North Tyneside Council

Law and Governance

North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

This matter is being dealt with by:
Mr D Brown
Tel: (0191) 643 5358

email: dave.brown@northtyneside.gov.uk

22 November 2018

Dear Sir/Madam

Cabinet Meeting – Monday, 26 November 2018

Further to the previously circulated agenda for the above meeting, please find attached the following report for consideration:

Item 6(a) 2019-2023 Financial Planning and Budget Process: Cabinet's Initial Budget Proposals

Please bring this report to the meeting with you.

Yours faithfully

D Brown

Senior Manager Democratic and Electoral Services

Circulation overleaf

Circulated to Members of Cabinet: -

N Redfearn (Elected Mayor)
Councillor G Bell
Councillor C Burdis
Councillor S Cox
Councillor S Day
Councillor P Earley
Councillor R Glindon
Councillor M Hall
Councillor C Johnson
Councillor B Pickard (Deputy Mayor)

Young and Older People's Representatives and Partners of North Tyneside Council:

Poppy Arnold, Young Mayor
Alma Caldwell, Age UK
Mark Adams, North Tyneside Clinical Commissioning Group
Janice Hutton, Northern Area Commander, Northumbria Police
Roger Layton, North Tyneside Joint Trade Union Committee
Robin Fry, Voluntary and Community Sector Representative
David Hodgson, Business Representative

North Tyneside Council
Report to Cabinet
Date: 26 November 2018

ITEM 6a

Title: 2019-2023 Financial Planning and Budget Process: Cabinet's Initial Budget proposals

Portfolio(s):	**Elected Mayor**	**Cabinet Member(s):**	**Mrs Norma Redfearn**
	Finance and Resources		**Councillor Ray Glindon**
	Housing and Transport		**Councillor Steve Cox**

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

PART 1

1.1 Executive Summary:

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

1.1.2 These initial budget proposals include implications of the nationally recommended 1.99% general Council Tax increase. The decision on any Council Tax increase will be finalised in the report to Cabinet on 21 January 2019 following the conclusion of the consultation process on Cabinet's initial proposals.

1.1.3 That said, the initial budget proposals set out in this report have been developed in the context of the Our North Tyneside Plan 2018-2020 and reflect the Plan priorities. The proposals aim to reflect those matters which are important to residents and doing the very best to protect vulnerable adults and children.

1.1.4 At its meeting on 10 September 2018, Cabinet approved the process and timetable to be adopted for the preparation of the draft Financial Plan, 2019/20 revenue budgets in respect of the General Fund, Dedicated Schools Grant (DSG) and Housing Revenue Account (HRA), the 2019-2023 Investment Plan and the 2019/20 Treasury Management Statement and Annual Investment Strategy, as part of the overall Financial Planning and Budget process for 2019-2023. Cabinet also approved the budget engagement strategy as part of that report.

1.1.5 This report presents, for consideration, the outcomes of that process so far with Cabinet's initial budget proposals, in accordance with the time-scales set down in the Authority's Constitutional requirements in the Budget & Policy Framework Procedure Rules. This report presents proposals to cover a four-year planning period from 2019-2023 for the revenue budget and a four year planning horizon for the Investment Plan. The 2019/20 financial year is the final year of Central Government's financial settlement offer which has provided the Authority with a degree of certainty regarding the level of funding the Authority was due to receive. Budget planning beyond 2019/20 is therefore extremely difficult to predict with any accuracy at this stage.

1.1.6 There is great uncertainty in relation to the level of funding beyond 2020 due to the changes in the Local Government finance system resulting in greater risks in relation to the localisation of business rates and the local Council Tax scheme. The unknown impacts alongside the level of risk to finances mean that current budget forecasts will need to be closely monitored and potentially refreshed more frequently than usual as consequences become clear.

1.1.7 The Efficiency Statement, which was submitted to Central Government on 14 October 2016 to secure the multi-year financial settlement offer, has been revised. This now reflects how the Authority is planning to address the reduction in resources to ensure we can meet the anticipated savings that will be needed over the medium term of the financial plan. The current savings requirement is estimated to be £41.423m over the period 2019-2023 should no increases in Council Tax be applied. The Efficiency Statement is included as a background paper to this report.

1.1.8 A review was commissioned in April by the former Secretary of State in response to issues in relation to the Department's operation of the business rates retention system. A wide range of recommendations have been made in the Hudson report and the Government have confirmed that they will be accepting all of the recommendations.

1.1.9 The recommendation that has received most publicity has been that in future the Provisional Local Government Settlement should be published on or around the 5th of December each year and that the Final Settlement should be announced no later than the end of January. In responding to this recommendation, the Government confirmed it is aiming for the Provisional Settlement for 2019/20 to be published on 6th December 2018.

1.1.7 It is important to appreciate these proposals are based on several years of cumulative effort to respond to reducing resources and rising costs. They necessarily contain greater cumulative risk and require close attention to ensure delivery.

1.2 Recommendation(s):

1.2.1 Cabinet is recommended to:

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

(b) note the key principles being adopted in preparing the Medium Term Financial Strategy for the Authority, subject to an annual review;

(c) note the medium-term financial challenges and financial risks facing the Authority and agree to address these issues as part of the Efficiency Programme for the Authority, to deliver continued financial stability and prudent management of our financial resources;

(d) note the formal Reserves and Balances Policy for the Authority, subject to review at least annually;

(e) consider and agree the proposed Efficiency Statement, which has been written with consideration to the previously agreed Our North Tyneside Council Plan, and note that this forms part of the Policy Framework for the Financial Planning and Budget Process for 2019-2023;

(f) consider and agree the initial budget proposals in relation to the 2019/20 General Fund Revenue Budget and Dedicated Schools Grant, including the assessment in relation to the current year's budget monitoring information (2018/19);

(g) authorise the Head of Resources, in consultation with the Head of Commissioning and Asset Management, the Cabinet Member for Children, Young People and Learning and the Cabinet Member for Finance and Resources, to undertake resource allocations to schools for 2019/20 in line with the school funding arrangements set out in the report;

(h) consider and agree the proposed 2019-2023 Capital Investment Plan, noting that the plan continues to be under review;

(i) note the draft Capital Investment Strategy and note that this Strategy will now be subject to consultation as part of the Budget Engagement Strategy;

(j) note that all approved schemes within the 2019-2023 Investment Plan will be kept under corporate review by the Investment Programme Board;

(k) consider and agree the draft 2019/20 Treasury Management Statement and Annual Investment Strategy;

(l) note the Provisional Statement by the Chief Finance Officer;

(m) consider and agree the initial budget proposals in relation to the 2019-2023 Housing Revenue Account budget, and associated Business Plan, including an assessment in relation to the current year's budget monitoring information (2018/19);

(n) note the proposed April 2019 1% rent reduction (in line with the Welfare Reform and Work Act 2016), and the initial proposals in relation to housing service charges and garage rents for 2019/20;

(o) authorise the Elected Mayor, in conjunction with the Cabinet Member for Finance and Resources, Deputy Mayor and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these initial proposals; and,

(p) authorise the Chief Executive, in consultation with the Elected Mayor, Cabinet Member for Finance and Resources, Deputy Mayor and the Senior Leadership Team to manage the Efficiency Programme and note that progress will be reported to Cabinet as part of the regular budget monitoring information provided.

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 26 October 2018.

1.4 Council plan and policy framework:

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

1.4.2 The development of the Financial Plan and Budget has followed the same timetable as in previous years. However, the proposals will also be presented to Overview and Scrutiny during the course of the budget setting process. The priorities in the Our North Tyneside Plan 2018-2020 Council Plan - 'Our North Tyneside' provide the strategic framework within which budget resources are allocated.

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

1.5 Information

1.5.1 Cabinet has worked to consider options to meet the financial challenges and considered proposals that would meet an initial funding gap in the region of £41.423m over the next four financial years.

General Fund

1.5.2 Sustained cuts in government funding and unfunded pressures together with unfunded new burdens mean that since 2010, the Authority, along with other local authorities, has already made substantial efficiency savings. These sustained cuts come at a time when demand for some of the Authority's most costly services such as support to vulnerable adults and children's social care is increasing. Currently the cost of Looked after Children (LAC) care packages range from £0.016m for Internal Fostering support through to £0.207m for External Residential placements. In Adult Social Care the average cost of care packages range from £0.008m for Homecare/Extra care (over 1200 clients), £0.022m for Older People and those with Physical Disabilities (over 960 clients), £0.048m for over 100 clients with Learning Disabilities and Mental Health needs, and an average cost of over £0.055m for over 230 clients being supported through Independent Supported Living.

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

1.5.4 As part of the 2017 Local Government Finance Settlement, in order to address the pressures faced by Adult Social Care Services, Central Government introduced a social care precept of up to 6% across the period 2017/18 through to 2019/20. The full Adult Social Care precept of 6% was applied in 2017/18 and 2018/19. Therefore no further precept has been anticipated or included within these initial proposals. In addition to this, an improved Better Care Fund was made available as part of the 2017 Spring Budget. These initial proposals are based on the assumption this funding is applied to the local authority's spend on Adult Social Care services. When the impact of the Central Government's assumed increase in Council Tax and the improved Better Care Fund are taken into consideration the resulting net efficiency requirement is in the region of £41.423m.

1.5.5 The Authority is experiencing an incredibly difficult period and it is faced with relentless pressure on reduced budgets. In light of this challenge, the Authority has engaged with residents and has developed a clear plan for the future. The initial budget proposals in this report aim to protect essential services for the people of North Tyneside, invest in the future of the borough, grow the local economy, create more jobs and opportunities in an Authority which works better for residents.

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

1.5.7 The 'Our North Tyneside' Plan reflects the priorities of the Elected Mayor and Cabinet and residents. The Budget proposals set out in this report have therefore been developed in the context of the 2018-2020 ‘Our North Tyneside’ Plan and reflect the Plan priorities. The overall direction is outlined in Annex 1 to this report.

1.5.8 Between July and September 2018 there has been an extensive programme of public engagement throughout the borough through the Big Community Conversation. The feedback from this programme, and other activity throughout the year including the State of the Area event, has informed the initial Cabinet budget proposals which are set out in this report. Further engagement on Cabinet’s initial budget proposals will take place from the end of November 2018 to January 2019. It will involve information and feedback through the Authority’s website as well as focus group activity with staff, residents, businesses and strategic partners.

<u>Housing Revenue Account</u>

1.5.9 The HRA has faced significant challenges from legislation, particularly linked to the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016. The Authority continues the implementation of the Government’s policy to reduce rent by 1% as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI sheltered accommodation homes. However, 2019/20 represents the last year of the rent reduction, and from 2020/21 Government has announced that social rents will return to the previous policy of being based on the Consumer Prices Index (CPI) plus 1% for at least 5 years to give greater certainty for longer term planning. In terms of the Housing and Planning Act the government has also announced that it will not be implementing the High Value Asset levy that would have required the Authority to sell off a proportion of its stock each year, removing another risk to HRA resources. The Authority is also facing the impact of the continued roll-out of Universal Credit and other welfare reforms. Cabinet agreed in September 2017 that it would not extend the Authority’s Joint Venture partnership with Kier North Tyneside beyond March 2019. This gives rise to a challenge to create a fit for purpose construction and maintenance operation, to best meet the needs of the Authority’s tenants and residents, whilst delivering greater efficiency and value for money.

1.5.10 In the October spending review, the Government decided to remove the HRA borrowing cap. It will now be for the Authority to determine the level of unsupported borrowing it wishes to undertake to fund new build in line with the Prudential Code which already applies to the rest of the Authority’s borrowing strategy. This will need to be assessed against the levels of rental income that can be raised to support such borrowing and against a background of no guaranteed additional grants to support the build, the availability of suitable sites, and no proposed cessation of the RTB scheme or changes to the levels of discounts available to tenants.

1.5.11 These challenges continue to be considered as part of the updating of the 30-year plan which aims to ensure the long-term viability of the HRA in line with the policy direction of the Mayor and Cabinet and the needs of tenants. For the purposes of the current Financial Planning and Budget process, a four-year revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that all projections after 2019/20 are only indicative at this stage.

1.5.12 Housing Revenue Account tenants will be consulted on these initial proposals and the final HRA Budget will be presented to Cabinet on 21 January 2019. At that meeting Cabinet will be asked to approve the HRA Business Plan and Budget for 2019/20, including the housing rent, garage rent and service charge changes and the Housing Investment Plan.

1.5.13 Annex 1 to this report sets down in detail the Cabinet's 2019-2023 initial budget proposals for the General Fund Revenue Budget, Dedicated Schools Grant, Housing Revenue Account, 2019-2023 Investment Plan , the 2019/20 Treasury Management Statement and Annual Investment Strategy.

1.5.14 Cabinet's initial budget proposals are based upon available information and judgements at the time of the writing of this report. There are a number of assumptions and judgements built into the figures presented that are outside the control of the Authority and need to be finalised. The initial budget proposals will therefore need to be subject to further review before they can be confirmed. The information to be assessed and finalised is:

(a) The Provisional and Final Local Government Finance Settlement announcements for 2019/20, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG) (due December 2018/ January 2019);

(b) Police and Crime Commissioner for Northumbria and Tyne and Wear Fire and Rescue Authority Precepts (due 5 February 2019 and 18 February 2019 respectively);

(c) Levies, including the Tyne and Wear element of the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Transport Levy (The North East Combined Authority due January 2019);

(d) Tyne and Wear Joint Service Budgets (due January/February 2019); and

(e) Consideration of the impact of the economic climate on the residents of the borough and council tax payers.

Therefore, as some external announcements are still to be received, it is recommended that Cabinet authorises the Elected Mayor, in conjunction with the Cabinet Member for Finance and Resources and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these proposals.

1.6 Decision options:

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

Option 1

Cabinet can agree the proposals set down in this report.

Option 2

Cabinet can suggest that further / different options are considered by the Senior Leadership Team and be reported back to Cabinet for further consideration.

Option 1 is the recommended option.

1.6.2 As explained in the Annex to the report, there is still a significant amount of externally provided information that has not yet been received by the Authority. On this basis, Cabinet is recommended to authorise the Elected Mayor, in consultation with the Cabinet Member for Finance and Resources, the Deputy Mayor and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these initial proposals. Recommendation 1.2.1 (o) refers.

1.7 Reasons for recommended option:

1.7.1 Due to external information still to be received, Cabinet is not in a position to finalise setting its proposed Council Tax level for 2019/20 in relation to the General Fund although these initial budget proposals include Central Government's assumed increase to council tax of 1.99%) in 2019/20. This report will form the basis of Budget Engagement and Scrutiny over the next two months, but further work will inevitably be required before final decisions are made on the budgets for next year. Hence the authorisation recommendation referred to in paragraph 1.6.2 above.

1.8 Appendices:

Annex 1:	2019-2023 Financial Planning and Budget Process – Cabinet's Initial Budget Proposals
Appendix A:	2018-2020 Our North Tyneside Plan
Appendix B	General Fund 2019-2023 Financial Pressures Summary
Appendix C	General Fund 2019-2023 Efficiency Savings
Appendix D(i)	2019-2023 Investment Plan Summary
Appendix D(ii)	Prudential Indicators 2019-23
Appendix D(iii)	Capital Investment Strategy
Appendix E	2019/20 Treasury Management Statement and Annual Investment Strategy
Appendix F	2019/20 Financial Planning and Budget Timetable of Key Future Decision Milestones
Appendix G	Medium Term Financial Strategy 2019-2023
Appendix H	2019/20-2023 Draft Efficiency Statement
Appendix J	Glossary of Terms

1.9 Contact officers:

Janice Gillespie, Finance Service
Tel No 643 5701

Claire Emmerson, Finance Service
Tel No 643 8109

Cathy Davison, Finance Service
Tel No 643 5727

Margaret Keith, Finance Service
Tel No 643 5747

Darrell Campbell, Finance Service
Tel No 643 7052

Jacqueline Laughton, Corporate Strategy
Tel No 643 7070

Louise Watson, Law and Governance
Tel No 643 5325

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) 2019-2023 Financial Planning and Budget Process, incorporating the Council Plan and associated Engagement Strategy, Cabinet 10 September 2018. The report items are as follows: 5f (a), 5f (b), 5f (c)

https://my.northtyneside.gov.uk/sites/default/files/meeting/agenda/Cabinet%2010%2009%2018.pdf

(b) 2018 Autumn Statement

Autumn Budget 2018 GOV.UK

(c) State of the Area Report 2018

https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/2018%20State%20of%20the%20Area%20Report.pdf

(d) CIPFA local authority reserves and balances

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

(e) 2018/19 Financial Management Report to 30 September 2018 – Cabinet 26 November 2018. The report items are as follows: 5e (a), 5e (b), 5e (c)

https://my.northtyneside.gov.uk/sites/default/files/meeting/agenda/Cabinet%2010%2009%2018.pdf

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

2.1.1 The financial implications arising from this report are appraised as part of the decisions made about what will be included in the Authority's Financial Plan, incorporating the 2019/20 budget setting process. Decisions on the budget in relation to the General Fund, Housing Revenue Account, Dedicated Schools Grant (DSG), Capital Investment Plan, Treasury Management Statement and Annual Investment Strategy need to be made within the overall context of the resources available to this Authority and within the legal framework for setting budgets. The Authority will need to examine closely the links with its key funding partners and their proposed financial plans, including an assessment of the impact of any grant fall-out over the proposed four year resource planning period.

2.1.2 Cabinet and full Council need to have due regard to the Chief Finance Officer's advice in relation to the levels of reserves and balances proposed as part of the four year Financial Plan for 2019-2023, as issued in guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA) in July 2014. A provisional statement to Council by the Chief Finance Officer is included in the Annex to this report.

2.2 Legal

2.2.1 The Local Government Finance Act 1992 (Section 32: Calculation of Budget Requirement) requires the Council to set a balanced budget in the context of the resources available, including Central Government Grants, Business Rates and Council Tax income. The Localism Act 2011 inserted a new Section 31 into the Local Government Finance Act 1992, which requires the calculation of a council tax requirement by billing authorities, rather than a budget requirement calculation, as previously. The Localism Act 2011 also abolished Council Tax capping in England. It instead introduced new provisions into the 1992 Act, making provision for Council Tax referendums to be held in England if an authority increases its Council Tax by an amount exceeding the principles determined by the Secretary of State. The current principles for local authorities with responsibility for social care (county and unitary authorities) provide that a referendum is required if Council Tax is to increase by 3% or more.

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

2.2.3 The 2019-2023 Financial Planning and Budget process has been prepared to comply with the time-scales required within the Budget & Policy Framework Procedure Rules contained in the Authority's Constitution and legislative requirements that the Council Tax requirement is determined before the 11 March in any year.

2.2.4 Section 76 (2) of the Housing Act 1989 requires each authority to produce a Housing Revenue Account budget in the January and February that immediately precede the financial year to which it will relate. In relation to the Housing Revenue Account (HRA) draft revenue budget and associated Business Plan, there is a legal requirement to give all tenants four weeks notice of any rent changes. In order to allow time for the production and delivery of the appropriate notifications, the Rent and Service Charge increase will be presented to the 21 January 2019 Cabinet meeting for approval.

2.2.5 In accordance with the above and the Local Government Act 2000 (and the Regulations made under that Act) Cabinet is responsible for considering and determining the issues raised in this report.

2.3 Consultation / Community engagement

Internal consultation

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

Community engagement

2.3.2 The 2019/20 Budget Engagement Strategy was agreed at Cabinet on 10 September 2018. The Authority's overall approach to engagement ensures that the public should have opportunities to have their say throughout the year. Between June and September 2018 there has been an extensive programme of engagement across the Borough through the 'Big Community Conversation'. Further engagement on the Cabinet's initial budget proposals and Our North Tyneside Plan priorities will take place from 27 November 2018 to 6 January 2019. The Budget proposals have been shaped in the context of the Our North Tyneside Plan 2018-2020.

2.3.3 For the next phase of engagement there will again be opportunities for residents to have their say online and via social media and at a discussion event. There will also be meetings with key groups of stakeholders, including the Residents Panel, to discuss the Budget proposals.

2.4 Human rights

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

2.5 Equalities and diversity

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

To achieve this an Equality Impact Assessment has been carried out on the Budget Engagement process. The aim is to remove or minimise any disadvantage for people wishing to take part in the engagement programme. Specific proposals on how services will seek to meet budgetary requirements will be subject to EIAs, which will be informed by the findings of the budget engagement. A cumulative impact assessment of all of these will also be undertaken prior to Cabinet in January 2019.

2.6 Risk management

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

2.7 Crime and disorder

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

2.8 Environment and sustainability

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

PART 3 - SIGN OFF

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

2019-2023 Financial Planning and Budget Process:

General Fund Revenue Budget, Housing Revenue Account Budget, Dedicated Schools Grant, Investment Plan and Treasury Management proposals

North Tyneside Council

Introduction

This Annex sets out North Tyneside Council's initial proposed General Fund and Housing Revenue Account (HRA) Budget for the financial year 2019/20, together with indicative plans for the next three years 2020/21-2022/23 and is the basis on which we will seek views of residents, tenants and partners on these plans.

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

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

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

Engagement Approach

North Tyneside Council is committed to being an organisation that works better for residents that listens and cares and this commitment includes giving residents and other key stakeholders an opportunity to be involved in helping to shape decision making in relation to the Financial Planning and Budget process.

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

Between July and September 2018 there has been an extensive programme of engagement out and about across the borough through the Big Community Conversation. The feedback from this programme and other activity throughout the year including the State of the Area event has informed the initial Cabinet budget proposals which are set out in this report.

Further engagement on Cabinet's initial budget proposals will take place from the 27 November 2018 to 6 January 2019 as set out below.

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

Target Audiences

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

Specific external audiences are:

- Residents of North Tyneside
- People who use our services
- Children and young people
- Older people
- North Tyneside Strategic Partnership
- Business community
- Schools
- Voluntary and community sector (including faith groups)
- Carers
- Tenants

Internal audiences are:

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

Approach

Our approach aims for maximum reach by offering a range of different opportunities for people to have their say. In line with the Authority's Engagement Strategy principles agreed by Cabinet on the 10 September 2018, these opportunities are:

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

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

Members of the Residents Panel will be invited to attend 3 sessions throughout December 2018 which will provide a number of them with further context to the budget setting process, enable them to listen to the proposals and to provide feedback face to face. The sessions aim to give residents a clearer understanding of local authority finance and budget setting processes that will help them to critically appraise the draft proposals and then feedback accordingly.

Targeted events will be held for key stakeholder groups including: Staff Panel, businesses, schools, young people, community and voluntary sector, Trade Unions, North Tyneside Strategic Partnership, older people and carers.

Engagement with people who use our services or their representatives will be via existing networks. The engagement programme will be advertised via the press and social media and at key outlets and facilities including libraries, Customer First Centres, community centres, leisure centres.

Our North Tyneside Plan

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

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

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

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

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

Our People will:

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

Our Places will:

- Be great places to live by focusing on what is important to local people, such as by tackling the derelict properties that are blighting some of our neighbourhoods.
- Offer a good choice of quality housing appropriate to need, including affordable homes that will be available to buy or rent.
- Benefit from the completion of the North Tyneside Living project and by North Tyneside Council’s housing stock being decent, well managed and its potential use maximised.

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

Our Economy will:

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

Performance

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

Our People

- More people, compared to 2013, are satisfied with the way that the council runs things

- Key Stage 1 pupils reading, writing and maths performance is significantly better than the national standard. They have been supported by the nurseries, playgroups, childminders and after schools clubs in North Tyneside that have all been rated as Good or better by Ofsted

- North Tyneside continues to focus on closing the attainment gap between the most vulnerable young people and their peers. At Key Stage 2, disadvantaged pupils' performance is significantly higher than similar pupils nationally. At Key Stage 4 the gap has closed compared to last year, but remains of a similar size to the national gap. Closing the gap between vulnerable groups and their peers is a continuing challenge and a Pupil Premium Network has been established to share good practice and drive further improvements.

- A-level results for 2018 were the best ever for North Tyneside in academic subjects. Many schools achieved a pass rate of between 97% and 100%, which represents an outstanding result.

- Average life expectancy is now 80 years (78 years for men and 82 years for women). Healthy life expectancy at birth is better than the regional average, but below the national figure.

<u>Our Places</u>

Will be a great place to live. Will offer a good choice of quality housing. Benefit from the completion of the North Tyneside Living Project. Provide a clean , green, healthy, attractive, safe and sustainable environment. Have effective transport and physical infrastructure. Continue to regenerate Wallsend and Whitley Bay and deliver new schemes in Killingworth and Forest Hall. Be a thriving place of choice for visitors.

- Delivery of a programme to encourage a greater sense of place, particularly in our areas of greatest deprivation
-
- Plans to tackle anti-social behaviour and promote community safety
-
- Delivery of the affordable homes programme and the Master Plans at Killingworth and Murton
-
- Development and delivery of a programme of public art to celebrate our communities and what makes them special.

- North Tyneside has welcomed 5.71 million visitors; and they have contributed £284 million to the local economy and supported almost 3,690 jobs.

- The borough's beaches have achieved three Blue Flag Awards. North Tyneside's parks have retained their green flag status and volunteering in our parks has continued to grow.

