather than a new build. Detailed discussions are ongoing with the Education Funding Agency (EFA) their appointed contractor and the school to finalise the scope of works. It is anticipated that the works will commence on site by the end of 2017.

Highways and Infrastructure Works

6.5 The main Highways, Infrastructure works include:

- Delivery of the LTP including the annual resurfacing programme and integrated transport projects;
- Substantial completion of the final phase of A1058 Coast Road major scheme (Norham Road Bridge);
- Completion of Central Promenade Reconstruction Scheme. Construction work commenced on site in February 2017;
- A1056 Weetslade major highways scheme was completed in July 2017;
- Construction of the North Bank of the Tyne highway improvements from October 2017; and
- Completion of major drainage improvements at Monkseaton and Shiremoor.

Regeneration Works

6.6 Regeneration Works for 2107/18 include:

- Works are continuing with the restoration of Spanish City Dome;
- Hotel and restaurant adjacent to the Dome opened in July 2017;
- The public realm works on Northern Promenade are nearing completion. From 30 September the area of promenade between Watts Slope and the Skate Park was fully opened. Final works to the area between the Skate Park and the Rendezvous and the new shelters, business pods, beach huts and art work are being completed;
- Swans – the next phase of works will cover feasibility works including upgrade of the Swans Quay and load out facilities plus further demolition works and Centre for innovation Phase 2 refurbishment; and,
- Facilitate development solution for Tyne Brand site at the Fish Quay.

Variations to the 2017-20 Investment Plan

6.7 As part of the regular investment programme monitoring £0.471m variations have been identified.

Table 32 details the changes to the approved 3-year Investment Plan, as agreed at Council on 16 February 2017.

Table 32: 2017 - 20 Investment Plan changes identified

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Approved Investment Plan – Council 16 February 2017	**106.952**	**48.888**	**30.833**	**186.673**
Previously Approved Reprogramming				
Cabinet 12 June 2017	12.980	0	0	12.980
Cabinet 10 July 2017	(21.929)	21.926	0.517	0.514
Cabinet 11 September 2017	1.316	(0.008)	0	1.308
Approved Investment Plan – Cabinet 11 September 2017	**99.319**	**70.806**	**31.350**	**201.475**
August/September				
Variations	(0.471)	0	0	(0.471)
Reprogramming	(8.846)	8.846	0	0
Revised Investment Plan	**90.002**	**79.652**	**31.350**	**201.004**

Details of changes to the 2017-2020 Investment Plan

6.8 The details of the main variations are shown below:

(a) **EV077 A1056/A189 Weetslade Junction Improvement £0.480m credit**- Phase 2 of this project is developer funded via Section 278 works. The expenditure is to be funded directly by the developer and will not come through the Authority's accounts. Therefore this budget is being reduced to reflect this; and,

(b) The budgets held in the Investment Plan for **Coastal Properties (DV063), Northumberland Square (HS047), Property Development (DV064) and Affordable Homes (HS047)** have been brought together and are now shown in the Investment Plan as **Council Property Investment (DV064)** and **Investment by the Authority in North Tyneside Trading Company (DV066)** to properly reflect the activities of the Authority and it's transactions with the Trading Company.

6.9 Further reprogramming of £8.846m has also been identified. The details are shown below:

(a) **DV066 Investment in North Tyneside Trading Company £1.570m** – An updated project timetable has been produced following the planning applications and procurement processes. As a result the investment in the following schemes have been reprogrammed -The Avenue £0.521m; Wallington Court £0.367m and Northumberland Square £0.682m;

(b) **GEN03 Contingencies £1.350m** – No projects have been identified for consideration at this stage;

(c) **EV076 Depot Delivery Project £2.932m** – Planning application has been submitted for the new depot and a decision is expected in October 2017. Reprogramming is required to reflect the expected project delivery;

