Build forward better

Our medium-term plan for 2021-22 and 2022-23

Appendix 1 – Revenue and capital plan 2021-22

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1. Introduction

We spend in the region of £1 billion each year across the General Fund, Housing Revenue Account, and capital programme. Revenue expenditure on day-to-day services is funded by a combination of specific government grants, Council Tax, business rates, rents, third party contributions and income from sales, fees, and charges. Approximately £140 million of this is ring-fenced to schools, £130 million is used to pay housing benefit to residents of the city on behalf of the government, and £110 million is ring-fenced to services for council tenants. This leaves us with around £500 million to meet our wide range of statutory requirements and to meet the needs of our citizens, communities and city. Our capital expenditure on our physical assets (such as buildings) is separate to revenue expenditure on day-to-day services and amounts to approximately £120 million per annum and is funded from a combination of specific government grants, third party contributions and capital receipts from the sale of assets and borrowing. It should be noted that it is not permissible to use borrowing or capital receipts to fund revenue expenditure on day-to-day services.

2. General Fund revenue budget

2.1 General Fund medium-term position

Government-imposed funding cuts coupled with unfunded cost pressures has resulted in us needing to achieve savings of £335 million since 2010 (to the end of 2021-22). We have sought to do this in a controlled manner and by taking a medium-term rather than a short-term approach.

As well as meeting our legal responsibility to set a balanced budget, the benefits of medium-term planning are:

- Ensuring resources are allocated to our priorities.
- Improving value for money.
- Maintaining financial stability.
- Managing significant financial risks.

The medium-term plan is underpinned by the following key principles:

- Prudent assessment of future resources and unfunded cost pressures.
- Maximisation of income generated across all areas of the council and prompt collection of all amounts owed to us/minimisation of bad debts.
- Prudent assessment of provisions required to mitigate potential future liabilities.
- Risk-assessed level of reserves and balances held corporately to mitigate potential financial liabilities/commitments.
- Prudent and planned use of reserves to fund permanent expenditure.
- Maximisation of capital receipts from disposals where this is the most cost-effective option.
- Maximisation of external grant funding that meets our priorities.
- Prudent use of our borrowing powers to undertake capital investment that is not funded by capital receipts, grants or contributions from third parties.
- Promotion of invest to save opportunities funded by prudential borrowing via risk-assessed business cases.
- Effective management and forecasting of our day-to-day and longer-term cash flow requirements.
- Minimisation of treasury management risks, including smoothing out the debt maturity profile.
- Full integration of revenue and capital financial decision-making processes, to ensure the revenue implications of capital projects are accurately reflected in the medium-term plan and the annual budget.
- Production of detailed implementation plans for all savings proposals.
- Sign off of all revenue budgets by the relevant senior manager before the start of the financial year.
- Regular monitoring of revenue budgets by the relevant manager and robust management action to address any unplanned variances that arise.

The following tables show how these principles have been translated into our medium-term plan. In summary, our net revenue budget is determined by the level of business rates and Council Tax collected locally and the amount of Section 31 grants, Revenue Support Grant and Business Rates Top Up Grant received from government.

Table 1 – net revenue budget in 2020-21, 2021-22 and 2022-23

All figures in £ million	2020-21	2021-22	2022-23
Revenue Support Grant	26.6	26.8	25.9
Business rates	92.6	87.9	90.0
Council Tax	115.4	116.4	119.1
Net revenue budget	**234.6**	**231.1**	**235.0**

As can be seen from Table 1, the net revenue budget is expected to decrease from £234.6 million in 2020-21 to £231.1 million in 2021-22 due mainly to an assumed decrease in business rates, and then increase to £235.0 million in 2022-23 due mainly to assumed increases in business rates and Council Tax. However, as can be seen from Table 2, significant savings are required in both years due to unfunded cost pressures; further details of these savings are set out later in this document and in Appendix 2 – Summary of service proposals 2021-22 and 2022-23.

Table 2 – assumed budget changes in 2021-22 and 2022-23

All figures in £ million	2021-22	2022-23
Previous year's net revenue budget	234.6	231.1
Unfunded cost pressures	27.1	13.3
Savings requirement	(30.6)	(9.4)
This year's net revenue budget	**231.1**	**235.0**

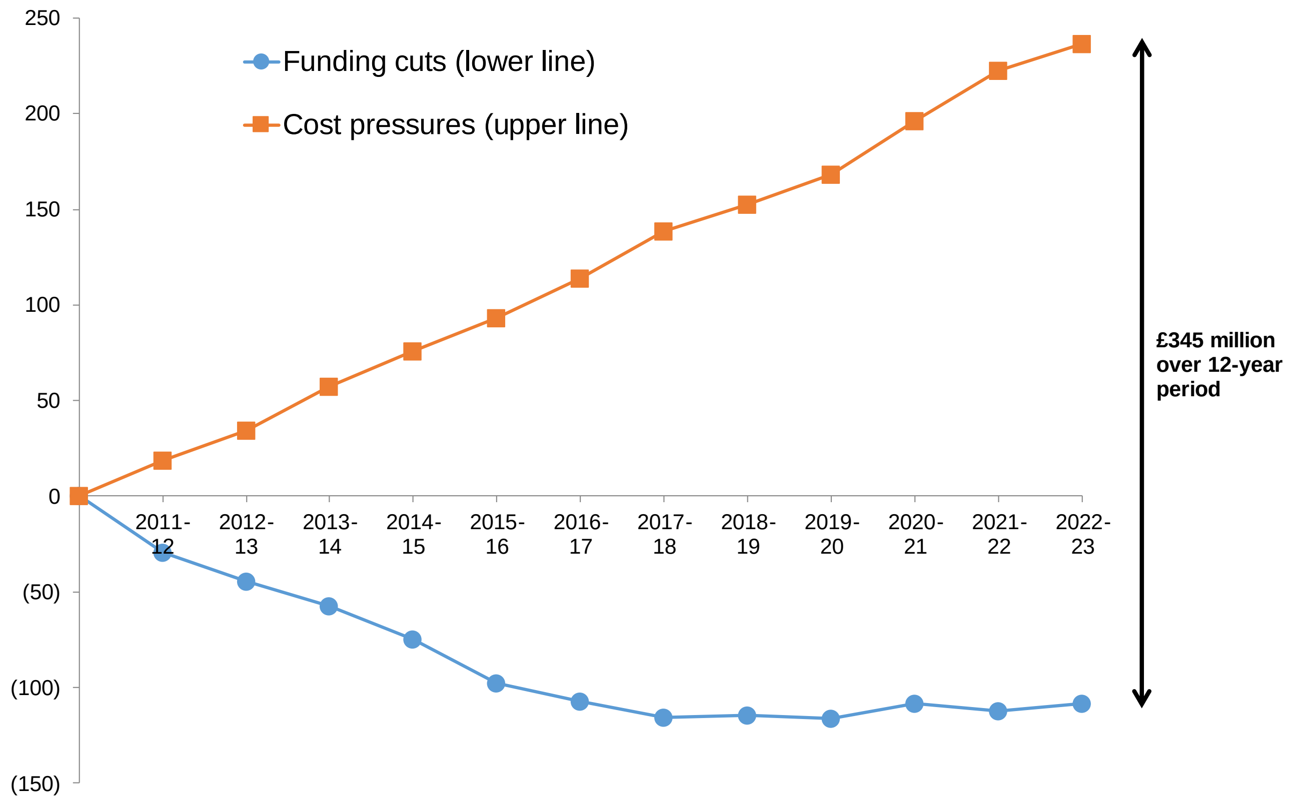
2.2 General Fund savings required to date

The savings required to balance the 2021-22 and 2022-23 budgets should be seen in the context of what was required to balance the budget in previous years.