<u>Our Economy</u>

- Between 2016 and 2017 an estimated additional 3,000 people work in North Tyneside.

- The number of new and registered businesses in North Tyneside continues to grow.

- We have an award winning business start-up service supporting more new businesses every year.

- North Tyneside's business survival rate is higher than the UK rate.

- The borough's unemployment rate continues to fall and is lower than before the global financial crisis in 2008.

Local Plan

The latest population projections from the Office of National Statistics project an increase of 15,800 people between 2014 and 2032. The population of North Tyneside in 2032 is expected to be 218,500. The Local Plan is the second key strategic element that drives the direction of resources in the Borough and was adopted by North Tyneside Council on 20 July 2017. The Local Plan sets out how the Borough can be a thriving, prosperous and attractive place to live and work. It details how the Borough will require around 9,800 homes (in addition to about 4,700 that already have planning permission) and employment land for at least 12,700 new jobs.
Taking all of this into account, the Our North Tyneside Plan has at its core, two fundamental policy aims. First, whilst there has been success across the plan over the last four years there is still a need to reduce the inequalities that persist in North Tyneside. Within our borough we continue to have some of the least deprived neighbourhoods in the country but also some of the most deprived in terms of financial independence, skills, qualifications, health and well-being. This will mean working in a very different way to ensure that resources can be more effectively targeted at the people who need them most to ensure that all residents have a successful, healthy and safe future, no matter where they live in the borough.

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

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

In addition to this report Cabinet are also considering the Ambition for North Tyneside report at this Cabinet meeting which looks to articulate the Elected Mayor and Cabinet's ambition for North Tyneside. That report explains in more detail the Elected Mayor and Cabinet's ambitions for the each part of the Borough.

The revised Efficiency Statement reflects how the Authority is planning to address the reduction in resources to ensure we can meet the anticipated savings that will be needed over the medium term of the financial plan.

Medium Term Financial Strategy

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

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

The MTFS is included for consideration by Cabinet alongside this report in Appendix G.

General Fund

Medium Term General Fund Position

Medium term financial planning remains difficult and is prepared against sustained funding cuts for local government coupled with increased demand for social care and managing the impacts of welfare reform. The Autumn 2018 Budget reported an improvement in the public finances with medium term forecasts now suggesting that the deficit will level-out at about £20bn in 2022/23 and 2023/24. This is an improvement on the forecasts in the last two fiscal announcements (Autumn Budget 2017 and Spring Statement 2018). Much of the improvement has been the result of better-than-expected taxation receipts. Uncertainty remains in respect of the impact of Central Government's devolution agenda as well as the future impact of Brexit. In terms of managing the increasing demands for both Adult and Children's Social Care, there are also indications that many authorities are overspending against budgets for both Adults and Children's Services in order to meet increasing demand and cost. These pressures are evident in our own authority and we need to continue explore new financial and organisational initiatives to meet this significant challenge.

It has already been highlighted that, at a local level, there are changes in North Tyneside's demography with an increasing population and a growing number of our most vulnerable residents requiring complex health and social care support. The Authority wherever possible aims to manage demand as effectively as possible targeting services at those residents with greatest need, this can only contain, or at best slightly reduce, the overall size of the population in receipt of the services. However, the average cost of these services has risen due to the increased average complexity of the needs of those clients.

Whilst the Borough has seen some economic growth, the Business Rates Retention scheme is such that significant appeals led to a reduction in rateable value when compared to the scheme that was introduced in 2013/14.

The likely continuing requirement and scale of budget savings, over and above the £120m already taken from budgets since 2011/12, presents an increasing challenge for the Authority. The Government's approach to "continue the work of bringing the public finances under control and reducing the deficit, so Britain lives within its means" will result in further significant funding challenges and the requirement to address cost pressures for Local Government.

Cabinet has worked to consider options to meet the financial challenges and considered proposals that would meet an initial funding gap in the region of £41.423m over the next four financial years. Sustained cuts in government funding and unfunded pressures together with unfunded new burdens mean that since 2011/12, the Authority, along with other local authorities, has already made substantial efficiency savings. These sustained cuts come at a time when demand for some of the Authority's most costly services such as support to vulnerable adults and children's social care is increasing.

Funding Social Care pressures

Since the 2016 Spending Review an Improved Better Care Fund (IBCF) offer has been included to begin to address the pressures being felt in Adult Social Care. These initial budget proposals include the final additional 2019/20 IBCF allocation of £1.493m which was announced in the Spring 18 Budget. An assumption has been made that this funding will stay with the Authority when delivering services associated with the Better Care fund beyond 2019/20. However, currently there is no assumption made to include any additional IBCF allocations post 2019/20.

In addition, whilst retaining the Council Tax referendum limit at 3% for 2019/20 as part of the 2017 Local Government Financial Settlement, an Adult Social Care precept was proposed with a limit of no more than 6% over the period 2017/18 to 2019/20. The full Adult Social Care precept of 6% was applied in 2017/18 and 2018/19. Therefore no further Adult Social Care precept has been anticipated or included within these initial proposals.

Prior to the 2018 Autumn Budget Statement a new Adult Social Care (ASC) grant of £240m was announced for 2018/19 which is intended to help local authorities reduce pressures within the NHS over the coming winter period. The conditions of the grant require close working with our NHS partners. North Tyneside will receive £1.031m of the total grant allocation.

Whilst this new ASC grant announced in October was initially identified as a one off grant for 2018/19, the 2018 Autumn Budget Statement announcement confirmed that this grant would continue into 2019/20. In addition, a further £410m grant was announced that could be used by local authorities in relation to Adults and Children's Services. Although there has been no publication of what proportion of the £410m North Tyneside will receive we estimate that this could be in the region of £1.750m.

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

Council Tax Support

In 2013/14 the national Council Tax Benefit scheme came to an end, and Local Council Tax Support was introduced in its place. At the same time, funding was transferred into the settlement funding assessment (comprising Revenue Support Grant and Business Rates) after being cut by over 10%. As this funding is not separately ring-fenced within the settlement funding assessment, it has effectively been cut at the same rate as our settlement funding assessment has been cut for each subsequent year.

This has put significant additional strain onto the General Fund budget and resulted in the Council, as well as many other local authorities, seeking to collect some Council Tax from working age people who previously received 100% Council Tax benefit.

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

Council Tax Support under our current scheme is capped at 85% of an individual's Council Tax liability, meaning that working age people are charged 15% of their Council Tax before they receive Council Tax Support.

Cabinet are not proposing any changes to Council Tax Support for the financial year 2019/20.

Business Rates

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

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

The Authority, like all other authorities, remains exposed to the risk of Business Rate appeals, which are determined by the Valuation Office Agency. Government introduced a new check, challenge and appeal process in April 2017 which appears to have improved the efficiency of the appeals process, as challenges against rateable values have significantly reduced in both 2017/18 and 2018/19. Due to the impact of appeals in previous years it has been assumed that Business Rates income remains at the current budgeted level until confidence in the new system is assured.

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

- Bringing forward, by two years, the switch from using the retail prices index (RPI) to the consumer prices index (CPI). This was brought in to effect in April 2018; and
- Extending the £1,000 discount for pubs with a rateable value of less than £100,000 for another year, to March 2019

Local Government is expected to be fully compensated for these changes through a S31 grant.

Government's Budget in October 2018 announced a number of changes to offer additional support to businesses in reducing their business rate liability. These include;

- Providing upfront support to the business rates system through reducing bills by one-third for retail properties with a rateable value below £51,000, for 2 years from April 2019, subject to state aid limits
- The introduction of 100% business rate relief for all public lavatories with the aim of helping keep these amenities open; and
- Continuing with the £1,500 business rates discount for office space occupied by local newspapers in 2019/20.

Initial analysis shows that 440 properties in North Tyneside will benefit from the reduction in business rates by one-third, with an overall cash value of £976,604. This money is fully reimbursed to Local Government through S31 grant.

The North of Tyne Combined Authority has submitted an application to the Ministry of Housing, Communities and Local Government to be considered for a Business Rates Pilot Scheme in 2019/20. This pilot offers retention of 75% of any business rate growth, whereas currently only 50% is retained locally.

The current budget proposals make no assumption on the success of the application.

General Fund Financial Plan

Overall Cabinet's approach to developing the 2019/20 budget has been to take, as far as possible, a balanced approach to developing the budget in order to maintain those services most residents wish to access as well as investing in those services for our more vulnerable residents.

As part of the 2016 Spending Review Central Government included in their assumptions annual increases in Council Tax. At this stage no assumptions have been made regarding Council Tax increases.

General Fund Resources

Table 1 below sets out the assumed level of resources available to fund the General Fund net budget. This has been developed using the following assumptions:

- Revenue Support Grant, Business Rate Retention and Business Rate Top up in line with the Settlement Funding Assessment issued as part of the 2018 Final Local Government Settlement

- Inflation increase in Business Rates of CPI of 2%

- Council Tax Base growth has been considered as at the end of October 2018 with assumptions for further growth based on indications from the Local Plan, with prudent consideration taken of the timing of expected delivery and potential risks of economic impacts on a slowdown of housing growth

- An estimated 2018/19 Council Tax surplus of £1.000m based on the year end forecast position of the Collection fund at 30 September 2018

These assumptions take the overall position on resources from the current £154.726m in 2018/19 to a potential £152.762m by 2022/23 as detailed in table 1 below.

Table 1: 2019-2023 General Fund Financial Plan Resources Assumptions prior to Council Tax rate increases

	2018/19 £m		2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Council Tax	89.902		91.857	92.239	92.613	92.988
Estimated Council Tax Surplus	0.400		1.000	0.000	0.000	0.000
Revenue Support Grant	16.915		11.198	11.198	11.198	11.198
Business Rates	27.825		28.459	29.028	29.609	30.201
Business Rates top up	19.684		20.162	19.400	19.191	18.375
Total Resources Available	**154.726**		**152.676**	**151.865**	**152.611**	**152.762**

The table below sets out the impact on available resources should an increase in Council Tax be proposed in 2019/20. The Authority can at this stage approve a Council Tax increase of up to 2.99% which would generate a further estimated £2.747m of resources in 2019/20.

Table 2: 2019-2023 General Fund Financial Plan Resources with potential Council Tax increase included

	2018/19 £m		2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Council Tax	89.902		94.604	95.910	98.143	100.390
Estimated Council Tax Surplus	0.400		1.000	0.000	0.000	0.000
Revenue Support Grant	16.915		11.198	11.198	11.198	11.198
Business Rates	27.825		28.459	29.028	29.609	30.201
Business Rates top up	19.684		20.162	19.400	19.191	18.375
Total Resources Available	**154.726**		**155.423**	**155.536**	**158.141**	**160.164**

Cost pressures

The need to find savings in 2019/20 and future years is driven by significant unfunded cost pressures arising from a number of sources as well as the stagnation in resources from Central Government. The Authority is experiencing the same service pressures as many other Metropolitan Authorities. These cost pressures arise for a number of reasons including:

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

- Pay and price inflationary increases – increases in pay based on an assumed 2% pay increase, the impact of the National Living Wage increases on social care providers,) and the impact of increased waste demand and the RPI impact on the contract the council has for waste disposal;

- Increasing demand for services – increased demand for social care services coupled with the complexity of individuals' needs (for example increased numbers of adults with complex learning disabilities) and for home to school transport;
- The impact of the improved Better Care Fund grant announced after the 2018/19 budget had been agreed including the additional impact for 2019/20;and

- Corporate pressures include the impact of the current joint venture arrangements with our partners and the planned reversal of the use of MRP reserve in 2018/19

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

In the context of setting the budget for 2019/20 it is also important to consider the in year budget monitoring position. The first report to Cabinet which detailed the forecast outturn as at May 2018 identified an in year pressure of £5.593m. At the mid-year point this position has improved significantly and the forecast outturn pressure is now estimated to be £3.599m as at the 30 September 2018.

A number of sessions have already been held with Cabinet Members and senior management to give early consideration as to the actions required to manage the financial risk identified for 2018/19, including what additional actions can be taken in line with the Authority's Efficiency Statement. Service areas have continued to develop plans to mitigate identified financial pressures. It is anticipated that the forecast outturn will continue to improve over the course of the financial year as planned remedial actions impact on both expenditure and income.

There is the potential that the use of reserves will be required to bring the Budget in balance for the year ending 31 March 2019. Where this approach is adopted the Authority will be explicit as to how such expenditure will be funded in the medium to long term to achieve financial sustainability. The Authority recognises that usage of reserves is one-off in nature and must be linked with expenditure and income plans to support financial sustainability in the medium term.

Taking the available baseline resources into account and the growth pressures identified Table 3 below sets out the indicative gap/efficiency required in advance of any decisions on Council Tax increase i.e. £7.654m for 2019/20 and £41.423m over the period of the financial plan.

Table 3: 2019-2023 General Fund Financial Plan cumulative funding gap before Council Tax options and efficiencies

	2018/19 £m		2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
A: Base Budget Brought forward	152.360		154.726	152.676	151.865	152.611
B: Estimated Growth	12.976		11.302	14.534	8.525	9.370
C: Spend Requirement (A + B)	165.336		166.028	167.210	160.390	161.981
D: Resources Available	(154.726)		(152.676)	(151.865)	(152.611)	(152.762)
Resources Gap (C + D)	10.610		13.352	15.345	7.778	9.219
2018/19 Full year effect business cases in future years			(3.550)	(0.122)	(0.762)	(0.482)
Revised Resources Gap			9.802	15.223	7.016	8.737
Autumn Budget Social Care Grants			(2.148)	2.792	0.000	0.000
Gap before Council Tax options and efficiencies			**7.654**	**18.015**	**7.016**	**8.737**
Cumulative funding gap before Council Tax options and efficiencies				**25.669**	**32.685**	**41.423**

The indicative cumulative funding gap over the period of the financial plan is £17.495m as detailed in table 4 below. This is after taking into consideration the potential options for Council Tax increases and the current savings proposals which are being considered by Cabinet as part of the budget setting process.

Table 4: 2019-2023 General Fund Financial Plan cumulative funding gap after Council Tax options and efficiencies

			2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Gap before Council Tax options and efficiencies			**7.654**	**18.015**	**7.016**	**8.737**
Council Tax Increase Options						
Council Tax (0.99%)			(0.919)	(1.845)	(2.778)	(3.720)
Council Tax (1.99%) - Assumed in 2020/21-2022/23			(1.828)	**(3.671)**	**(5.529)**	**(7.402)**
Council Tax (2.99%) - Assumed in 2019/20			**(2.747)**			
2019/20 Proposed Savings			(2.719)	(0.860)	(0.500)	(0.500)
Annual Funding Gap			**2.188**	**13.484**	**0.987**	**0.835**
Cumulative Funding Gap				**15.672**	**16.659**	**17.495**

Efficiency Savings

Our approach for 2019-2023 is to achieve savings early where possible, to mitigate against future financial risks whilst working in a very different way. In 2019/20 we are seeing the benefit of actions and proposals implemented during 2017/18 and 2018/19 and this work will continue over the medium term. Expensive services will continue to be more effectively targeted only at the people who need them, ensuring that our most vulnerable residents have a successful, healthy and safe future no matter where they live in the Borough. Cabinet has protected where possible those universal services accessed by all e.g. Libraries, Customer Service Centres, Sport and Leisure. Work continues to improve understanding and management of demand, concentrating wherever possible on enabling people to help themselves. Intelligence is being used to target scarce resources to best effect, income is maximised and long-term cost reduced, work continues in partnership to improve outcomes, with an innovative use of technology to improve outcomes.

In terms of delivering the overall budget, the Efficiency Programme will necessarily continue to be a cross cutting programme to transform every part of the Authority and the relationship with the residents of North Tyneside as set out in the “Our North Tyneside Plan”. The Efficiency Statement, which was first agreed under a delegation to the Mayor on 10 October 2016 and has been revised for 2019/20, sets out a number of proposals to be delivered that are designed to support the Authority in managing the change required to meet the significant financial challenge it faces. The proposals consider how service delivery can be reshaped in order that the Authority is able to meet the demands it faces, consider how residents are supported to help themselves, and continue to develop the Borough in terms of a place to live, being attractive to businesses and have effective transport and physical infrastructure.

Appendix C sets out in more detail the proposals for 2019-2023, which are summarised in Table 5 below:

Cabinet and senior officers continue to consider plans to meet the remaining gap of £2.188m in 2019/20 in light receiving details in respect of the Financial Settlement which is expected on 6 December 2018.

Table 5: Efficiency Savings 2019-2023

Efficiency Statement	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
A Focus on Customer Experience	(0.225)	(0.225)	(0.100)	(0.100)
Continue to Redesign 0-19 Services	(0.265)	0.265	0.000	0.000
Deliver Our Fees and Charges Policy	(0.062)	0.000	0.000	0.000
Delivering Whole System Support to Children with Additional Needs	(0.100)	(0.100)	(0.100)	(0.100)
Develop A 10 year plan for Waste	(0.100)	0.000	0.000	0.000
Protect our Leisure and Culture Offer	(0.625)	0.000	0.000	0.000
How We Are Organised	(0.339)	(0.200)	(0.200)	(0.200)
Leading Sector-led Improvement	(0.100)	(0.100)	(0.100)	(0.100)
Post-2019 Construction Delivery	(0.500)	0.000	0.000	0.000
Regenerating the Borough and Building Up Business	(0.103)	0.000	0.000	0.000
Responding to Rising Complex Needs	(0.300)	(0.500)	0.000	0.000
Total	**(2.719)**	**(0.860)**	**(0.500)**	**(0.500)**

Housing Revenue Account (HRA)

Background and Government Policy Context

North Tyneside Council is responsible for the management of just under 14,700 council houses. Council Housing Rents and Service Charges form the majority of income to the HRA and this income is then used to fund the management and maintenance of the Housing stock. This income and expenditure is accounted for in a ring-fenced account as required by law.

Housing Green Paper

Despite a natural focus from Government on Brexit, Housing policy has been one of the domestic issues that have seen some significant movement during the past few months. The Government has pushed Housing to the forefront of the policy agenda, and recognised that local authorities have a key role to play if the Government are to achieve their ambitions to increase housing supply. Firstly, there was the publication of the Green Paper “A New Deal for Social Housing” in August 2018, which arose from a desire to consult on change post-Grenfell. This paper seeks to redress the balance between residents and landlords, tackle the stigma attached to social housing and to ensure that social housing can provide a stable base to both support people when they need it but also enable social mobility. Consultation on this paper closed on 6 November 2018.

RTB Consultation

Alongside the Green Paper the Government has also issued a consultation paper regarding the process that local authorities can use Right to Buy (RTB) receipts to deliver new homes. This includes considering the potential for local authorities to hold on to the additional receipts for longer than the current 3 year agreement, and to allow a higher proportion of RTB receipts to be used to fund new build, albeit these concessions would only be available in areas of high affordability pressure. The consultation on this closed on 9 October 2018.

Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016

The Authority has faced significant challenges in housing terms from legislation linked to the Welfare Reform and Work Act 2016, and the Housing and Planning Act 2016. The Authority continues with its implementation of Government policy to reduce rent by 1% for 4 years as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI sheltered accommodation homes. However, 2019-20 represents the last year of that rent reduction, and from 2020-21 Government has announced that social rents will return to the previous policy of being based on Consumer Prices Index (CPI) plus 1% for at least 5 years to give some greater surety to allow longer-term business planning. Again, the Government consulted on the future of social housing rents between September 2018 and early November, the outcome of which is still awaited, but it is assumed that it will at least confirm the CPI + 1% approach. In addition, the Authority is also facing the impact of the continued roll-out of Universal Credit and other welfare reforms.

In relation to the Housing and Planning Act 2016, the Government had already announced the removal of the Pay to Stay policy last year for those on higher incomes and have now announced their intention not to bring the Higher Value Assets provisions of that Act into effect, repealing this legislation when Parliamentary time allows. This removes the threat of Authorities having to sell off a portion of their stock and return a significant proportion of the proceeds of those sales in the form of a “levy” to the Government. Government remain committed to the principle of councils using their assets effectively including consideration of the sale of higher value homes, but have decided that this should be a local decision to avoid the creation of any barrier to building new homes.

Removal of the HRA Borrowing Cap

At the Conservative Party conference in Manchester in September 2018 the Prime Minister announced the Government’s intention to scrap the HRA borrowing “cap”, a proposal which was subsequently confirmed by the Chancellor in the October spending review. This will be enacted by the removal of what is known as the Council’s “Limit on Indebtedness” which is an HRA determination issued by the Government. In future it will be for the Authority to determine the level of unsupported borrowing it wishes to undertake to fund new build, in line with the Prudential Code, which means applying the key tests to ensure that any debt taken on is “Prudent, Affordable and Sustainable”. This assessment has to be made based on the levels of rental income that can be raised to support such borrowing and against a background of no guaranteed grants to support that build and Government’s continued desire to encourage people to own their own home. At this stage therefore there is no proposed cessation of Right to Buy (RTB) or the discounts available under that policy.

Insourcing of the Kier North Tyneside Joint Venture

At an Extraordinary Cabinet meeting on 27 September 2017, Cabinet agreed, following a thorough review process of almost a year, that the Authority would not be exercising its contractual option to extend the 10-year Joint Venture partnership with Kier North Tyneside beyond 31 March 2019. At that same meeting Cabinet agreed the creation of a Steering Group made up of the Cabinet Members for Finance and Resources, Housing and the Deputy Mayor along with a number of Heads of Service to support the governance of the project to bring these services back in house. A project brief and project team were created to manage the work required across 8 work streams that make up this project. The Steering Group meet monthly and consider reports from the Project Manager against the agreed project plan covering the 8 work streams. In addition, a Risk Register was created and this continues to be updated monthly and a Risk Report considered at every meeting. These measures should ensure that all resources are in place to establish 'business as usual' as soon as possible after 1 April 2019. The project includes a Benefits Realisation plan that will identify the key benefits and savings that will arise from the project. These will be fed into the HRA Business Plan as they are crystallised, it should be noted that a significant proportion of benefits will accrue against capital schemes. It is envisaged that such savings will create opportunities to either accelerate planned investment in the existing stock, or to invest in new stock as appropriate. The first year of operation in 2019-20 will be one of significant review and change, as we manage the transfer of nearly 400 staff back to the Council, and establish business as usual from day one, with the intention of reviewing the entire repair and construction service over the following 12-18 months. This will put the Authority in a position to establish the longer-term benefits and savings from the project and achieve the ultimate aim of creating a service that best meets the on-going needs of our tenants and residents whilst delivering greater efficiency and value for money.

Summary

These challenges continue to be considered as part of the updating of the 30-year plan which aims to ensure the long-term viability of the HRA in line with the policy direction of the Mayor and Cabinet and the needs of tenants. For the purposes of the current Financial Planning and Budget process a four-year revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that projections beyond 2019-20 are only indicative at this stage. A four year timeframe is also proposed for the Housing Capital Investment Plan in line with the 2019- 2023 General Fund Investment Plan.

Housing Revenue Account tenants will be consulted on these initial proposals, and the final HRA budget will be presented to Cabinet on 14 January 2019. At that meeting Cabinet will be asked to approve the HRA Business Plan and Budget for 2019/20, including the housing rent, garage rent and service charge changes and the Housing Investment Plan.

Key Objectives and headline assumptions for the Housing Service

The over-riding objectives for the housing service are in line with the agreed Housing Strategy and, as far as possible within financial constraints, to:-

1. Ensure the application of the principles of the Target Operating Model;
2. Continue to invest in the existing stock to maintain the Decent Homes Standard;
3. Maintain and develop effective engagement with tenants;
4. Work with Private Landlords to refurbish stock where appropriate;

5. Undertake environmental improvements to estates to ensure that they are clean and safe;
6. Support the delivery of Affordable Homes across the Borough; and
7. Create sustainable tenancies and maximise rental income collection.

The key headlines for the HRA budget for 2019/20 are as follows:-

1. Continue implementation of Government policy to reduce rent by 1% for 2019/20 (final year of 4 years) as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI sheltered accommodation homes;
2. Freeze service charges for 2019/20 except where reviews of services have taken place to reflect changes in actual costs;
3. A review of charges for guest rooms and commercial space (e.g. hairdresser facilities) within sheltered schemes to be finalised;
4. There has been an on-going review of the garage letting process which will result in a phased approach over two years to harmonise garage rents. For 2019/20 it is recommended that garage rents will have no indexation applied whilst the new charging structure is put into place; and
5. Sustain working HRA balances at a minimum of £2.5m.

HRA Capital Investment Plan – assumptions

1. Overall Housing Investment Plan spend of £99.898m over the next 4 years 2019-2023; and
2. Spend for 2019/20 of £25.814m including £3.433m for the continuation of a new build / conversion / acquisition council house programme.

It should be noted that these figures make no assumptions at this stage around the Government's removal of the HRA borrowing cap. The reasoning for this is explained further below.