(d) **DV058 Swan Hunters Regeneration £2.494m** – following discussions with the Local Enterprise Partnership (NELEP) the Business Cases for the Local Growth Fund (LGF) funding for the Centre for Innovation (CFI) Phase II Refurbishment, CFI Phase III Demolitions and Quay infrastructure and laydown area works are to be considered at the NELEP Board on 25 January 2018. The Grant Funding Agreements would then be concluded in late February 2018. Therefore reprogramming into 2018/19 is required; and,

(e) **HS004 Disabled Facilities Grant £0.500m** – The Authority implemented its policy on the Disabled Facilities Grant in 2002. Legislation governing the allocation of grants has remained largely unchanged since, however, the advent of the Better Care Fund builds on previous Department of Health and Local Government legislation, including the Care Act. For that reason the Authority is reviewing and updating its policy, processes and how to help people access the fund. Cabinet will be asked to consider a revised policy in due course. In the short term, funding to the value of £0.500m is being reprogrammed.

6.10 The impact of the changes detailed above on capital financing is shown in Table 33 below.

Table 33: Impact of variations on Capital financing

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**Total £m**
Approved Investment Plan – Cabinet 11 September 2017	**99.319**	**70.806**	**31.350**	**201.475**
Council Contribution	(7.171)	7.171	0	0
Grants and Contributions	(2.146)	1.675	0	(0.471)
Total Financing Variations	**(9.317)**	**8.846**	**0**	**(0.471)**
Revised Investment Plan	**90.002**	**79.652**	**31.350**	**201.004**

Capital Receipts – General Fund

6.11 There were no General Fund Capital Receipts brought forward at 1 April 2017. All receipts received in 2016/17 were applied to finance capital expenditure.

The capital receipts requirement for 2017/18 approved by Council on 16 February 2017 was £Nil (£0.760m for 2017-20). Due to reprogramming from 2016/17 £0.110m receipts are now required for 2017/18 (£0.870m 2017-20). To date £0.173m of capital receipts have been received in 2017/18, therefore the 2017/18 requirement has been met. Any receipts generated will be allocated against the future requirement as shown in table 34 below. The total revised requirement in the 2017-2020 Investment Plan is £0.697m.

Table 34: Capital Receipt Requirement – General Fund

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Requirement reported to 16 February 2017 Council	0.000	0.380	0.380	0.760
Reprogramming from 2016/17	0.110	0	0	0.110
Revised Requirement	**0.110**	**0.380**	**0.380**	**0.870**
Useable Receipts Received 2017/18	(0.110)	(0.063)	0	(0.173)
Balance to be generated	**0.000**	**0.317**	**0.380**	**0.697**

Capital receipts – Housing Revenue Account

6.12 Housing Capital Receipts brought forward at 1 April 2017 were £5.501m. The Housing receipts are committed against projects included in the 2017-20 Investment Plan. The approved Capital Receipt requirement for 2017/18 was £0.663m. This, together with the reprogramming reported to 12 June 2017 Cabinet, gives a requirement of £1.809m. To date, £3.011m receipts have been received in 2017/18 of which £0.468m has been pooled as part of the quarterly returns to Central Government. In total, subject to future pooling, this leaves a surplus balance of £6.235m to be carried forward to fund future years.

Table 35: Capital Receipt Requirement - Housing Revenue Account

	2017/18 £m	2018/19 £m	2019/20 £m	2017-20 £m
Requirement reported to 16 February 2017 Council	0.663	2.847	2.805	6.315
Reprogramming from 2016/17	1.146	0	0	1.146
Revised Requirement	**1.809**	**2.847**	**2.805**	**7.461**
Receipts Brought Forward	(5.501)	0	0	(5.501)
Receipts Received 2017/18	(3.011)	0	0	(3.011)
Receipts Pooled Central Government	0.468	0	0	0.468
Surplus Balance to fund future years (subject to further pooling)	**(6.235)**	**2.847**	**2.805**	**0.583**

The final figure for useable receipts and pooled receipts in year will depend on the final number of Right to Buy properties sold during 2017/18.

Investment Plan Monitoring Position to 30 September 2017

6.13 Actual expenditure in the General Ledger was £25.891m, 28.77% (July £14.295m and 14.39%) of the total revised Investment Plan as at 30 September 2017. The expenditure is 73% of the profiled budget to the end of September 2017.