Over the last ten years, we have needed to make savings of £305 million (equivalent to £2,270.92 per household) to balance our budget in the face of funding cuts and unavoidable and unfunded cost increases (referred to as cost pressures within this report). Many of these budget reductions have had an impact on services, however, many have been achieved by finding alternative and more cost-effective ways to deliver the same level of service, or by improving efficiency without any detriment to service delivery, as well as generating more income. However, the options for achieving budget reductions in this way are becoming more limited.

The savings requirement for 2021-22 and 2022-23 is £30.6 million and £9.4 million respectively. These savings requirements have been built into Chart 1, which shows the total savings required since 2010.

Chart 1 – cumulative savings required from 2011-12 to 2022-23 (all figures in £ million)



It should be noted that that the figure for 2011-12 also includes the in-year funding cuts announced in the 2010-11 Emergency Budget.

2.3 General Fund projected outturn for 2020-21

The plans for achieving savings in 2021-22 and 2022-23 should also be seen in the context of the projected outturn position for 2020-21.

The council has robust management arrangements in place to monitor and control revenue expenditure and this has resulted in the achievement of a balanced budget in the last few years (i.e. overall underspend of £0.3m in 2019-20). Before the start of the financial year, progress on achieving planned budget reductions is closely monitored at both officer and councillor level. This monitoring continues throughout the year and is enhanced by our formal budget monitoring process that looks at overall performance against the budget and not just delivery of specific budget reductions. Detailed budget monitoring reports are considered by directorate management teams and directors' team on a regular basis and management action is taken to address any financial pressures that occur.

However, the COVID-19 pandemic and resulting restrictions, which commenced in late-March 2020, has had a devastating impact on the council's ability to implement its 2020-21 revenue budget proposals. We have also experienced significant additional cost pressures (e.g. additional payments to residential care home providers), significant income shortfalls (e.g. car parking) as well as large-scale disruption to the achievement of planned budget savings. In addition to these service-related financial pressures, we have also experienced income shortfalls in relation to Council Tax and business rates.

To date, the government has allocated four tranches of funding to mitigate the impact of these financial pressures, the fourth of which was announced only recently. An income guarantee scheme has also been established, which will provide further funding for the council.

This government funding, however, will not be sufficient to off-set the financial pressures we are facing in the current year as a result of COVID-19 and so the council has taken additional management actions in-year to deliver a balanced budget.

As a result of the actions taken, the council is projecting a potential pressure of only £0.1m on its General Fund net revenue budget in the current financial year. Many services are overspending mainly as a result of COVID-19 and there are also some legacy issues from the previous financial year, however, this is largely off-set by projected underspends in other parts of the council, including within corporate items.

2.4 Spending Review 2020

The Spending Review 2020 was announced on 25 November 2020 and the headlines were as follows:

- 4.5% planned increase in Core Spending Power, which includes government funding such as Revenue Support Grant and New Homes Bonus and local sources of income such as Council Tax and business rates.
- 3% adult social care precept to be assumed within Core Spending Power figures to be published by government in provisional local government finance settlement.
- Net reduction in New Homes Bonus – new one-off payment in 2021-22 will be off-set by removal of 2017-18 and 2020-21 payments.
- Additional one-off social care grant totalling £300 million (no details given on how this will be distributed) and continuation of all existing one-off social care grants for at least another year (i.e. Better Care Fund, Improved Better Care Fund and Social Care Grant).
- Inflation increase to Revenue Support Grant and no inflationary increase to business rates multiplier (the council will be compensated for this by government).
- Additional one-off COVID-19 financial support including further grant funding totalling £1.55 billion (no details given on how this will be distributed), funding for 75% of the 2020-21 in-year Collection Fund deficit, extension of income guarantee scheme for a further three months until 30 June 2021 and further Council Tax hardship funding totalling £670 million (no details given on how this will be distributed).
- National Living Wage increase of 2.2% to £8.91, which will impact upon rates to be paid to adult social care providers.
- Pay award for public sector workers targeted at lower paid staff (i.e. those who earn less than median earnings of £24,000) and frontline NHS staff. This does not directly apply to the council as we are part of a separate national pay agreement process.
- Continuation of Troubled Families grant funding (no details given on how this will be distributed).
- No announcement was made to continue the business rates reliefs for hospitality, leisure and retail businesses; however, the documents did state that this would be kept under review and a further announcement on this would be made in the New Year.

Further details may be found here.

2.5 Provisional 2021-22 Local Government Finance Settlement

The provisional 2021-22 local government finance settlement was announced on 17 December 2020 and the headlines were as follows:

- 3.7% increase in Core Spending Power compared with 4.5% national average – this was the lowest among North East local authorities.
- Nearly 78% of the council's reported increase in Core Spending Power was due to the government's assumption of a 4.99% Council Tax increase and Council Tax base growth of 1.6%.
- Reduction of £2.7 million in the New Homes Bonus – the money saved by government nationally on the New Homes Bonus (i.e. £278 million) was recycled into the increases in Revenue Support Grant (i.e. £13 million), Social Care Grant (i.e. £150 million) and Rural Services Delivery Grant (i.e. £4 million), and the new Lower Tier Services Grant (i.e. £111 million).
- Increase of £3.0 million in the Social Care Grant – as set out above this was largely funded by the reduction in the New Homes Bonus.
- 'New' Lower Tier Services Grant of £0.6m – as set out above this was funded by the reduction in the New Homes Bonus.
- Freeze in Business rates Top Up Grant – we had assumed an increase of £0.1m in the draft budget report.