Medium Term HRA Position

There are a number of key drivers which underpin the HRA Business Planning Process, which are discussed briefly below, namely:-

- Government Rent policy;
- Future funding for Supported and Sheltered Housing;
- The Asset Management Strategy and New Build projects as part of Cabinet's Affordable Housing ambitions;
- Right To Buy Sales;
- Treasury Management Strategy and the removal of the HRA borrowing cap;
- Self-Financing and Depreciation;
- North Tyneside Living; and
- Insourcing of the Kier North Tyneside Joint Venture project from April 2019.

Rent

2018/19 was the third year of Central Government's 4-year 1% per annum rent reduction policy, introduced by the Welfare Reform and Work Act 2016. The Prime Minister has given the first indications of the Government's intention for social housing rents at the end of this 4 year reduction period. She recently announced that, in order to enable housing landlords to have more robust future plans, the rent policy would return to being based on the Consumer Prices Index (CPI) + 1% for at least the five years starting April 2020. This confirms what most HRA Business Plans had assumed, and gives some clarity in the medium term. Cabinet should also be aware of the following assumptions reflected in the HRA Budget and Financial Plan:

1) The Authority will continue to move to target rent when properties become empty;

2) A review of the service charges attached to the North Tyneside Living schemes is on-going now that the schemes have become fully operational to ensure that service charges reflect actual costs;

3) Cabinet agreed to exempt service charges from the 1% annual reduction and to freeze them until 2019/20 based on an assumption of low CPI rates. If the upward inflationary trend continues Cabinet may wish to revisit this approach in future. Charges for furniture packs were revised in 2017/18 to reflect the newly procured service and these service charges will continue to be reviewed to ensure that the income collected adequately covers costs. The Authority continues to monitor the impact of welfare reform changes. Members will be kept informed of any further announcements that clarify the position as soon as possible. Service charges on affordable rent properties are not exempt as the 80% of market rent calculation includes any service charges;

4) Garage rents are linked purely to an assessment of demand for the asset with no link to rent policy; The plan proposes to continue the long-term Government CPI target of 2% increases per annum as being reasonable. However there has been an on-going review of the overall letting policy on garages which will lead to a phased increase to harmonise charges across all garages. It is, therefore, recommended that there is no indexation applied for 2019/20, with a return to the CPI based increases the following year;

5) It is assumed that the policy previously agreed by Cabinet to protect existing North Tyneside Living tenants from rent increases will continue. All new tenancies commence at the newly calculated rents. It is estimated that this protection will cost in the region of £0.070m in 2019/20 and will continue to steadily reduce from this point; and

6) From April 2018 Cabinet agreed that the Authority would move from a 50 to a 52 week rent year to enable better synchronisation with welfare reform changes and the introduction of Universal Credit. The impact of this change saw tenants' weekly rent spread over 52 weeks, although for those residents that wish to continue paying over 50 weeks this option was made available.

The implications of any changes arising from benefit changes including Universal Credit (UC) continue to be monitored. UC started to be rolled out for all new claimants in North Tyneside from February 2018 for both single claimants and families. It is important to ensure that tenants continue to be kept fully informed of the requirements of the new scheme, and to maintain the two-way communication process to ensure they are supported in managing the change, and to avoid people falling into arrears, which has been a significant factor in most of the pilot schemes to-date. It is not anticipated that the UC scheme will be fully rolled-out across all areas of the country until at least 2023 now. Members will continue to be updated of any significant further changes as they become clear.

Future Funding for Supported and Sheltered Housing

In 2016, the Government originally announced their intention to fundamentally change the method of funding provided for supported housing from April 2019 based on a two-tier system linking the amount provided to cover rent and service charges through the existing welfare system to Local Housing Allowance caps. In addition there was to be a separate top-up grant for each area to be administered by the top tier Local Authorities to cover "support", very likely to be much along the lines of the old Supporting People system, which would have had significant resource implications for the authority. These proposals led to a significant concern among the housing sector that this could have signalled the cancellation or delay of any future significant development of supported housing schemes in a sector which has seen ever increasing need. Following a full consultation process, the Government subsequently announced that funding for supported housing would remain within the housing benefit system. This helps ensure at least in the short-term that sheltered accommodation remains an affordable and viable alternative for our ageing population.

Asset Management Strategy (AMS) and New Build Project Funding

The AMS is regularly updated and refreshed to make the stock data current, to fully identify the maintenance needs of the stock over the lives of the assets and to build these into the HRA Investment Plan. Because all of the Authority's stock is now at or above Decent Homes Standard, this year's plan is mainly a refresh of key elements around stock numbers to roll the Plan forward. The Plan identifies £88.560m of works to maintain Decent Homes over the next 4 years (£22.381m for 2019/20), with an estimated £11.338m available for New Build over the same period (£3.433m for 2019/20). In addition a further £0.200m has been provided in the Investment Plan for 2019/20 to meet the costs related to the implementation of a fit-for-purpose maintenance and construction operation, as a result of the decision to insource the Kier JV contract (£1.450m in 2018/19). Again at this stage these figures are based on Cabinet's existing approach to debt management and self-financing, which is discussed in more detail below.

Right to Buy (RTB) Sales

RTB sales have increased significantly since the start of self-financing at the end of 2011/12

Table 6: Right to Buy Sales 2011/12 to date

2011/12	30
2012/13	85
2013/14	122
2014/15	100
2015/16	135
2016/17	136
2017/18	158
2018/19 to Sept	75

As part of changes the Government introduced back in 2012/13, the Authority signed an agreement that allows RTB receipts above the levels assumed as part of self-financing to be retained as long as they are used to fund new build homes at a 30% contribution rate within 3 years. This has seen an additional £4.491m of Capital Receipts retained to the end of 2017/18, which has helped deliver £14.308m of new build schemes.

The trend in RTB sales is reflected in the 2019/20 Business Plan profile for stock numbers with circa 140 RTB sales and other disposals assumed. Legislative change may impact on these projections as the Plan moves forward, particularly if Cabinet decides on a different course of action around its approach to Treasury Management following the Government's announcement on the removal of the HRA borrowing cap discussed in the section below.

<u>Treasury Management Strategy (TMS) and the HRA Borrowing "Cap" removal</u>

The HRA is an integral part of the TMS for the whole Council, and key decisions were taken at the point of the introduction of Self Financing in 2012 as to the approach to be taken to HRA debt. When self-financing was introduced all stock retaining authorities were either given an additional allocation of debt, or had some of their debt paid off, depending on an assessment of the value of their 30-year Business Plans and the amount of debt they could be expected to manage. For North Tyneside this meant raising £128m of additional loans through borrowing via the Public Works Loan Board to pay our allocated share of debt to the Treasury. Each Authority at that point was allocated a "cap" which represented the maximum amount of debt that could be held attributable to the HRA. This Authority at that time was one of only a handful nationally where the actual debt held was above the "cap". Our debt was £290.825m against a calculated cap of £270.585m but the Government "flexed" our cap to match our actual debt position to enable self-financing to happen.

At that point every one of the 160 stock-retaining authorities was at a different point relative to their cap. Most were under, but a significant proportion of those were very close to or at their cap, which meant any unsupported borrowing strategy was restricted. Each authority had to decide what debt and risk approach they wanted to take to fund both investment in existing stock and potentially any new build opportunities. Cabinet agreed at this point to steer a middle course around risk, setting aside money where possible to repay debt each year, to bring our overall debt holdings down below the cap. It was and is not the intention however to repay all debt held over the initial 30 years. This debt repayment approach has created some revenue surpluses which have been utilised to fund a programme of HRA new build with HRA new build spend totalling £19.779m to the end of 2017/18. In addition by the end of March 2018 the Authority's actual HRA debt stood at £261.900m compared to the £290.825m "cap". The Authority has already created some headroom through the agreed Treasury Management strategy.

It is against this background that consideration needs to be given to the Government's proposals to remove the HRA borrowing cap. The proposals move from utilising revenue sums to guarantee affordability of schemes to a policy of increasing borrowing to fund more new build spend and this brings with it the need to consider the following factors and risks:

- No proposed change to the RTB policy at this stage;
- No guaranteed grant-funding to support new build spend;
- Potential additional flexibility around the use of additional RTB receipts;
- Availability of suitable land assembly for social housing new build schemes and all related planning considerations;
- Pace at which schemes would need to be delivered to support additional borrowing costs.

An additional consideration in this context is the impending transfer back to the Authority of circa 400 Kier staff in April 2019, which represents a huge change for the Authority. These staff will need to be assimilated into the Authority's structures to create a fit-for-purpose organisation for the future.

It is against these factors that it is recommended that Cabinet take the time to properly assess all the potential implications, and wait for full details of the Government-proposed changes to emerge before making any fundamental changes of policy. It is recommended that a fundamental review of the 30-year HRA Business Plan is undertaken over the next 12 months.

For the 2019/20 budget setting process it is recommended that the HRA budget is based on the existing Cabinet agreed policy approach, acknowledging that the figures beyond 2019/20 are purely indicative at this stage and are likely to change significantly not just as a result of the proposed review but also as a result of other factors such as the Benefits Realisation Plan for the Construction Project starting to bear fruit once the transfer has taken place.

Assuming that the existing approach to Treasury Management will continue for 2019/20, the HRA debt pool will have the following elements:-

1) Self-financing debt – £128.193m of debt taken on to fund payment to Government to exit the subsidy system, made up of 26 loans with maturity periods of 24 to 50 years. These loans were at "special" interest rates offered by PWLB purely for self-financing. Average interest rate is 3.49% which produced savings of £0.652m in 2012/13. These savings were transferred to the House-building Reserve annually to fund HRA new build and conversions as agreed by full Council. Contributions to that fund ceased from 2017/18 as part of previous budget proposals following the Government's introduction of rent decreases from 2016/17;

2) Existing Debt – HRA share of the Authority's pre-self-financing debt was valued at £162.631m as at 31 March 2012. As loans mature there is a separate consideration for the General Fund and HRA as to how those loans are treated. Opportunities to make savings from short-term borrowing have enabled some additional savings to be made which have helped the HRA Business Plan. For 2019/20 estimated debt interest due will total £4.101m, saving £0.363m on current year's budgeted charges, with a debt set aside of £2.602m; and

3) New HRA Debt - New loans directly attributed to the HRA. 2019/20 will see re-financing of £0.600m from £3.202m of long-term maturities, once assumed debt repayments have been accounted for and temporary borrowing of £20.488m. These loans will have estimated interest charges of £0.900m in 2019/20, an increase of £0.217m from the £0.683m budgeted in 2018/19.

Overall actual HRA debt will be around £254.800m by 31 March 2019. The Authority continually monitors the position on the HRA as part of the overall TMS to ensure the most efficient use of resources for the HRA and our tenants and to maximise flexibility around future investment needs and potential additions to the stock.

Self-Financing and Depreciation

From 2017/18 the Government has required that all Local Authorities calculate a true depreciation charge as a true bottom line cost to the HRA. The approach developed by the Authority calculates a simple depreciation charge based on splitting investment works across a number of component elements of a building, and linking that to the way the Council's properties are valued using a number of "beacon properties" i.e. a sample of properties which represent the different standard types of properties held by the Authority. The level of depreciation calculated using this method will be able to be contained within the amounts currently budgeted in the 30-year HRA Business Plan.

Construction Project 2019

As noted above, on 27 September 2017 Cabinet agreed not to extend the Kier Joint Venture contract for a further 5 years. The Authority is now working to create a fit-for-purpose construction and maintenance operation to be in place from April 2019. The operation will meet the needs of the Authority and our tenants and residents, whilst ensuring greater efficiency and value for money. The resources necessary to achieve a successful transfer and fund the transformation project up to completion and sign-off in October 2019 have been built into the Business Plan projections, both within the Housing Revenue Account and Capital Investment Plans.

Summary Plans

The impact of all of the above issues on the four-year 2019-2023 Revenue Plan for the HRA are summarised in Table 6 below. In addition Table 7 splits those changes between Pressures and Growth, Efficiencies and Reserves and Contingencies.

The four-year Housing Investment Plan is included within Appendix D(i).

A further breakdown of the movement on Reserves and Contingencies is shown in Table 8 below; this includes a contribution from reserves of £2.331m. It is proposed to create additional contingency budgets of £0.301m to recognise issues including any inflationary increases and a pay award.

Table 7 – Housing Revenue Account (HRA) 2019-2023

	2018/19 Forecast Outturn	2019/20 Draft Budget	2020/21 Draft Budget	2021/22 Draft Budget	2022/23 Draft Budget
	£m	£m	£m	£m	£m
Rent, Garages and Service Charge Income	(59.610)	(58.697)	(60.017)	(61.422)	(62.917)
PFI Credits - North Tyneside Living	(7.693)	(7.693)	(7.693)	(7.693)	(7.693)
Rent from Shops, Offices etc.	(0.283)	(0.275)	(0.275)	(0.281)	(0.281)
Interest on Balances	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)
Contribution from Balances	(0.139)	(2.331)	(1.142)	0	(0.128)
Total Income	**(67.775)**	**(69.046)**	**(69.177)**	**(69.446)**	**(71.078)**
Capital Financing Charges	12.080	12.110	13.958	13.620	13.458
Management Costs	11.318	12.013	10.815	10.918	11.022
Repair and Maintenance	11.468	11.981	12.016	12.061	12.118
PFI Contract Costs – North Tyneside Living	9.597	9.642	9.690	9.736	9.786
Revenue Support to Strategic Investment	9.570	9.053	7.995	7.617	8.928
Depreciation / Major Repairs Account (MRA)	11.972	12.392	12.825	13.275	13.739
Bad Debt Provision	0.730	0.780	0.780	0.803	0.828
Transitional Protection	0.065	0.070	0.060	0.050	0.040
Management Contingency	0.120	0.150	0.150	0.200	0.200
Pension Fund Deficit Funding	0.855	0.855	0.888	0.923	0.959
Contribution to Balances	0	0	0	0.243	0
Total Expenditure	**67.775**	**69.046**	**69.177**	**69.446**	**71.078**

	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**
HRA Balances	**£m**	**£m**	**£m**	**£m**	**£m**
Estimated HRA Balances B/Fwd	**(6.083)**	**(5.944)**	**(3.613)**	**(2.471)**	**(2.714)**
Contribution to/from HRA	**0.139**	**2.331**	**1.142**	**(0.243)**	**0.128**
Estimated HRA Balances C/Fwd	**(5.944)**	**(3.613)**	**(2.471)**	**(2.714)**	**(2.586)**

Table 8: 2019–2023 Housing Revenue Account Financial Plan

HRA Forecast Expenditure Plan	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
Original Base Budget	1.969	2.331	1.142	(0.243)
Add:				
Pressures and Growth				
Council Dwellings-Rent reduction, stock reduction & empty homes assumptions	0.574	0.000	0.000	0.000
Rental Income – temporary & dispersed accommodation	0.002	0.000	0.000	0.000
HRA Debt set aside – MRP equivalent	0.187	1.990	(0.292)	0.000
HRA – New Debt	0.217	0.072	(0.023)	(0.058)
North Tyneside Living (NTL) – Unitary charge	0.101	0.104	0.106	0.109
NTL – Contributions to / from PFI Reserve & contract monitoring	(0.056)	(0.056)	(0.060)	(0.059)
Depreciation (formerly MRA)	0.419	0.434	0.449	0.465
Housing Investment Plan-revenue support	(0.517)	(1.058)	(0.378)	1.311
Pension Fund Deficit Funding	0.000	0.033	0.035	0.036
Review of Central Support Recharges	0.500	0.000	0.000	0.000
Repairs and Maintenance – Employer Pension Contributions	0.500	0.000	0.000	0.000
Bad Debt Provision	0.000	0.000	0.023	0.024
Total - Pressures and Growth	**1.927**	**1.519**	**(0.140)**	**1.828**
Efficiency Savings				
Council Dwellings – Rent Increases	0.000	(1.246)	(1.330)	(1.429)
Rental Income – Temporary and Dispersed Accommodation	0.000	(0.006)	(0.006)	(0.006)
Garage & Other Rents	(0.015)	(0.009)	(0.015)	(0.009)
NTL – Transitional Rent Protection	(0.010)	(0.010)	(0.010)	(0.010)
Interest on Balances	(0.020)	0.000	0.000	0.000
Service Charges – Furniture Packs	(0.040)	(0.023)	(0.023)	(0.024)
Service Charges – Sheltered and Communal Areas	(0.272)	(0.035)	(0.036)	(0.036)
Repairs – Construction Project	(0.810)	(1.300)	0.000	0.000
Treasury Management – Existing Debt & DME	(0.388)	(0.214)	(0.024)	(0.104)
Water Rates Commission	(0.200)	0.000	0.000	0.000
Repairs Budget– incl.impact of 1% rent reduction	(0.111)	(0.085)	(0.074)	(0.063)
Total – Efficiency Savings	**(1.866)**	**(2.928)**	**(1.518)**	**(1.681)**
Reserves & Contingencies				
Revenue Repairs – Inflation	0.114	0.118	0.119	0.120
General Management Contingency	0.000	0.000	0.050	0.000
Pay Award	0.162	0.081	0.081	0.081
Price Increases	0.025	0.021	0.023	0.023
Total – Reserves & Contingencies	0.218	0.220	0.273	0.224
Revised Base Budget	**2.331**	**1.142**	**(0.243)**	**0.128**

Table 9: 2019–2023 Housing Revenue Account Reserves and Contingencies

HRA Revenue Balances	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Increase in Contingencies	0.218	0.219	0.272	0.223
Contribution to/(from) Balances	(0.362)	1.189	1.385	(0.371)
TOTAL	**(0.144)**	**1.408**	**1.657**	**(0.148)**

Dedicated Schools Grant (DSG)

Backgound

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

The total amount of the Dedicated Schools Grant for 2018/19 (at September 2018) is £151.326m (including academy amounts of £14.772m but excluding Pupil Premium), broken down into the following blocks:

Schools Block £116.594m
Early Years Block £13.553m
High Need SEN Block £18.865m
Central School Services Block £2.314m

In September 2017 the Department for Education (DfE) published the new National Funding Formula (NFF) for the Schools Block. From 2018/19, the Government has allocated the total amount of funding for the Schools Block to each Local Authority based on the NFF. A new funding allocation method for the High Needs Block was also introduced in 2018/19 partially based on each Local Authority's historic spending pattern and partially based on a new formula.

The Government initially proposed that Local Authorities will continue to set a local allocation formula for distribution of funding to schools in 2018/19 and 2019/20 with a direct allocation to schools based on the NFF starting in 2020/21. However in July 2018, the Government announced that Local Authorities will continue to distribute on a local formula for a further year and that the NFF will not be used to directly allocate funding to schools until at 2021/22 at the earliest.

The initial DSG allocation will be available around the 19th December 2018 and will be updated with the latest October 2018 census data showing numbers of pupils in each school. Details of this will be included in the report to Cabinet in January 2019. The Education Funding Agency (ESFA) is not expected to confirm 2019/20 High Needs Block allocations to authorities until March 2019 at the earliest.

In July 2017, the DfE announced an additional £1.3 billion funding for schools to be allocated in 2018/19 and 2019/20. In addition, grant funding was announced in July 2018 for 2018/19 and 2019/20 to support additional costs of the national teachers' pay award agreed for those years above the 1% originally planned. At the time of writing this report, no additional funding is confirmed beyond 2019/20 into the new Spending Review period.

Schools Block

The Authority undertook a comprehensive consultation exercise with all schools and with Schools Forum in November/December 2018 for the 2018/19 year as this was the first year of the newly published NFF. The overwhelming response from schools was a desire to maintain stability and retain the existing local funding formula with any additional funding distributed through the basic entitlement element so that all pupils would benefit.

The Authority is not intending to change that approach so a more proportionate consultation is planned for 2019/20 to seek views on continuing with the existing local formula and in relation to moving closer to the NFF in 2020/21.

High Needs

In common with most Authorities, North Tyneside is continuing to see rising pressures within provision for children with special educational needs. This is due to the increasing complexity of needs of children and young people in addition to general rising cost levels mainly as a result of pay inflation. The number of children with an Education Health and Care Plan (EHCP) continues to increase and there are a rising number of pupils with Autism Spectrum Disorder (ASD) as their primary need. The forecast outturn for high needs as at October 2018 is estimated at £0.857m. This pressure is currently retained within the DSG but after 2020/21 this may reside within the general fund.

A High Needs Strategic Plan was agreed by Schools Forum in May 2018 and this outlined a work plan to review the Authority's current offer to ensure it meets needs appropriately at a sustainable cost. The Authority is considering a request to transfer funding from the Schools Block to the High Needs Block in 2019/20 and this will form part of the consultation with all schools carried out in November 2018. National guidance allows a transfer of 0.5% of the Schools Block value with the approval of Schools Forum (approximately £0.580m). A larger transfer would require approval of the Secretary of State.

Early Years

The Authority will continue to distribute the Early Years block based on the funding rates announced on 17 November 2017, and comprising:

- funding for the universal 15 hour entitlement for all three- and four-year-olds
- funding for the additional 15 hours for three- and four-year old children of eligible working parents
- funding for the 15 hour entitlement for disadvantaged two-year-olds
- funding for the early years pupil premium (EYPP)
- funding for the disability access fund (DAF)
- supplementary funding for maintained nursery schools

Central Schools Services Block

Schools Forum will consider certain elements of funding that are held centrally within the funding allocations (known as centrally retained and de-delegated items) which are applied to benefit pupils across the borough.

Timetable for Agreeing 2019/20 Distributions

The key dates which must be met in setting 2019/20 school budgets are shown in the table below. This report is requesting authorisation for the Head of Finance, in consultation with the Head of Commissioning and Investment, the Cabinet Member for Children, Young People and Learning and the Cabinet Member for Finance and Resources, to undertake resource allocations to schools to meet these deadlines.

Members will be kept informed of progress through the bi-monthly financial Management reports to Cabinet.

Table 10: Key dates for 2019/20 school budget setting

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

Cabinet's initial Budget proposals for the 2019-2023 Capital Investment Plan

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

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

A Capital Investment Strategy has been developed to help support the delivery of capital investment and ensure that the investment programme builds on previous success, with a strong focus on delivery of the 'Our North Tyneside' Council Plan outcomes and linking to the 'Our ambition for North Tyneside' strategy report to 26 November 2018 Cabinet report. The Strategy also provides a framework to enable projects to be developed with the aim of helping to deliver revenue savings to assist the Authority in managing the financial pressure it faces. The Capital Investment Strategy is attached as Appendix D(iii).

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

The Investment Programme Board (IPB) meets on a monthly basis and, as part of its monthly meetings, receives an update on all on-going projects included in the approved Investment Plan (currently 2018-2021).

Table 11 below shows a summary of the initial draft 2019-2023 Capital Investment Plan.

Table 11: Summary of Capital Investment Plan 2019-2023

Spend	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	Total £000's
General Fund	33,272	17,619	12,312	12,312	75,515
Housing	25,814	24,589	24,724	24,771	99,898
Total	**59,086**	**42,208**	**37,036**	**37,083**	**175,413**

A schedule of the individual projects included in the draft plan is attached as Appendix D (i). Where applicable, confirmation of external funding will also be required before projects are able to proceed.

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

Table 12: Summary of Financing 2019-2023

Spend	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	Total £000's
General Fund					
Council Contribution:					
Unsupported Borrowing	19,831	9,953	5,100	5,100	39,984
Capital Receipts	0	0	0	0	0
	19,831	9,953	5,100	5,100	39,984
Grants & Contributions	13,441	7,666	7,212	7,212	35,531
Total General Fund Resources	**33,272**	**17,619**	**12,312**	**12,312**	**75,515**
Housing – HRA					
Capital Receipts	4,287	3,685	3,748	2,019	13,739
Revenue Contribution	9,136	8,079	7,702	9,014	33,931
Major Repairs Reserve	12,391	12,825	13,274	13,738	52,228
Total Housing HRA Resources	**25,814**	**24,589**	**24,724**	**24,771**	**99,898**
TOTAL RESOURCES	**59,086**	**42,208**	**37,036**	**37,083**	**175,413**

The initial draft 2019-2023 Investment Plan for the General Fund includes expenditure of £33.272m in 2019/20. Of this expenditure £13.441m (40%) is funded through grants and other external funding contributions.

There is currently no proposal to use General Fund receipts to finance the investment plan. Housing capital receipts of £13.739m have been assumed in the financing housing projects within the draft plan.

Across the life of the draft plan, unsupported borrowing totals £39.984m. The cost of borrowing is included within the General Fund Revenue budget and Financial Plan.

Work is ongoing to finalise these draft proposals. There are currently a number of projects progressing through the investment gateway process where bids have been made for external funding. These projects include Killingworth Moor Infrastructure, Murton Gap infrastructure, Coastal regeneration and Killingworth 3G pitch. It is planned that these projects will be added to the plan once funding is secured,

Flexible Use of Capital Receipts

In December 2015 the Secretary of State published guidelines confirming the criteria for the Flexible Use of Capital Receipts. The initial guidance covered the period 1 April 2016 to 31 March 2019. This was subsequently extended in December 2017 to cover the period up to 31 March 2022. This flexibility allows Local Authorities to use capital receipts to fund revenue expenditure incurred to generate on-going savings. In order to use this flexibility Authorities are required to disclose those projects they intend to fund using capital receipts. This can be done as part of the budget setting process.

