

North Tyneside Council Report to Cabinet Date: 27 November 2017

ITEM 3

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

Portfolio(s): Elected Mayor Finance and Resources Housing and Transport	Cabinet Member(s): Mrs Norma Redfearn Councillor Ray Glindon Councillor John Harrison
Report from Service Area:	Senior Leadership Team
Responsible Officer:	Janice Gillespie, Head of Finance (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 therefore include for consideration the nationally recommended 3% Council Tax increase to fund Adult Social Care and nationally recommended 1.99% general Council Tax increase. The decision on any Council Tax increase will be finalised in the report to Cabinet on 24 January 2018 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 and reflect the draft 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 11 September 2017, Cabinet approved the process and timetable to be adopted for the preparation of the draft Financial Plan, 2018-19 revenue budgets in respect of the General Fund, Dedicated Schools Grant (DSG) and Housing Revenue Account (HRA), the 2018-2021 Investment Plan and the 2018-19 Treasury Management Statement and Annual Investment Strategy, as part of the overall Financial Planning and Budget process for 2018-2020. Cabinet also approved the budget engagement strategy as part of that report.
- 1.1.5 This report presents, for consideration, the outcomes of that process 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 two-year planning period from 2018-2020 for the revenue budget and a three year planning horizon for the Investment Plan. The two year planning period for the revenue budget reflects the time remaining of the current Spending Review period to 2019-20. As there is no concrete financial information from Central Government available to local authorities post 2019-20, a two year planning period in line with this timescale has been determined to be the most meaningful.
- 1.1.6 An Efficiency Plan was submitted to Central Government on 14 October 2016 in order to secure as far as possible the proposed level of Revenue Support Grant for this Authority announced as part of the 2016 Local Government Finance Settlement. The Efficiency Statement is included as a background paper to this report.
- 1.1.7 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 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 Creating a Brighter Future 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 Our North Tyneside Council Plan, covering the period 2018-2020, note that this will be consulted on as part of the Budget Engagement Strategy and note that this forms part of the Policy Framework for the Financial Planning and Budget Process for 2018-2020;
- (f) consider and agree the initial budget proposals in relation to the 2018-19 General Fund Revenue Budget and Dedicated Schools Grant, including the assessment in relation to the current year's budget monitoring information (2017/18);
- (g) authorise 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 for 2018/19 in line with the school funding arrangements set out in the report;
- (h) consider and agree the proposed 2018-2021 Investment Plan, noting that the plan continues to be under review;
- (i) note the draft 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 2018-2021 Investment Plan will be kept under corporate review by the Investment Programme Board;
- (k) consider and agree the draft 2018/19 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 2018-2020 Housing Revenue Account budget, and associated Business Plan, including an assessment in relation to the current year's budget monitoring information (2017/18);
- (n) note the proposed April 2018 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 2018/19;
- (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 14 August 2017.

1.4 Council plan and policy framework:

- 1.4.1 The Budget and Policy Framework Procedure Rules are set out in Part 4.7 of the Authority's Constitution. The Budget is guided by paragraph 4.7.3 covering the process for the preparation, consideration and final approval of the Authority's Council Tax requirement and Council Tax level. The statutory and constitutional requirements for preparing, considering and approving these issues drive the timetable for the Financial Planning and Council Tax setting process of the Authority.
- 1.4.2 The development of the Financial Plan and Budget has followed the same timetable as in previous years. The priorities in the refreshed 2018-2020 Council Plan - 'Our North Tyneside' provide the strategic framework within which budget resources are allocated.
- 1.4.3 The Financial Planning and Budget process is a fundamental part of the overall governance and assurance framework of the Authority. This in turn provides assurance that is considered as part of preparing the Annual Governance Statement each year.

1.5 Information

- 1.5.1 An initial report was previously submitted to meet reporting deadlines in order to allow time to assess the implications for North Tyneside Council of the Government's Autumn Statement, which was published on 22 November 2017.

General Fund

- 1.5.2 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 £41m over the next two financial years. Sustained cuts in government funding and unfunded pressures together with unfunded new burdens mean that since 2010, the Authority, along with other local authorities, has already made substantial efficiency savings. These sustained cuts come at a time when demand for some of the Authority's most costly services such as support to vulnerable adults and children's social care is increasing. Currently the cost of Looked after Children (LAC) care packages range from £0.016m for Internal Fostering support through to £0.207m for External Residential placements. In Adult Social Care the average cost of care packages range from £0.008m for Homecare/Extra care (over 1200 clients), £0.022m for Older People and those with Physical Disabilities (over 960 clients), £0.048m for over 100 clients with Learning Disabilities and Mental Health needs, and an average cost of over £0.055m for over 230 clients being supported through Independent Supported Living.

- 1.5.3 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. In line with this, these initial proposals include a 3% Adult Social Care precept for consultation. 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 £33m.
- 1.5.5 The Authority is experiencing an incredibly difficult period and it is faced with steeply declining government funding as well as relentless pressure on its already reduced budgets. In light of this challenge, the Authority has engaged with residents and has developed a clear plan for the future. The 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 and build a more modern Authority that enables residents to do more for themselves.
- 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 with less money. These proposals aim to protect essential services and make sure that the Authority operates in as an efficient a way as possible to provide excellent value for money for local taxpayers.
- 1.5.7 The 'Our North Tyneside' Plan is being refreshed as part of the 2018-2020 Financial Planning and Budget process to ensure it continues to reflect the updated priorities of the Elected Mayor and Cabinet and residents. The Budget proposals set out in this report have therefore been developed in the context of the draft 2018-2020 'Our North Tyneside' Plan and reflect the Plan priorities. The overall direction is outlined in Annex 1 to this report. The savings to be delivered will be managed through the four service delivery themes of the Creating a Brighter Future programme which will continue to redefine, reshape and redesign how the Authority delivers the required outcomes through a Target Operating Model.
- 1.5.8 Between July and September 2017 there has been an extensive programme of public engagement throughout the borough through the Big Community Conversation. The feedback from this programme and other activity throughout the year, including the State of the Area event 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 end November 2017 to January 2018. It will involve information and feedback through the Authority's website as well as focus group activity with staff, residents, businesses and strategic partners.

Housing Revenue Account

- 1.5.9 The HRA continues to face significant challenges, as Government legislation continues to embed and develop with potential implications for housing i.e. the Welfare Reform and Work Act 2016, and the Housing and Planning Act 2016. The Authority has continued with the implementation of the Government's policy to reduce rent by 1% for 2018/19 (3rd of 4 years) as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI sheltered accommodation homes. The Authority is also facing the impact of the continued roll-out of Universal Credit and other welfare reforms. The Authority has however very recently been advised that the planned roll out of universal credit will be delayed from February 2018 to May 2018. In addition, on 27 September 2017 Cabinet agreed 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 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 two-year revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that the second year projections are only indicative at this stage.
- 1.5.11 Housing Revenue Account tenants will be consulted on these initial proposals and the final HRA budget will be presented to Cabinet on 15 January 2018. At that meeting Cabinet will be asked to approve the HRA Business Plan and Budget for 2018/19, including the housing rent, garage rent and service charge changes and the Housing Investment Plan.
- 1.5.12 Annex 1 to this report sets down in detail the Cabinet's 2018-2020 initial Budget proposals for the General Fund Revenue Budget, Dedicated Schools Grant, Housing Revenue Account, 2018-2021 Investment Plan and the 2018/19 Treasury Management Statement and Annual Investment Strategy.
- 1.5.13 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 2018/19, including Capital announcements and Specific Grants (including the Dedicated Schools Grant (DSG) (due December 2017/ January 2018);
 - (b) Police and Crime Commissioner for Northumbria and Tyne and Wear Fire and Rescue Authority Precepts (due 8 February 2018 and 12 February 2018 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 2018);
- (d) Tyne and Wear Joint Service Budgets (due January/February 2018); 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 2018/19 in relation to the General Fund although these initial budget proposals included Central Government's assumed increase to council tax of 4.99% (including the Social Care Precept of 3%) in 2018/19. 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:	2018-2020 Financial Planning and Budget Process – Cabinet’s Initial Budget Proposals
Appendix A:	2018-2020 Our North Tyneside Plan
Appendix B	General Fund 2018-2020 Financial Pressures Summary
Appendix C	General Fund 2018-2020 CBF Savings
Appendix D(i)	2018-2021 Investment Plan Summary
Appendix D(ii)	HRA 2018-2021 Investment Plan-detail
Appendix D(iii)	Draft Investment Strategy
Appendix E	2018/19 Treasury Management Statement and Annual Investment Strategy
Appendix F	2018/19 Financial Planning and Budget Timetable of Key Future Decision Milestones
Appendix G	Glossary of Terms

1.9 Contact officers:

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1.10 Background information:

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

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

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

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

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

- (b) 2017 Autumn Statement

[Autumn Budget 2017: documents - GOV.UK](#)

- (c) Efficiency Statement

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

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

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

- (e) 2017/18 Financial Management Report to 30 September 2017 – Cabinet 13 November 2017

http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=570048

http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=570049

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

- 2.1.1 The financial implications arising from this report are appraised as part of the decisions made about what will be included in the Authority's Financial Plan, incorporating the 2018/19 Budget setting process. Decisions on the Budget in relation to the General Fund, Housing Revenue Account, Dedicated Schools Grant (DSG), Investment Plan and 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 two-year resource planning period.