The net impact of the above items was higher than expected resources next year of £0.9 million, which will be used to fund the following priority areas:

- £0.3 million to deliver the Newcastle Trees strategy, increasing capacity to undertake tree risk assessments, carry out maintenance and replacement of trees and support for the proposed community forest bid.
- £0.5 million to leverage more support and resources to tackle inequalities and support hard-pressed families, with £0.2 million to support the development of Children and Families Newcastle, a new service which will work with children and families to ensure they get earlier, community-based support that tackles inequalities and supports all children to thrive, and the remaining £0.3 million to kick-start a citywide campaign aimed at getting support to the children and families who have been hardest hit by the coronavirus pandemic.
- £0.1 million to help address food poverty.

The provisional settlement also contained details of the council's allocations of the further COVID-19 funding (i.e. £9.8 million) and the Council Tax hardship funding (i.e. £5.5 million) announced as part of the Spending Review 2020. These amounts will be used to off-set the ongoing financial pressures resulting from COVID-19 and to fund a continuation of the current year's Council Tax hardship schemes, that gave over 30,000 households an award of up to £150 off their Council Tax bills, increasing the award to up to £160.

Further details may be found here.

2.6 General Fund 2021-22 net revenue budget

The 2021-22 General Fund net revenue budget is based on the following assumptions:

- An increase in Revenue Support Grant of £0.1 million.
- A decrease in the amount of business rates income receivable (including Business Rates Top Up Grant and Section 31 grants) of £4.7 million due to a reduction in the size of the business rates base as a result of COVID-19.
- An increase of £1.0 million in the amount of Council Tax income receivable split between a reduction in the size of the Council Tax base (i.e. £1.4 million), a government-assumed general increase of 1.949% (i.e. £2.2 million) and a further increase in the long-term empty property premium (£0.1 million).

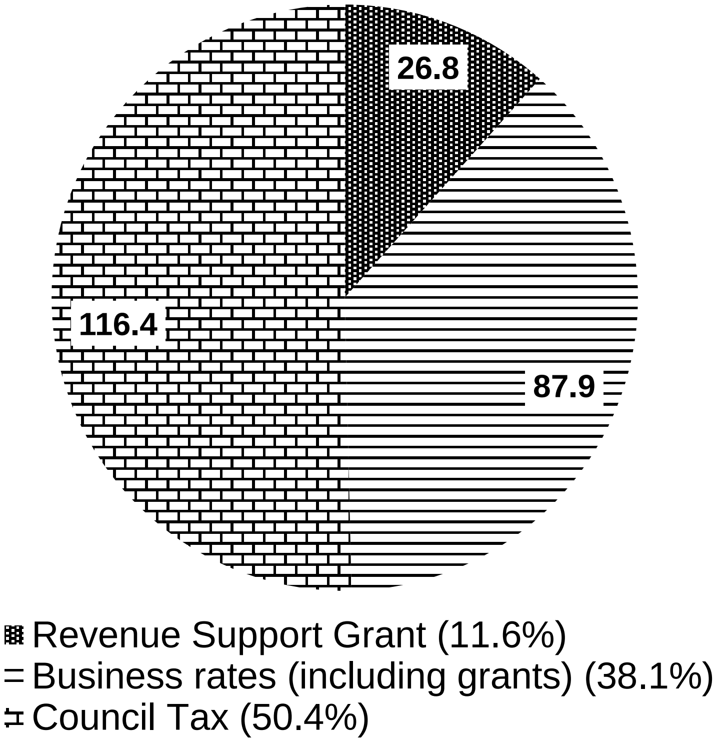
The impact of these changes on the 2021-22 net revenue budget can be seen in Table 3.

Table 3 – change in net revenue budget between 2020-21 and 2021-22

All figures in £ million	**2020-21**	**2021-22**	**Change**
Revenue Support Grant	26.6	26.8	0.1
Business rates (including grants)	92.6	87.9	(4.7)
Council Tax	115.4	116.4	1.0
Net revenue budget	**234.6**	**231.1**	**(3.5)**

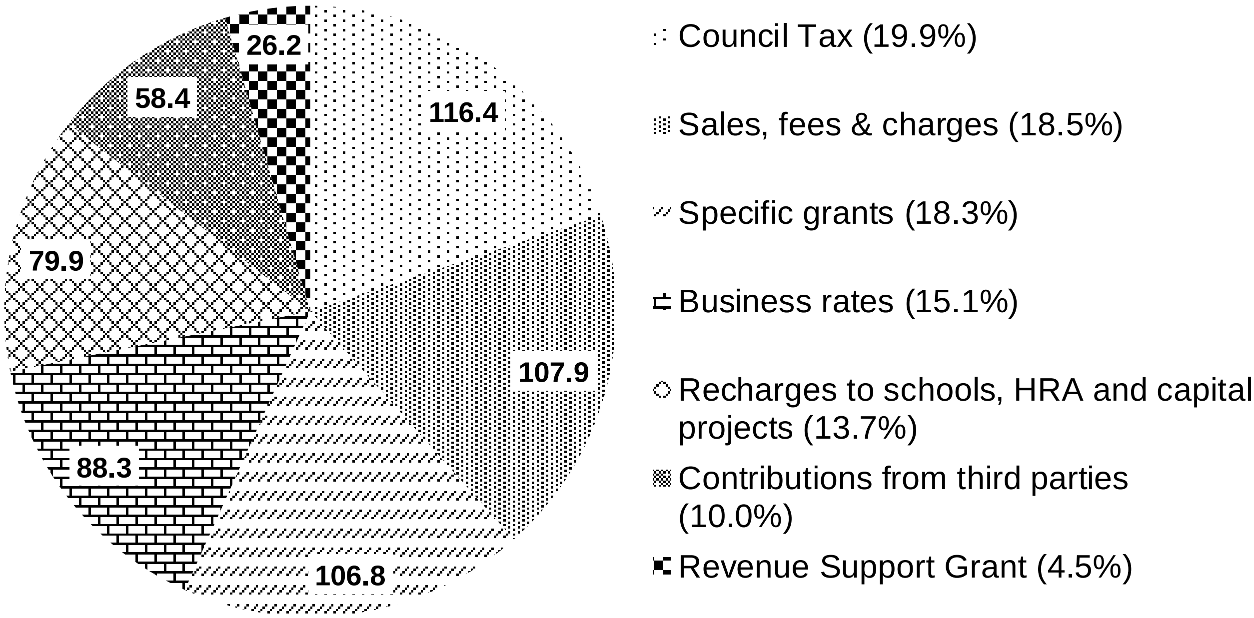
Business rates and Revenue Support Grant constitute the total of un-ringfenced government funding we are expected to receive in 2021-22. This will fund an estimated £114.7 million or 49.6% of our net revenue budget in 2021-22 compared with 50.8% in 2020-21. Council Tax will fund the other £116.4 million or 50.4% of the 2021-22 net revenue budget as shown in Chart 2.