Consideration is being given to the use of capital receipts for redundancies and other costs arising from the restructure of services.

Capital Allocations 2019/20

A number of capital allocations (grants) are announced by Central Government as part of the Local Government settlement. These include Education Funding (Capital Maintenance and Devolved Formula Capital) (Department for Education), the Local Transport Plan (Department for the Environment) and Disabled Facilities Grants (through the Better Care Fund). Figures for 2019/20 have not yet been announced and therefore indicative figures, based on previous allocations, have been included in the draft plan. As soon as actual allocations are announced these figures will be updated and included in subsequent reports.

Annual Minimum Revenue Provision (MRP)

The Capital Finance Regulations require the full Council to agree an annual policy for the Minimum Revenue Provision (MRP).

The MRP is the amount that is set aside to provide for the prepayment of debt (principal repayment). The regulations require the Authority determines an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.

There are no changes proposed to the existing policy. The 2019/20 policy is set out in full below:

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

Prudential Indicators

The Local Government Act 2003 requires authorities to comply with the 'CIPFA Prudential Code for Capital Finance in Local Authorities.' The Prudential Code requires authorities to develop a set of Prudential Indicators for capital as laid out in the Code. The Code was updated in December 2017. The proposed indicators for 2019-2023 have been prepared using this new guidance and are attached as Appendix D (ii).

2019/20 Treasury Management Statement and Annual Investment Strategy

Background

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

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

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or on larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities arising usually from capital expenditure), and are separate from the day to day treasury management activities.

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

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

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is included as Appendix D (iii) to this report.

This capital strategy is reported separately from the Treasury Management Strategy Statement Non Treasury Investments will also be reported separately through the Investment Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure in an asset.

Treasury Management Reporting

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

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

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

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

Treasury Management Strategy for 2019/20

The proposed strategy for 2019/20 in respect of the following aspects of the treasury management function is based upon the treasury management officers' view on interest rates, supplemented with market forecasts provided by the Authority's treasury advisor, Link Asset Services. This strategy covers:

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

Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Treasury management Consultants

The Authority uses Link Asset services, Treasury solutions as its external treasury management advisors.

Whilst the Authority has external treasury management advisors it recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Current Treasury Portfolio Position

The Authority's debt and investment position at 1 November 2018 is set down in Table 13 below.

Table 13: Current Treasury Portfolio Position as at 2 November 2018

	Principal Outstanding	**Average Rate**
	£m	**%**
Fixed Rate Funding		
PWLB*	190.250	4.43
PWLB – (HRA Self Financing)	128.193	3.49
Market Loans	20.000	4.35
Temp Loans	97.712	0.78
Total External Debt	**436.155**	
Less **Investments**		
(UK) DMO**	11.000	0.50
Total Investments	**11.000**	
Net Position	**425.155**	

*Public Works Loan Board
**Debt Management Office

Prospects for Interest Rates

The Authority has appointed Link Asset Services as its external treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 14 below sets out Link Asset Services professional view of interest rates.

Table 14: Link Asset Services forecast interest rates – (1 November 2018)

	Bank Rate %	**5 year PWLB %**	**10 year PWLB %**	**25 year PWLB %**	**50 year PWLB %**
Dec 2018	0.75	2.00	2.50	2.90	2.70
Mar 2019	0.75	2.10	2.50	3.00	2.80
Jun 2019	1.00	2.20	2.60	3.00	2.80
Sep 2019	1.00	2.20	2.70	3.10	2.90
Dec 2019	1.00	2.30	2.70	3.20	3.00
Mar 2020	1.00	2.30	2.80	3.20	3.00
Jun 2020	1.25	2.40	2.90	3.30	3.10
Sep 2020	1.25	2.50	2.90	3.40	3.20
Dec 2020	1.50	2.50	3.00	3.50	3.30
Mar 2021	1.50	2.60	3.10	3.50	3.30

Economic statistics after the quarter ended 30 June 2018 meant that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.50% since the financial crash, from 0.50% to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate than before the crash; indeed they gave a figure for this of around 2.50% in ten years' time but the MPC declined to give a medium term forecast. It is unlikely that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Similarly, the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.50%. However, the cautious pace of even these limited increases is dependent on a reasonable orderly Brexit.

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, and MPC decisions, will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geographical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be dependent on economic and political developments.

Investment and Borrowing Rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years;

- Borrowing interest rates have been volatile so far in 2018/19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and / or the refinancing of maturing debt; and

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Borrowing Strategy

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

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

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

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

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

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

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

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Head of Finance will monitor the interest rates in financial markets and adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet or full Council, as appropriate, at the next available opportunity. Such circumstances include a situation where:

- If it were felt that there was a significant risk of a sharp fall in long and short term interest rates, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered; or

- If it were felt there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Policy on borrowing in advance of need

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

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

Debt Rescheduling

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

In order to generate the most attractive debt rescheduling opportunities, it is proposed that the strategy for 2019/20 should remain flexible. The reason for any rescheduling to take place may include:

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

- to help fulfil the strategy outlined above; and

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

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

Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Authority may make use of this new source of borrowing as and when appropriate.

Annual Investment Strategy

Investment policy – management of risk

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non financial investments. This section of the report deals solely with financial investments. Non financial investments, essentially the purchase of income yielding assets, are covered later in the report..

The Authority's investment policy has regard to the following:-
- MHCLG's Guidance on Local Government Investments
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017
- CIPFA Treasury management Guidance Notes 2018.

The Authority's investment priorities are:

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

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.

2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and

political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings.

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

4. This Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in appendix E under the categories of ‘specified’ and ‘non-specified’ investments.

   - Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.
   - Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and are more complex instruments which require greater consideration by members and officers before being authorised for use.

5 The Authority has determined that it will limit the maximum total exposure to non-specified investments as being 25%

6 Lending limits for each counterparty will be set through applying the matrix table in Appendix E.

7 Transaction limits are set for each type of investment in Appendix E

8 This Authority will set a limit for the amount of its investments which are invested for longer than 365 days.

8 Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

8 This Authority has engaged external consultants to provide advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

9 All investments will be denominated in sterling.

10 As a result in the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. MHCLG are currently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments.

However, the authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

The above criteria are unchanged from last year.

Investment Strategy

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. Greater returns are usually obtainable by investing for longer periods. While most cash flow balances are required in order to manage day to day cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectation

Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

Table 15: Bank Rate Forecast for Financial Year Ends

Year End (March)	Bank Rate Forecast (%)
2018/19	0.75
2019/20	1.00
2020/21	1.50
2021/22	2.00

The suggested budgeted investment earnings rate for returns on investments placed for periods up to about three months during each financial year are as follows:

Table 16: Budgeted Investment earnings rate

Year	Rate (%)
2018/19	0.75
2019/20	1.00
2020/21	1.50
2021/22	1.75
2022/23	1.75
2023/24	2.00

- The overall balance of risks to economic growth in the UK is probably neutral.

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

The strategy for 2018/19 agreed on 15 February 2018 was set against a background of uncertainty and a prudent approach was taken with nearly all investments being made on a short term basis. In the current economic climate it is essential that a prudent approach is maintained. This will primarily be achieved through investing with selected banks and funds which meet the Authority's credit rating criteria, set out in Appendix E.

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

Creditworthiness Policy

The Authority applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- Credit watches and credit outlooks from credit rating agencies;
- Credit default swaps (CDS) spreads to give early warning of likely changes in credit ratings; and,
- Sovereign ratings to select counterparties from only the most creditworthy countries.

The modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration of investments.

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system; it does not give undue preponderance to one agency's ratings.

The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- If a downgrade results in the counterparty no longer meeting the Authority's minimum criteria, its further uses as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list. Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information on any external support for banks to help support its decision making process.

UK Banks – ring fencing

The largest UK banks are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as ring-fencing. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and small and medium-sized enterprise (SME) deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day to day core transactions, whilst more complex and riskier activities are required to be housed in a separate entity, a non ring-fenced bank, (NRFB). This is intended to ensure than an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Authority will continue to assess the new formed entities in the same way that it does others and those with sufficiently high ratings, will be considered for investment purposes.

Non Treasury Investments

In February 2018 MHCLG published revised "Statutory guidance on Local Government Investments". The definition of an investment covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations. The definition of an investment also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party.

The Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Authority will ensure that all the organisation's investments are covered in the investment strategy and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.
The Authoritty will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

At 31 March 2018 the Authority held the following investments on its balance sheet:

<u>Equity</u>
Newcastle Airport Holding Company Ltd £10.728m
North Tyneside Trading Company £2.980m
Kier North Tyneside Limited £0m (£200)
LIFT Co £0m (£11)

<u>Loans</u>
High Point View £1.873m
Aurora Properties (Sale) Ltd £0.978m
Sub ordinated debt – Dudley and Shiremoor JSC £0.160m
Sub ordinated debt – Whitley Bay JSC £0.110m

In terms of the equity investments:
The shares in Newcastle Airport are held primarily for economic regeneration. The cost of the original investment was £0.235m.
The shares in North Tyneside Trading Company relate to 2 subsidiaries. The first, amounting to £2.474m, relating to investment in affordable homes in line with the Cabinet's priorities using section 106 funding. The second, amounting to £0.506m, relating investment in Aurora Properties (Sale) Ltd for provision of housing for sale on the open market.

In terms of the loans:

- High Point View – the total value of the loan agreed for the development of housing on the site was £2.800m. It is anticipated that this amount will be repaid over the next few months as the properties are sold.
- Aurora Properties (Sale) Ltd the loans are expected to be repaid over the next 3 years upon completion of the property developments.

The current 2018/19 and proposed 2019-2023 Investment Plan includes further planned investment in the Trading Company of £11.091m (which includes £1.242m section 106).

There are currently no losses expected on any of the Authority's non treasury investments or any indications that a loss may arise, however, this position is kept under constant review as market conditions are expected to remain very volatile.

Over the period of the financial plan (2019-2023) income from these investments is expected to be in the region of £1.000m from staff recharges, interest and dividends.

A training session will be provided by Link Asset Services, in February 2019, to all members involved in the investment decision making process.

Provisional Statement to Council by the Chief Finance Officer

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

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

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

The intention would be to make a full Statement as part of the report to the Council meeting on 21 February 2019, when all outstanding information should be available.

Robustness of Estimates

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

- The general financial standing of the Authority;
- The underlying Budget assumptions from the financial strategy;
- Future budget pressures and growth proposals, including the impact of prudential borrowing for the 2019-2023 Investment Plan;
- The adequacy of the budget monitoring and financial reporting arrangements in place;
- The adequacy of the Authority's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2017/18 Statement of Accounts, presented to full Council on 26 July 2018.
- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority; and
- The outcome of the 2016-2020 Local Government Finance Settlement and the Autumn Statement 2018 which was published on 29 October 2018 and the implications for North Tyneside Council.

The level of contingencies currently remains at £4.616m as pressure, as these are initial proposals which will be finalised by Cabinet once consultation is concluded and the final Settlement known.

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

The Cabinet is aware it must keep under review its medium-term Financial Strategy and four year Financial Plan, in the context of the 2018-2020 'Our North Tyneside' Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2019/20 in isolation to future years' needs and pressures. Each year's Budget must continue to be considered within the context of the four year Financial Plan, the four year Investment Plan, the Financial Strategy and the global economic position prevailing at the time.

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

Capital Strategy

In line with the 2017 'Consultation on Proposed Changes to the Prudential Code's new requirement that the Chief Finance Officer of an Authority should report explicitly on the 'deliverability, affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions', North Tyneside Council have ensured that that all projects within the 2019-2023 Investment Plan follow the full gateway and governance procedure prior to inclusion on the Plan which ensures the deliverability, affordability and risk associated with each decision is fully understood prior to any decisions being made.

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

Adequacy of Financial Reserves

General Fund

The 2019-2023 Financial Plan currently assumes no use of reserves to support the budget. My view is that the current Financial Plan, should aim to maintain the Strategic Reserve at a minimum planned level of £10.000m over the life of the Financial Plan. This is represents a revision to the current Reserves and Balances Policy due to increased risks associated with managing increasing cost and demand pressures. Any unplanned use of the Strategic Reserve over the 2019-2023 Financial Plan may take the level outside of this boundary and corrective action would be needed to demonstrate how the £10.000m agreed level would be restored. Table 17 below shows the reserves as at the 31 March 2018 and the projected reserve levels over the period of the Financial Plan

Table 17: Reserves and Balances as at 31 March 2018 and from 2019/20-2022/23

Reserves & Balances	Projected Closing Balances				
	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
Reserves					
General Fund Ringfenced	26.617	22.516	23.978	24.741	24.741
General Fund Unringfenced	18.492	17.567	17.067	16.567	16.567
General Fund Grants	2.765	1.188	1.108	1.028	1.028
HRA	22.821	16.757	17.601	18.395	18.395
Reserves Sub Total	**70.695**	**58.028**	**59.754**	**60.731**	**60.731**
Balances					
General Fund	6.804	6.804	6.804	6.804	6.804
Schools	3.357	3.357	3.357	3.357	3.357
HRA	6.083	6.083	6.083	6.083	6.083
Balances Sub Total	**16.244**	**16.244**	**16.244**	**16.244**	**16.244**
Grand Total Reserves & Balances	**86.939**	**74.272**	**75.998**	**76.975**	**76.975**

Housing Revenue Account

Table 18 below sets out the movement in reserves of the HRA. The budget proposals ensure that a minimum of £2.500m is retained in HRA revenue balances each financial year covering the two years of the Financial Plan to ensure some measure of contingency and financial stability. The proposals, as they currently stand, also balance the plan over the longer 30-year period, which is what the Government requires us to demonstrate as part of the self-financing proposals.

Table 18: 2019–2023 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	2018/19 £m	2019/20 £m
Opening Reserve Balance	(4.544)	(2.575)
Add:		
Original Contributions (to) / from balances	1.766	1.969
Change in contributions (to) / from Balances	0.203	(2.039)
Predicted Reserve Balance Carried Forward	**(2.575)**	**(2.645)**

Guidance on Local Authority Reserves and Balances is given in Accounting Bulletin LAAP (Local Authority Accounting Practice) 99. This states that *“Balancing* *the annual budget by drawing on general reserves may be viewed as a legitimate short term option",* and so the proposed 2019/20 Budget does not contradict the issued guidance. The Bulletin does then go on to say *that "It is not normally prudent for reserves to be deployed to finance current expenditure"*. The 2019-2023 Financial Plan has been developed so that on-going revenue expenditure is aligned to annual income with no long term reliance on reserves.

Overall Financial Risk Assessment

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

Key Financial Risks

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

Table 19: Key Financial Risks and mitigating actions

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

have been made based on the indicative settlement up to and including 2022/23 may be wrong, resulting in changes to the current targeted savingsby 2022/23, for the General fund and for the HRA which will be considered by Cabinet in January 2019.	Programme which will allow us to reconfigure if the assumptions that have been made prove to be incorrect. We work closely with national, regional and sub-regional financial networks to help ensure we are informed and aware of any national developments. Being involved in the consultation process enables any issues or concerns specific to NTC to be highlighted before final decisions are made. Development and acceptance of the Efficiency Plan has secured the Revenue Support Grant (RSG) (subject to Central Government Change) which gives a degree of certainty for the next year.
There is a risk that, because of financial pressures within the Clinical Commissioning Group (CCG), the Council does not receive a full transfer of funding from health to social care and the continuation of funding for existing services funded through the Better Care Fund (BCF) and s256 agreements. This would have a significant financial impact to the Council.	The Policy and Framework and Guidance for the BCF specifically requires that funding transferred for social care should, as a minimum, be at the equivalent level as that of 2016/17 plus inflation. Following escalation to a national panel, the BCF contribution from the CCG has been agreed and 2019/20 and a Section 75 legal agreement is being drawn up on this basis. The Authority remains in dialogue with the CCG over its proposed reduction in mental health funding.
There is a risk that not all growth pressures have been identified in the 2019/20 proposed Budget.	Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand - led pressures exceed Budget provision.	Demand - led pressures continue in areas such as Adults and Children's Social Care and the impact of the Living Wage on our care providers (and the price for services the Authority then has to pay) have been taken into consideration as part of these initial Budget proposals.
There is a risk that specific factors arising during 2018/19 have not been fully taken into account when preparing the 2019/20 Budget.	The 2018/19 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures factors arising during the year are highlighted.
There is a risk that the in year pressures	As at 30 September 2018, a pressure of

being reported through the 2018/19 financial management process impact on the deliverability of the 2019/20 budget.	£3.599m was reported against the 2018/19 budget. All services continue to develop and deliver actions to mitigate these financial pressures and expect the out-turn forecast to improve as we move through the year. In addition, non essential spend continues to be minimised along with a detailed review of demand led projections in order to reduce the over-commitment. Progress will be monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team.
There is a risk that the contingency provision included in the Financial Plan for 2019/20 is insufficient.	The review of the base budget and the reflection of the 2018/19 pressures into 2019/20 are considered to be such that no further specific contingency is required.
There is a risk that there are insufficient levels of reserves and balances.	A full review of reserves and balances is undertaken on a regular basis as part of both the in-year monitoring process and planning process.
There is a risk that the level of capital receipts included in the Budget proposals are not deliverable.	Capital receipts of £4.287m Housing are included in the financing of the 2019/20 Investment Plan. There are a number of actions being progressed that are expected to realise this requirement.
There is a risk that the Council will be unable to protect its housing assets and services to tenants as a consequence of reduced income to the Housing Revenue Account. Government policy on Welfare Reform is resulting in a number of direct challenges to rent collection; the Spare Room Subsidy and the Benefit Cap have already had an impact. Further Welfare Reform changes, including the implementation of Universal Credit and its revised payment period, and changes proposed in the new Welfare Reform and Work Act 2016; reducing social housing rents by 1% each year for the 4 years from April 2016. This has the potential financial impact of reducing rental income by over £440m over a 30 year period.	The budget setting process incorporates a review of the HRA business plan to reflect the changes. The cost and quantity of work within the 30 year Investment Plan is revised annually to help mitigate the impact of changes. In addition, the Financial Inclusion Strategy sets out how the Council and its partners will support its residents to better manage their finances and maximise their income. North Tyneside Council has representation on the DCLG and CIPFA HRA working groups. This enables specific NTC issues to be raised and allows the Authority to comment and influence change on HRA regulation.

There are financial risks attached to the insourcing of the Kier North Tyneside Joint Venture project both in terms of ensuring efficient and effective mobilisation plans are put in place, that all the requisite assets and support systems are secured to achieve the desired outcomes, and that monitoring takes place to ensure performance improvements and value for money are adequately captured moving forward.	Dedicated project resources have been identified to ensure a full project plan is developed and implemented, and a governance process created to wrap around the project and ensure all target timescales and milestones are being achieved. This will include developing a Benefits Realisation framework to capture the efficiencies identified within the project.
There is a risk that there may be a significant financial impact on school resources if the number of schools requesting deficit continues to rise at its current rate. This risk is currently driven by the number of surplus places at secondary schools.	The school deficit has been identified as a priority for the Authority and Head Teachers and Governing Bodies. A programme of work has been identified, working with schools to improve the schools deficit position. This will highlight the work that is required and through working with the schools a number of initiatives will be identified and progressed.
There is a risk that North Tyneside may be placed at a disadvantage following the decision to leave the European Union in both financial and economic growth terms. The full extent of the impact will not be clear until we know the precise trade terms which will apply once we formally leave the EU. This has a potentially significant financial impact due to loss of revenue grant and a potential loss of opportunities, i.e. capital grant and other revenue sources.	The potential impact from leaving the EU has been included in the Council's Financial Strategy. This is helping to ensure that potential areas of impact following the EU exit are highlighted and included (where relevant) in budget planning. The Council is a member of various regional groups which will help us keep up to speed on progress and have the opportunity to exert any influence that we can. It is inevitable that there will be some impact from the decision to leave to EU, the challenge is to manage the impact where possible.

Appendix A

2018-2020 Our North Tyneside Plan

The proposed priorities for the new Our North Tyneside plan are

Our People will:

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

Our Places will:

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

Our Economy will:

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

Appendix B – Breakdown of Financial Plan cost pressures 2019/20 to 2022/23

All figures in £'000s	2019/20	2020/21	2021/22	2022/23
Legislative / regulatory changes	**1,577**	**2,588**	**518**	**337**
- People Business Case (Community Hubs)	1,403	487	0	0
- Grant related changes (mainly reductions in relation to Adult Social Care, Public Health Grant and New Homes Bonus)	174	2,101	518	337
Inflationary changes (pay and prices)	**5,063**	**6,525**	**4,388**	**6,654**
- Pay award (Incl. pension)	2,058	3,500	2,000	2,000
- Waste management & environmental contracts	0	0	0	2,500
- Whitely Bay JSC	0	0	0	250
- PFI Inflation	0	600	600	0
- S256 CCG Funding	667	0	0	0
- Impact of the National Living Wage	2,318	2,405	1,768	1,884
. - Levies & Precepts	20	20	20	20
Resource changes	**(1,493)**	**0**	**0**	**0**
- Improved Better Care fund	(1,493)	0	0	0
Demand led	**2,375**	**1,576**	**1,339**	**1,349**
- Learning Disability	1,008	656	389	389
- Waste Growth	0	420	450	460
- Children's Social Care	1,367	500	500	500
Corporate pressures	**3,780**	**3,845**	**2,280**	**1,030**
- Use of MRP Reserve	2,000	0	0	0
- Investment cost of borrowing	459	1,843	(38)	(150)
- Corporate changes	1,321	2,002	2,318	1,180
TOTAL	**11,302**	**14,534**	**8,525**	**9,370**

Description (Amount)	Peoples Business Case (Community Hubs) (£1,403k in 2019/20)
How have the above amounts been calculated?	The pressure is the amount of funding required net of the ADM and PIP money
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Fall out of external funding
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can replace the grant funding, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2019/20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Grant related changes (£174k in 2019/20)
How have the above amounts been calculated?	The value in 2019/20 represents the reduction in Public Health grant (£328k), Housing Benefit Admin Subsidy (£250k) & New Homes Bonus (£47k) partially mitigated by an increase in S31 grant £451k.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Fall out of external funding.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Where savings are possible they have been included in the savings proposals for 2019/20.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2019/20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Pay award (£2,058k in 2019/20)
How have the above amounts been calculated?	The annual pay award (£2,058k) calculation is based on an agreed pay award of 2% applied to 2018/19 staffing budgets (including salary, employer's national insurance, and employer's pension contributions). The increase anticipated in 2020/21 relates to the 2% increase to pensions outlined in the March Pension Committee report.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Annual pay award agreed by employers as part of national pay bargaining / contractual obligation to move staff up an increment towards the top of the relevant pay scale.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Assumed public sector pay increases of 2%.
Does the activity causing the cost pressure need to continue?	Yes, staff are involved in delivering a range of statutory and discretionary services, which are being reviewed as part of the identification of savings to meet the Council's budget gap in 2019/20.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2019/20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	S256 Clinical Commissioning Group (CCG) Income (£667k in 2019/2020)
How have the above amounts been calculated?	Valued of reduction agreed following negotiations with the CCG
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Fall out of external funding.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, service delivery is based on assessed need.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2019/20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Impact of the National Living Wage (£2,318k in 2019/20)
How have the above amounts been calculated?	This cost pressure is based on potential increases in rates payable to third party providers for 2019/20 reflecting in particular the impact of the National Living Wage increases.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Inflation on payments to independent sector providers.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	Any savings from greater investment in preventative services and improved partnership working are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Cost pressure is based on likely increases in rates with third party providers. Benchmarking will be used to ensure that actual rates agreed are appropriate.
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2019/20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Levies & Precepts (£20k in 2019/20)
How have the above amounts been calculated?	These are estimates based on information provided by the third parties.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Our partners will apply inflationary price increases .
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Estimates based on third party evidence.
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2019/20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Better Care Fund (£-1,493k in 2019/20)
How have the above amounts been calculated?	This value reflects the fall-out of the increase in the Improved Better Care Fund grant.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Fall-out of grant income
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Description (Amount)	Learning Disabilities (£1,008k in 2019/20)
How have the above amounts been calculated?	This cost pressure is based on estimated client population growth in 2019/20 along with known growth pressures for 2018/19 (including the Winterbourne transforming care cohort).
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increasing adult population (18+) with learning disabilities.
If the cost pressure is due to increased demand, what evidence exists to support this?	Future population projections and review of those clients or potential currently known to Adult Services.
What, if anything, can be done to mitigate the cost pressure?	Any savings from the services are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2019/20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Children’s Social Care (£1,367k in 2019/20)
How have the above amounts been calculated?	This is based on current projected net cost pressure from 2018/19
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	The cost pressure relates to the increase in complexity of cases.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	Existing work is ensuring that the number of cases is not increasing to add to the cost pressure the increased complexity of the cases is generating.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority’s 2019/20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Use Of MRP Reserve (£2,000k in 2019/20) & Investment Cost of Borrowing (£459k in 2019/20)
How have the above amounts been calculated?	The MRP adjustment is the impact of the planned growth required following the MRP holiday related to the review of asset lives. The cost of borrowing is calculated to reflect the interest the payable to finance future capital and revenue budgets.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Planned MRP holiday reversal and interest costs to finance capital & revenue budgets.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2019/20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Corporate changes (£1,321k in 2019/20)
How have the above amounts been calculated?	These are the adjustments required to remove elements of the joint venture contract which will no longer apply when the Kier staff transfer back to the Authority. Adjustments to engineer's fees recharge to reflect reduced ability to recharge these costs.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	These are corporate changes required due to the fall out of the Kier JV (£1,021k in 19/20), Engineers Fees (£300k in 19/20).
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2019/20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Appendix C - Efficiency Savings 2019/20