- 2.1.2 Cabinet and full Council need to have due regard to the Chief Finance Officer's advice in relation to the levels of reserves and balances proposed as part of the two-year Financial Plan for 2018-2020, as issued in guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA) in July 2014. A provisional statement to Council by the Chief Finance Officer is included in 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 2% 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 2018-2020 Financial Planning and Budget process has been prepared to comply with the time-scales required within the Budget & Policy Framework Procedure Rules contained in the Authority's Constitution and legislative requirements that the Council Tax requirement is determined before the 11 March in any year.
- 2.2.4 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 15 January 2018 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 2018/19 Budget Engagement Strategy was agreed at Cabinet on 11 September 2017. The Authority's overall approach to engagement ensures that the public should have opportunities to have their say throughout the year. Between June and September 2017 there has been an extensive programme of engagement across the Borough through the 'Big Community Conversation'. Further engagement on the Cabinet's initial budget proposals and Our North Tyneside Plan priorities will take place from 28 November 2017 to late January 2018. The Budget proposals have been shaped in the context of the refreshed 'Our North Tyneside Plan 2018 -2020.
- 2.3.3 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 2018.

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

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|------------------------------|-------------------------------------|
| • Deputy Chief Executive | <input checked="" type="checkbox"/> |
| • Head(s) of Service | <input checked="" type="checkbox"/> |
| • Mayor/Cabinet Member(s) | <input checked="" type="checkbox"/> |
| • Chief Finance Officer | <input checked="" type="checkbox"/> |
| • Monitoring Officer | <input checked="" type="checkbox"/> |
| • Head of Corporate Strategy | <input checked="" type="checkbox"/> |

2018-2020 Financial Planning and Budget Process:

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



Introduction

This Annex sets out North Tyneside Council's proposed General Fund and Housing Revenue Account (HRA) Budget for the financial year 2018/19, together with indicative plans for the next year (2019/20) and is the basis on which we will seek views of residents, tenants and partners on these plans.

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

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

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

Engagement Approach

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

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

Between July and September 2017 there has been an extensive programme of engagement out and about across the borough through the Big Community Conversation. The feedback from this programme and other activity throughout the year including the State of the Area event has informed the 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 2017 to January 2018 as set out below.

As with all of its engagement activity, the Authority is committed to ensuring that residents with protected characteristics, as set out in the 2010 Equality Act, are able to participate. Further information on this aspect of the engagement approach can

be found in the Equality Impact Assessment on the Budget Engagement Strategy, which is available on request.

Target Audiences

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

Internal audiences are:

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

Approach

Our approach 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, 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 a short video 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 2017 and January 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 service users 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 proposed refresh of the Our North Tyneside Plan 2018-2020 (Council Plan) will set out the overall vision and policy context within which the Financial Plan and Budget proposals are set.

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

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

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

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

Our People will:

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

Our Places will:

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

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

Our Economy will:

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

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.

The latest performance report shows that:

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

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

There has been progress in addressing those key issues that are known to be significant factors in the health gap. Residents are more physically active than the regional average and this is expected to increase with the introduction of

programmes such as Active North Tyneside. In addition there has been a reduction in the number of people who smoke. In addition initiatives are increasingly targeted, for example the NHS Health Checks and the Stop Smoking Service.

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

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

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

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

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

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

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 in July 2017. The Local Plan sets out how the Borough can be a thriving, prosperous and attractive place to live and work. It details how the Borough will require around 9,800 homes (in addition to 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

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

Financial Strategy

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

legislative requirements, increasing demand and cost for certain services and the Government's drive to deliver savings.

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

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

General Fund

Medium Term General Fund Position

Medium term financial planning remains difficult and is prepared against the continuing funding cuts for local government coupled with increased demand for social care and managing the impacts of welfare reform. The March 2017 Budget (Spring Budget) reported a further deterioration in the public finances and the expectation now that the national budget deficit will not be eradicated until the end of the next Parliament. Uncertainty remains in respect of the 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. Whilst the Borough has seen some economic growth, the Business Rates Retention scheme is such that significant appeals led to a reduction in rateable value when compared to the scheme that was introduced in 2013/14.

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

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

Funding Social Care pressures

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

In addition, whilst retaining the Council Tax referendum limit at 2% as part of the 2017 Local Government Financial Settlement, an Adult Social Care precept was

proposed with a limit of no more than 6% over the period 2017/18 to 2019/20. This Authority chose to raise a 3% Adult Social Care precept for the current financial year, and as part of Cabinet's initial proposals consultation on a further 3% Adult Social Care precept is included in this report.

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

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

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

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

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

Business Rates

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

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

The Authority is currently exposed to the risk of Business Rate appeals, which are determined by the Valuation Office Agency. Since 2013/14 the level of appeals has been higher than were originally anticipated and resulted in a Collection Fund deficit as at 31 March 2017. Government introduced a new check, challenge and appeal process in April 2017 which appears to have improved the efficiency of the appeals process, as challenges against rateable values have significantly reduced in 2017/18. 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 will happen in April 2018;
- Extending the £1,000 discount for pubs with a rateable value of less than £100,000 for another year, to March 2019; and
- Legislating to address the 'staircase tax', with business rates bills for affected businesses to be based on previous practice backdated to April 2010.

It is suggested that Local Government will be fully compensated for these changes through a S31 grant, therefore the impact on the draft proposals should be negligible.

General Fund Financial Plan

Overall Cabinet's approach to developing the 2018-19 budget has been to take as far as possible a balanced approach to developing the budget in order to maintain those services most residents wish to access as well as investing in those services for our more vulnerable residents.

As part of the 2016 Spending Review Central Government included in their assumptions annual increases in Council Tax and therefore included in Cabinet's initial proposals for consultation is a 1.99% general increase in Council Tax in order to fund cost pressures in other services areas. This together with the Adult Social Care precept and funding from the Improved Batter Care Fund (a total of £8m of additional resources available across the next 2 financial years) has led to a net efficiency savings target of nearly £33m, a summary of the changes to the net General Fund Financial Plan is set out in Table 1 below.

Table 1: 2018-2020 General Fund Financial Plan

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

Cost pressures

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

- Legislative / regulatory changes mainly relating to external funding changes – cuts in specific grants (for example Housing Benefit Subsidy Administration Grant, Public Health Grant, New Homes Bonus and Education Services Grant);
- Pay and price inflationary increases – increases in pay based on an assumed 1% pay increase, the impact of the National Living Wage increases on social care providers and the impact of increased waste demand and the RPI impact on the contract the council has for waste disposal;
- Increasing demand for services – increased demand for social care services (for example increased numbers of adults with complex learning disabilities)

and for home to school transport;

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

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

In terms of the 2017/18 in-year budget monitoring position, the first report of the year reported a pressure of £8.842m and the mid-year report saw an improved position of a pressure of £2.067m against the 2017/18 revenue budget of £2.067m as at the 30 September 2017. A number of actions are in place to bring this position in on budget by the year end as set out in the report to Cabinet. There is the potential that the use of reserves will be required to bring the Budget in balance for the year ending 31 March 2018.

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

Efficiency Savings

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

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

Appendix C sets out in more detail the proposals for 2018/19, which are summarised in Table 2 below:

Table 2: Efficiency Savings 2018-2020

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

Table 3: 2018-2020 General Fund Financial Plan Resources Assumptions

	2017/18 £m		2018/19 £m	2019/20 £m
Council Tax	84.773		85.056	85.339
Estimated 2017/18 Surplus			0.400	
Revenue Support Grant	22.596		16.915	11.198
Business Rates	25.802		25.802	25.802
Business Rates top up	19.189		19.806	20.511
TOTAL	152.360		147.979	142.850

Housing Revenue Account (HRA)

North Tyneside Council is responsible for the management of just under 14,900 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 the law.

The HRA continues to face significant challenges, as Government legislation continues to embed and develop with potential implications for housing, i.e. the Welfare Reform and Work Act 2016, and the Housing and Planning Act 2016. The Authority continues implementation of Government policy to reduce rent by 1% for 2018/19 (3rd of 4 years) as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI sheltered accommodation homes. In addition, it is also facing the impact of the continued roll-out of Universal Credit and other welfare reforms.