Chart 2 – breakdown between estimated government funding (including business rates and Revenue Support Grant) and Council Tax in 2021-22



When viewed as a percentage of total General Fund income excluding schools and housing benefits, Council Tax represents 19.9% of total income as shown in Chart 3.

Chart 3 – breakdown of total estimated General Fund income in 2021-22 (figures are in £ million)



The following assumptions have also been made in the development of the 2021-22 General Fund net revenue budget:

- No general inflationary increase for supplies and services budgets – procurement activity will focus on maintaining spend within the proposed cash limited budgets.
- No general inflationary increase for income budgets – specific proposals have been brought forward to increase income from trading and sales and also fees and charges where appropriate.
- Specific grant income budgets will be adjusted in line with government announcements – related expenditure will either be reduced to bring it into line with the reduced level of funding or identified as an unfunded cost pressure (where this is not possible).
- Pay award (subject to negotiation at a national level with trade unions).
- General inflationary changes in essential utilities such as gas, electricity and water, external insurance premiums and business rates payable.
- Specific inflationary increases in Private Finance Initiative (PFI) unitary charges based on contractual terms and conditions.
- Specific inflationary increases as set out in other (non-PFI) long-term contracts (e.g. waste disposal contracts).
- Service specific cost pressures arising from inflation (including the National Living Wage) and increasing demand.
- Proposals totalling £24.1 million from a range of service and non-service proposals to off-set the funding cuts and unfunded cost pressures we are facing.

2.7 Council Tax

There will be a general Council Tax increase of 1.949% in 2021-22. We will also apply the government's 3% adult social care precept. This income will be used to avoid further savings beyond those set out and contribute to the delivery of social care services. Further details are set out in an integrated impact assessment.

We are also planning to increase the Council Tax premium payable on empty properties in line with the change in the regulations, which will generate additional income estimated at £0.1 million in 2021-22.

We perform well in collecting Council Tax with in-year collection rates amongst the highest within core cities and North East local authorities. In 2019-20 there was a significant surplus on the Collection Fund and the council's share of this has been credited to the General Fund in 2020-21. Our performance in 2020-21 has been significantly affected by COVID-19 and it is possible we may report a deficit in the Collection Fund this year. If this is the case, then we will receive compensation from government to partly mitigate the deficit.

2.8 Council Tax support / hardship

In 2013-14 Council Tax Benefit ended and Council Tax Support was introduced in its place. At the same time, funding was 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 and we estimate the funding loss over the nine-year period to be in the region of £11.7 million. This has put significant additional strain onto the General Fund budget and like many other local authorities the council has sought to off-set this loss by collecting Council Tax from working age people who previously received 100% Council Tax Benefit.

COVID-19 has resulted in a significant increase in the number of households receiving Council Tax support this year. We are expecting some of this increase to continue next year and this has been factored into the estimated Council Tax base agreed by City Council on 6 January 2021.

The government provided funding in the current year to give discounts of up to £150 to households who are in receipt of Council Tax Support. Further funding has been allocated to the council for 2021-22 that will enable us to continue the hardship schemes for a further 12 months, increasing the award from up to £150 to £160. A delegated decision will be published with details of the proposed scheme in due course.

There are no planned changes to the Council Tax Reduction Scheme planned for 2021-22 other than to increase the income bands used to assess eligibility by inflation.

2.9 Business rates

The level of business rates is set by the government and is based on the rateable value of non-domestic properties across the city. We 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, 50% of the business rates collected in the city were retained locally (49% to the council and 1% to the Tyne and Wear Fire and Rescue Authority) and the remaining amount was paid over to the government. The exception to this was 2019-20 when the council was part of a 75% business rates retention pilot along with North Tyneside Council and Northumberland County Council.

We are now also exposed to the risk of business rate appeals, which are determined by the Valuation Office Agency. This risk was mainly responsible for the Collection Fund deficits that occurred in the years following 2013-14.

As part of Spending Review 2020, government announced that the usual inflationary increase in the business rates multiplier would not take place in 2021-22 and that local authorities would be compensated for this by additional Section 31 grant, and this has been reflected in the figures set out in this report.

2.10 Revenue Support Grant

As set out in Table 1, Revenue Support Grant is estimated to increase from £26.6 million to £26.8 million in 2021-22 and then reduce to £25.9 million to off-set the inflationary increases in the Baseline Funding Level within the context of an assumed cash-flat Settlement Funding Assessment in 2022-23.

2.11 Unfunded cost pressures

Our need to achieve savings in 2021-22 and 2022-23 is driven mainly by unfunded cost pressures, as shown in Table 4.

Table 4 – breakdown of 2021-22 and 2022-23 savings targets

All figures in £ million	2021-22	2022-23
Net funding cut / (increase)	3.5	(3.9)
Unfunded cost pressures	27.1	13.3
Annual savings requirement	**30.6**	**9.4**

Unfunded cost pressures arise for several reasons including:

- Pay and price inflationary increases – increases in pay, other staff related costs (for example, pension costs) and general / specific inflation (for example, utilities, PFI contracts).
- Increasing demand for services – increased demand for social care services (for example, increased number of children with severe disabilities).
- External funding changes – changes in specific grants (for example, housing benefit subsidy administration grant).

Table 5 shows the total cost pressures identified under each of the above headings.

Table 5 – breakdown of 2021-22 and 2022-23 unfunded cost pressures

All figures in £ million	2021-22	2022-23
Inflationary changes (pay and prices)	9.8	11.0
Increasing demand for services	9.3	2.0
Other	8.1	(1.7)
Headroom	0.0	2.0
TOTAL	**27.1**	**13.3**

Further details of cost pressures included under each of the above headings are included in Annex 2.

2.12 Savings

As shown in Table 4, estimated savings of £30.6 million and £9.4 million are needed in 2021-22 and 2022-23 respectively to address the unfunded cost pressures we face. These savings have been identified in directorate and corporate budgets to ensure a balanced budget position. Table 6 summarises the savings proposed by directorate, and Appendix 2 sets out a more detailed breakdown of the individual savings proposals, some of which have a potential service impact set out within an integrated impact assessment.

Table 6 – 2021-22 and 2022-23 savings by directorate

All figures in £ million	**2021-22**	**2022-23**
Adult Social Care & Integrated Services	8.4	4.8
Children, Education & Skills	3.8	2.6
City Futures	2.1	0.4
Operations & Regulatory Services	3.8	1.5
Place	0.6	0.8
Resources	0.7	0.4
Corporate / other	4.6	1.2
TOTAL	**24.1**	**11.7**

NOTE: ‘corporate items / other’ savings consist mainly of a reduction in the cost of external interest payable due to ongoing low interest rates and internal borrowing, a reduction in the cost of severances due to lower numbers of redundancies, and the capitalisation of revenue costs as part of the government’s flexible use of capital receipts framework.