Table 36: 2017/18 Total Investment Plan Budget & Expenditure to 30 September 2017

	2017/18 Revised Investment Plan £m	Actual Spend to 30 September 2017 £m	Spend as % of revised Investment Plan %
General Fund	65.023	19.925	30.64
Housing	24.979	5.966	23.88
TOTAL	**90.002**	**25.891**	**28.77**

Section 7.0
Treasury Management

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-Year Review Report 2017/18

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

7.2 The primary requirements of the Code are as follows:

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

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

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

7.3 This section of the document contains the required mid-year review report for 2017/18.

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

- An economic update for the first six months of 2017/18;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18;
- A review of the Authority's investment portfolio for 2017/18;
- A review of the Authority's borrowing strategy for 2017/18; and,
- A review of compliance with Treasury and Prudential Limits for 2017/18 (detailed in Section 8).

Economic Performance and Outlook

United Kingdom (UK)

7.5 The UK economy has experienced weak growth during 2017; this follows strong growth in 2016. Growth in quarter 1 was +0.3% and quarter 2 was +0.3% that meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, which lead to increases in the cost of imports into the economy. This has caused a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of Growth Domestic Product (GDP), has seen weak growth as consumers cut back on their expenditure. More recently, there have been encouraging statistics from the manufacturing sector, which is seeing strong growth, particularly because of increased demand for exports. It has helped that growth in the European Union (EU), our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

7.6 The Monetary Policy Committee (MPC) meeting of 14th September 2017 indicated that the Bank Rate looks likely to increase to 0.5% in the near future. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected the Consumer Price Index (CPI) inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. Inflation was 2.9% in August, and so the Bank revised its forecast for the peak to over 3% at the 14 September 2017 meeting of the MPC. The focus was on an emerging view that with unemployment falling to 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action.

7.7 The MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies because of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years. It looks likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. It is unclear whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. At the start of October, sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring an end to the negative impact on consumer spending power while a strong export performance will compensate for weak service sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is too early to be confident about how the next two years will turn out.

United States of America (USA)

7.8 Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 showing 1.2% but quarter 2 increasing to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the USA has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual increase in rates with three increases since December 2016; and there could be one more rate rise in 2017, which would then lift the central rate to 1.25% - 1.50%. At its June meeting, the Fed indicated that, it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

European Union (EU)

7.9 Economic growth in the EU has been lack lustre for several years after the financial crisis despite the European Central Bank (ECB) eventually cutting its main rate to - 0.4% and embarking on a programme of Quantitative Easing (QE). However, growth picked up in 2016 and now looks to have gathered ongoing strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 and 0.6% in quarter 2. However, despite providing monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and its August inflation was 1.5%. It is therefore unlikely to start increasing rates until possibly 2019.

China and Japan

7.10 Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Progress needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Interest Rate Forecasts

7.11 Capita Asset Services, the Authority's treasury advisors, have provided their current Interest Rate Forecast, which is detailed in **Table 37** below:

Table 37: Interest Rate Forecast

	Dec 2017 (%)	Mar 2018 (%)	Jun 2018 (%)	Sep 2018 (%)	Dec 2018 (%)	Mar 2019 (%)	Jun 2019 (%)	Sep 2019 (%)	Dec 2019 (%)
Bank Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75
5yr PWLB*	1.50	1.60	1.70	1.70	1.80	1.80	1.90	1.90	2.00
10yr PWLB	2.20	2.30	2.30	2.40	2.40	2.50	2.50	2.60	2.60
25yr PWLB	2.90	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30
50yr PWLB	2.70	2.70	2.80	2.80	2.90	2.90	3.00	3.00	3.10

*Public Works Loan Board (PWLB)

7.12 Capita Asset Services undertook its last review of its interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However, the MPC meeting of 14 September indicated that a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months". It is possible that there will be an increase to 0.5% at the November MPC meeting.