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. Following this decision, the significant process has already begun to create a fit for purpose Repairs and Construction operation, that best meets the ongoing needs of our tenants and residents, whilst delivering greater efficiency and value for money.

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 two-year revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that the second year projections are only indicative at this stage. A three year timeframe is proposed for the Housing Capital Plan in line with the 2018- 2021 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 15 January 2018. At that meeting Cabinet will be asked to approve the HRA Business Plan and Budget for 2018/19, 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 2018/19 are as follows:-

1. Continue implementation of Government policy to reduce rent by 1% for 2018/19 (3rd 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 2018/19 (except where new services are being introduced or re-procured to reflect actual costs);
3. A review of charges for guest rooms and commercial space (e.g. hairdresser facilities) within sheltered schemes;
4. Increase garage rent by 2% for 2018/19 (however to note there is an ongoing review of the whole garage letting process which may result in revised charges being proposed to Cabinet going forward); and
5. Sustain working HRA balances at a minimum of £2.5m.

HRA Capital Investment Plan – assumptions

1. Overall Housing Investment Plan spend of £71.475m over the next 3 years 2018-2021; and
2. Spend for 2018/19 of £27.914m including £4.927m for the continuation of a new build / conversion / acquisition council house programme. Some of this funding (£3.500m) is projected reprogramming from 2017/18.

Legislative Change

Both the Welfare Reform & Work Act 2016 and the Housing & Planning Act 2016 were passed into law in 2016 but some of the legislation has still yet to be enacted. Already some of the legislation has been withdrawn e.g. Pay to Stay, and with the continued Government focus on Brexit when and if the remaining policies will be implemented, remains uncertain.

Any parts of the Acts that are to be enacted will be the subject of Government Regulations which will put implementation measures into force, some of which will again have to pass through Parliament for ratification. Cabinet will be kept updated as to any impact on the Authority. All of these legislative changes were made after the Authority agreed self-funding.

Medium Term HRA Position

There are a number of key drivers which underpin the HRA Business Planning Process each of 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;
- Self-Financing and Depreciation;
- North Tyneside Living; and
- Insourcing of the Kier North Tyneside JV project from April 2019.

Rent

2017/18 saw the second year of Central Government's 4-year 1% per annum rent reduction policy introduced in the Welfare Reform and Work Act 2016. The Prime Minister has given the first indications of the Government's intention at the end of the 4 year reduction period. She recently announced that in order to enable housing landlords to undertake better planning, that the rent policy would return to being based on the Consumer Prices Index (CPI) + 1% for 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 rents to target when properties become empty;
- 2) A full review of the service charges attached to the North Tyneside Living schemes will be undertaken as the schemes 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. This plan continues albeit if the upward inflationary trend continues Cabinet may wish to revisit this approach for 2019/20. Charges for furniture packs were revised in 2017/18 to reflect the newly procured service, and these service charges are reviewed to ensure the income collected adequately covers costs. The Authority continues to monitor the impact of welfare reform changes and it is not yet finalised whether Local Housing Allowance caps will be introduced across any part of the sector, which could have the impact of making these packs less affordable for our younger tenants as benefit would no longer cover these costs. Members will be informed of any announcements that clarify this 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, hence the plan proposes to continue the long-term Government CPI target of 2% increases per annum as being reasonable. However there is an ongoing review of the overall letting policy on garages which will come before Cabinet once it is completed, and Cabinet will be informed of any implications for the Business Plan of any decision options;

- 5) It is assumed that the policy agreed by Cabinet previously 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 £0.080m in 2018/19 and will continue to steadily reduce from this point; and
- 6) From April 2018 there is also a proposal, to be considered by Cabinet at its meeting on 11 December 2017, that the Authority will 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 would be that the weekly rent will be spread over 52 weeks although for those residents that wish to continue paying over 50 weeks this option will continue.

The implications of any changes arising from benefit changes including Universal Credit (UC) continue to be monitored. UC will be rolled out for all new claimants in North Tyneside from February 2018 which covers both single claimants and families. It will be important to ensure that tenants are 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 2020-21. Members will continue to be updated of any significant further changes as they become clear.

Future Funding for Supported and Sheltered Housing

Government originally announced in 2016 an 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 & service charges through the existing welfare system to Local Housing Allowance caps, with a separate top-up grant for each area to be administered by the top-tier Local Authorities to cover "support". This change could have significant implications for proposed supported housing schemes and may have the impact of causing them to be cancelled or delayed which would be detrimental to a sector showing ever increasing need.

Following a full consultation process the Government has made some adjustments to its proposals which are now not intended to be introduced until April 2020. The Government have proposed that existing schemes will continue to be funded entirely through the welfare system for rent and service charges, with a separate provision to cover supported elements which will reflect variation in service provision. It is also proposed that there will be a separate Sheltered Rent for sheltered and extra care services. The detail is awaited and further consultation is currently under way, but some of the original concerns remain that these changes may have made the North Tyneside Living sheltered housing, and other sheltered, extra care and supported housing provision across the borough an unaffordable option for many residents.

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 Council'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. Hence, the Plan identifies £60.376m of works to maintain Decent Homes over the next 3 years (£21.537m for 2018/19), with an estimated £9.449m available for New Build over the same period (£4.927m for 2018/19). In addition £1.650m has been identified to meet costs over the next two years 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).

Right to Buy (RTB) Sales

RTB sales have increased significantly since the start of self-financing, in 2011/12 there were 30 sales, in the 5 years since then the trend has been: 85 in 2012/13, 122 in 2013/14, 100 in 2014/15, 135 in 2015/16, and 136 in 2016/17 - with a further 60 sold as at September 2017. 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 £2.572m of Capital Receipts retained to the end of 2016/17, which has helped deliver £11.761m of new build schemes.

The trend in RTB sales is reflected in the 2018/19 Business Plan profile for stock numbers with 140 RTB sales and other disposals assumed. Legislative change may impact on these projections as the Plan moves forward, if for instance the High Value Asset Policy was implemented and councils were required to pay a "levy" to fund it.

Treasury Management Strategy (TMS)

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 as to the approach to be taken, with HRA debt effectively creating a separate debt pool for the HRA with 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, which were transferred to the House-building Reserve annually as agreed by full Council to fund HRA new build and conversions. Contributions to that fund will cease from 2017/18 as part of these 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, split between the HRA and the

General Fund. 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 2018/19 estimated debt interest due will total £4.464m, saving £0.372m on current year's budgeted charges, with a debt set aside of £2.415m; and

- 3) New HRA Debt (restricted by debt cap) - New loans directly attributed to the HRA. 2018/19 will see re-financing of £3.590m from £8.005m of long-term maturities, once assumed debt repayments have been accounted for and temporary borrowing of £20.488m, with estimated interest charges of £0.683m in 2018/19, a reduction of £0.037m from the £0.720m budgeted in 2017/18.

Overall actual HRA debt will be around £261.900m by 31 March 2018. 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

The Government's intentions around Depreciation within the HRA, and progress on producing a reliable method of calculation, have regularly been reported to Cabinet as part of the budget process since self-financing was introduced. The lack of a "proper" solution led to Government creating a 5-year "transitional" solution, based on the old Major Repairs Allowance (MRA) being used as a "proxy", with revaluations and impairments being reversed out of the accounts whilst a longer-term solution was sought. 2016/17 was the last year of that 5-year transitional period.

The Government has now indicated that all Local Authorities are required to calculate a true depreciation charge from 2017/18. This means that the depreciation calculated will be a true bottom line cost to the HRA. The Authority has been working on a solution and examining the options to calculate the depreciation charge. We have consulted a number of other local authorities to explore all available options. We are currently finalising our preferred solution and will shortly be consulting with our External Auditor. The preferred solution seeks to calculate 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. It is expected that 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 JV contract for a further 5 years from 2019. Hence, the Council is now working to create a fit-for-purpose construction and maintenance operation from April 2019,

that will meet the needs of the Authority and our tenants and residents, whilst ensuring greater efficiency and value for money. This will require a significant amount of work to incorporate the staff and assets that will be transferring back to the Council, and to ensure that all necessary supporting systems, equipment and accommodation are put in place. The resources necessary to achieve this over the next two financial years have been built into the Business Plan projections, both within the Housing Revenue Account and Capital Investment Plans.

The impact of all of the above issues on the two-year 2018-2020 revenue Plan for the HRA are summarised in Table 4 below. In addition Table 5 splits those changes between Pressures and Growth, Efficiencies and Reserves and Contingencies.