The above savings are less than what is required to balance the budget in each of the next two years and so the government’s adult social care precept and some temporary funding are required as shown in Table 7.

Table 7 – budget balancing required in 2021-22 and 2022-23

All figures in £ million	**2021-22**	**2022-23**
Cumulative savings target	30.6	40.0
Cumulative savings idenitified	(24.1)	(35.8)
Difference	**6.5**	**4.2**
Funded by:		
- Proposed adult social care precept	(3.4)	(3.5)
- 2020-21 corporate savings / reserves	(3.1)	(0.7)
Remaining difference	**0.0**	**0.0**

The impact on the 2021-22 net revenue budget of the savings and the other changes set out in this report is shown in Table 8 in summary form, and in Annex 3 and Annex 4 in more detail.

Table 8 –2020-21 and 2021-22 net revenue budget by directorate

All figures in £ million	**2020-21**	**2021-22**
Adult Social Care & Integrated Services	80.2	87.3
Children, Education & Skills	50.1	56.7
City Futures	5.4	4.2
Operations & Regulatory Services	10.8	9.3
Place	6.8	5.6
Resources	25.6	26.3
JTC levy	16.1	16.2
Corporate items / reserves	39.6	25.5
Net revenue budget	**234.6**	**231.1**

Annex 4 includes a breakdown of all services included within each directorate. The JTC levy is the amount paid over to the Joint Transport Committee to fund transport services in the Tyne and Wear area such as concessionary fares. Corporate items / reserves include a range of non-service-specific items such as the Newcastle Fund, treasury management costs, historic pension costs, severance costs and insurance costs.

3. Housing Revenue Account

The Housing Revenue Account (HRA) was established by the Local Government and Housing Act 1989 as a ring-fenced account separate to the General Fund, containing income and expenditure related to the ownership and management of our social housing stock.

Prior to 2012-13, the HRA was funded at a national level through the housing subsidy regime, however, from 2012-13 it has been run on a self-financing basis. In other words, all revenue and capital expenditure need to be funded from rents and service charges paid by tenants or funded by housing benefit.

To ensure the long-term viability of the HRA, a 30-year business plan is maintained. This is updated at least annually to ensure rent and service charge decisions do not result in the HRA becoming financially unsustainable, and the necessary long-term investment to maintain our social housing stock is affordable.

Annex 5 sets out details of the 2021-22 HRA revenue budget. The changes mainly reflect the rent increase of CPI+1% specified by government, pay and non-pay inflationary cost pressures and the revenue costs associated with the HRA's capital programme.

4. Capital investment

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.

The primary objective of the capital programme is to support the delivery of the council's priorities, demonstrate leadership of place and bring about change and transformation. Other objectives include:

- Delivery of tangible outputs and outcomes, and value for money.
- Balance between the different priorities of the council – i.e. reducing carbon emissions, job creation, housing growth etc.
- Maximisation of social value including using locally-based suppliers, and sub-contractors as far as possible.

The council has a bold ambition to transition to net zero by 2030. In September 2020, we launched our Net Zero Newcastle – 2030 Action Plan, which identified actions to reduce carbon emissions over the next decade. The two main areas targeted are energy use in homes and non-domestic properties, which accounts for 64% of the city's emissions, and transport, which is just under 30%. While many of the actions set out in the Net Zero Newcastle action plan need to be taken by national government, the council will seek to progress those actions that are within its control through the capital investment programme, though this will need to be supported by match-funding from other sources such as the recently launched Public Sector Decarbonisation Fund.

Capital investment also plays an important role in improving economic opportunities across all parts of the city, for example, by providing a much-needed stimulus to the economy, creating employment opportunities, supporting skills development or contributing to investor confidence. This is more important than ever following the economic damage caused by COVDI-19 restrictions.

Our capital investment programme has been developed with a strong focus on the delivery of our priorities. In addition, many of the capital projects in the programme have been developed with the aim of helping to deliver revenue savings to help us manage the financial pressures we face. Proposals such as the improvements to the Civic Centre, will improve the asset as well as helping to generate additional income and deliver savings in our revenue budget through reduced running costs and energy efficiency, as well as repaying the loan that will be taken out to fund the works. This will help to protect frontline services.

The availability of funding plays a key part in the size and content of the capital investment programme. The impact of national cuts in grant funding has significantly reduced the level of government support for capital investment since 2010 and we must now rely more on our own funding and levering in other sources of external funding where this is possible. Our own funding is limited by pressures on the revenue budget and our ability to generate capital receipts from asset disposals.

A significant source of funding for capital projects comes from our ability to borrow (known as prudential borrowing). This has proved to be an extremely important freedom and flexibility as it gives us the scope to locally determine the scale and shape of our capital investment programme. As the name suggests prudential borrowing must be undertaken on a prudent basis. In general terms, this means the revenue costs associated with the borrowing (i.e.

principal repayment and interest) need to be funded from either:

- A reduction in an existing revenue expenditure budget.
- A new or increased revenue income budget that is dependent on the planned capital investment.

Borrowing on a self-financing basis as set out above cannot be used to fund a different project if the original project does not proceed. Each proposal needs to be financially viable in its own right.

The council’s main source of loan finance is the Public Works Loans Board, which recently changed its lending terms to prevent local authorities from investing in purely commercial assets. This is not expected to cause an issue for the council – although we seek to negotiate commercial terms on many of our capital investment projects, we do not invest on a purely commercial basis.

The Accelerated Development Zone (ADZ) allows us to retain 100% of the growth in business rates income in three specific areas within the city (Science Central, Stephenson Quarter/Central Gateway, and East Pilgrim Street). This generates an income stream that will be used to repay the prudential borrowing on infrastructure works that are aimed at bringing forward developments in these areas faster than would otherwise have happened. The increase in business rate income is available until 2036-37 (i.e. a period of up to 25 years) although we are lobbying government to extend this by a further ten years due to the economic impact of COVID-19.

The Enterprise Zone (EZ) allows the North East LEP to retain 100% of the growth in business rates income in several specific areas across the North East LEP area. Our sites within the EZ include the North Bank of the Tyne and the proposed Airport Business Park. As with the ADZ, the EZ generates an income stream that will be used to repay the prudential borrowing on infrastructure works that are aimed at bringing forward developments in these areas faster than would otherwise have happened up to 2037-38 for the North Bank of the Tyne and 2040-41 for the Airport Business Park although we are lobbying government to extend these by a further ten years due to the economic impact of COVID-19.

The following tables set out the breakdown of the 2020-21 to 2023-24 capital investment programme between the General Fund and HRA (Table 9), between council directorates (Table 10), between HRA programme streams (Table 11) and by sources of funding (Table 12).