7.13 The overall balance of risks to economic recovery in the UK is currently to the downside but significant variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

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

- UK economic growth and increases in inflation are weaker than we currently anticipate;
- Weak growth or recession in the UK's main trading partners – the EU and USA;
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows;
- A resurgence of the Eurozone sovereign debt crisis;
- Weak capitalisation of some European banks; and,
- Monetary policy action failing to stimulate growth and to get inflation up consistently to around monetary policy target levels.

7.15 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer-term PWLB rates include:-

- The pace and timing of increases in the Fed. Funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities; and,

- UK inflation returning to significant higher levels causing an increase in the inflation premium inherent to gilt yields.

Treasury Management Strategy Statement and Annual Investment Strategy update

7.16 The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by Council on 16th February 2017. The Authority's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Authority's investment priorities as follows:

- Security of capital; and,
- Liquidity

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

7.18 Details of the Authority's investment portfolio at 30 September 2017 are shown in Section 7.24 of this report.

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

7.20 As outlined in Section 7.14 above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 16th February 2017 is still fit for purpose in the current economic climate.

Investment Portfolio 2017/18

7.21 In accordance with the Code, it is the Authority's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return, which is consistent with the Authority's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate. The continuing potential for a re-emergence of the Eurozone sovereign debt crisis together with other risks, which could have an impact on the creditworthiness of banks, prompts a low risk and short-term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

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

7.23 The Authority currently uses the Government's Debt Management and Deposit Facility (DMADF) for investments, the maximum rate available from the facility is currently 0.10%. This situation of maintaining shorter term, high quality investments will continue until sufficient strength has returned to banks globally and there are signs of significantly renewed strength in the UK and global economy.

7.24 Investments held as at 30 September 2017 are summarised in **Table 38** below:

Table 38: Investments 2017/18

Investments	**30 Sept 2017 £m**	**Average Rate of Return %**
Debt Management Office Deposit	17.500	0.10

7.25 The Head of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2017/18.

Markets in Financial Instruments Directive (MIFID II)

7.26 On 3rd July 2017, the Financial Conduct Authority (FCA) released details regarding the implementation of the MIFID II, which comes into effect on 3rd January 2018. MIFID is the EU legislation that regulates firms who provide services to clients linked to financial instruments and it is now being revised to strengthen consumer protection and improve the functioning of markets. Under the first directive, local authorities and their Treasury operations were classified as professional investors. MIFID II changes the Client Categorisation rules and all local authorities will be reclassified as 'retail' clients by default, with the option of being treated as an elective professional client, provided they can meet a set of qualitative and quantitative criteria.

7.27 A move to retail status would mean that all financial services organisations like banks, brokers and advisers would have to treat local authorities the same way they do non-professional individuals and small businesses. That includes an increased amount of protections ensuring that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the organisation and the client, for the purpose of proving to the regulator that all such requirements have been met. Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would restrict the range of financial institutions and instruments available to authorities. Many institutions are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

7.28 MIFID II allows for retail clients that meet certain conditions to elect to be treated as professional clients (to 'opt-up). In order to continue to implement effectively the Authority's investment strategy after 3rd January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with whom the Authority has an existing or potential relationship in relation to the investment of funds. The Authority is currently completing the necessary information as part of the process in order to facilitate opting up to re-categorise as professional status. If the Authority satisfies the requirements of both the qualitative and quantitative tests, as of 3rd January 2018, institutions may continue to treat the local authority as a professional client.

Borrowing

7.29 The Authority's estimated Capital Financing Requirement (CFR) to 31 March 2018 is £657.559m (including Private Finance Initiative (PFI) and Finance Leases). The CFR denotes the Authority's underlying need to borrow for capital purposes. If the CFR is positive the Authority may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

7.30 Total external debt at 30 September 2017 was £574.232m as shown in **Table 39** below.

Table 39: Total external debt at 30 September 2017

Principal £m	
	External borrowing
304.193	Public Works Loans Board (PWLB)
20.000	Lender Option Borrower Option (LOBO)
122.704	Other Local Authorities
446.897	Total
	Other external debt
127.335	PFI and Finance Leases (as at 1 April 2017)
574.232	TOTAL EXTERNAL DEBT
	Split of external borrowing:
258.965	Housing Revenue Account
187.932	General Fund
446.897	Total