Table 4 – Housing Revenue Account (HRA) 2018-20

	2017/18 Forecast Outturn	2018/19 Draft Budget	2019/20 Draft Budget
	£m	£m	£m
Rent, Garages and Service Charge Income	(59.717)	(58.961)	(57.864)
PFI Credits - North Tyneside Living	(7.693)	(7.693)	(7.693)
Rent from Shops, Offices etc.	(0.254)	(0.260)	(0.260)
Interest on Balances	(0.039)	(0.030)	(0.030)
Contribution from Balances	(1.422)	(1.969)	0
Total Income	(69.125)	(68.913)	(65.847)
Capital Financing Charges	13.822	12.094	12.140
Management Costs	10.219	12.337	12.131
Repair and Maintenance	11.476	11.478	11.481
PFI Contract Costs – North Tyneside Living	9.551	9.597	9.642
Revenue Support to Strategic Investment	6.771	9.570	6.136
Depreciation / Major Repairs Account (MRA)	15.650	11.972	12.392
Bad Debt Provision	0.600	0.780	0.780
Transitional Protection	0.070	0.080	0.070
Management Contingency	0.111	0.150	0.150
Pension Fund Deficit Funding	0.855	0.855	0.855
Contribution to Balances	0	0	0.070
Total Expenditure	69.125	68.913	65.847

HRA BALANCES	£m	£m	£m
Estimated HRA Balance B/Fwd	-5.966	-4.544	-2.575
Contribution to/from(-) HRA	1.422	1.969	-0.070
Estimated HRA Balance C/Fwd	-4.544	-2.575	-2.645

Table 5: 2018–2020 Housing Revenue Account Financial Plan

HRA Forecast Expenditure Plan	2018/19 £m	2019/20 £m
Original Base Budget	1.766	1.969
<u>Add:</u>		
Pressures and Growth		
Council Dwellings-Rent reduction, stock reduction & empty homes assumptions	0.738	1.019
Rental Income – temporary accommodation	0.002	0.002
Service charges – reduction & rebasing	0.197	0.084
Repairs post 2019 Insourcing (Construction Project)	2.110	(0.310)
North Tyneside Living (NTL) – Unitary charge	0.099	0.101
NTL – Contributions to / from PFI Reserve	(0.031)	(0.057)
HRA Debt set-aside - MRP	(1.475)	0.188
Depreciation (formerly MRA)	(3.678)	0.419
Housing Investment Plan-revenue support	2.798	(3.433)
HRA New debt / Debt Management support	(0.037)	0.223
Net Premiums / Discounts	0.129	0
Total - Pressures and Growth	0.852	(1.764)
Efficiency Savings		
Service charges-income from NTL schemes	(0.200)	0
Garage & Other Rents	(0.014)	(0.009)
NTL – Transitional Rent Protection	(0.070)	(0.010)
NTL – Interest Savings from Treasury Management	(0.372)	(0.363)
NTL - Monitoring & operational costs	(0.090)	0.001
Repairs – JV – impact of 1% rent reduction	(0.112)	(0.111)
Total – Efficiency Savings	(0.858)	(0.492)
Reserves & Contingencies		
Revenue Repairs – Inflation	0.109	0.114
Pay Award	0.077	0.079
Price Increases	0.023	0.024
Total – Reserves & Contingencies	0.209	0.217
Revised Base Budget	1.969	(0.070)

The three-year Housing Investment Plan is shown at Appendix D(ii).

A further breakdown of the movement on Reserves and Contingencies is shown in Table 6 below; this includes a contribution from reserves of £0.203m. It is proposed to create additional contingency budgets of £0.209m to recognise issues including any inflationary increases and a pay award.

Table 6: 2018–2020 Housing Revenue Account Reserves and Contingencies

HRA Revenue Balances	2018/19 £m	2019/20 £m
Increase in Contingencies	0.209	0.217
Contribution to/(from) Balances	(0.203)	2.039
TOTAL	0.006	2.256

Dedicated Schools Grant (DSG)

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

The total amount of the Dedicated Schools Grant for 2017/18 is £145.820m (excluding Pupil Premium), broken down into the following blocks:

Schools Block £115.40m
Early Years Block £11.740m
High Need SEN Block £18.680m

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

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

The consultation response includes illustrative data to show the impact of the new formulas for both the Authority and each school, using 2016 census data. The allocations take into account the additional investment in schools revenue funding of £1.3billion for 2018/19 and 2019/20, which the Secretary of State announced in July 2017. The final DSG allocation will be available in mid-December 2017 and will be updated with the latest October 2017 census data. Details of this will be included in the report to Cabinet of the 24 January 2018. The Education Funding Agency (EFA) is not expected to confirm 2018/19 high needs SEN funding block allocations to authorities until March 2018 at the earliest.

Officers have been in discussion with North Tyneside Schools Forum regarding the mainstream funding formula and a consultation exercise is currently underway. The outcome of this will be reported to Schools Forum ahead of the formal submission in January 2018.

Schools Forum will also be considering 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.

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

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

Table 7: Key dates for 2018/19 school budget setting

Date	Action
c.mid December 2017	EFA confirms Dedicated Schools Grant (DSG) allocations for 2018/19 (prior to recoupment of funding for academies)
19 January 2018	Local authorities submit final data for Schools Budget formula pro forma for 2017/18 to the EFA
31 January 2018 (mandatory date 28 February 2018)	North Tyneside issue maintained schools their mainstream funding allocations for 2018/19

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

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

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

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 'Our North Tyneside' Council Plan outcomes. The Strategy also provides a framework to enable projects to be developed with the aim of helping to deliver revenue savings to assist the Authority in managing the financial pressure it faces. The draft Investment Strategy is attached as Appendix D(iii).

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

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

Table 8 below shows a summary of the initial draft 2018-2021 Investment Plan.

Table 8: Summary of Investment Plan 2018-2021

Spend	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's
General Fund	55,481	10,561	5,600	71,642
Housing	27,914	23,291	20,270	71,475
Total	83,395	33,852	25,870	143,117

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

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

Table 9: Summary of Financing 2018-2021

Spend	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's
<u>General Fund</u>				
Council Contribution:				
Unsupported Borrowing	33,792	7,563	5,600	46,955
Capital Receipts	380	380	0	760
Revenue Contribution	68	0	0	68
	34,240	7,943	5,600	47,783
Grants & Contributions	21,241	2,618	0	23,859
Total General Fund Resources	55,481	10,561	5,600	71,642
<u>Housing - HRA</u>				
Capital Receipts	2,261	4,763	1,368	8,392
Revenue Contribution	8,490	5,020	4,921	18,431
Major Repairs Reserve	13,663	13,508	13,981	41,152
House Building Reserve	3,500	0	0	3,500
Total Housing HRA Resources	27,914	23,291	20,270	71,475
TOTAL RESOURCES	83,395	33,852	25,870	143,117

The initial draft 2018-2021 Investment Plan for the General Fund includes expenditure of £55.481m in 2018/19. Of this expenditure £21.241m (38%) is funded through grants and other external funding contributions.

Capital receipts of £9.152m (£0.760m General Fund and £8.392m Housing) have been assumed in the financing of the draft plan.

Across the life of the draft plan, unsupported borrowing totals £46.955m. The cost of borrowing is included within the General Fund Revenue budget and Financial Plan.

Work is ongoing to finalise these draft proposals.

Flexible Use of Capital Receipts

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

At this stage consideration is being given to the use of capital receipts for some elements of the ICT citizen interaction and self serve project and redundancies and other costs arising from the restructure of services.

Capital Allocations 2018/19

A number of capital allocations (grants) are announced by Central Government as part of the Local Government settlement. These include Education Funding (Capital Maintenance and Devolved Formula Capital) (Department for Education), the Local Transport Plan (Department for the Environment) and Disabled Facilities Grants (through the Better Care Fund). Figures for 2018/19 have not yet been announced but will be included in subsequent reports as soon as they are available. We have seen these allocations reduce over the previous 2 years as set out in Table 10 below.

Table 10: Capital Allocations for 2016/17 and 2017/18

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

Annual Minimum Revenue Provision (MRP)

The Department for Communities and Local Government (DCLG) released a consultation paper on proposed changes to the prudential framework for capital finance on 10 November 2017. This document proposes a number of significant changes to the calculation of MRP which would take effect from 2018/19. The consultation period runs until 22 December 2017. Work is ongoing to assess the impact of the proposed changes on the revenue budget and a consultation response will be submitted to DCLG. The outcome of the consultation will be included in future budget reports as soon as it is known along with the proposed MRP policy for 2018/19.

Prudential Indicators

On 11 August 2017 CIPFA released an invitation to comment on proposed changes to the Prudential Code including the indicators required by the Code. This consultation closed on 30 September 2017 and CIPFA are expected to publish the revised Code in January 2018 for implementation in 2018/19. The required Indicators will be included in subsequent reports following the release of the new code.