Table 9 – planned capital investment from 2020-21 to 2022-23 split between the General Fund and the HRA

All figures in £ million	**2020-21**	**2021-22**	**2022-23**
General Fund	81.8	93.6	93.9
HRA	47.0	45.0	45.0
TOTAL	**128.8**	**138.6**	**138.9**

Table 10 – General Fund planned capital investment from 2020-21 to 2022-23 by council directorate

All figures in £ million	2020-21	2021-22	2022-23
Adult Social Care & Integrated Services	0.1	0.1	0.0
Children, Education & Skills	19.5	6.0	0.0
City Futures	0.8	0.6	0.0
Operations & Regulatory Services	7.4	4.4	0.3
Place	39.4	20.9	3.6
Resources	1.1	1.6	0.0
Loans	13.5	0.1	0.0
Pipeline	0.0	60.0	90.0
TOTAL	**81.8**	**93.6**	**93.9**

Table 11 – HRA planned capital investment from 2020-21 to 2022-23 by programme

All figures in £ million	2020-21	2021-22	2022-23
Communal areas	2.8	0.0	0.0
Environmental works	1.7	0.0	0.0
Voids	5.3	0.0	0.0
Lifecycle replacements	18.8	0.0	0.0
New build and acquisitions	11.8	0.0	0.0
Regeneration	3.1	0.0	0.0
Standard housing investment	3.4	0.0	0.0
Pipeline	0.0	45.0	45.0
TOTAL	**47.0**	**45.0**	**45.0**

Table 12 – planned capital investment from 2020-21 to 2022-23 by source of finance

All figures in £ million	2020-21	2021-22	2022-23
Grants / contributions (mainly General Fund)	40.2	16.9	3.0
Capital receipts (mainly General Fund)	9.8	4.4	0.5
Revenue (mainly HRA)	37.8	3.1	0.3
Borrowing (mainly General Fund)	41.0	9.3	0.0
Pipeline (no funding approved yet)	0.0	105.0	135.0
TOTAL	**128.8**	**138.6**	**138.9**

All the planned borrowing will be undertaken on a self-financing basis – the revenue costs associated with the borrowing will be funded by efficiency savings or income generated as a direct result of the capital investment – and will not therefore create a cost pressure in the revenue budget.

Our arrangements for agreeing and delivering the capital investment programme are robust and consist of business case development at directorate level, with detailed scrutiny by a corporate officer group prior to approval by councillors and inclusion within the capital programme, and regular monitoring by project officers and reporting upwards through the council's organisational structure.

The main General Fund projects in the approved capital investment programme are as follows:

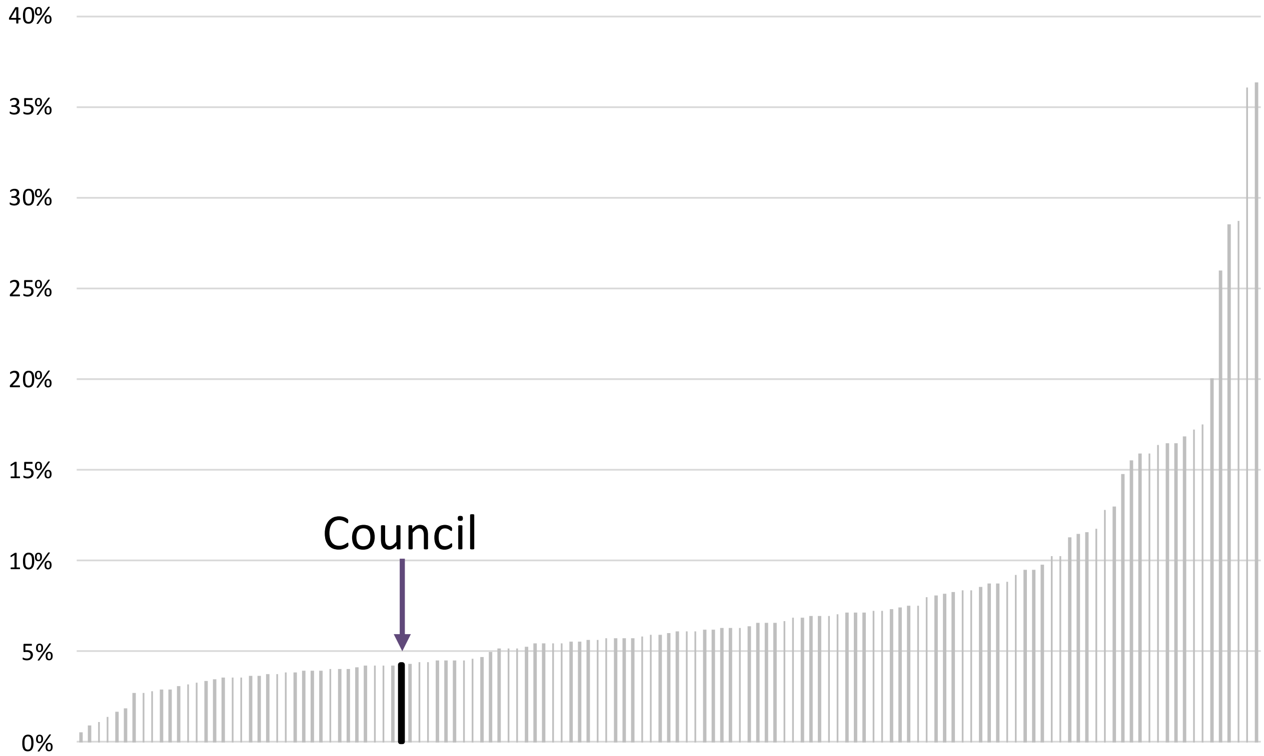
- RVI MSCP loan (£13.3 million)
- Simonside Primary School (£9.7 million)
- Street lighting LED replacement programme (£6.3 million)
- Pilgrim Street Southern Block (£6.0 million)
- Vehicle replacement programme (£4.6 million)
- Northern Access Corridor programme (£3.9 million)
- Highway and footpath improvements (£3.7 million)
- Central Gateway (£3.6 million)
- Investment in primary school estate (£3.4 million)
- Disabled facilities grant (£3.3 million)
- IT investment (£2.4 million)
- Parks Trust subsidy – capitalised under flexible use of capital receipts direction (£2.4m)
- Annuity lease back housing model (£2.1 million)
- Northumberland Street improvements (£2.0 million)
- Barras Bridge highways improvements (£1.9 million)
- Loadman Street ground works (£1.8 million)
- Grainger Market roof (£1.6 million)
- Newcastle Great Park First School (£1.6 million)
- Newington Road licensing office (£1.4 million)

- Scotswood highways improvements (£1.3 million)
- Replacement for Slatyford Lane children's residential care home (£1.3 million)
- Kingston Park Road junction improvements (£1.2 million)
- Malmo & Glasshouses enabling works (£1.1 million)
- Newcastle Great Park Middle School (£1.1 million)

5. Reserves

The unearmarked General Fund reserve as at 31 March 2020 totalled £10.1 million. This represented 4.3% of 2019-20 net revenue expenditure, compared with a median average of 6.1% for all single and upper tier local authorities.