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

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

7.33 Maturing PWLB long term loans of £15.750m have been repaid since 1 April 2017 as detailed in **Table 40 below**:

Table 40: Maturing long-term loans repaid since 1 April 2017

Principal £m	Interest Rate %	Date Repaid
10.000	2.95	13 June 2017
5.000	10.375	4 August 2017
750	9.75	1 October 2017

As at 30 September 2017 no new or replacement long-term borrowing has taken place during 2017/18.

7.34 Short term borrowing rates for periods up to 1 year continue at relatively low levels. The Authority's borrowing strategy this year has been to borrow short term where possible, to take advantage of these lower rates. As at 30 September 2017, the Council had £122.704m of temporary loans (as seen in Table 40 above) at an average rate of 0.46%, long term PWLB loans are held at an average rate of 4.27% and the LOBO loans continue to remain at an average rate of 4.35%.

Debt Rescheduling

7.35 Debt rescheduling opportunities have been limited in the current economic climate and the consequent structure of interest rates. Therefore, no debt rescheduling was undertaken during the first six months of 2017/18.

SECTION 8 - PRUDENTIAL INDICATORS

Introduction

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

8.2 Within this overall prudential framework there is an impact on the Authority's treasury management activity, as it will have a direct impact on borrowing and investment activity. Section 6 above provides a review of the Authority's activity to date during 2016/17.

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

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

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

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

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

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

8.8 In total there are fifteen prudential indicators, covering:

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

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

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

8.11 The following part of the report shows the estimated 2017/18 Prudential Indicators as at 30 September 2017 compared to the indicators approved by Council on 16 February 2017 as part of the budget setting process.

Prudential Indicators for Affordability

Ratio of financing costs to net revenue stream

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

8.13 The budgeted figures for 2017/18 are set out in Table 41 below together with the estimated 2017/18 position at 30 September 2017:

Table 41: Ratio of Financing Costs to Net Revenue Stream

	2017/18	2017/18
	Budget	Estimate
General Fund	11.54%	9.67%
HRA	30.39%	30.34%

The current forecast is lower than that budgeted reflecting the savings in the cost of borrowing, for 2017/18, reported for both the General Fund (paragraph 3.12.1) and Housing (paragraph 5.1).

8.14 The above indicator reflects costs for all borrowing, both supported and unsupported. It also includes the financing costs of PFI schemes. To enhance the information available for decision-making we have also provided a local indicator to show the percentage of the budget that is spent on unsupported borrowing. This is shown in Table 42 below:

Table 42: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream

	2017/18	2017/18
	Budget	Estimate
General Fund	9.46%	8.19%
HRA	7.69%	7.02%

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

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

Table 43: Incremental impact of new 2017/18 capital investment decisions on Council Tax (Band D) and weekly housing rents

	General Fund	HRA
Budget	£7.35	£1.74
Estimate	£7.28	£1.74

8.16 These figures are notional and in practice the incremental costs of borrowing for the capital programme are incorporated into the calculations for the revenue budget build up along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability. The current forecast is lower than that budgeted reflecting the savings in the cost of borrowing, for 2017/18, reported for both the General Fund (section 3) and Housing (section 5).

Prudential Indicators for Prudence

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

Gross debt and Capital Financing Requirement (CFR)

8.18 This key indicator shows that gross debt is not expected to exceed the total CFR at 31 March 2018. Gross debt is expected to be lower than budgeted reflecting both the continued use of internal borrowing and reprogramming during 2017/18.