2018/19 Treasury Management Statement and Annual Investment Strategy

Background

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

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

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

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

Reporting Arrangements

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

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

- **A Mid - Year Treasury Management Report** – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and indicate whether the Authority is meeting the strategy or whether any policies require revision; and
- **An Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury Management Strategy for 2018/19

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

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

Current Treasury Portfolio Position

The Authority's debt and investment position at 8 November 2017 is set down in Table 11 below.

Table 11: Current Treasury Portfolio Position as at 8 November 2017

	Principal Outstanding	Average Rate
	£m	%
Fixed Rate Funding		
PWLB*	175.250	4.81
PWLB – (HRA Self Financing)	128.193	3.49
Market Loans	20.000	4.35
Temp Loans	127.704	0.50
Total External Debt	451.147	
Less Investments		
(UK) DMO**	16.150	0.25
Total Investments	16.150	
Net Position	434.997	

*Public Works Loan Board

**Debt Management Office

Prospects for Interest Rates

The Authority has appointed Link Asset Services (previously known as Capita Asset Services) as its external treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 12 below sets out Link Asset Services professional view of interest rates.

Table 12: Link Asset Services forecast interest rates – (8 November 2017)

	Bank Rate %	5 year PWL %	10 year PWL %	25 year PWL %	50 year PWL %
Now	0.50	1.50	2.10	2.70	2.40
Dec 2017	0.50	1.50	2.10	2.80	2.50
Mar 2018	0.50	1.60	2.20	2.90	2.60
Jun 2018	0.50	1.60	2.30	3.00	2.70
Sep 2018	0.50	1.70	2.40	3.00	2.80
Dec 2018	0.75	1.80	2.40	3.10	2.90
Mar 2019	0.75	1.80	2.50	3.10	2.90
Jun 2019	0.75	1.90	2.60	3.20	3.00
Sep 2019	0.75	1.90	2.60	3.20	3.00
Dec 2019	1.00	2.00	2.70	3.30	3.10
Mar 2020	1.00	2.10	2.70	3.40	3.20

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

Economic Outlook

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

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years;
- Borrowing interest rates increased after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank rate increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served the Authority well over the last few years. However, this needs to be reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and / or the refinancing of maturing debt; and
- There will remain a potential cost of carry to any borrowing undertaken that results in an increase in investments and will incur a revenue loss between borrowing costs and investment returns.

Borrowing Strategy

The Authority's capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Authority's reserves,

balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns have remained low and counterparty risk is relatively high.

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

- The cheapest borrowing and lowest risk approach is internal borrowing. By continuing to maintain a relatively low level of cash balances the risk of investment is reduced. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years;
- Temporary borrowing from the money markets or other local authorities;
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintain an appropriate balance between PWLB and market debt in the debt portfolio;
- PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt; and
- PWLB borrowing for periods of longer than 10 years may be explored.

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

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

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

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

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

Policy on borrowing in advance of need

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

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

Debt Rescheduling

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

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

- the generation of cash savings and / or discounted cash flow savings at minimum risk;
- to help fulfil the strategy outlined above; and
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

Annual Investment Strategy

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

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

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

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

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

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

Bank Rate is forecast to remain unchanged at 0.50% before starting to rise from quarter 1 of 2019 and not to rise above 1.00% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

Table 13: Bank Rate Forecast for Financial Year Ends

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

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

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

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

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

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

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

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

Creditworthiness

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

In keeping with the agencies' new methodologies, the rating element of the credit assessment process now focuses solely on the Short and Long Term ratings of an institution. The other key elements of their process, namely the assessment of

Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

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

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

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

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

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

Policy on the use of external service providers

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

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

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

documented and subject to regular review. The Authority's contract with Link Asset Services ends on 9 February 2018. The Authority will now seek to ensure that following a tender process, a suitable treasury management advisor will be in place on 12 February 2018.

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 15 February 2018, when all outstanding information should be available.

Robustness of Estimates

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

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

The level of contingencies will be £1.7m as pressures incurred during 2017/18 have been recognised as part of the 2018/19 Financial Planning and Budget process.

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

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

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

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 2018-2021 Investment Plan follow the full gateway and governance procedure prior to inclusion on the Plan which ensures the deliverability, affordability and risk associated with each decision is fully understood prior to any decisions being made.

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

Housing Revenue Account

Table 14 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 14: 2018–2020 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	2018/19 £m	2019/20 £m
Opening Reserve Balance	(4.544)	(2.575)
<u>Add:</u>		
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 2018/19 Budget does not contradict the issued guidance. The Bulletin does then go on to say that “*It is not normally prudent for reserves to be deployed to finance current expenditure*”. The 2018-2020 Financial Plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long term reliance on reserves.

Overall Financial Risk Assessment

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

Key Financial Risks

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

Table 15: Key Financial Risks and mitigating actions

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

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

	are highlighted.
There is a risk that the in year pressures being reported through the 2017/18 financial management process impact on the deliverability of the 2018/19 budget.	As at 30 September 2017, a pressure of £2.067m was reported against the 2017/18 budget. All services continue to develop and deliver actions to mitigate these financial pressures and expect the out-turn forecast to improve as we move through the year. In addition, non essential spend continues to be minimised along with a detailed review of demand led projections in order to reduce the over-commitment. Progress will be monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team.
There is a risk that the contingency provision included in the Financial Plan for 2018/19 is insufficient.	The review of the base budget and the reflection of the 2017/18 pressures into 2018/19 are considered to be such that 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 £9.152m (£0.760m General Fund and £8.392m Housing) are included in the financing of the 2018/19 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.	<p>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.</p> <p>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.</p>

<p>There are financial risks attached to the insourcing of the Kier North Tyneside Joint Venture project over the next 18 months, both in terms of ensuring efficient and effective mobilisation plans are put in place, that all the requisite assets and support systems are secured to achieve the desired outcomes, and that monitoring takes place to ensure performance improvements and value for money are adequately captured moving forward.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>The DCLG released a consultation on proposed changes to the prudential framework for capital finance on 10 November with a closing date for responses of 22 December 2017. If implemented the new regulations would impact significantly on the 2018/19 budget and proposals contained in this report.</p>	<p>Work is ongoing to assess the impact of the proposed changes on the revenue budget. A response will be submitted to DCLG by the due date.</p>

2018-2020 Our North Tyneside Plan

The proposed priorities for the new Our North Tyneside plan are

Our People will:

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

Our Places will:

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

Our Economy will:

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

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

All figures in £'000s	2018/19	2019/20
Legislative / regulatory changes	3,297	1,308
- Schools Funding Changes	50	54
- Grant related changes (mainly reductions in relation to Adult Social Care, Education Services Grant and New Homes Bonus)	3,247	1,163
- Land charges	0	91
Inflationary changes (pay and prices)	4,118	4,214
- Pay award	917	917
- Waste management & environmental contracts	425	405
- Impact of the National Living Wage	3,000	3,000
- Transport Levy	(224)	(108)
Resource changes	(6,655)	(1,493)
- Improved Better Care fund	(6,655)	(1,493)
Demand led	2,350	5,675
- Learning Disability	900	1,000
- Home to school transport	450	(75)
- Potential future pressures (2018/19 - Contingencies)	1,000	4,750
Corporate pressures	8,394	6,600
- Funding for 2017/18 CBF targets not achieved	900	0
- Investment cost of borrowing	7,569	5,000
- Corporate changes	(75)	1,600
TOTAL	11,504	16,304

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

Description (Amount)	Grant related changes (£3,247k in 2018/19)
How have the above amounts been calculated?	The value in 2018/19 represents the reduction in Public Health grant (£331k), Education Services Grant (£778k), Local Council Tax Support and Housing Benefit Admin Subsidy (£100k), High Needs Review Grant (£80k), New Homes Bonus (£793k), SEND grant (£129k) and Adult Social Care Grant (£1,036k).
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Fall out of external funding.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Where savings are possible they have been included in the savings proposals for 2018/19.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2018/19 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

Description (Amount)	Pay award (£917k in 2018/19)
How have the above amounts been calculated?	The annual pay award (£917k) calculation is based on an agreed pay award of 1% applied to 2017/18 staffing budgets (including salary, employer's national insurance, and employer's pension contributions).
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Annual pay award agreed by employers as part of national pay bargaining / contractual obligation to move staff up an increment towards the top of the relevant pay scale.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Assumed public sector pay increases of 1%.
Does the activity causing the cost pressure need to continue?	Yes, staff are involved in delivering a range of statutory and discretionary services, which are being reviewed as part of the identification of savings to meet the Council's budget gap in 2018/19.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2018/19 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

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

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

Description (Amount)	Transport Levy (-£224k in 2018/19)
How have the above amounts been calculated?	These are estimates based on information provided by the third parties.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Is a cost reduction in 2018/19. .
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a – reduction in cost
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a – reduction in cost

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

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

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

Description (Amount)	Potential future pressures (Contingency - £1,000k in 2018/19)
How have the above amounts been calculated?	This is an estimate of potential unfunded pressures to be held as a contingency against in year unforeseen issues.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increased demand and volume of savings required suggests holding a contingency for unforeseen pressures would be prudent.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

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

Description (Amount)	Investment Cost of borrowing (£7,569k in 2018/19)
How have the above amounts been calculated?	The £7,569k is an estimate of likely interest savings based on treasury forecasts and the reversal of part of the MRP holiday adopted during 2017/18.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Investment decisions and the reversal of part of the MRP holiday adopted in 2017/18.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the Authority's 2018/19 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Council will overspend its budget.