Business Case	Proposal for 19/20 £000's
Cared For Safeguarded and Healthy	**(625)**
A focus on the social care customer experience; health and social care is a complex set of systems often governed by distinct pieces of legislature and delivered by multiple services, even within a single organisation such as the Council. In 2017 we reviewed the adult social care customer journey and ensured that our customers had a named worker, based in a local team, who would remain with that person throughout their social care journey. This has proven successful and is enabling better quality customer relationships to develop, as well reducing costly, duplicate processes from occurring. We aim to go further and whilst there are limited direct cost savings at this stage, we know that getting the right person to do the right thing correctly the first time means we are able to direct our resources more effectively and mitigate against the increasing demand for good quality advice and information.	(225)
Leading Sector-led Improvement; North Tyneside has developed a national reputation for the quality of its children's services, including receiving Partners in Practice status from the Department for Education and the opportunity to deliver sector-led improvement to other authorities in the country. This work will develop a long-term offer for SLI as well as exploring opportunities to provide ad hoc and bespoke support to authorities that seek it from us. This will bring additional income	(100)
Responding to rising complex needs; whilst there will be a continued clear focus on preventing health and social needs from occurring and escalating, the need for formal care and support will continue. We know that complexity of need is increasing and the cost of providing services is rising exponentially. From a public health perspective, we will continue to focus on the principal preventable causes of ill health – tobacco, obesity, alcohol misuse and poor mental health (including social isolation). We will seek to reduce costs by ensuring that the authority secures the appropriate contributions from our partners in accordance with the legislative framework. We need to mitigate against the rising costs of care whilst still ensuring that people are 'cared for and safeguarded. We will carry out a review of all current funding to voluntary organisations not currently on a commissioned framework. This will provide an opportunity to review the total spend holistically and ensure any work complements and is not duplicated by the work to create new community hubs. Over the past five years the number of people supported in extra care and independent supported living schemes has continued to rise in the Borough and we know that using this approach can delay and prevent the use of more costly residential care and that our residents prefer to be supported in their own homes. This journey will continue with increased provision of specialist housing in the Borough, which is affordable now and in the longer term.	(300)
Fit for Purpose Organisation	**(339)**
How we are organised; as services change the organisation must change with them. This proposal aims to ensure the organisation is reshaped to reflect changes in services and reductions in resources. In addition to changes in service delivery it also aims to ensure the organisation's infrastructure is changed and shrinks in line with the rest of the organisation with resultant changes in overheads and recharges. This will include taking opportunities to streamline the Council's decision-making infrastructure and processes where appropriate. In addition making sure that infrastructure is tested against best practice, the priorities of the Mayor and Cabinet and the market.	(339)

Appendix C - Efficiency Savings 2019/20

Business Case	Proposal for 19/20 £000's
Maximising Resources	**(62)**
Delivering our Fees and Charges Policy; the Authority has an agreed Fees and Charges Policy that reflects policy priorities, need and the wider market in which we operate. This proposal will continue our work to regularly review our Fees and Charges.	(62)
A Great Place to Live, Work and Visit	**(1,328)**
Develop a 10 year plan for waste; for ecological and financial reasons it is imperative that local authorities have long term plans for waste. This proposal aims to establish a 10 year plan to increase recycling and contain the growth of waste costs as well as developing a post 2022 solution for disposal of residual waste.	(100)
Post-2019 Construction Delivery; throughout 2018/19 the Construction Project has been working to prepare for the return of services for the delivery construction services to both the Housing Revenue Account and the General Fund. This project will continue into 2019/20 as over 400 staff are TUPE'd into the Authority and a re-modelled approach to delivery is implemented in order to reduce cost and grow the business in the future.	(500)
Protect and Develop North Tyneside's Cultural Offer; in a period of significant financial pressure, North Tyneside Council has managed to sustain and develop a rich cultural offer. This project aims to continue to work with cultural partners to protect and develop the offer, making the most of the Authority's assets, with an optimum sport, leisure and library offer that makes the maximum difference to residents, business and visitors delivering a developed and sharpened events programme while exploiting opportunities to maximise income and reduce costs. This links to Central Government's Culture White Paper and National Library Strategy.	(625)
Regenerating the Borough and Building Up Business; On 26 November 2018, Cabinet are expected to approve an overarching Regeneration Strategy (the Strategy) "An Ambition for North Tyneside". The aim of the Strategy is to match ambition for North Tyneside to the Local Plan which sets out special strategy for the next 15 years. The Regeneration Strategy recognises what has been achieved so far and how the borough has changed. The Strategy takes a forward look at what we are doing, what we will do next and what we will do if we can and this is being developed across the four areas of the borough. The people and places of North Tyneside have always been about ambition. The Authority will support that ambition and innovation. The Strategy aims to shape North Tyneside and make sure it is fit for the future. As part of that, the Authority will continue to work with and encourage inward investment into the borough and growth in new business.	(103)

Appendix C - Efficiency Savings 2019/20

Business Case	Proposal for 19/20 £000's
Ready For School	**(265)**
Continue to redesign 0-19 Services; starting with ante-natal services this proposal aims to continue our work to target our services at need and to manage demand for more specialist services. Critical to delivery will be the Healthy Child Programme and the work to increase the richness and consistency of the Early Help offer. This approach links to Government Policy and best practice through concentrating on prevention and developing more schools to deliver Early Years, which, in turn saves money and avoids cost.	(265)
Ready For Work and Life	**(100)**
Delivering Whole-System Support to Children with Additional Needs; Changes in legislation and national policy regarding children with Special Educational Needs and Disabilities (SEND) have placed significant additional demands on local authorities. These changes also place an additional emphasis on the role of “local areas” to meet the needs of children with additional needs, including the full range of partners involved. Rising demand has created significant pressures for all local authorities and their partners, and reinforced the need for a whole-system response. We will build resilience in the universal offer to prepare young people with additional needs for adult life by developing an integrated approach across education, health and care services. As part of a wider strategy, this budget proposal is particularly concerned with ensuring needs are appropriately funded by the relevant agency, in line with statutory responsibilities and policy. We will ensure there is a clear policy for funding decisions and a consistently applied process for ensuring funding is appropriate and the source of funding is in line with the agreed policy. This will ensure the authority maximises the levels of Continuing Care funding received from the CCG where health needs have been clearly identified and are being met by packages of care commissioned by the local authority.	(100)
Grand Total	**(2,719)**

2019-2023 Draft Investment Plan Summary

Project Ref	Project Title	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	Total £000's	Funding Source	£000's
	GENERAL FUND **Maintaining our assets**							
BS026	Asset Planned Maintenance programme	1,500	1,500	1,500	1,500	6,000	Council Contribution	6,000
EV034	Local Transport Plan	3,181	3,181	2,986	2,986	12,334	Local Transport Plan (LTP) Mtce Local Transport Plan (LTP) Grant ITA	8,390 3,944
EV056	Additional Highways Maintenance (assumed continues)	2,000	2,000	2,000	2,000	8,000	Council Contribution	8,000
EV069	Vehicle Replacement	962	500	0	0	1,462	Council Contribution	1,462
IT020	ICT Strategy (assumed continues)	1,000	1,000	1,000	1,000	4,000	Council Contribution	4,000
ED075	Devolved Formula Capital (assumed to continue at current base level)	1,079	579	579	579	2,816	Education Funding Agency	2,816
ED120	Basic Need (indicative amounts for future years)	184	113	113	113	523	Education Funding Agency	523
ED132	School Capital Allocation (assumed continuation)	3,534	3,534	3,534	3,534	14,136	Education Funding Agency	14,136
	Total Maintaining our assets	**13,440**	**12,407**	**11,712**	**11,712**	**49,271**		**49,271**
	Regeneration							
DV058	Swan Hunters Redevelopment	2,277	0	0	0	2,277	Single Local Growth Fund (SLGF) Council Contribution	2,027 250

Project Ref	Project Title	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	Total £000's	Funding Source	£000's
EV084	A189 Improvements Haddricks Mill to West Moor	2,000	0	0	0	2,000	DfT National Productivity Investment Fund (NPIF) Section 278	1,223 777
GEN12	Local infrastructure projects	100	100	100	100	400	Council Contribution	400
	Total Regeneration	**4,377**	**100**	**100**	**100**	**4,677**		**4,677**
	Education							
ED188	Special Education Needs and Disabilities Fund	283	166	0	0	449	Education Funding Agency	449
	Total Education	**283**	**166**	**0**	**0**	**449**		**449**
	Housing General Fund							
HS004	Disabled Facility Grants	1,060	0	0	0	1,060	Better Care Fund	1,060
HS051	Private Sector Empty Homes Programme	524	524	0	0	1,048	Council Countribution Homes and Communities Grant	186 862
	Total Housing General Fund	**1,584**	**524**	**0**	**0**	**2,108**		**2,108**
	Corporate							
EV076	Operational Depot Accomodation review	4,100	897	0	0	4,997	Council contribution	4,997
GEN03	Contingency Provision	3,829	2,125	500	500	6,954	Council Contribution	6,954
IT026	ICT citizen interaction and self serve	614	0	0	0	614	Council Contribution	614
	Total Corporate	**8,543**	**3,022**	**500**	**500**	**12,565**		**12,565**
	Investments							
DV066	Investment in North Tyneside Trading Company	5,045	1,400	0	0	6,445	Council contribution	6,445

Project Ref	Project Title	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	Total £000's	Funding Source	£000's
	Total Investments	**5,045**	**1,400**	**0**	**0**	**6,445**		**6,445**
	TOTAL: GENERAL FUND	**33,272**	**17,619**	**12,312**	**12,312**	**75,515**		**75,515**
	HOUSING							
HS002								
	Decency Refurbishments	14,543	15,232	16,342	16,404	62,521	Revenue Contribution	33,931
	Disabled Adaptations	1,041	1,051	1,062	1,072	4,226	Capital Receipts	13,739
	Capitalisation of Major Repairs	1,232	1,245	1,257	1,270	5,004	Major Repairs Reserve (MRR)	52,228
	Furniture Pack Scheme	500	506	511	516	2,033		
	Asbestos Works	303	306	309	312	1,230		
	Energy Efficiency & Environmental Improvements	207	208	209	211	835		
	Fencing / Walling / Offstreet parking / Landscaping	2,446	1,787	1,915	2,105	8,253		
	Non-Traditional Properties	450	0	0	0	450		
	ICT Strategy/Water Pipe Renewals/Fire Damage/Ga	317	323	327	332	1,299		
	Post 2019 Construction & Repairs Insourcing	200	0	0	0	200		
	Footpaths & Communal Fire Doors	1,142	1,164	100	103	2,509		
	Potential New Build	3,433	2,767	2,692	2,446	11,338		
	Total: HOUSING	**25,814**	**24,589**	**24,724**	**24,771**	**99,898**		**99,898**
	TOTAL INVESTMENT PLAN	**59,086**	**42,208**	**37,036**	**37,083**	**175,413**		**175,413**

FINANCING					
GENERAL FUND					
Unsupported Borrowing	19,831	9,953	5,100	5,100	39,984
Capital Receipts	0	0	0	0	0
Revenue Contribution	0	0	0	0	0
Grants & Contributions	13,441	7,666	7,212	7,212	35,531
	33,272	17,619	12,312	12,312	75,515
HOUSING					
Capital Receipts	4,287	3,685	3,748	2,019	13,739
Revenue Contribution	9,136	8,079	7,702	9,014	33,931
Major Repairs Reserve	12,391	12,825	13,274	13,738	52,228
	25,814	24,589	24,724	24,771	99,898
	59,086	42,208	37,036	37,083	175,413

APPENDIX D (ii)

2019-2023 Prudential Indicators

Introduction

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

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

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

1.3 Within this overall prudential framework there is an impact on the Authority's treasury management activity as it will directly impact on borrowing and investment activity. The draft Treasury Management Strategy for 2019/20 is included within the annex to this report.

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

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

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

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

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

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

1.9 The indicators cover:

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

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

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

1.12 The following sets down the draft Prudential Indicators as calculated and proposed for North Tyneside Council for 2019–2023. The indicators include those for the Housing Revenue Account.

<u>Prudential Indicators for Affordability</u>

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

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

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

1.16 Looking ahead for a four year period, the following is a key prudential indicator of affordability:

- the ratio of financing costs to net revenue stream for both the Housing Revenue Account (HRA) and non-HRA services; and

Ratio of financing costs to net revenue stream

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

Table 1: Ratio of Financing Costs to Net Revenue Stream

	2018/19	2019/20	2020/21	2021/22	2022/23
	Est.	Est.	Est.	Est.	Est.
General Fund	15.32%	17.83%	18.64%	18.36%	17.87%
HRA	27.77%	27.33%	30.04%	29.43%	28.53%

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

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

	2018/19	2019/20	2020/21	2021/22	2022/23
	Est.	Est.	Est.	Est.	Est.
General Fund	9.18%	10.97%	11.79%	11.71%	11.15%
HRA	3.44%	4.65%	7.32%	6.69%	6.36%

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

Prudential Indicators for Prudence

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

Gross debt and Capital Financing Requirement (CFR)

1.21 This key indicator shows that gross debt is not expected to exceed the total CFR including additional capital requirements for 2017/18 to 2022/23.

Table 3: Gross external debt compared to CFR

	2018/19	2019/20	2020/21	2021/22	2022/23
	Est.	Est.	Est.	Est.	Est.
	£000's	£000's	£000's	£000's	£000's
External Borrowing	492,996	505,445	499,433	488,096	475,373
Other Liabilities (including PFI and Finance Leases)	120,452	117,219	114,065	110,803	107,427
Total Gross debt	613,448	622,664	613,498	598,899	582,800
Capital Financing requirement	**657,780**	**655,656**	**641,585**	**624,078**	**605,067**

Prudential Indicators for Capital Expenditure

Estimate of capital expenditure

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

1.23 The Investment Plan for 2019-2023 is included in the annex to the report and the figures below are based on that report. A full breakdown of individual projects is shown in Appendix D (i).

Table 4: Capital Expenditure

	2018/19 Est. £000's	2019/20 Est. £000's	2020/21 Est. £000's	2021/22 Est. £000's	2022/23 Est. £000's
General Fund	52,428	33,272	17,619	12,312	12,312
HRA	30,202	25,814	24,589	24,724	24,771
Total	**82,630**	**59,086**	**42,208**	**37,036**	**37,083**

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

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

Estimate of Capital Financing Requirement (CFR)

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

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

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

Table 5: Capital Financing Requirement

	2018/19 Est. £000's	**2019/20 Est. £000's**	**2020/21 Est. £000's**	**2021/22 Est. £000's**	**2022/23 Est. £000's**
General Fund	326,176	327,948	319,918	308,267	295,225
HRA	331,604	327,708	321,667	315,811	309,842
Total	**657,780**	**655,656**	**641,585**	**624,078**	**605,067**

1.29 The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 6 below:

Table 6: Capital Financing Requirement for Unsupported Borrowing

	2018/19 Est. £000's	2019/20 Est. £000's	2020/21 Est. £000's	2021/22 Est. £000's	2022/23 Est. £000's
General Fund	178,459	184,857	181,218	177,598	168,948
HRA	23,109	20,507	15,915	16,207	11,907
Total	**201,568**	**205,364**	**197,133**	**193,805**	**180,855**

<u>Prudential Indicators for External Debt</u>

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

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

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

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

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

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

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

Table 7: Authorised Limit for External Debt

	2018/19 Est. £000's	2019/20 Est. £000,'s	2020/21 Est. £000's	2021/22 Est. £000's	2022/23 Est. £000's
Borrowing	1,120,000	1,100,000	1,080,000	1,060,000	1,020,000
Other Long Term Liabilities	160,000	150,000	150,000	150,000	140,000
Total	**1,280,000**	**1,250,000**	**1,230,000**	**1,210,000**	**1,160,000**

1.34 The Chief Finance Officer reports that these Authorised Limits are consistent with the Authority's current commitments, existing plans and the proposals in this 2019/20 budget report for capital expenditure and financing, and in accordance with its approved Treasury Management Policy Statement and Practices.

Operational Boundary for total external debt

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

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

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

Table 8: Operational Boundary for External Debt

	2018/19 Est. £000's	2019/20 Est. £000's	2020/21 Est. £000's	2021/22 Est. £000's	2022/23 Est. £000's
Borrowing	560,000	550,000	540,000	530,000	510,000
Other Long Term Liabilities	140,000	130,000	130,000	120,000	120,000
Total	**700,000**	**680,000**	**670,000**	**650,000**	**630,000**

HRA limit on indebtedness

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

Table 9: HRA limit on indebtedness

	2018/19 Est. £000's	**2019/20 Est. £000's**	**2020/21 Est. £000's**	**2021/22 Est. £000's**	**2022/23 Est. £000's**
Gross HRA capital financing requirement	331,603	327,708	321,667	315,811	309,842
Less HRA PFI schemes	74,487	73,194	71,745	70,189	68,520
Adjusted HRA capital financing requirement	257,116	254,514	249,922	245,622	241,322
HRA limit on indebtedness	290,824	290,824	290,824	290,824	290,824

As part of the budget speech on 29 October 2018 the Chancellor announced that the housing debt cap would be lifted. Full details of this change are currently awaited.

Prudential Indicators for Treasury Management

Adoption of the CIPFA Code of Practice for Treasury Management

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

Upper limits on interest rate exposure 2019 to 2023

1.40 Full Council will be requested to set an upper limit on its fixed interest rate exposures for 2019/20, 2020/21, 2021/22 and 2022/23 of 100% of its net outstanding principal sums.

1.41 Full Council will be requested to set an upper limit on its variable interest rate exposures for 2019/20, 2020/21, 2021/22 and 2022/23 of 50% of its net outstanding principal sums.

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

Table 10: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate

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

Table 11: Upper limit for total principal sums invested for over 365 days

	2019/20	2020/21	2021/22	2022/23
% of Investments with Maturity over 364 days	25%	25%	25%	25%

1.43 The above indicator sets the exposure of investments in excess of 365 days at no more than 25% of the portfolio.

NORTH TYNESIDE COUNCIL

CAPITAL INVESTMENT STRATEGY

2019-2023

CONTENTS

1. Introduction

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

Investment Priorities are considered in the context of the strategic objectives of the Our North Tyneside Plan and other key strategies and plans that support the delivery of Our North Tyneside Plan (Appendix1) and "Our Ambition for North Tyneside" strategy (submitted to Cabinet on 26 November 2018).

Principles for Capital Investment:

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

Our Investment Plan priorities are as follows:

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

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

Most non-current assets are properties that are used in service delivery. As at 31 March 2018 the Authority's land, buildings and infrastructure asset base of over 450 properties has a current use Balance Sheet value of approximately £558 million, approximately 945 kilometres of highways and 235 bridges, subways, culverts and other structures with a historic value of £156 million, council housing stock comprising nearly 15,000 properties with a balance sheet value of £656 million and ICT and other equipment with a balance sheet value of £11m. In addition the Authority has an interest in assets of companies in which the Council has a financial interest in terms of equity and loans.

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

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

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

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

2. Guiding Principles

2.1 Prioritisation and Approval

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

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

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

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

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

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

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

The Authority can use its assets to support schemes or aim to maximise funding from any source possible, such as Heritage Lottery or Local Enterprise Partnership funding.
The Authority will continue to bid for additional external funding and/or work with other bodies to secure capital investment or consider use of its own assets in a development, but restricts schemes to those which support corporate priorities or statutory service objectives.

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

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

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

2.3 Capital Receipts and Capital Contributions

The Council receives capital receipts and capital contributions from:
Asset disposals
Right to Buy Clawback
Section 106 and Community Infrastructure Levy (CIL)
Section 278
Repayment of loans for a capital purpose

Asset disposals

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

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

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

Asset disposals at nil consideration or below market value

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

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

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

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

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

Right-to-Buy Clawback

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

Section 106 contributions and Community Infrastructure Levy (CIL)

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

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

Section 278 Contributions

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

Repayment of loans for a capital purpose

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

2.4 Flexible use of Capital Receipts

In December 2015 the Secretary of State published guidelines confirming the criteria for the Flexible Use of Capital Receipts. The initial guidance covered the period 1 April 2016 to 31 March 2019. This was subsequently extended in December 2017 to cover the period up to 31 March 2022. This flexibility allows Local Authorities to use capital receipts to fund revenue expenditure incurred to generate ongoing savings. This flexibility is subject to a Strategy for the use of capital receipts being approved by full Council. By approving this document Council will be approving this flexibility to be used as appropriate with any use reported to Cabinet.
Potential uses for capital receipts, (subject to the capital receipts being received and Cabinet approval of the use of receipts), would be to support any implementation costs for the Authority's transformation programme including redundancy costs. A number of transformation schemes were identified in the Efficiency Plan approved by Council in September 2016.

2.5 Revenue and Reserves

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

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

2.6 Approach to Borrowing

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

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

The Authority's Treasury Management Strategy recognises the need to take borrowing to support a number of capital projects, included within the Investment Plan approved by full Council, and reduce the level of internal borrowing. Based on current projected Public Works Board Lending rates, the cost of 1-3% should be assumed for new borrowing in 2019/20.

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

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

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

2.7 Investment Opportunities (including capital loans)

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

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

Our North Tyneside Plan

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

Appendix 2 – Definition of Capital Expenditure

Capital investment is simply described as:

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

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

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

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

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

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

Subsequent Capital Expenditure on an asset is defined as:

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

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

Appendix 3 – Capital Scoring Matrix

Capital Projects Assessment Criteria

Possible Weightings

1. Council Plan Priorities

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

2. Potential to generate future revenue savings and/or investment return

3 points	Considerable additional net revenue saving and/or income stream meets both £100k pa and > 25% of project cost)	factor = x	**5**
2 points	Moderate additional net revenue saving and/or income stream (meets both £50k - £100k pa and 10-25% of project cost)	Max score	**15**
1 point	Small additional net revenue saving and/or income stream (meets both <£50k pa and < 10% of project cost)		
0 points	No potential net revenue income		
-2 points	Additional on-going resources required over existing budgets		

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

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

4. Statutory Status: includes support of a statutory service requirement

3 points	Meets a specific immediate or forthcoming statutory requirement	factor = x	**4**
2 points	Meets an underlying statutory duty	Max score	**12**
1 point	Meets a discretionary requirement		
0 points	no indication of status		

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

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

6. Risk of doing (can project be delivered?) - achievability, timescale, resources required

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

7. Condition, health and safety risk and strategic importance of asset issues

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

8. Outcomes, added value, cross-service benefit

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

Max score	**57**

Appendix 4 – Investment Plan Gateway Process

Investment Programme Board
Governance arrangements for Capital Projects

The purpose of the Gateway process is to ensure that all necessary approvals are secured at all key stages of any Capital project.
Project Officers are responsible for the completion and submission of all Gateway Forms to the Strategic Investment and Property Team (FAO Iain Betham / Fiona Lucas). The team will then ensure that all Gateway Forms are presented to IPB as required.