Table 44: Gross external debt less than CFR

	2017/18 Budget	2017/18 Estimate
	£m	£m
Gross External Borrowing	523.853	504.612
Other Liabilities (including PFI)	133.008	124.530
Total Gross debt	656.861	629.142
Capital Financing requirement	688.857	657.559

Prudential Indicators for Capital Expenditure

Capital expenditure

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

Table 45: Capital Expenditure

	2017/18	2017/18
	Budget £m	Estimate £m
General Fund	80.734	65.023
HRA	26.049	24.979
Total	106.783	90.002

Capital Financing Requirement (CFR)

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

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

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

Table 46: Capital Financing Requirement

	2017/18 Budget £m	2017/18 Estimate £m
General Fund	338.082	318.542
HRA	350.775	339.017
Total	**688.857**	**657.559**

The estimated CFR is lower than that budgeted due to reprogramming during 2016/17 and 2017/18.

8.23 The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 47 below:

Table 47: Capital Financing Requirement for Unsupported Borrowing

	2017/18 Budget £m	2017/18 Estimate £m
General Fund	189.248	169.739
HRA	31.746	31.746
Total	**220.994**	**201.485**

Prudential Indicators for External Debt

Authorised limit for total external debt

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

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

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

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

Table 48: Authorised Limit for External Debt

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

8.28 All transactions are expected to be within the Authorised Limit for External Debt for 2017/18.

Operational Boundary for total external debt

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

Table 49: Operational Boundary for External Debt

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

8.30 All transactions are expected to be within the Operational Boundary during 2017/18.

HRA limit on indebtedness

8.31 Under the reforms of housing finance the Government published *Limits on Indebtedness Determination 2012* which set out the maximum amount of housing debt the Authority could have outstanding at any one time. The limit for North Tyneside was £290.824m. The HRA Capital Financing Requirement excluding the North Tyneside Living PFI scheme should be within the cap set. The table below confirms that the HRA adjusted debt at 31 March 2018 is expected to be lower than the cap set.

Table 50: HRA limit on indebtedness

	2017/18	2017/18
	Budget £m	Estimate £m
Gross HRA capital financing requirement	350.775	339.017
Less HRA PFI schemes	84.355	75.805
Adjusted HRA capital financing requirement	266.420	263.212
HRA limit on indebtedness	290.824	290.824

Prudential Indicators for Treasury Management

Adoption of the CIPFA Code of Practice for Treasury Management

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

Upper limits on interest rate exposure 2017/18

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

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

8.35 Upper and lower limits for the maturity structure of the Authority's borrowings were set as shown in Table 51 below. Borrowing is expected to remain within these limits during 2017/18.

Table 51: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate

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

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

SECTION 9 – COUNCIL TAX AND BUSINESS RATES RECOVERY

Council Tax and Business Rates Collection

9.1 The opening Council Tax debit for 2017/2018 is £94.643m, of which the budgeted retained share for the Authority is £84.403m. For Business Rates (NNDR) the opening net debit for 2017/2018 is £60.586m, following adjustment for the previous year's deficit position on NNDR the budget retained share for the Council for 2017/18 is £25.802m. Business Rates income is supplemented by a top up grant from Government of £19.189m, providing an anticipated combined budgeted income from Business Rates to the Council of £44.991m. Tables 52 and 53 (below) set out the in-year collection performance against the Council Tax and Business Rates net debit.

9.2 In relation to Council Tax, as at 30 September 2017, the Council had collected £52.751m (54.7%) compared to £49.574m (55.19%) at the same point in 2016/17. Further details are shown in Table 52.

9.3 The reduction in collection rate compared to 2016/17 is due to a number of factors including, the increase in Council Tax including the higher level of adult social care precept, the removal of discounts and exemptions for empty properties and the reduction in Council Tax Support. A fall in in –year collection of around 0.2% has been expected, however the long term rate of collection is expected to be maintained at the budgeted level of 98.5%.

Table 52: Council Tax Collection as at 30 September Each Year

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

9.4 In relation to Business rates, as at 30 September 2017, the Authority had collected £35.564m (58.7%) compared to £35.770m (57.03%) at the same point in 2016/17. Collections are currently ahead of target rates, the value is smaller due to the impact of the 2017 revaluation reducing the overall debit raised across the borough. Further details are shown in Table 53 below.

Table 53: Business Rates Collection as at 30 September Each Year

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