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

Appendix C - Efficiency Savings 2018/19

Business Case	Sum of Proposal for 18/19 £
Existing Business Case	-991,000
Cared For Safeguarded and Healthy	-980,000
Value for Money Tested Social Care; long term national policy direction in social care has created a situation which is sometimes at odds with realistic outcomes and the financial position. This project will make changes to day to day commissioning and assessment processes to re-set the outcome of funded social care. This will include a review of block contracts, ensuring customers healthcare needs are appropriately funded, and a review of the direct payment rate. In partnership with the Clinical Commissioning Group and using a single trusted assessor, outcomes will be shaped by working with individuals to set realistic goals for independence and applying a value for money test to care at home versus other settings. We have to ensure we test the longstanding orthodoxy that care is always better at home. In addition we propose to develop extra care schemes for older people as well as supported living schemes for learning disability and mental health. A review and restructure of an integrated rehabilitation offer to remove any duplication of tasks will also be completed. We have to ensure that the provision of the right quality of care is affordable.	-915,000
A New Model to Support Children: national policy direction, inspection and demand pressures are creating an environment where local authorities are looking at alternative models to deliver services to support children, including collaboration.. This project aims to review best practice and the alternatives to our current approach. It will continue to build on the practical collaborations proposed on Fostering and Additional Needs as well as the strengths of the current North Tyneside team. It will continue to explore the capability to grow direct provision as the dynamics of the market change and our capability to deliver specialist housing and support grows. This means a continuation of the "Transforming Children's services" programme which includes increasing the accommodation available to improve the early help offer and reduce the demand for external residential placements, with the potential to trade surplus capacity. There will also be a review of the approach to the provision of financial support through the "S117 budget" to ensure the application and approval pathway for support follows a set of appropriate principles	-65,000
Fit for Purpose Organisation	-5,008,000
How we are organised; as services change the organisation must change with them. This project aims to ensure the organisation is reshaped to reflect changes in services and reductions in resources. In addition to changes in service delivery it also aims to ensure the organisation's infrastructure is changed and shrinks in line with the rest of the organisation with resultant changes in overheads and recharges. This will include taking opportunities to streamline the Council's processes where appropriate. In addition making sure that infrastructure is tested against best practice, the priorities of the Mayor and Cabinet and the market	-3,508,000
Sourcing, supply chain and commercials; more than half of the Authority's expenditure is to third parties and with a supply chain of almost 5000 organisations and individuals it is critical that the sourcing, supply and commercial arrangements are as sharp as possible. This project aims to look beyond the large scale commissioning and major partnerships to ensure all of the supply chain is subject to a rigorous value for money test and best practice category management is applied.	-1,500,000

Appendix C - Efficiency Savings 2018/19

Business Case	Sum of Proposal for 18/19 £
Optimise the customer journey and the way people access services. This project will build on work already done by the Authority to ensure customers can access services and support in the most efficient and effective way. This includes further improving the digital offer as the first point of contact; streamlining the referral, assessment and gateway process ensuring that only those in need make direct contact with specialist services; and further developing a single front door for people who need support that extends beyond Children's' and Adults leading to a smaller single team. Teams and functions will be redesigned around customer requirements.	-2,500,000
Maximising Resources	-190,000
Delivering our Fees and Charges Policy; the Authority has an agreed Fees and Charges Policy that reflects policy priorities, need and the wider market in which we operate. This project will continue our work to regularly review our Fees and Charges.	-190,000
Great Place	-777,000
Develop a 10 year plan for waste; for ecological and financial reasons it is imperative that local authorities have long term plans for waste. In collaboration with our partners this project aims to establish a 10 year plan to increase recycling and contain the growth of waste costs as well as developing a post 2022 solution for disposal of residual waste and exploring opportunities to enter the recycling business. The authority received a grant that funded weekly collection which ended in 2016/17 and North Tyneside is currently one of the few remaining authorities to collect weekly. As part of the consideration in developing the plan following the cessation of grant, this proposal is to move to fortnightly collection of waste. Over 76% of all local authorities collect waste on a two weekly cycle; this in part assists in the drive to increase recycling thereby reducing the cost of waste collection.	-318,000
Protect our environmental standards; having responded to Government cuts by adjusting standards and tested different approaches, significant savings have been made. However, in the present climate the challenge for the authority is to find a way to deliver a consistent standard that reflects residents' priorities with less cash. A review will mean a more streamlined approach to all grounds maintenance across the borough with the intention is to ensure the service is delivered in line with relevant legislation and to a decent baseline standard.	-100,000
Protect and Develop North Tyneside's Cultural Offer; in a period of significant financial pressure, North Tyneside Council has managed to sustain and develop a rich cultural offer. The Mayor and Cabinet have already publicly committed to protecting and developing this offer. This is demonstrated by the Investment Plan which includes Whitley Bay Regeneration Programme; The Dome, the North and South Promenade, St Mary's Island; The Wallsend Regeneration Programme; Segedunum Master Plan and the North Shields Master Plan. This project aims to work with cultural partners to protect and develop the offer where we can, making the most of the Authority's assets, with an optimum sport, leisure and library offer that makes the maximum difference to residents, business and visitors delivering a developed and sharpened events programme while exploiting opportunities to maximise income and reduce costs. As there is less cash there will be a reduction in opening hours of our Libraries and Customer Service Centres but the approach being taken to this is based on current levels of activity to ensure we continue, as far as possible, to maintain appropriate access to facilities for our residents	-359,000
Efficiency savings	-576,507
Efficiency savings	-576,507
Grand Total	-11,022,507

Appendix D(i)

2018-2021 Investment Plan Summary

Project Ref	Project Title	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's	Funding Source	£000's
	<u>GENERAL FUND</u>						
	<u>Great Place to live, work and visit</u>						
BS026	Asset Planned Maintenance Programme	1,500	1,500	1,500	4,500	Council Contribution	4,500
DV054	Coastal Regeneration	2,331	0	0	2,331	Council Contribution Heritage Lottery Fund	1,750 581
DV058	Swan Hunters Redevelopment	8,667	0	0	8,667	Single Local Growth Fund (SLGF) Council Contribution	5,605 3,062
DV059	Pilot Fund to Tackle Empty Properties	80	0	0	80	Council Countribution	80
DV062	St Mary's Lighthouse and Visitor Centre	1,852	481		2,333	Heritage Lottery Fund grant (HLF) Council Contribution	2,100 233
DVxxx	Forest Hall regeneration	500	0	0	500	Council Contribution	500
EV034	Local Transport Plan	1,817	0	0	1,817	Local Transport Plan (LTP) Grant	1,817
EV056	Additional Highways Maintenance	2,000	2,000	2,000	6,000	Council Contribution	6,000
EV073	A1058 Coast Road Improvements to junctions	0	0	0	0	NELEP Growth Deal Council Contribution LTP Grant	
EV082	North Bank of the Tyne Infrastructure	2,131	0	0	2,131	NELEP Growth Deal	2,131

Appendix D(i)

Project Ref	Project Title	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's	Funding Source	£000's
EV xxx	A189 Improvements Haddricks Mill to West Moor	3,473	2,001		5,474	DfT National Productivity Investment Fund (NPIF) Section 106/278	3,663 1,811
GEN12	Local Infrastructure Projects	100	100	100	300	Council Contribution	300
HS046	Housing Private Landlord Refurbishment	68	0	0	68	Revenue Contribution	68
EV083	Streelighting LED	507	0	0	507	Council contribution	507
DV064	Council Property Investment	550	0	0	550	Council contribution	550
DV066	Investment in North Tyneside Trading Company	8,570	1,000		9,570	Council contribution	9,570
	Total Great Place to live, work and visit	34,146	7,082	3,600	44,828		44,828
	<u>Cared for, Safeguarding and Healthy</u>						
CO064	Social Care Information System	265	0	0	265	Department of Health grant	265
HS003	Private Sector Homes Renovation	333	333	0	666	Council Contribution	666
HS004	Disabled Facility Grants	2,307	0	0	2,307	Better Care Fund	2,307
HS036	North Tyneside Warm Zone	42	0	0	42	Council Contribution	42
	Total Cared for, Safeguarding and Healthy	2,947	333	0	3,280		3,280
	<u>Corporate and Enabling</u>						