Regional Projects

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

Gateway 0 Strategic Fit

Purpose: Information contained in this submission should be brief but sufficient to demonstrate that a mandate exists, the project or programme has been prioritised and an outline business case has been developed. There is also a requirement to convey how far the idea has been developed in terms of feasibility.
Role: The submission will be scrutinised by the IPB in terms of strategic fit, corporate priorities, available capital resources and estimated revenue implications. This allows the Project Officer to commence the feasibility stage.
Available options: Approve or advise / refer back / reject
Associated Form—Gateway 0

Gateway 1 Feasibility

Purpose: This document constitutes a formal bid for capital investment including inclusion in the Investment Plan. It should provide sufficient information to enable effective financial and technical scrutiny ahead of further review at strategic and member level. Figures on cost and funding should be as accurate as possible. At Gateway 1 there is a focus on viability, affordability, procurement and delivery. The initial submission of the Gateway 1 form will be considered by a sub group of IPB as part of the new scoring matrix. This will ensure that all projects are aligned to the Council's Our North Tyneside Plan and that any financial or other implications are addressed prior to consideration by the full IPB Board
Role: The IPB will scrutinise the bid in terms of its financial and technical viability and management of risk. The IPB will be briefed on outcomes and recommended actions and may wish to prioritise, amend or modify the submission in light of these comments. The IPB provide recommendations to Cabinet to form part of the budget setting and financial management processes, if required.
Available options: Approve or advise / refer back / reject
Associated Form—Gateway 1

Gateway 2 Approval and Delivery

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

Gateway 3 Exception Report

Purpose: Information contained in this submission should provide the IPB with information on the project & the specific issues as to why the matter has been escalated to the IPB. This could cover project delays, financial concerns or new information that may now have an impact on the project. **In addition this Gateway Form MUST provide information on the spend profile which will be monitored as part of the overall investment plan.** A Gateway 3 submission may be required on more than 1 occasion subject to the issues / matters that may / may not be raised regarding a particular project. **The relevant Project Officer responsible for the project will be expected to attend the IPB to present the Gateway 3 submission.**
Role: The submission will be scrutinised by the IPB in terms of the wider strategic fit, corporate priorities together with the associated implications for capital resources and revenue budgets, prior to submission to Cabinet or Council as required.
Available options: Approve or advise / refer back / reject
Associated Form – Gateway 3

Gateway 4 Project Close

Purpose of Document: The purpose of this document is to confirm financial completion, transfer or the abandonment of a project and to report on the status of associated records. Responsibility for completion of this template should be identified in the follow-on actions and handover plan. Completion of all relevant sections is mandatory to enable consolidated reporting on the Investment Plan.
Scrutiny and Review: The Investment Programme Board will review this submission including for capital accounting and financial closure purposes.
Available options: Approve or request additional information
Associated Form – Gateway 4

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2019/20

Investment Instruments and Credit Criteria

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

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

Table 1: Specified Investments and Credit Criteria

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

	Credit Criteria	**Maximum Deposit**	**Maximum Period**
UK Government Debt Management Office (DMADF)	N/A	£50m	6 months
UK Local Authorities	N/A	£10m each	1 year
UK Government Treasury Bills	UK Sovereign Rating	£10m	1 year
Term deposits with banks and building societies	Blue /Orange Red Green No Colour	£5m each	12 months 6 months 100 days Not for use
Certificate of Deposits with banks and building societies	Blue /Orange Red Green No Colour	£5m each	12 months 6 months 100 days Not for use
Money Market Funds *(CNAV, LVNAV,VNAV)	AAA	£5m each	Liquid

*CNAV- Constant Net Asset Value
LVNAV- Low Volatility Net Asset Value
VNAV- Variable net Asset Value

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

Table 2: Non-Specified Investments

	Credit Criteria	Maximum Deposit	Maximum Period
UK Local Authorities	N/A	£5m each	3 years

Appendix F

2019-2023 Financial Planning and Budget Process

Timetable of Key Milestones for 2019/20

Date / Meeting	**Detail**
27 November 2018	Notice of Objection Process for the 2019/20 Budget commences.
27 November 2018	Budget and Council Plan Engagement process begins. Ends in January 2019.
December 2018 **Scrutiny Process**	2019-2023 Financial Planning and Budget Process.
6 December 2018	Estimated timing of the 2019/20 Provisional Local Government Finance Settlement.
14 January 2019 **Overview, Scrutiny and Policy Development Committee**	Overview, Scrutiny and Policy Development Committee consider the results of their review of the 2019-2023 Financial Planning and Budget process.
21 January 2019 **Cabinet**	Annual Housing Rent Reduction for 2019/20 approved by Cabinet.
21 January 2019 **Cabinet**	Cabinet considers its budget proposals for 2019-2023 in relation to General Fund Revenue, Schools & North Tyneside Council Investment Plan for 2019-2023, taking into account feedback received as part of Budget Engagement.
21 January 2019 **Cabinet**	2019/20 Council Taxbase agreed by Cabinet.
7 February 2019 **Council**	Cabinet submits to the Council its estimates of amounts for the 2019-2023 Financial Plan and 2019/20 Budget & council tax levels.
21 February 2019 **Council**	Reconvened Council meeting to consider Cabinet's estimates of amounts for the 2019-2023 Financial Planning and Budget process and council tax levels. Consideration of any Notices of Objection.
25 February 2019 (if required) **Cabinet**	Cabinet Meeting to consider any objections to Cabinet's Budget proposals.
5 March 2019 (if required) **Council**	Council meeting to agree the general fund revenue budget for 2019/20; the council tax level for 2019/20 & the North Tyneside Investment Plan for 2019-2023.

2019-2023 Medium Term Financial Strategy

Date: 26 November 2018 **Version:** Version 1 **Author:** Janice Gillespie

North Tyneside Council

Contents

1. Executive Summary

1.1 This is the annual review of the Authority's Medium Term Financial Strategy (MTFS). It is based on a financial forecast over a rolling four-year timeframe from 2019/20 to 2022/23 which will help ensure resources are aligned to the outcomes in the Our North Tyneside Plan. The MTFS sets the financial context for the Authority's resource allocation process and budget setting.

1.2 The Authority is operating in an ever-changing policy landscape. The levels of uncertainty and the impact of government decisions are significant. The challenging local context of austerity and increasing demand on Authority services has compelled the Authority to refocus on what matters most.

1.3 The likely continuing requirement and scale of budget savings, over and above the £120m already taken from budgets since 2011/12, represents an increasing challenge for the Authority.

1.4 Central Government's continued commitment to reduce the overall levels of public debt would indicate significant reductions in grant funding are likely to continue over the medium term. Furthermore, the Government aim through funding reforms is to significantly reduce reliance on central grants and move local authorities to be self-financing. Authorities will rely more on income from Council Tax, local Business Rates, fees and charges, trading income as well as contributions towards service costs from third parties. This will be particularly challenging for Authorities like North Tyneside with the greatest need for services to meet local demands. There will be more pressure on the income the Authority gets from Council Tax and Business Rates to fund vital services. In order to strengthen its financial position, the Authority will have to consider other ways to generate income and be self-sufficient.

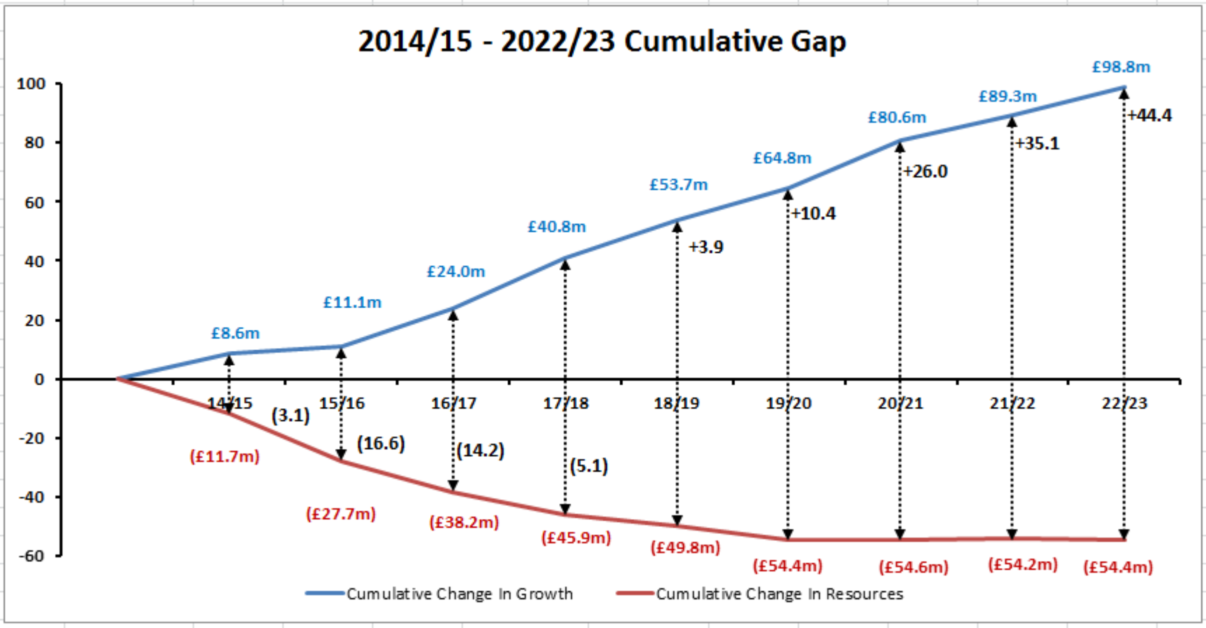
1.5 Reviewing the MTFS remains essential to ensuring the Authority's medium term financial sustainability. The Authority has responded to the financial challenges in a planned way and has produced a revised Efficiency Statement which reflects how the Authority is planning to address the reduction in resources to ensure we can meet the anticipated savings that will be needed over the medium term of the financial plan. The Authority will have to make very difficult choices in the years ahead about which services to prioritise. The Our North Tyneside Plan was refreshed in February 2018 with the Mayor's priorities for her second term. To avoid cuts to services, the Authority continues to explore alternative options of service delivery to ensure that services remain fit for purpose in the context of smaller budgets. This may mean revisiting the expectations of residents in order to protect services for the most vulnerable. It is also an opportunity to work with partners and neighbouring authorities to maintain and improve outcomes against a back drop of reducing public spending.

1.6 Within the 2018/19 settlement the government provided some details of indicative funding up to 2019/20 which gives a high-level indication of revenue support grant funding. However significant uncertainty still exists in respect of likely funding levels in relation to other grants over the period as well as instability that arises from the volatility of Business Rates funding and the implications of the potential move towards a new funding regime of 75% rate retention. Further implications arising from the UKs decision to leave the EU are yet to be seen over the next few years.

1.7 The funding estimated to be received from government and from Council Tax and Business Rate payers over the next four years is not sufficient to cover current level of spend plus new budget pressures. Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Therefore, to legally balance the budget the Authority must make spending plans affordable by matching it to the estimated funding available over that time. The gap between the two amounts is referred to as the “funding gap”. Thus, the funding gap is a combination of the Authority’s best estimate of the future budget needed to cover rising cost pressures and demands for services alongside a reduced amount of income. Action is required now to enable the Authority to satisfy the legal requirement to balance the budget both next year and in future years.

1.8 Although there exists a great deal of uncertainty, overall it is now estimated that the Authority will need to close a funding gap of £41.423m to 2022/23.

1.9 The funding gap over the medium term can be further analysed and is shown in the graph below this identifies separately increasing cost pressures on expenditure (£98.8m) at the same time as the impact of reductions in funding on income (£54.4m):-



1.10 The Authority will ensure that resources are used to maximum effect, and allow the Authority to continue to deliver new and better ways of working and invest to improve the efficiency of services provided. It is evident however the sustained reductions in funding and increases in demand will have an inevitable impact on both the nature and scope of services that the Authority is able to deliver. The Authority will aim to manage the process of change to its services effectively.

1.11 The Authority will continue to have significant revenue and capital budgets to deliver services consistent with the delivery of priority outcomes of Our North Tyneside Plan. The approach to financial planning over the medium term will include a focus on investment that delivers growth and income generation. The Authority recognises that economic growth benefits the residents of North Tyneside and the businesses within North Tyneside. It also strengthens the position of the Authority by developing financial resilience through less exposure to reductions in government funding. The Authority will retain its vision for the future of the Borough through promoting development and economic growth and this will assist in maintaining the medium term financial sustainability of the Authority.

2. Introduction

The Purpose of the Medium Term Financial Strategy (MTFS)

2.1 The MTFS is a key part of the Authority's Budget and Policy Framework which aims to ensure that all financial resources are directed towards delivery of Authority priorities. The Strategy describes the financial direction of the Authority for financial planning purposes and outlines the financial pressures over a four-year period but is reviewed annually to reflect the dynamic nature of local government funding.

2.2 The MTFS establishes the likely level of revenue resources available to the Authority over the medium term and also estimates the financial consequences of the demand for Authority services. It improves financial planning and strategic financial management through providing the financial context within which the Authority budget will be set.

2.3 The review also allows for consideration of the Authority's reserves policy and level of reserves to ensure there is adequate protection against unforeseen events.

The Principles of the MTFS

2.4 The principles underlying the MTFS 2019/20 to 2022/23 are as follows:

1) The overall financial strategy will be to ensure that the Authority's resources are directed to achieving the Council Plan and associated outcomes. The Authority's Strategy will be reviewed on at least an annual basis.

2) Overall Authority spending should be contained within original estimates. If, following monthly revenue monitoring, service budgets are projected to exceed original estimates, plans should be prepared setting out the actions required to ensure spending at the end of the year does not exceed original estimates.

3) The Authority will maintain its general fund balances a minimum level of £6.804m at the end of each year. The Authority will maintain the Strategic Reserve at £10.000m over the period of the MTFS subject to a risk assessment as part of the annual budget setting process.

4) The Authority will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the Strategic Reserve.

5) The Authority will plan for any changes to specific grants/interim funding/Financial Settlement/Legislation.

6) The Authority will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed at least annually.

7) The Authority will continue to improve its approach to efficiency, commissioning and procurement to ensure value for money and minimise the impact of budget savings on priority services as well as effectively managing the programme of change.

8) Opportunities for working in collaboration and partnership and different ways of working will be identified and developed where this will support the delivery of the Authority's outcomes and improve service efficiency and delivery. This will include the use of well-being powers, development of trading opportunities and different business models and the sourcing and securing of external funding.

9) The Authority will consider the use of prudential borrowing to support capital investment to deliver the Council Plan and will ensure that the full costs of borrowing are taken into account when investment decisions are taken.

10) The Authority will aim to promote and stimulate strong and sustainable economic growth leading to wellbeing and prosperity for residents and communities and this will be supported by a planned approach to strategic investment managed through the Authority's Investment programme.

11) The Authority will continue to review strategic assets to maximise the potential to release value for strategic re-investment and to ensure that the asset requirements are aligned to the delivery of services across the borough.

12) The Authority recognises the impact of increases in Authority tax levels and fees and charges on our residents, many of whom are struggling on relatively low income and low wealth and will therefore balance the need for increases against the delivery of the Our North Tyneside Plan and demand for services. This will include the consistent application of an agreed fees and charges policy.

13) The Authority will continue to consider business risk in all decision making process and alongside this ensure resources are aligned to reduce any material financial risk to the Authority.

14) The Authority will continue to review the Treasury Management Strategy and the efficient management of debt on an annual basis with an ongoing focus of delivering safe stewardship.

3. Financial Context

3.1 Medium term financial planning remains difficult and is prepared against sustained funding cuts for local government coupled with increased demand for social care and managing the impacts of welfare reform. The Autumn 2018 Budget reported an improvement in the public finances with medium term forecasts now suggesting that the deficit will level-out at about £20bn in 2022/23 and 2023/24. This is an improvement on the forecasts in the last two fiscal announcements (Autumn Budget 2017 and Spring Statement 2018). Much of the improvement has been the result of better-than-expected taxation receipts. Uncertainty remains in respect of the impact of Central Government's devolution agenda as well as the future impact of Brexit.

3.2 There are acute problems nationally in funding the increasing demands and complexity of both adults and children's social care. Adult social care is a vital public service that promotes wellbeing and independence and helps support some of our most vulnerable people. There also continues to be a growing strain on children's social care budgets. Early intervention can help limit the need for children to enter the social care system, lay the groundwork for improved performance at school and even help to ease future pressure on adult social care by reducing the pressure on services for vulnerable adults. Councils are struggling to invest in this vital early help and support, as a result of the significant funding reductions. Nationally the care and support system remains under enormous pressure.

3.3 Lack of clarity over the value and future of social care funding continues to hinder the ability to plan effectively. The Government now intends to publish the Social Care Green Paper in the autumn around the same time as the NHS plan. There will also be a review of the current functioning and structure of the Better Care Fund to make sure that it supports the plan.

3.4 The UK's date to leave the EU has been confirmed as Wednesday 29th March 2019, all assumptions will be revisited regularly and the financial impacts to the Authority's MTFS will be reconsidered in light of any changes to the general economy.

3.5 The Authority is operating within a context of unprecedented pressure on local authority budgets. Medium term financial planning is taking place against a background of significant funding cuts for local government alongside government plans for major local government finance reforms. This environment will continue to challenge the ability of the Authority to respond to the needs of North Tyneside residents and the wider community.

4. Local Policy Context

4.1 The Our North Tyneside Plan 2018-2020 sets out the overall vision and policy context within which the Financial Plan and Budget are set.

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

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

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

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

Our People will:

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

Our Places will:

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

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

Our Economy will:

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

Local Plan

The latest population projections from the Office of National Statistics project an increase of 15,800 people between 2014 and 2032. The population of North Tyneside in 2032 is expected to be 218,500. The Local Plan is the second key strategic element that drives the direction of resources in the Borough and was adopted by North Tyneside Council on 20 July 2017. The Local Plan sets out how the Borough can be a thriving, prosperous and attractive place to live and work. It details how the Borough will require around 9,800 homes (in addition to about 4,700 that already have planning permission) and employment land for at least 12,700 new jobs.

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

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

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

The Authority has also produced another report which looks to articulate the Elected Mayor and Cabinet's ambition for North Tyneside. That report explains in more detail the Elected Mayor and Cabinet's ambitions for each part of the borough and is a background paper to this report.

4.3 The MTFS is central to identifying the Authority's capacity to deliver its priority outcomes it reflects:

- The Authority's current financial position and outlook.
- The Authority's overall financial strategy, including use of reserves.
- Internal and external pressures which may influence the Authority's financial position.

4.4 There are huge financial pressures on not just Authority resources, but those of partners, local businesses and residents. To deliver on the new strategic approach over the next four years, the Authority will need a radical rethink about how it works, how resources are spent, how the Authority works with partners, organisations, businesses, trade unions, employees and the local people and communities of North Tyneside.

5. The Authority's Current Financial Position and Outlook

5.1 Revenue Outturn 2017/18 - The agreed net revenue budget was £152.360m. The final outturn reported to Cabinet on 29 May 2018 stated an overall under spend of £0.722m.

5.2 Revenue Budget 2018/19 - The Authority agreed the revenue budget in February 2018. This was set at £154.726m and included £10.611m savings. The budget includes a number of risk areas which, if not closely monitored and controlled throughout the year, could add further pressure to the funding gap in future years. These include the delivery of agreed savings and achievement of income targets. It is assumed within future sections that all past savings are fully achieved before entering 2019/20 otherwise the financial gap would increase. These will be closely monitored throughout the year.

5.3 Medium term financial planning remains extremely difficult due to external economic factors the financial impacts of which are impossible to predict accurately, coupled with the timing of a new finance system that is still in the design process. There is great uncertainty in relation to the level of funding beyond 2020 due to the changes in the Local Government finance system resulting in greater risks in relation to the localisation of business rates and the local Council Tax scheme. The unknown impacts alongside the level of risk to finances mean that these forecasts will need to be closely monitored and potentially refreshed more frequently than usual as consequences become clear. Staying the same is not an option. The Authority is required to change to deliver its priority outcomes within the limited funding available.

5.4 Following on from the policy context, the Authority is also experiencing the same service pressures as most other Metropolitan Authorities, increased costs for services for Looked after Children and vulnerable adults due mainly to more complex needs from a growing population and the impact of the Living Wage increases. These pressures are such that there is currently an over-commitment against the 2018/19 revenue budget in the region of £3.599m. A number of actions are in place to bring this position in on budget but there remains the potential that we could have to use reserves to keep overall spend within budget for the year end.

5.5 Our approach for 2019-2023 is to achieve savings early where possible, to mitigate against future financial risks whilst working in a very different way to ensure that resources can be more effectively targeted at the people who need them most. This will ensure that all residents have a successful, healthy and safe future, no matter where they live in the Borough. We will deal with causes not consequences, being proactive rather than reactive, we will understand and manage demand, enabling people to help themselves and we will have the right people with the right skills in the right place at the right time.

5.6 We have completed a base budget review and, based on our current financial assumptions, there is a budget gap of around £41.423m for the four years from

2019/20 to 2022/23. This is based on a range of factors including areas of grant reduction, financial pressures and growth:

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
People Costs, Pay award, pension increase etc.	2.058	3.500	2.000	2.000	9.558
Corporate -Future year contingencies and Construction Project	1.321	2.002	2.318	1.180	6.821
Contract increases for Living Wage	2.057	2.037	1.366	1.471	6.931
Service Demand	2.375	1.576	1.339	1.349	6.639
Price Inflation	0.948	0.988	1.022	3.183	6.141
Grant changes	0.084	2.588	0.518	0.337	3.527
Capital Investment and Treasury Management	0.459	1.843	(0.038)	(0.150)	2.114
Use of Reserves	2.000	0.000	0.000	0.000	2.000
TOTAL	**11.302**	**14.534**	**8.525**	**9.370**	**43.731**

5.7 When considered alongside the baseline level of resources the gap for 2019/20 is currently an estimated £7.654m, against a net budget plan of £152.676m (this is before any increases in the rate of Council Tax). The Authority's Efficiency Programme will continue to be a cross cutting programme to transform every part of the organisation and our relationship with our residents as set out in Our North Tyneside Plan.

5.8 The revised Efficiency Statement reflects how the Authority is planning to address the reduction in resources to ensure we can meet the anticipated savings that will be needed over the medium term of the financial plan. The Efficiency Statement should be considered alongside the MTFS and is a background paper to the strategy.

6. Looking Ahead

6.1 Future budget forecasts have been projected over the medium term. Forecasts and assumptions are outline below for information.

	2018/19 £m		2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
A: Base Budget Brought forward	152.360		154.726	152.676	151.865	152.611
B: Estimated Growth	12.976		11.302	14.534	8.525	9.370
C: Spend Requirement (A + B)	165.336		166.028	167.210	160.390	161.981
D: Resources Available	(154.726)		(152.676)	(151.865)	(152.611)	(152.762)
Resources Gap (C + D)	10.610		13.352	15.345	7.778	9.219
2018/19 Full year effect business cases in future years			(3.550)	(0.122)	(0.762)	(0.482)
Revised Resources Gap			9.802	15.223	7.016	8.737
Autumn Budget Social Care Grants			(2.148)	2.792	0.000	0.000
Gap before Council Tax options and efficiencies			**7.654**	**18.015**	**7.016**	**8.737**
Cumulative funding gap before Council Tax options and efficiencies				**25.669**	**32.685**	**41.423**

			2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Gap before Council Tax options and efficiencies			**7.654**	**18.015**	**7.016**	**8.737**
Council Tax Increase Options						
Council Tax (0.99%)			(0.919)	(1.845)	(2.778)	(3.720)
Council Tax (1.99%) - Assumed in 2020/21-2022/23			(1.828)	**(3.671)**	**(5.529)**	**(7.402)**
Council Tax (2.99%) - Assumed in 2019/20			**(2.747)**			
2019/20 Proposed Savings			(2.719)	(0.860)	(0.500)	(0.500)
Annual Funding Gap			**2.188**	**13.484**	**0.987**	**0.835**
Cumulative Funding Gap				**15.672**	**16.659**	**17.495**

6.2 The indicative budget forecasts show an estimated funding gap of around £41.423m for the four-year period 2019/20 to 2022/23. The need to find savings in 2019/20 and future years is driven by significant unfunded cost pressures arising from a number of sources as well as the stagnation in resources from Central Government. The Authority is experiencing the same service pressures as many other Metropolitan Authorities. These cost pressures arise for a number of reasons including:

- Legislative / regulatory changes mainly relating to external funding changes – cuts in specific grants (for example Housing Benefit Subsidy Administration Grant, Public Health Grant and, New Homes Bonus and Education Services Grant);
- Pay and price inflationary increases – increases in pay based on an assumed 2% pay increase, the impact of the National Living Wage increases on social care providers, the increase in food costs due to the increase in the Consumer Prices Index (CPI) and the impact of increased waste demand and the RPI impact on the contract the council has for waste disposal;
- Increasing demand for services – increased demand for social care services coupled with the complexity of individuals' needs (for example increased numbers of adults with complex learning disabilities) and for home to school transport;
- The impact of the improved Better Care Fund grant announced after the 2018/19 budget had been agreed including the additional impact for 2019/20; and
- Corporate pressures include the impact of the current joint venture arrangements with our partners and the planned reversal of the use of MRP reserve in 2018/19

6.3 The Efficiency Statement, which was first agreed under a delegation to the Mayor on 10 October 2016 and has been revised for 2019/20, sets out a number of proposals to be delivered that are designed to support the Authority in managing the change required to meet the significant financial challenge it faces. The proposals consider how service delivery can be reshaped in order that the Authority is able to meet the demands it faces, consider how residents are supported to help themselves, and continue to develop the Borough in terms of a place to live, being attractive to businesses and have effective transport and physical infrastructure.

6.4 The MTFS has also been informed by the State of the Area Report 2018. That report describes North Tyneside, based on the key factors that contribute to a social, economic and environmentally thriving place. It also demonstrates how the Council and its partners are listening to local people and responding to the issues raised by our residents. The report should be considered as a background paper to this report.

6.5 Within the 2018/19 Local Government Finance Settlement, the government provided some indicative core funding levels up to 2019/20 including Revenue Support Grant. However, huge uncertainty still exists in respect of likely government funding levels in future years as well as the instability that arises from the volatility of business rates funding and the implications of the move towards a new funding regime of 75% rate retention.

6.6 The funding projections in this strategy are considered more applicable and based on local assumptions, these are set out below for information:-

- Revenue Support Grant (RSG) - The core grant funding from government is known as RSG. The MTFS assumes RSG is flat lined from the year 2020. It is assumed that RSG received in 2019/20 will be in line with the multi-year settlement figures.

- Retained Business Rates - values reflect the baseline value outlined in the 2018/19 estimated forecasts. At this stage no further retained business rates from economic growth are included for the period of the MTFS but this will be one of the key options to close the financial gap.