Chart 4 – unearmarked General Fund reserve as at 31 March 2020 as a percentage of 2019-20 net revenue expenditure for all single and upper tier local authorities



At 31 March 2021, we expect to hold General Fund earmarked reserves totalling £95.7 million as shown in Annex 6.

Our earmarked reserves are set aside for specific purposes. The main earmarked reserves are set out in Annex 6 and a brief description of each one is set out below:

1. **ADZ reserve** – to fund cash outflows arising in the early years of the Accelerated Development Zone, which will be repaid from business rates growth in future years.
2. **Asset management reserve** – to fund cash outflows arising in the early years of the Civic Centre refurbishment project, which will be repaid from cash flow surpluses generated in future years.
3. **Business rates pool reserve** – holds cash outflows related to the business rates pool in 2019-20 that will be recovered from the Collection Fund in future years.
4. **Byker district heating scheme reserve** – holds cash outflows arising in the early years of the Byker district heating scheme refurbishment project, which will be repaid by Byker Community Trust in future years.
5. **Capital projects development reserve** – holds funding to meet the internal and external costs of developing capital projects.
6. **Collection Fund reserve** – holds funding to mitigate future Collection Fund deficits.
7. **Developers contributions reserve** – holds funding received from developers for capital works linked to planning applications.

8. **Directorate commitments reserve** – holds funding to meet future financial commitments of directorates.
9. **Financial risk & resilience reserve** – holds funding to off-set any shortfalls in planned savings and any unexpected cost pressures.
10. **Housing benefit subsidy reserve** – holds funding to mitigate future cost pressures in this area.
11. **Interim capital funding reserve –** to fund cash outflows arising from capital works, which will be repaid in future years.
12. **Major developments reserve** – to fund cash outflows arising in the early years of specific development projects.
13. **One-off funding reserve** – holds dividends received from Newcastle International Airport that have been earmarked for specific priorities.
14. **Parks Trust subsidy reserve** – holds funding that will be used to pay the subsidy to Urban Green Newcastle in future years.
15. **Pensions reserve** – holds funding to mitigate future cost pressures in relation to our pension liabilities.
16. **PFI reserve** – holds funding to meet future payments under our PFI / BSF contracts.
17. **Public Health Grant reserve** – holds unspent public health grant funding to be used to meet future financial commitments.
18. **Revenue grants to be applied reserve** – holds unspent grant funding to be used to meet future financial commitments.
19. **Ring-fenced balances reserve** – holds funding that may only be spent on specific statutory activities.
20. **Risk management & insurance reserve** – holds funding to invest in risk management initiatives and to mitigate future cost pressures in relation to our insurance liabilities.
21. **School kitchens reserve** – holds funding to replace / refurbish school kitchens used by council staff to provide school meals to children.
22. **Single Point of Leadership reserve** – holds surpluses generated by Your Homes Newcastle above the budget target for Repairs and Construction Services managed under the Single Point of Leadership arrangement.
23. **Strategic reserve** – holds funding to support our medium-term financial plan.
24. **Transformation reserve** – holds funding set aside for future transformation / public sector reform work.
25. **Treasury management reserve** – holds funding to mitigate future cost pressures in relation to our external debt portfolio.
26. **COVID-19 reserve** – holds funding provided by government to mitigate cost pressures in relation to COVID-19.

The following earmarked reserve need to be maintained to comply with accounting requirements but are not considered to be available to fund General Fund expenditure:

27. **Financial instruments reserve** – holds gains / (losses) on financial instruments calculated in line with International Financial Reporting Standard 9.
28. **PFI lifecycle replacement reserve** – notional reserve to recognise the future costs to be incurred by PFI contractors on maintaining the assets in good working condition.
29. **School balances** – holds funding relating to individual schools.

6. Risk assessment of 2021-22 General Fund revenue budget

We adopt a risk-based approach to medium-term planning, which aims to:

- Ensure adequate funding is provided for all known liabilities.
- Provide sufficient resources to enable service transformation and support services through transformation.
- Provide temporary cover for any slippage in planned savings through the financial risk and resilience reserve.
- Ensure earmarked reserves are set at a reasonable level to cover the specific financial risks we are facing – these may also be used on a short-term temporary basis for other purposes provided the funding is replaced in future years.
- Ensure the unearmarked General Fund reserve is set at a reasonable level – this is our last line of defence should unforeseen financial difficulties emerge.

Our risk-based approach considers relevant external factors such as changes in government policy, the state of the economy and the impact on demand for services, and any potential changes to the underlying financial assumptions within the medium-term financial plan. Performance is monitored on a regular basis and reported to Cabinet every quarter.

A risk assessment of the overall 2021-22 budget has been undertaken covering the following areas:

- Is performance against the current year's budget reflected fully?
- Have realistic income targets been set?
- Has a reasonable estimate of cost pressures been made?
- Has at risk external funding been identified?
- Have one-off cost pressures been identified?
- Are arrangements for monitoring and reporting performance against the budget robust?
- Is there a reasonable contingency available to cover the financial risks faced by the council?
- Is there a reasonable level of reserves, which could be used to mitigate any financial issues arising?
- What is the impact of varying the main income and expenditure assumptions?

Based on the results of this risk assessment, which is set out in Annex 1, and the factors set out below, the Director of Resources considers the planned level of reserves and balances to be adequate:

- General Fund unearmarked reserve of £10.1 million as at 31 March 2021, which represents 4.4% of the 2021-22 net revenue budget.
- Financial risk resilience reserve of £7.0 million as at 31 March 2021, which represents 3.0% of the 2021-22 net revenue budget.
- Strategic reserve of £5.4 million as at 31 March 2021 to underpin our budget strategy.
- Transformation reserve of £2.3 million as at 31 March 2021 plus a base budget of £1.0m per annum to invest in one-off transformation projects designed to deliver budget savings in future years.
- Other earmarked reserves totalling £54.9 million as at 31 March 2021 (excluding the COVID-19 reserve, the financial instruments reserve, the PFI lifecycle replacement reserve and school balances), which may be used on a short-term temporary basis, provided the funding is replaced in future years.

- Detailed implementation plans for all savings proposal.
- Sign-off of detailed budgets by relevant senior managers incorporating planned savings to be made in 2021-22.
- Effective governance arrangements at a service and corporate level to monitor the overall delivery of the 2021-22 budget plus regular monitoring reports to Cabinet and Finance & Budget Monitoring Scrutiny Sub-Committee.