Appendix D(i)

Project Ref	Project Title	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's	Funding Source	£000's
EV069	Vehicle Replacement	1,899	962	500	3,361	Council Contribution	3,361
EV076	Depot Delivery Project	12,184	0	0	12,184	Council contribution	12,184
GEN03	Contingency Provision	1,560	1,000	500	3,060	Council Contribution	3,060
IT020	ICT Strategy	1,000	1,000	1,000	3,000	Council Contribution	3,000
IT025	BDUK (Broadband)	75	0	0	75	Council Contribution	75
IT026	ICT citizen interaction and self serve	160	0	0	160	Council Contribution	160
	Total Corporate and Enabling	16,878	2,962	2,000	21,840		21,840
	<u>Ready for School and Work</u>						
ED075	Devolved Formula Capital	397	0	0	397	Education Funding Agency	397
ED120	Basic Need	0	184	0	184	Education Funding Agency	184
ED186	Backworth Park Primary - relocation and expansion	1,113	0	0	1,113	Section 106 Basic Need Grant Council Contribution Education Funding Agency	2,833 162 -1,885 3
	Total Ready for School and Work	1,510	184	0	1,694		1,694
	TOTAL: GENERAL FUND	55,481	10,561	5,600	71,642		71,642
	<u>HOUSING</u>						
	<u>Great Place to live, work and visit</u>						

Appendix D(i)

Project Ref	Project Title	2018/19	2019/20	2020/21	Total	Funding Source	
		£000's	£000's	£000's	£000's		£000's
HS015	Refurbishment / Decent Homes	20,403	18,960	17,576	56,939	Revenue Contribution	18,431
HS017	Disabled Adaptations (HRA)	1,030	1,041	1,051	3,122	Capital Receipts	8,392
HS039	ICT Infrastructure	104	105	106	315	Major Repairs Reserve (MRR)	41,152
HS041	Housing PFI	0	0	0	0	House Building Fund	3,500
HS044	HRA New build	4,927	2,985	1,537	9,449		
HS050	Construction Project	1,450	200	0	1,650		
	Total: HOUSING	27,914	23,291	20,270	71,475		71,475
	TOTAL INVESTMENT PLAN	83,395	33,852	25,870	143,117		143,117

FINANCING				
GENERAL FUND				
Unsupported Borrowing	33,792	7,563	5,600	46,955
Capital Receipts	380	380	0	760
Revenue Contribution	68	0	0	68
Grants & Contributions	21,241	2,618	0	23,859
	<u>55,481</u>	<u>10,561</u>	<u>5,600</u>	<u>71,642</u>
HOUSING				
Capital Receipts	2,261	4,763	1,367	8,391
Revenue Contribution	9,570	6,136	6,079	21,785
Contribution from Reserves (House Building Fund)	3,500	0	0	3,500
Grants & Contributions	0	0	0	0
Major Repairs Reserve	12,583	12,392	12,824	37,799
	<u>27,914</u>	<u>23,291</u>	<u>20,270</u>	<u>71,475</u>
	<u>83,395</u>	<u>33,852</u>	<u>25,870</u>	<u>143,117</u>

Appendix D(ii)

APPENDIX D(ii) - HOUSING INVESTMENT PLAN 2018-2021

Project Ref	Project Title	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
HS002	<u>Housing</u>				
	HRA Schemes	27,914	23,291	20,270	71,475
	Made up of:-				
	Decency Refurbishments	15,146	13,703	12,439	41,288
	Disabled Adaptations	1,030	1,041	1,051	3,122
	Capitalisation of Major Repairs	1,220	1,232	1,245	3,697
	Furniture Pack Scheme	412	416	420	1,248
	Asbestos Works	300	303	306	909
	Energy Efficiency & Environmental Improvements	205	207	208	620
	Fencing / Walling / Offstreet parking / Landscaping	1,521	1,931	1,768	5,220
	Non-Traditional Properties	450	0	0	450
	ICT Strategy/Water Pipe Renewals/Fire Damage/Garages	313	317	323	953
	Post 2019 Construction & Repairs Insourcing	1,450	200	0	1,650
	Footpaths & Communal Fire Doors	940	956	973	2,869
	Potential New Build (including 2017-18 re-programming)	4,927	2,985	1,537	9,449
	Total: Housing	27,914	23,291	20,270	71,475
	TOTAL	27,914	23,291	20,270	71,475

FINANCING

HOUSING

Housing Financing

Capital Receipts	2,261	4,763	1,367	8,391
House-building Fund	3,500	0	0	3,500
Government Grants	0	0	0	0
Revenue Contribution	9,570	6,136	6,079	21,785
Depreciation / Major Repairs Reserve	12,583	12,392	12,824	37,799

TOTAL HOUSING

27,914	23,291	20,270	71,475
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TOTAL

27,914	23,291	20,270	71,475
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Consultation Draft

**NORTH TYNESIDE COUNCIL
INVESTMENT STRATEGY
NOVEMBER 2017**

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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. Priorities are driven by a number of strategies and plans linked to the Council Plan (the key documents are shown in Appendix 1) and are linked to an assessment of need.

Principles for Capital Investment:

1. Investment must be strategically aligned to deliver the Our North Tyneside plan priorities
2. Whole life costs are considered as part of a capital investment appraisal; this would include provision to ensure existing assets are maintained.
3. For every potential scheme the Authority will explore all funding and delivery options
4. Unsupported (prudential) borrowing is funding of the last resort
5. A borrowing ceiling will be proposed for the Authority in terms of both value and revenue cost
6. The Authority will consider if the opportunities arise investments that generate an on-going income stream or to realise an increased capital value in the future.

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

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

This Investment Strategy sets out the guiding principles on the following elements:

- Investment must be strategically aligned to deliver “Our North Tyneside Plan, following an approach to prioritisation and approval;
- For every potential scheme the Authority will explore all funding options in order to maximise external funding and delivery options;
- Unsupported (prudential) borrowing is funding of the last resort, and is considered alongside the use of capital receipts, capital contributions, revenue funding and the use of reserves.

- The Authority will consider Investment opportunities to generate an on-going income stream or to realise an increased capital value in the future.

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.

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2 Guiding Principles

2.1 Prioritisation and Approval

Delivery of the “Our North Tyneside Plan” sets the challenge of meeting competing priorities within an Authority that delivers so many varied services.

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

The capital matrix is an aid to evaluate priorities between often very disparate schemes; however allocation of funding to capital is ultimately a Council decision.

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

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

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

2.2 Alternative Funding and Delivery Opportunities

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

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

The Authority continues 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 and where it can be proved that the project is sustainable, and 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)
- S278
- Repayment of loans for a capital purpose

Asset disposals

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

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

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

Asset disposals at nil consideration or below market value

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

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

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

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

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

Right-to-Buy Clawback

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

Section 106 contributions and Community Infrastructure Levy (CIL)

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

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

Section 278 Contributions

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

Repayment of loans for a capital purpose

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

2.4 Flexible use of Capital Receipts

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

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

2.5 Revenue and Reserves

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

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

2.6 Approach to Borrowing

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

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

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

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

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

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

2.7 Investment Opportunities (including capital loans)

The Authority will consider, if the opportunities arise, the purchase of land and property as an investment – to both generate an on-going income stream or to realise an increased capital value in the future. This could include the purchase of land or property or the purchase of “shares” in a property fund. Depending on the capital funding proposed the appropriate

approvals will be requested at that time. Loans for a capital purpose can also be approved subject to a business case and due diligence on the borrower including as appropriate guarantees and bonds to secure the repayment of the loan. Any such opportunities would be considered in the first instance by the Investment Programme Board and Cabinet for approval in accordance with Financial Regulations.

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

Our North Tyneside Plan

People	Place	Economy	Partners	Organisation
Joint Strategic Needs Assessment	Local Plan and Master Plans <ul style="list-style-type: none"> Community Infrastructure Levy Schedule (Regulation 123 List) 	Strategic Economic Plan	Plans appropriate to each theme	ICT- Digital Strategy
Health and Wellbeing Strategy	Transport Strategy <ul style="list-style-type: none"> Highways Asset Management Plan (HAMP) Parking 	Employment and Skills Strategy		Human Resources-Workforce Strategy
	Housing Strategy <ul style="list-style-type: none"> Strategic Housing Market Assessment (SHMA) Strategic Housing Land Availability Assessment (SHLAA) HRA business 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 is linked to International Financial Reporting Standards.