- Since the 2017 to 2019 Parliament, the landscape for finance reforms has changed. The future of reforms became uncertain after the Local Government Finance Bill which provided the legislative framework for 100 per cent retention, fell when Parliament was dissolved and was not revived in the Queen's Speech. It was announced within the provisional Local Government Finance Settlement 2018/19 that the government aimed to introduce at least 75% business rates retention in 2020.

- The MTFS makes no assumption on the move to 75% business rate retention as how this will be implemented remains unclear. This change in funding system for local government is still being consulted on. This adds significant uncertainty into the year 2020/21 and future position. At this point it is known that Revenue Support Grant will disappear and the Authority will receive business rates calculated on a revised baseline. Business rate funding levels in future are highly indicative and are and this will need to be revisited as more information on the proposed new system comes to light.

- Council Tax increases need to take into consideration the Government's referendum principles which are set out every year. A 1% increase in Council Tax yields approximately £0.919m. MTFS projections include an assumed 1.99% per annum uplift over the period. Actual Council Tax increases will be decided on an annual basis taking into account financial circumstances of the Authority at the time and the level of resources available. Annual increases remain subject to the decision of both Cabinet and Council. The Authority will continue to seek ways to raise new funding by promoting a growing local economy through new businesses and new housing as well as to increase traded and investment income to help contribute to closing the financial gap alongside the consideration of possible future Authority tax increases.

- Other Grants include government grants that are used to finance general Authority budgets. These include New Homes Bonus, Better Care Fund and Section 31 grant related to refunded costs by Government for the Business Rate system.

- Public Health - A letter received by the Department of Health in December 2017 confirmed that the Public Health Grant ring-fence and grant conditions will remain in place until 31 March 2020. From April 2020, it is expected that the

Public Health Grant will be replaced in some form by retained business rates. Without any confirmation of the future arrangements of this grant the MTFS assumes that the grant will continue albeit on a reduced basis. The amount has been estimated for planning purposes at a reduced figure but this is not confirmed nor any transitional phasing or confirmation of future of the ring fence and any mandated services following roll in.

- Treasury Management - The Authority invests money with a number of financial institutions acting in accordance with the framework outlined in the Treasury Policy Statement and Treasury Strategy 2019/20 to 2022/23.
- Fees and Charges - The Authority currently raises in the region of £35m from fees and charges. It is normal practice for the Authority to review fees and charges annually and propose revised and new charges from 1 April each year. This will include the development of any policies in respect of discounts and concessions. As part of the annual review, all fees and charges are considered. Any impact on income budgets arising from these areas are either adjusted at the annual budget setting stage or will be consulted on as part of the budget proposal process.

7. Capital and Prudential Borrowing (Investment Strategy)

7.1 The Authority's current capital investment plans are set out in the capital programme. The latest approved Capital investment strategy covering the period between the 2018/19-2020/21 was approved by Cabinet on 24 January 2018 and is a background paper as part of this report.

7.2 The capital investment strategy has been updated to cover the period of the MTFS and is included in Appendix D (iii) of the 2019/2023 Financial Planning and Budget Process: Cabinets Initial Budget proposals. The effective use of capital resources, including asset management, is fundamental to the Authority achieving its medium and long term strategic objectives. Capital investment has a significant impact upon the local economy and helps to ensure that the Authority can continue to provide the best possible services and outcomes within North Tyneside.

7.3 All proposals for capital investment follow a structured gateway process, and are challenged by Members and senior officers, from the initial ideas stage, through the delivery stage and finally to post implementation. All proposals are considered in terms of their strategic alignment with the Our North Tyneside Council Plan, and the revised Efficiency Statement. This ensures that the impact can be incorporated within the Authority's financial plans and to demonstrate that the capital investment is affordable. Revenue implications may include the costs associated with supporting additional borrowing as well as any changes to the running costs associated with the asset or wider benefits to the Authority such as the delivery of on-going revenue budget savings or additional income through the generation of Business Rates, Authority tax or energy revenues.

7.4 The revised draft capital investment strategy includes £75.515m of planned capital investment (excluding Housing). It is envisaged that additional projects and investment opportunities and pressures will emerge over the period as major projects, such as investment in North Tyneside Quays, continue to progress towards the delivery phase. Indicative allowances have been included within the MTFS projections to support an additional £100m of borrowing in excess of the allocations within the existing approved programme over the period and this position will be reviewed as the capital programme is developed.

7.5 The Authority continues to explore external funding possibilities when developing capital projects to minimise the borrowing requirement as far as possible. Within the MTFS, assumptions have been made around the level of external funding in the future but detailed work programmes will not be committed to until the allocations have been confirmed. Projects and investment plans may therefore be re-prioritised depending on the availability of external funding.

7.6 The generation of capital receipts can help to provide resources to support additional capital investment or can help to reduce the borrowing requirement and therefore the cost to the revenue budget. The availability of capital receipts has also reduced in recent years as a result of the property market. There is currently no proposal to use General Fund receipts to finance the investment plan and as such no use of capital receipts have been included within the MTFS projections. If additional capital receipts are generated during the year this provides the Authority with the flexibility to consider the introduction of additional projects to the capital programme or the ability to reduce the borrowing requirement.

8. Reserves

8.1 Local authorities must consider the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Head of Resources is required, as part of the budget setting process each year, to provide a statement on the adequacy of reserves that is subject to an external audit review to assess value for money and a going concern opinion.

8.2 The Authority keeps a level of reserves to protect against the risk of any uncertainties or unforeseen expenditure. This is considered best practice and demonstrates sound financial planning. Much like using savings to offset monthly household bills the use of financial reserves cannot solve a budget problem outright but allows for smoothing of impacts or allows the Authority time to ride any short-term situations before returning to normal. Therefore, reserves are mainly used to;

- Manage the impact of cuts over a longer period of time
- Invest in schemes that allow services to be delivered cheaper
- Take “one-off hits” for the Authority as a whole without the need to further reduce
- Provide capacity to absorb any non-achievement of planned budget reductions in each year
- To temporarily roll over unused portions of grants that can legally be used at a later date
- To insure against major unexpected events (such as flooding)
- To guard against general risk (i.e. saving up for unexpected events)
- To guard against emergent specific risks, such as business rate appeals, Authority tax support funding cuts and welfare reform. These risks are predicted to continue to increase.

Reserves Policy

8.3 The Authority’s policy on reserves is outlined within the MTFS principles as follows:

The Authority will maintain its general balances at a minimum of £6.804m. The Strategic Reserve will be maintained at a level of £10m over the period of the MTFP to cover any major unforeseen expenditure. The Authority will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.

The Authority will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed annually.

The Authority's Strategic Reserve is available to support budget setting over the period of the MTFS and usage should be linked to the achievement of financial sustainability over the medium term.

Review of Reserves

8.4 A review of all reserves is undertaken twice a year and covers:

- The purpose for which the reserve is held,
- An assessment of the appropriate level of the reserve to meet potential future
- liabilities, in line with the Authority's reserves policy and aligned to the risk management framework,
- Procedures for the reserve's management and control,
- A process and timescale for future reviews to ensure continuing relevance and adequacy.

8.5 The 2017/18 Revenue Outturn position was reported to Cabinet on 20 June 2018, showing the balance of usable reserves of £70.695m (including ring fenced reserves, Grant Reserves and HRA Reserves of £52.203m), of which only £18.492m is un-ringfenced.as shown in the table below.

Reserves & Balances	Projected Closing Balances				
	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
Reserves					
General Fund Ringfenced	26.617	22.516	23.978	24.741	24.741
General Fund Unringfenced	18.492	17.567	17.067	16.567	16.567
General Fund Grants	2.765	1.188	1.108	1.028	1.028
HRA	22.821	16.757	17.601	18.395	18.395
Reserves Sub Total	**70.695**	**58.028**	**59.754**	**60.731**	**60.731**
Balances					
General Fund	6.804	6.804	6.804	6.804	6.804
Schools	3.357	3.357	3.357	3.357	3.357
HRA	6.083	6.083	6.083	6.083	6.083
Balances Sub Total	**16.244**	**16.244**	**16.244**	**16.244**	**16.244**
Grand Total Reserves & Balances	**86.939**	**74.272**	**75.998**	**76.975**	**76.975**

8.6 In support of the reviewed MTFS position a full review of reserves has also been carried out and it was concluded that no further changes are required at this time. An explanation of each reserve and balances as at 31 March 2018 can be found in the Authority's audited statement of accounts for 2017/18.

9. Risk Assessment

9.1 Overall Financial Risk Assessment

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

Key Financial Risks

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

Key Financial Risks and mitigating actions

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

	The agreed Efficiency Statement secures the Revenue Support Grant (RSG) (subject to Central Government Change) and giving a degree of certainty for the next year.
There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2022/23 may be wrong, resulting in changes to the current targeted savings by 2022/23, for the General fund and for the HRA which will be considered by Cabinet in January 2019.	There is flexibility within the Efficiency Programme which will allow us to reconfigure if the assumptions that have been made prove to be incorrect. We work closely with national, regional and sub-regional financial networks to help ensure we are informed and aware of any national developments. Being involved in the consultation process enables any issues or concerns specific to NTC to be highlighted before final decisions are made. Development and acceptance of the Efficiency Plan has secured the Revenue Support Grant (RSG) (subject to Central Government Change) which gives a degree of certainty for the next year.
There is a risk that, because of financial pressures within the Clinical Commissioning Group (CCG), the Council does not receive a full transfer of funding from health to social care and the continuation of funding for existing services funded through the Better Care Fund (BCF) and s256 agreements. This would have a significant financial impact to the Council.	The Policy and Framework and Guidance for the BCF specifically requires that funding transferred for social care should, as a minimum, be at the equivalent level as that of 2016/17 plus inflation. Following escalation to a national panel, the BCF contribution from the CCG has been agreed and 2019/20 and a Section 75 legal agreement is being drawn up on this basis. The Authority remains in dialogue with the CCG over its proposed reduction in mental health funding.
There is a risk that not all growth pressures have been identified in the 2019/20 proposed Budget.	Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand - led pressures exceed Budget provision.	Demand - led pressures continue in areas such as Adults and Children’s Social Care and the impact of the Living Wage on our care providers (and the price for services the Authority then has to pay) have been

	taken into consideration as part of these initial Budget proposals.
There is a risk that specific factors arising during 2018/19 have not been fully taken into account when preparing the 2019/20 Budget.	The 2018/19 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures factors arising during the year are highlighted.
There is a risk that the in year pressures being reported through the 2018/19 financial management process impact on the deliverability of the 2019/20 budget.	As at 30 September 2018, a pressure of £3.599m was reported against the 2018/19 budget. All services continue to develop and deliver actions to mitigate these financial pressures and expect the out-turn forecast to improve as we move through the year. In addition, non-essential spend continues to be minimised along with a detailed review of demand led projections in order to reduce the over-commitment. Progress will be monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team.
There is a risk that the contingency provision included in the Financial Plan for 2019/20 is insufficient.	The review of the base budget and the reflection of the 2018/19 pressures into 2019/20 are considered to be such that no further specific contingency is required.
There is a risk that there are insufficient levels of reserves and balances.	A full review of reserves and balances is undertaken on a regular basis as part of both the in-year monitoring process and planning process.
There is a risk that the level of capital receipts included in the Budget proposals is not deliverable.	Capital receipts of £4.287m Housing are included in the financing of the 2019/20 Investment Plan. There are a number of actions being progressed that are expected to realise this requirement.
There is a risk that the Council will be unable to protect its housing assets and services to tenants as a consequence of reduced income to the Housing Revenue Account. Government policy on Welfare Reform is resulting in a number of direct challenges to rent collection; the Spare Room Subsidy and the Benefit Cap have already had an impact. Further Welfare Reform	The budget setting process incorporates a review of the HRA business plan to reflect the changes. The cost and quantity of work within the 30 year Investment Plan is revised annually to help mitigate the impact of changes. In addition, the Financial Inclusion Strategy sets out how the Council and its partners will support its residents to better manage their finances and maximise their

changes, including the implementation of Universal Credit and its revised payment period, and changes proposed in the new Welfare Reform and Work Act 2016; reducing social housing rents by 1% each year for the 4 years from April 2016. This has the potential financial impact of reducing rental income by over £440m over a 30 year period.	income. North Tyneside Council has representation on the DCLG and CIPFA HRA working groups. This enables specific NTC issues to be raised and allows the Authority to comment and influence change on HRA regulation.
There are financial risks attached to the insourcing of the Kier North Tyneside Joint Venture project both in terms of ensuring efficient and effective mobilisation plans are put in place, that all the requisite assets and support systems are secured to achieve the desired outcomes, and that monitoring takes place to ensure performance improvements and value for money are adequately captured moving forward.	Dedicated project resources have been identified to ensure a full project plan is developed and implemented, and a governance process created to wrap around the project and ensure all target timescales and milestones are being achieved. This will include developing a Benefits Realisation framework to capture the efficiencies identified within the project.
There is a risk that there may be a significant financial impact on school resources if the number of schools requesting deficit continues to rise at its current rate. This risk is currently driven by the number of surplus places at secondary schools.	The school deficit has been identified as a priority for the Authority and Head Teachers and Governing Bodies. A programme of work has been identified, working with schools to improve the schools deficit position. This will highlight the work that is required and through working with the schools a number of initiatives will be identified and progressed.
There is a risk that North Tyneside may be placed at a disadvantage following the decision to leave the European Union in both financial and economic growth terms. The full extent of the impact will not be clear until we know the precise trade terms which will apply once we formally leave the EU. This has a potentially significant financial impact due to loss of revenue grant and a potential loss of opportunities, i.e. capital grant and other revenue sources.	The potential impact from leaving the EU has been included in the Council's Financial Strategy. This is helping to ensure that potential areas of impact following the EU exit are highlighted and included (where relevant) in budget planning. The Council is a member of various regional groups which will help us keep up to speed on progress and have the opportunity to exert any influence that we can. It is inevitable that there will be some impact from the decision to leave to EU, the challenge is to manage the impact where possible.

10 Conclusion

10.1 The review of the MTFS has again been undertaken against a background of significant reductions and changes in grant funding and increasing costs due to service pressures. These factors could jeopardise the Authority's sustainable financial position unless budget savings continue to be delivered alongside the delivery of the Authority's corporate priorities.

10.2 The MTFS covers four years and funding beyond 2019/20 remains highly uncertain although all indications are that austerity measures are likely to continue throughout the medium term.

10.3 The MTFS identifies a potential financial gap of £7.654m 2019/20 and £33.769m the next three years from 2019/20 to 2022/23. This funding gap comes on top of budget savings of £120m that have already been taken from budgets by this Authority since 2011/12.

10.4 The MTFS supports the requirement to continue a rolling programme of internal indicative budget setting and efficiency plans to bridge an estimated £41.423m financial gap covering the period 2019/20 to 2022/23.

10.5 Although the financial context continues to be increasingly challenging and uncertain the Authority has a track record of identifying and delivering significant savings and achieving budget outturn under agreed budget, supported by a framework of effective financial planning. This approach will need to continue to ensure that a sustainable medium-term financial position can be maintained. The approach will need to be built upon the delivery of significant changes in service delivery arising from effective decision making at an appropriate pace.

10.6 The Authority will continue to keep the MTFS estimates under more frequent review given the high degree of uncertainty surrounding the potential impact on government policy and government funding decisions in relation to local government arising from the European Referendum result and future finance reforms.

Background papers:

Our North Tyneside Plan 2018-2020

Local Plan

Ambition for North Tyneside

2018-2020 Financial Planning and Budget Process

2017/18 Annual Accounts

2019-2023 Financial Budget

Efficiency Statement

State of the area report 2018

Appendix H Draft North Tyneside Council Efficiency Statement

Background

Local authorities have taken the biggest hit in terms of government cuts since 2010. These cuts have been direct funding reduction and reductions from government departments as a result of their actions taken in respect of austerity measures. The scale of reduction, along with a degree of volatility around the phasing/timing of these cuts to different authority types, can make it very difficult for authorities to plan their spending strategically. The need for effective medium term planning has never been stronger.

The Government's response to these concerns from the sector was to offer a guaranteed grant envelope, paid to local authorities for a 4-year period from April 2016 covering Revenue Support Grant, Transitional Funding and Rural Services Delivery grant, 2019/20 is the final year of that offer.

Following the last General Election the Government confirmed its commitment to a Fair Funding Review in order to reconsider the distribution of funding to local authorities. The intention was to complete this review in time to achieve an April 2020 implementation date. This means that the Authority moves into the 2019-2023 Financial Planning cycle with a great deal of uncertainty as regards to central government funding. The Hudson Review of Local Government Finance, and in particular its governance and processes, highlighted the increasing complexity of Local Government Finance and the challenging timescales and planning horizons the sector has to operate in. This may have influenced the announcement that the provisional settlement for 2019/20 will be released on the 6 December 2018, and the final settlement no later than 31 January. The Authority continues to develop its four year financial plan necessarily despite the continued uncertainty, building on knowledge of service demand and known pressures, with appropriate assumptions made on changes to available resources.

The development of the financial plan illustrates on-going funding pressures that need to be addressed and reflected in a refreshed efficiency statement.

Our Approach

The Our North Tyneside Plan 2018-2021 (Council Plan) sets out the overall vision and policy context within which the Financial Plan and Budget proposals are set.

This vision and policy context reflects the priorities of the Elected Mayor and Cabinet and these have been developed in partnership through the North Tyneside Strategic Partnership which includes all of the organisations or sectors who work together with the Authority to deliver an improved future for the Borough and its residents.

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

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

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

Our People will:

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

Our Places will:

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

Our Economy will:

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

Evidence of Need

The evidence of need that drives the redirection of the Authority's resources is set out in a number of key documents. The North Tyneside Joint Strategic Needs Assessment (JSNA) summarises some of the key population health and wellbeing issues in the borough. Whilst North Tyneside is one of the least deprived boroughs in the region there are still significant health and social care challenges to be addressed. The State of the Area Report 2018 sets out the key factors that contribute to creating and sustaining a social, economic and environmentally thriving place, setting out the key issues to be addressed through delivery of the Our North Tyneside Plan.

The Local Plan was agreed and adopted by North Tyneside Council in July 2017. Based on historical demographic evidence and associated forecasts, the expectation is that the population will grow by around 23,000 by 2032, driving the need for circa 10,500 new homes (in addition to about 5,000 new homes that already have planning permission) and the creation of at least 12,700 new jobs.

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

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

- coastal regeneration
- Swans/the North Bank of the Tyne
- town centres
- new and improved schools
- road and other transport improvements
- housing (including affordable homes)
- sheltered accommodation (North Tyneside Living)

- support for businesses
- marketing the Borough to secure more inward investment and generate more visitors as a tourist destination

Resources

The Authority, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010. In addition service pressures and increasing demand for services, particularly from the most vulnerable, has meant the Authority has had to make significant budget savings in response to the Government's austerity measures. Like other Authorities in the region, North Tyneside has seen its funding disproportionately impacted and reduced by Government Policy when compared to the national picture. The British vote in 2016 to leave the European Union has heralded more instability in the short to medium term and these and longer term consequences will need to be carefully considered over the period of this efficiency statement and beyond.

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

The likely continuing requirement and scale of budget savings, over and above the £120m already taken from budgets since 2010, presents an increasing challenge for the Authority. The Government's approach to "continue the work of bringing the public finances under control and reducing the deficit, so Britain lives within its means" will result in further significant funding reductions for local government.

By the end of 2019/20 the Council's grant funding will have reduced by approximately 52% from 2013/14 when the move to funding through Business Rate Retention was introduced. This equates to over **£286** per head reduction in Government funding over the period. Central Government has indicated in the 2018 Autumn Budget a change in its approach to eliminating the budget deficit and to reducing the overall levels of public debt. Indications are that whilst the National Health Service will secure additional funding, other Government Departments, including the Ministry of Housing, Communities and Local Government, are expecting to see an on-going, albeit slower, decline in funding.

Over the period of the current Spending Review there has been a clear change in makeup of each elements of Local Government funding that determine what is known as the Core Spending Power of each authority. This is illustrated in Table 1 below and this highlights the fact that Revenue Support Grant has continued to reduce significantly and, although the overall Core Spending Power total increases, this is only achieved by growth in Business Rates and more significantly Council Tax. In addition there are one off grants mainly for Social Care.

Table 1: North Tyneside Council Core Spending Power 2017-2020	2017/18	2018/19	2019/20	Total
	£m	£m	£m	% change
Revenue Support Grant	**22.596**	**16.914**	**11.198**	**-50.44%**
Business Rates				
Of which Retained Business Rates	**25.918**	**26.778**	**27.331**	**5.45%**
Of which Top Up Grant	**19.189**	**19.684**	**20.162**	**5.07%**
Compensation for under-indexing (RPI to CPI)	**0.678**	**1.065**	**1.451**	**114.01%**
	45.785	**47.527**	**48.944**	**6.90%**
TOTAL Settlement Funding Assessment (SFA)	**68.381**	**64.441**	**60.142**	**-12.05%**
Council Tax				
Of which Council Tax Requirement	**80.415**	**84.787**	**89.396**	**11.17%**
Of which Adult Social Care Precept	**3.987**	**6.796**	**7.166**	**79.73%**
Total Council Tax Increase	**84.402**	**91.583**	**96.562**	**14.41%**
Grants Included				
Improved Better Care Fund	**5.043**	**6.773**	**8.266**	
New Homes Bonus	**3.013**	**2.321**	**2.270**	
Adult Social Care Support	**1.036**	**0.640**	**0.000**	
Rural Services Delivery Grant	**0.000**	**0.000**	**0.000**	
Total Additional Grants	**9.092**	**9.73**	**10.54**	
Total Core Spending Power	**161.875**	**165.118**	**167.240**	
Change from 2017/18 to 2019/20			**5.36**	**3.31%**

With the expectation that Central Government funding will be sustained at not more than the current levels and that the Authority will continue to see increased pressures particularly around social care, the Efficiency Statement and the Authority's Investment Plan are designed as the response to the available resources to ensure that they are aligned to deliver the outcomes of Our North Tyneside Plan in the context of the evidence from the JSNA and the Local Plan.

Our Approach to 2019-2023

Following on from the policy context, the Authority is also experiencing the same service pressures as most other Metropolitan Authorities, increased costs for services for Looked after Children and vulnerable adults due mainly to more complex needs from a growing population and the impact of the Living Wage increases. These pressures are such that there is currently an over-commitment against the 2018/19 revenue budget in the region of £3.599m. A number of actions are in place to bring this position in on budget but there remains the potential that we could have to use reserves to keep overall spend within budget for the year end.

Our approach for 2019-2023 is to achieve savings early where possible, to mitigate against future financial risks whilst working in a very different way to ensure that resources can be more effectively targeted at the people who need them most. This will ensure that all residents have a successful, healthy and safe future, no matter where they live in the Borough. We will deal with causes not consequences, being proactive rather than reactive, we will understand and manage demand, enabling people to help themselves and we will have the right people with the right skills in the right place at the right time.

We have completed a base budget review and, based on our current financial assumptions, there is a budget gap of around £41.423m for the four years from 2019/20 to 2022/23. This is based on a range of factors including areas of grant reduction, financial pressures and growth:

	2018/19 £m	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
A: Base Budget Brought forward	152.360	154.726	152.676	151.865	152.611
B: Estimated Growth	12.976	11.302	14.534	8.525	9.370
C: Spend Requirement (A + B)	165.336	166.028	167.210	160.390	161.981
D: Resources Available	(154.726)	(152.676)	(151.865)	(152.611)	(152.762)
Resources Gap (C + D)	10.610	13.352	15.345	7.778	9.219
2018/19 Full year effect business cases in future years		(3.550)	(0.122)	(0.762)	(0.482)
Revised Resources Gap		9.802	15.223	7.016	8.737
Autumn Budget Social Care Grants		(2.148)	2.792	0.000	0.000
Gap before Council Tax options and efficiencies		**7.654**	**18.015**	**7.016**	**8.737**
Cumulative funding gap before Council Tax options and efficiencies			**25.669**	**32.685**	**41.423**

			2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Gap before Council Tax options and efficiencies			**7.654**	**18.015**	**7.016**	**8.737**
Council Tax Increase Options						
Council Tax (0.99%)			(0.919)	(1.845)	(2.778)	(3.720)
Council Tax (1.99%) - Assumed in 2020/21-2022/23			(1.828)	**(3.671)**	**(5.529)**	**(7.402)**
Council Tax (2.99%) - Assumed in 2019/20			**(2.747)**			
2019/20 Proposed Savings			(2.719)	(0.860)	(0.500)	(0.500)
Annual Funding Gap			**2.188**	**13.484**	**0.987**	**0.835**
Cumulative Funding Gap				**15.672**	**16.659**	**17.495**

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
People Costs, Pay award, pension increase etc.	2.058	3.500	2.000	2.000	9.558
Corporate -Future year contingencies and Construction Project	1.321	2.002	2.318	1.180	6.821
Contract increases for Living Wage	2.057	2.037	1.366	1.471	6.931
Service Demand	2.375	1.576	1.339	1.349	6.639
Price Inflation	0.948	0.988	1.022	3.183	6.141
Grant changes	0.084	2.588	0.518	0.337	3.527
Capital Investment and Treasury Management	0.459	1.843	(0.038)	(0.150)	2.114
Use of Reserves	2.000	0.000	0.000	0.000	2.000
TOTAL	**11.302**	**14.534**	**8.525**	**9.370**	**43.731**

When considered alongside the baseline level of resources the gap for 2019/20 is currently an estimated £13.352m, against a net budget plan of £152.676m (this is before any increases in the rate of Council Tax). The Authority's Efficiency Programme will continue to be a cross cutting programme to transform every part of the organisation and our relationship with our residents as set out in "Our North Tyneside Plan". The following section sets out the proposals presented by Efficiency Statement theme and highlights how these proposals reflect current Government policy:

Ready For School

- **Continue to redesign 0-19 Services;** starting with ante-natal services this proposal aims to continue our work to target our services at need and to manage demand for more specialist services. Critical to delivery will be the Healthy Child Programme and the work to increase the richness and consistency of the Early Help offer. This approach links to Government Policy and best practice through concentrating on prevention and developing more schools to deliver Early Years, which, in turn saves money and avoids cost.

Ready For Work and Life

- **Re-model and trade our services to schools;** responding to changing customer need and national reform, this proposal aims to review and further develop our portfolio of services to schools. As well as our existing successful work in school improvement, catering services and capital project management we plan to continue to provide clear expertise, leadership, and co-ordination of the Healthy Child Programme (HCP) and universal offer. The programme is being delivered by a skilled mix team of staff that are fully integrated within the prevention and early help locality based teams. This work will see a universal offer for schools but also a more bespoke offer to individual schools depending on their needs and the needs of their communities. We will continue to build on our existing work beyond North Tyneside. This brings in income.

- **Delivering Whole-System Support to Children with Additional Needs;** Changes in legislation and national policy regarding children with Special Educational Needs and Disabilities (SEND) have placed significant additional demands on local authorities. These changes also place an additional emphasis on the role of "local areas" to meet the needs of children with additional needs, including the full range of partners involved.
  Rising demand has created significant pressures for all local authorities and their partners, and reinforced the need for a whole-system response. We will build resilience in the universal offer to prepare young people with additional needs for adult life by developing an integrated approach across education, health and care services.
  As part of a wider strategy, this budget proposal is particularly concerned with ensuring needs are appropriately funded by the relevant agency, in line with statutory responsibilities and policy. We will ensure there is a clear policy for funding decisions and a consistently applied process for ensuring funding is appropriate and the source of funding is in line with the agreed policy. This will ensure the authority maximises the levels of Continuing Care funding received from the CCG where health needs have been clearly identified and are being met by packages of care commissioned by the local authority.

- **North of Tyne Collaboration to improve Education and Skills;** as key elements of the devolution deal with Newcastle and Northumberland Councils, we will agree and implement plans to manage the devolved powers and funding related to the skills agenda. The aims are to support a high quality, inclusive education system, which ensures young people have the skills and qualifications to take up good quality training, apprenticeships and jobs. The first step in this proposal includes the development of a North of Tyne Education Challenge Proposal which will focus on ambitious improvements in learning and teaching from birth to work. This should lead to cost reduction over time.

Cared For, Healthy and Safeguarded

- **Responding to rising complex needs;** whilst there will be a continued clear focus on preventing health and social needs from occurring and escalating, the need for formal care and support will continue. We know that complexity of need is increasing and the cost of providing services is rising exponentially. From a public health perspective, we will continue to focus on the principal preventable causes of ill health – tobacco, obesity, alcohol misuse and poor mental health (including social isolation). We will seek to reduce costs by ensuring that the authority secures the appropriate contributions from our partners in accordance with the legislative framework. We need to mitigate against the rising costs of care whilst still ensuring that people are 'cared for and safeguarded. We will carry out a review of all current funding to voluntary organisations not currently on a commissioned framework. This will provide an opportunity to review the total spend holistically and ensure any work complements and is not duplicated by the work to create new community hubs. Over the past five years the number of people supported in extra care and independent supported living schemes has continued to rise in the Borough and we know that using this approach can delay and prevent the use of more costly residential care and that our residents prefer to be supported in their own homes. This journey will continue with increased provision of specialist housing in the Borough, which is affordable now and in the longer term.

- **Sustaining a safe and quality care market;** developments in lifestyle technologies and fundamental changes in the market, including the National Living Wage, have altered the conditions around local authority delivered social care. This proposal aims to develop our team and skill set to exploit new technologies and new market dynamics to create a set of trusted products and services. The results will support both care at home and help us to support people with complex disabilities. There is a clear link to the Care Act and our duty to manage the market, as well as the need to handle market failure and the impact of the National Living Wage. The work to support this proposal will raise income and avoid cost.

- **A focus on the social care customer experience;** health and social care is a complex set of systems often governed by distinct pieces of legislature and delivered by multiple services, even within a single organisation such as the Council. In 2017 we reviewed the adult social care customer journey and ensured that our customers had a named worker, based in a local team, who would remain with that person throughout their social care journey. This has proven successful and is enabling better quality customer relationships to develop, as well reducing costly, duplicate processes from occurring. We aim to go further and whilst there are limited direct cost savings at this stage, we know that getting the right person to do the right thing correctly the first time means we are able to direct our resources more effectively and mitigate against the increasing demand for good quality advice and information. This proposal will:

- continue with our highly successful case management modernisation programme, to ensure that social care payments and processing are accurate, clear and efficient;
- make best use of the new My Care portal in the initial screening and contact service gateway to support NHS and other wellbeing professional to self-serve or make online referrals. This will create more time for resident calls. The new community hubs will provide on the doorstep, comfortable locations for our customers to meet with our social work teams and reduce the number of costly home based visits workers current undertake.

- **Developing Our Workforce;** our workforce is our key asset. Over the past few years, we have significantly invested in our workforce, including a new ICT system for case recording, new technology and kit to enable our staff to work on the move, and a new practice model for all staff working with children. However, the national shortage of children's social workers and regional pressures in the job market are placing significant pressures on both the adult and Children's' social care workforce in North Tyneside. This proposal will develop and deliver a Workforce Strategy that will ensure we have a stable, skilled and motivated workforce. Thus avoiding cost.

- **Leading Sector-led Improvement;** North Tyneside has developed a national reputation for the quality of its children's services, including receiving Partners in Practice status from the Department for Education and the opportunity to deliver sector-led improvement to other authorities in the country. This work will develop a long-term offer for SLI as well as exploring opportunities to provide ad hoc and bespoke support to authorities that seek it from us. This will bring additional income

- **North of Tyne Collaboration on Social Care;** in addition to our work on education and skills, under the auspices of devolution, we have developed a programme of work to collaborate on children's social care services. We will develop a plan to work more closely on practical proposals that we think will make a difference, with initial opportunities relating to our response to domestic abuse, workforce planning and quality, and elements of our services for looked after children. This will aim to share costs and invest together.

- **A New Model to Support Children**: national policy direction, inspection and demand pressures are creating an environment where local authorities are looking at alternative models to deliver services to support children, including collaboration. This project aims to review best practice and the alternatives to our current approach. It will continue to explore the capability to grow direct provision as the dynamics of the market change and our capability to deliver specialist housing and support grows. This means a continuation of the "Transforming Children's services" programme which includes increasing the accommodation available to improve the early help offer and reduce the demand for external residential placements, with the potential to trade surplus capacity.

- **Delivering our Accommodation Strategy for social care;** early work on the Cabinet's Affordable Homes Programme has demonstrated the Authority's ability to deliver specialist housing which supports independent living and reduces costs. This proposal aims to continue to shape our housing growth plans to include specialist housing products and services for children and adults with additional needs, Looked After Children and older people. We have had significant success with recent developments at Mitford Gardens and Elm House, which have also proven better value for money than external options, and the joint team with commissioning, housing and social care expertise that was created for this work will continue to explore opportunities to develop a range of other internal accommodation services in line with our strategy in order to save costs on existing pilot work to deliver at scale. Specifically the accommodation strategy for looked after children and care leavers is focused on keeping children and young people connected to their communities, maintaining relationships with families and support networks, and promoting independent living.

A Great Place to Live, Work and Visit

- **Regenerating the Borough and Building Up Business;**
  On 26 November 2018, Cabinet are expected to approve an overarching Regeneration Strategy (the Strategy) “An Ambition for North Tyneside”. The aim of the Strategy is to match ambition for North Tyneside to the Local Plan which sets out special strategy for the next 15 years. The Regeneration Strategy recognises what has been achieved so far and how the borough has changed. The Strategy takes a forward look at what we are doing, what we will do next and what we will do if we can and this is being developed across the four areas of the borough.

  The people and places of North Tyneside have always been about ambition. The Authority will support that ambition and innovation. The Strategy aims to shape North Tyneside and make sure it is fit for the future. As part of that, the Authority will continue to work with and encourage inward investment into the borough and growth in new business.

- **Profit from Property Development;** the housing and property market in North Tyneside has remained relatively buoyant through a difficult decade. In parallel to the Mayor and Cabinet’s Affordable Homes Programme and in line with the Draft Local Plan this proposal aims to use a range of commercial models to exploit current and acquired assets to build for profit. We expect this to happen both at scale and at a property by property basis beginning with initial work in North Shields (Northumberland Square) and Whitley Bay (The High Point, Whiskey Bends and The Avenue). This links to the Government ambition to deliver more homes.

- **Post-2019 Construction Delivery;** throughout 2018/19 the Construction Project has been working to prepare for the return of services for the delivery construction services to both the Housing Revenue Account and the General Fund. This project will continue into 2019/20 as over 400 staff are TUPE’d into the Authority and a re-modelled approach to delivery is implemented in order to reduce cost and grow the business in the future.

- **Develop our Community Hubs;** over the last decade the Authority has created significant assets to support and serve our communities. Four Customer First Centres have been delivered alongside new assets in Dudley, Shiremoor, Battle Hill and Howdon as well as significant investment in the leisure offer in Whitley Bay, North Shields, Wallsend and Killingworth. In harmony with the work to protect and develop the cultural offer this proposal aims to identify the needs of each community and focus services to support those needs and provide a universal service which helps manage demand for more intensive and expensive support. The outcome will be the development of our team and work with partners to deliver a maximum use of an optimum number of hubs. We will move away from separate management of services, to integrated teams that have a shared focus on promoting wellbeing and keeping people 'healthy'. Each community hub will be tailored to meet the unique needs of each of the four localities across the Borough.

- **Protect and Develop North Tyneside's Cultural Offer;** in a period of significant financial pressure, North Tyneside Council has managed to sustain and develop a rich cultural offer. This project aims to continue to work with cultural partners to protect and develop the offer, making the most of the Authority's assets, with an optimum sport, leisure and library offer that makes the maximum difference to residents, business and visitors delivering a developed and sharpened events programme while exploiting opportunities to maximise income and reduce costs. This links to Central Government's Culture White Paper and National Library Strategy.

- **Develop a 10 year plan for waste;** for ecological and financial reasons it is imperative that local authorities have long term plans for waste. This proposal aims to establish a 10 year plan to increase recycling and contain the growth of waste costs as well as developing a post 2022 solution for disposal of residual waste.

- **Deliver our Transport Strategy;** major investment is underway in North Tyneside. This is specifically shaped to support the local economy and to handle housing growth. The Draft Local Plan must be underpinned by an effective Transport Strategy and transport operations. This proposal aims to develop a Transport Strategy for the Borough to be agreed later this year by the Mayor and Cabinet. This will shape significant investment in the highway network as well as local, tactical investment in roads and pavements. It will also shape our own transport operations including how we commission transport services and operate our fleet. This is aligned to national policy and investment in infrastructure funded by Central Government. This will support growth in our economy leading to increased resources and for some areas reduced costs.

A Fit for Purpose Organisation

- **Deliver an Estates Strategy which supports the Council Plan and reduces the costs of our assets;** supporting work to protect the cultural offer and develop our Community Hubs this proposal will deliver a targeted programme of cost reduction across the Authority's asset base with work including rationalisation of the depots, acquisition and divestment and planned asset maintenance that is shaped by the priorities of the Mayor and Cabinet. This proposal aims to save money.

- **Business-driven transformation of information systems and information technology;** the Authority makes significant investment in technology but capacity and capability have been an issue in a fast changing environment. This proposal builds on work already underway but seeks to make explicit the planned delivery to support business change and make the connection to targeting IS/IT investment in those services with highest demand and cost. This includes the delivery of self-service, new systems for social care, mobile working and support to the development of our Community Hubs. All of which avoid costs and save money.

- **Sourcing, supply chain and commercials;** more than half of the Authority's expenditure is to third parties and with a supply chain of almost 4,500 organisations and individuals it is critical that the sourcing, supply and commercial arrangements are as sharp as possible. This proposal aims to look beyond the large scale commissioning and major partnerships to ensure all of the supply chain is subject to a rigorous value for money test and best practice category management is applied. This proposal will also consider how best we deliver procurement services for the Authority.

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

Maximising Resources

- **Balancing the Investment Plan;** despite the difficult financial climate the Authority has worked hard to deliver a successful, appropriately funded Investment Plan. This proposal aims to take a long-term, 10 year view of that plan and its likely profile and funding to ensure optimum current costs.

- **Housing Growth;** the Local Plan projects the likely housing growth in North Tyneside. Given this baseline, this proposal aims to make a prudent projection of the net benefit of housing growth in the Borough once costs to serve are taken into consideration. This is aligned to National Planning Policy and Government desire to deliver more homes.

- **Effective Treasury and Debt Management;** the current, sustained, low interest rate climate is allowing some significant work to be done to ensure the Authority's Treasury functions are effective and the debt portfolio optimised. This proposal takes a short, medium and long-term look at the requirement with a view to reducing costs.

- **Collecting Council Tax and the Social Care precept in line with Government Guidance;** none of the North Tyneside team take costs to the tax payer lightly. As well as working hard to deliver value for money and reduce costs, the Authority has sought to minimise increases in Council Tax. The picture changed last year when the Government recommended a level of Council Tax increase and a specific "precept" for Adult Social Care. While the latter does not cover the increased costs flowing from rising demand and the national decision on the Living Wage, it does mean the Authority has clear national guidance on how to increase resources. This proposal builds on the successful performance of our Council Tax collection team and the appropriate application of discounts to collect the appropriate income.

- **Delivering our Fees and Charges Policy;** the Authority has an agreed Fees and Charges Policy that reflects policy priorities, need and the wider market in which we operate. This proposal will continue our work to regularly review our Fees and Charges.

Risks

There are a number of risks surrounding the delivery of the Efficiency programme, some of which are set out below. This list is by no means conclusive and should be read in conjunction with the risks highlighted in the 2019-23 Financial Strategy (2019/20- Financial Planning and Budget Process 10 September 2018 Report to Cabinet).

Considering external risks:

- Ready for School- the ability of the market to meet with demand following the Government's Policy intentions on access to childcare.

- Ready for Work and Life- external structural changes for schools and the current financial challenge that schools have to meet with increasing cost and funding not increasing in line with those costs, plus planning for the impact of the introduction of the National Funding Formula.

- Cared for, Healthy and Safeguarded – NHS structural issues, the North Tyneside Clinical Commissioning group's financial position, deliverability of the Health Sector's improvement plans the impact of Ofsted inspections locally destabilising children's social work workforce, Implications of the Care Act and the Living Wage on the ability of the market for Care Homes and Home Care to be sustained.

- Great Place to Live Work and Visit - strength of the Housing Market and and the impact of Brexit.

Considering internal risks

- Time to mobilise proposals versus the need for cash

- Workforce skill mix and the time to change

Government Support

There are a number of areas where support from Central Government for the delivery of the Efficiency Plans would be welcomed. These include:

- NHS prioritising social care

- OFSTED support to collaboration on Children’s Safeguarding

- Early issue of the Draft Financial Settlement- although current indications are that this should be published 6 December which is significantly sooner than in the recent past.

Background papers:

Our North Tyneside Plan 2018-2020

Local Plan

Ambition for North Tyneside

2018-2020 Financial Planning and Budget Process

2017/18 Annual Accounts

2019-2023 Financial Budget

State of the area report 2018

Glossary of Terms

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

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

	period to match the income generated by the asset.
DfE	Department for Education.
DWP	Department for Work and Pensions.
External debt	All borrowing, whether for capital or revenue purposes.
Fees and Charges	Income arising from the provision of a service.
Financial Regulations	Rules that set out the financial policies of the Authority and help to ensure that the assets of the Authority are protected and properly deployed.
Financial Year	1 April to 31 March.
Forecast Out-turn	A prediction of the final income and expenditure based at the year-end.
General Ledger (GL)	The prime financial record for the Authority. The General Ledger records all the expenditure incurred and all the income generated by the Authority.
Gilts	The UK Government issues gilts in order to finance public expenditure. They are generally issued for a set period and pay a fixed rate of interest for this period.
Holding Accounts	These are accounts within the General Ledger relating to a specific building or service (internal to the Authority) where costs are collected then shared out to the users of the building or service.
Housing Revenue Account (HRA)	Those authorities with a council-owned housing stock have a duty to maintain an additional account called the Housing Revenue Account (HRA).The HRA specifically accounts for spending and income relating to the management and maintenance of the council-owned housing stock. By law it must be kept separate from other Authority accounts.
IFRS	International Financial Reporting Standards – the basis on which the Authority's accounts are prepared from 2010/11 onwards.
IBCF	Improved Better Care Fund is a Grant paid directly to Local Authorities to support Adult Social Care in ways, which also benefit Health. This was paid for the first time in 2017/18 and continues into 2018/19 and 2019/20.
Journal Transfer	A journal transfer is used to correct miscoded transactions or to allocate costs/income within or across Service areas in the General Ledger.
Lenders Option Borrowers Option (LOBOs)	A form of long-term borrowing where loans run at a fixed rate of interest for a fixed period, after which the Lender has the option to ask for repayment or change the interest rate on pre-determined dates. If the Lender decides to exercise the option to change the interest rate, the borrower can then decide whether to accept the new terms or repay the loan.
LGPS	Local Government Pension Scheme.
Local Government Finance Settlement	The Local Government Finance Settlement is the annual distribution of funding determined by the Government and debated by Parliament. It has two key elements: 1. A Provisional Local Government Finance settlement, which is normally received in December. This is then subject to a specific Government Consultation. 2. A Final Local Government Finance settlement that is normally

	received in late January / early February after the government has had time to consider the representations made to the Provisional Local Government Finance Settlement.
Long Stop Control	The Secretary of State may, by direction, set limits in relation to the level of borrowing of money by a particular local authority to ensure that the authority does not borrow more than it can afford.
Long term	A period of one year or more.
Major Repair Allowance (MRA)	Before Self Financing was introduced in April 2012, the rent payable across to Central Government as part of subsidy was calculated taking into account several factors including a major repairs allowance, which was intended to ensure that councils retained sufficient money to be able to maintain their housing assets.
Maturity	The date when an investment or loan is repaid or the period covered by a fixed term investment or loan.
MHCLG	Ministry of Housing, Communities and Local Government
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation within plus or minus 1% of a central target of 2% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Money Market	This is where financial instruments are traded. Participants use it as a means for borrowing and lending in the short term, with maturities that usually range from overnight to just under a year.
Minimum Revenue Provision (MRP)	Minimum Revenue Provision (MRP) is statutory requirement to make a charge to the Council's General Fund to make provision for the repayment of the Council's past capital debt and other credit liabilities
National Living Wage	The National Living Wage is an obligatory minimum wage payable to workers in the United Kingdom aged over 25, which came into effect on 1 April 2016.
Net Revenue Stream	This is the net revenue budget.
Operational Boundary	This is the most likely, prudent view of the level of gross external indebtedness. External debt includes both borrowing and long-term liabilities (e.g. finance leases and PFI), with separate boundaries having to be identified for each of these. It encompasses all borrowing, whether for capital or revenue purposes.
Other Long Term Liabilities	The sum of the amounts on the face of the Balance Sheet that are classified as liabilities and are for periods in excess of 12 months, other than borrowing repayable within a period in excess of 12 months e.g. finance leases, PFI and Longbenton transferred debt.
“Pay to stay”	Pay to Stay was the name of a government policy in the United Kingdom whereby council tenants earning £30,000 (£40,000 in London) would have to pay "market or near market rents".
PFI	The private finance initiative is a way of creating "public–private partnerships" by funding public infrastructure projects with private capital.
Precept	The levy determined by precepting authorities on billing authorities. It requires the billing authority to collect income from council taxpayers on

	their behalf. In the case of North Tyneside Council, the precepting authorities are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.
Profiling	A method by which budgets are spread across the year to reflect patterns of spend.
Projections	A forecast of expenditure and income to the year-end based on known commitments and trends.
Prudential Borrowing	See Unsupported borrowing.
Prudential Code	The current system of financial controls for capital financing introduced on 1 April 2004 that local authorities are required to operate within.
Public Works Loan Board (PWLB)	Part of the Government's Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions.
Quantitative Easing	The printing of money by the country's central bank in order to increase the supply of money.
Reprogramming	Refers to changes to the timing of projects in the Investment Plan between years.
Reserves	Amounts which are set aside in the accounts to meet expenditure which the Authority may decide to incur in a future period, but which are not allocated to specific liabilities that are certain or very likely to occur. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves are often described as 'balances', and usually arise as unplanned surpluses of income over expenditure. This will include the House Building Fund, Strategic Reserve, Insurance Reserve and the Support Change Fund Programme.
Revenue Expenditure	Expenditure on the day-to-day running costs of a service for example employees and transport.
Revenue Support Grant (RSG)	A central government grant paid to each local authority to help to finance its general expenditure, as opposed to specific grants.
Right to Buy	The Right to Buy scheme is a policy in the United Kingdom (with the exception of Scotland since August 1st 2016) which gives secure tenants of councils and some housing associations the legal right to buy, at a large discount, the council house they are living in
RPI – Retail Price Index	The Retail Price Index (RPI) is published on a monthly basis and it shows the changes in the cost of living. It reflects the movement of prices in a representative sample of goods and services used regularly, such as food, housing, clothing, household goods and transport. Items considered the most important are given a higher weighting in the overall index.
S256 agreements	Legal agreements that allow Health to transfer money to Local authorities using powers listed under Section 256 (s256) of the Health & Social Care Act
Self Financing	Housing Revenue Account (HRA) self-financing commenced in April 2012. Local housing authorities from this date were able to fully retain the money they received in rent in order to plan and provide services to their current and future tenants and in return took on a level of historical debt.
SEN	The term 'special educational needs' has a legal definition, referring to children who have learning problems or disabilities that make it harder

	for them to learn than most children of the same age.
Service Area	Groups of related cost centres.
Settlement Funding Assessment	For individual local authorities, this comprises of the Revenue Support Grant for the year in question and the Baseline Funding Level.
Short-term	A period of less than one year.
SLT	Senior Leadership Team – this includes the Chief and Deputy Chief Executive and all Heads of Service.
Subjective	A subjective is a code within the General Ledger that indicates the type of expenditure incurred, for example basic pay. A subjective can also be used to record the type of income generated, for example rents and fees.
Supported Borrowing	This is borrowing to fund expenditure in the Investment Plan where the annual financing costs of such borrowing are supported by government through formula grant. No new supported borrowing has been awarded since 2010/11.
Target Operating Model	An operating model is a description is both an abstract or visual representation (model) of how an organisation delivers value to its customers or beneficiaries as well as how an organisation actually runs itself. A Target Operating Model (TOM) is the desired state for this model and it is used to help convert strategy ideas into operational plans.
Trading Account	These accounts within the General Ledger hold the values of both the cost and income of a traded or recharged service e.g. cleaning or transport. Customers can be internal or external to the Authority.
Transitional Protection	North Tyneside agreed that for those tenants who were already residents of an NTC sheltered property at the point of the Sheltered Housing PFI works would have their rent held at the level they paid before the investment.
Treasury Management	The management of the Authority’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
Unitary charge	A PFI contract bundles the payment to the private sector as a single ('unitary') charge for both the initial capital spend and the ongoing maintenance and operation costs.
Universal Credit	Universal Credit is a social security benefit in the United Kingdom introduced in 2013 to replace six means-tested benefits and tax credits: income based Jobseeker's Allowance, Housing Benefit, Working Tax Credit, Child Tax Credit, income based Employment and Support Allowance and Income Support.
Unsupported Borrowing	This relates to borrowing to fund expenditure where the annual financing costs have to be met from the Authority’s own revenue resources. This is also known as prudential borrowing.
Variance	The difference between net budgeted expenditure and income compared to net actual expenditure and income i.e. the actual or predicted overspend or underspend against budget.
Virement	A transfer of budgets from one area of the budget to another.
Yield	Return on an investor’s capital investment.
Yield Curve	Graph plotting the yield of all bonds of the same credit quality with

	maturities ranging from the shortest to the longest available. If the resulting curve shows that short-term yields are lower than longer-term yields then it is called a positive yield curve. If short-term yields are higher than longer-term yields it is called an inverted yield curve. If there is little difference between short and long-term yields then it is a flat yield curve.