“Qualifying Capital Expenditure” under s25 of Local Government Act 2003 is defined when:

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

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

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

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

Subsequent Capital Expenditure on an asset is defined as:

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

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

Appendix 3 – Capital Scoring Matrix

Capital Projects Assessment Criteria

Possible Weightings

1 Potential to generate future investment return

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

2 Potential to generate future revenue savings

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

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
	Specific (ring fenced) funding and requires Council funds of both 50% match funding or between £250-500k (capital or revenue)		
	Specific (ring fenced) funding but requires Council funds of both 75% match funding or > £500k (capital or revenue)		

4 Statutory Status: includes support of a statutory Service requirement

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

5 Council Plan Priorities

3 points	Specifically identified in Council Plan	factor = x	2
2 points	Identified as a key Project/Activity in the Council Plan or directly supports a number of specific outcomes	Max score	6
1 point	Generally supports specific Actions or outcomes		
0 points	Will not deliver any identified outcomes		

6 Ongoing revenue costs over the life of the asset

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

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

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

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

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

9 Quality of Business Plan

3 points	Option proposed demonstrates a strong case based on full assessment of the options	factor = x	2
2 points	Reasonable case with some assessment of the options	Max score	6
1 point	Basic case presented		
0 poi	Weak case with no comparison of options		

10 Equality , Diversity & Deprivation Issues

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

11 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		

12 Outcomes, Added Value, Cross-service benefit

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

Max score	84
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Appendix 4 – Investment Plan Gateway Process

Investment Programme Board Governance arrangements for Capital Projects

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

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

Regional Projects

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

Gateway 0 Strategic Fit

Purpose: Information contained in this submission should be brief but sufficient to demonstrate that a mandate exists, the project or programme has been prioritised and an outline business case has been developed. There is also a requirement to convey how far the idea has been developed in terms of feasibility.

Role: The submission will be scrutinised by the IPB in terms of strategic fit, corporate priorities, available capital resources and estimated revenue implications.

Available options: Approve or advise / refer back / reject

Associated Form—Gateway 0

Gateway 1 Feasibility

Purpose: This document constitutes a formal bid for capital investment including inclusion in the Investment Plan. It should provide sufficient information to enable effective financial and technical scrutiny ahead of further review at strategic and member level. Figures on cost and funding should be as accurate as possible. At Gateway 1 there is a focus on viability, affordability, procurement and delivery.

Role: The IPB will scrutinise the bid in terms of its financial and technical viability and management of risk. The IPB will be briefed on outcomes and recommended actions and may wish to prioritise, amend or modify the submission in light of these comments. The IPB provide recommendations to Cabinet to form part of the budget setting and financial management processes, if required.

Available options: Approve or advise / refer back / reject

Associated Form—Gateway 1

Gateway 2 Approval and Delivery

Purpose: Spending approval at Gateway 2 must be secured before any capital expenditure is incurred on a programme / project. This template brings together all the information needed for an appraisal and approval to be given. If the request varies from the budget either in terms of expenditure, funding or both you must explain this variance in Section A8. **In addition this Gateway Form MUST provide information on the spend profile which will be monitored as part of the overall investment plan.** Part A is normally completed by the Programme / Project Manager in consultation with the Finance Link Officer. Part B should be completed by the Programme / Project Manager

Role: Officers in both the Strategic Investment & Property Team and the Client Finance Team will complete final checks to confirm that relevant information has been submitted correctly in Part A & relevant sections of Part C.

Available options: Approve or advise / refer back / reject

Associated Form—Gateway 2

Gateway 3 Exception Report

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

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

Available options: Approve or advise / refer back / reject

Associated Form – Gateway 3

Gateway 4 Project Close

Purpose of Document: The purpose of this document is to confirm financial completion, transfer or the abandonment of a project and to report on the status of associated records. Responsibility for completion of this template should be identified in the follow-on actions and handover plan. Completion of all relevant sections is mandatory to enable consolidated reporting on the Investment Plan.

Scrutiny and Review: The Investment Programme Board will review this submission including for capital accounting and financial closure purposes.

Available options: Approve or request additional information

AssociatForm – Gateway 4

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2018/19

Investment Instruments and Credit Criteria

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

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

Table 1: Specified Investments and Credit Criteria

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

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

Non-specified Investments - are all sterling denominated, with maturities in excess of one year. A maximum of 25% may be held in aggregate in non-specified

investments. Table 2 below shows the counterparties with whom the Authority will place funds:

Table 2: Non-Specified Investments

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

Appendix F

2018-2020 Financial Planning and Budget Process

Timetable of Key Milestones for 2018/19

Date / Meeting	Detail
28 November 2017	Notice of Objection Process for the 2018/19 Budget Commences.
28 November 2017	Budget and Council Plan Engagement process begins. Ends in January 2018.
December 2017 Scrutiny Process	Scrutiny of the 2018-2020 Council Plan, Financial Planning and Budget Process.
11 December 2017 Cabinet	Cabinet considers the outcomes of the consultation on the 2018/19 Council Tax Support Scheme and proposes a scheme for Council to consider on 18 January 2018.
Mid December 2017	Estimated timing of the 2018/19 Provisional Local Government Finance Settlement.
9 January 2018 Overview, Scrutiny and Policy Development Committee	Overview, Scrutiny and Policy Development Committee consider the results of their review of the 2018-2020 Financial Planning and Budget and Council Plan process.
15 January 2018 Cabinet	Annual Housing Rent Reduction for 2018/19 approved by Cabinet.
18 January 2018 Council	Council considers the proposed 2018/19 Local Council Tax Support Scheme from Cabinet and agrees or amends the scheme for 2018/19.
24 January 2018 Cabinet	Cabinet considers the Council Plan, its budget proposals for 2018-2020 in relation to General Fund Revenue, Schools & North Tyneside Council Investment Plan for 2018-2020, taking into account feedback received as part of Budget Engagement.
24 January 2018 Cabinet	2018/19 Council Taxbase agreed by Cabinet.
1 February 2018 Council	Cabinet submits to the Council its estimates of amounts for the 2018-2020 Financial Plan and 2018/19 Budget & council tax levels and the Council Plan.

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

Glossary of Terms

Asset Management Strategy	Asset Management Strategy is a high-level document that guides the overall investment in existing and new assets within an organisation. Being a strategy it explores long term issues and ensures that the overall plan is linked to the key "strategic" priorities of the organisation.
Authorised Limit	Borrowing is prohibited beyond this limit. This limit reflects the level of borrowing that, while not desired or sustainable, could be required with some headroom for unexpected cash flow movements. It includes both temporary borrowing for cash flow purposes and long-term borrowing to finance capital expenditure.
Balances	The reserves of the Authority, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.
Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short-term interest rates in the money markets.
Better Care Fund (BCF)	A pooled budget arrangement between the Authority and the local Clinical Commissioning Group, which aims to bring greater integration between health and social care.
B/Fwd	The balance in the Statement of Accounts that has been brought forward from the previous period, normally the previous financial year.
Borrowing	Refers to external borrowing.
Brexit	The potential departure of the United Kingdom from the European Union.
Budget	A plan of expected expenditure and income over a set period of time for example the Authority's revenue budget covers a financial year.
Budget Holder	A nominated officer in a Service area who has responsibility for the control and monitoring of a particular budget.
Budget Manager	A nominated officer in a Service area who has responsibility for the control and monitoring of the budgets within a service area.
Budget Monitoring	The analysis and reporting of expenditure/ income against budget. Budget monitoring is carried out by Service area alongside the Finance Service on a monthly basis.
Budgetary Control	The use of budget monitoring information to manage the budget and bring spend in on target for the year.
Business Rates	<p>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.</p> <p>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.</p>
Capital Financing	<p>The resources required to fund capital payments e.g.</p> <ul style="list-style-type: none"> • borrowing • the application of useable capital receipts

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	<ul style="list-style-type: none"> • a direct charge to revenue • the application of a capital grant or contribution.
Capital Financing Requirement (CFR)	This measures the Authority's underlying need to borrow for a capital purpose. It is a calculation of capital costs less funding from capital receipts, grants and contributions to give the balance to be funded by borrowing. The Authority needs to ensure that over the medium term net borrowing does not exceed the CFR. The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code.
Capital Investment / Expenditure	The total amount spent on capital including all those items capitalised under statute e.g. equal pay and grants to third parties.
C/Fwd	The balance in the Statement of Accounts that is "carried forward" to a future period, normally the next financial year.
CIPFA	Chartered Institute of Public Finance and Accountancy, which is the leading accountancy body for public services.
CLG	Department for Communities and Local Government.
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

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	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	<p>The Local Government Finance Settlement is the annual distribution of funding determined by the Government and debated by Parliament. It has two key elements:</p> <ol style="list-style-type: none"> 1. A Provisional Local Government Finance settlement, which is normally received in December. This is then subject to a specific Government Consultation.

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	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.
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

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	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

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	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

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	<p>maturities ranging from the shortest to the longest available.</p> <p>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.</p>
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