Annex 1 – Budget risk assessment

Potential Risk	Response
Is performance against the current year's budget reflected fully?	Yes – any recurring under / overspends in the current year have been reflected in 2021-22 budget proposals as appropriate or will be funded from a combination of permanent and temporary resources (to allow time for permanent solutions to be identified and implemented).
Have realistic income targets been set?	Yes – income targets have not been increased for inflation. Instead, services have reviewed individual income generating areas and put forward specific proposals to increase fees and charges where this is reasonable / achievable. Income targets for Council Tax and business rates have been set using prudent assumptions.
Have risks to external grant funding been identified?	Yes – each specific grant is separately coded within the council's financial system meaning it is easy to identify.
Has a reasonable estimate of future cost pressures been made?	Yes – all significant cost pressures covering inflation (pay and prices) and increasing demand for services were considered when estimating the council's budget savings target.
Have one-off cost pressures been identified?	Yes – although this is an ongoing process, and funding for one-off cost pressures that arise after the budget is set can be included in the revised budget for the year subject to the identification of funding.
Are arrangements for monitoring and reporting performance against the budget robust?	Yes – all budget managers have access to real time financial information via the council's financial system. All budgets are monitored by managers and reported to directorate management teams on a monthly basis and the results of this are reported to Cabinet and Finance & Budget Monitoring Scrutiny Sub-Committee via the quarterly performance report.
Is there a reasonable contingency available to cover the financial risks faced by the council?	Yes – we will start the 2021-22 financial year with a £7.0 million financial risk and resilience reserve, which represents 3.0% of the 2021-22 net revenue budget and may be used to fund any shortfalls in budget savings proposals or unexpected cost pressures arising during the year.
Is there a reasonable level of reserves, which could be used to mitigate any issues arising?	Yes – total General Fund reserves as at 31 March 2021 are expected to be £105.8 million, which represents 45.8% of the 2021-22 net revenue budget. Within this, General Fund unearmarked reserve is expected to be £10.1 million, which represents 4.4% of the 2021-22 net revenue budget. This is deemed to be adequate based on the financial risks the council is facing. Earmarked reserves as at 31 March 2021 are estimated to total £95.7 million, which represents 41.4% of the 2021-22 net revenue budget.
What is the impact of varying the main income assumptions?	The Council Tax and business rates baselines are assumed to reduce by 1% and 6.2% in 2021-22 – any further reductions would impact on the level of the net revenue budget and increase further the amount of savings required to balance the budget. Every further reduction of 1% equates to a cost of £1.2 million in terms of Council Tax and £0.8 million in terms of business rates although the latter would be restricted to a maximum reduction of £3.9 million due to the safety net arrangements in place.

Annex 2 – Breakdown of cost pressures in 2021-22 and 2022-23

All figures in £ million	2021-22	2022-23
Inflationary changes (pay and prices)		
- Pay inflation	3.2	3.2
- Non-pay inflation	0.3	0.4
- Adult social care inflation (incl. NLW / NMW)	5.2	6.1
- Children's social care inflation (incl. NLW / NMW)	0.6	0.6
- SEN transport inflation	0.1	0.1
- Waste management inflation	0.2	0.3
- PFI inflation	0.2	0.2
Increasing demand for services		
- Adult social care increasing demand	0.0	0.4
- Children's social care increasing demand	0.3	0.4
- Children with disabilities turning 18	1.1	1.0
- 2019-20 adult social care base budget pressure	7.3	0.0
- Waste management increasing demand	0.3	0.1
- IT investment for home working	0.2	0.0
- JTC levy	0.1	0.1
Other		
- Impact of car park disposals	0.2	0.0
- Mainstreaming temporary funding	2.0	0.0
- Specific grant funding changes	0.1	0.1
- Temporary mitigation of Covid-19 pressures	5.8	(1.8)
Headroom	**0.0**	**2.0**
TOTAL	**27.1**	**13.3**

Description (initial estimate)	Pay inflation (£3.2 million)
How have the above amounts been calculated?	The cost pressure is an estimate based on the cost of previous years' pay awards – the actual cost will be determined by the actual pay award agreed as part of the national pay agreement process.
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 to be agreed by employers as part of national pay bargaining, and current staffing numbers.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, 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 our budget gap in 2021-22.
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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Description (initial estimate)	Non-pay inflation (£0.3 million)
How have the above amounts been calculated?	This cost pressure is an estimate based on assumed inflationary increases in 2021-22. We will not know the specific inflation factors to be applied until early next year.
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 third parties, annual uplift in business rates multiplier by government and increase in insurance and other non-pay costs.
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 reduction in costs arising from a reduction in the number of buildings will be factored into the relevant budget proposal. Savings arising from improving energy efficiency in the Civic Centre and other buildings are factored into the relevant budget proposal.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	This cost pressure is based on assumed inflationary increases in 2021-22. We will not know the specific inflation factors to be applied until early next year.
Does the activity causing the cost pressure need to continue?	Yes, buildings are an integral part of delivering a range of statutory and discretionary services, which are being reviewed as part of the identification of savings to meet our budget gap in 2021-22.
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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Description (initial estimate)	Adult and children’s social care inflation (£5.8 million)
How have the above amounts been calculated?	This cost pressure is based on assumed increases in: • hourly rates payable to third party providers including an assumed increase in National Living Wage / National Minimum Wage; and • foster carer allowances, special guardianship order allowances, child arrangement order allowances and adoption allowances.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	We will agree an inflationary increase in hourly / daily rates payable to third party providers to reflect the costs incurred by providers. We need to agree an inflationary increase in foster carer allowances, special guardianship order allowances, child arrangement order allowances and adoption allowances to remain competitive with rates offered by other agencies and local authorities.
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 the relevant budget proposal.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Cost pressure is based on assumed increases in rates agreed with third party providers and assumed increases in allowances.
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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Description (initial estimate)	Inflation on specific contracts (£0.5 million)
How have the above amounts been calculated?	This cost pressure is based on assumed increases in a range of RPI-related inflation factors built into contracts with third parties.
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.
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 arising from reducing demand is factored into the relevant budget proposal.
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, we are contractually committed to increase the rates we pay to third parties. Yes, we have 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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Description (initial estimate)	Children's social care increasing demand (£0.3 million)
How have the above amounts been calculated?	This cost pressure is based on assumed population growth in 2021-22 applied to current year projected expenditure in children's social care.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increasing demand arising from increasing population.
If the cost pressure is due to increased demand, what evidence exists to support this?	Assumed increase in 0-17 populations in 2021-22.
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 the relevant budget proposal.
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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Description (initial estimate)	Children with disabilities turning 18 (£1.1 million)
How have the above amounts been calculated?	This cost pressure is based on specific children who will turn 18 during 2021-22 and the estimated cost of meeting their needs as adults.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increased demand – the cost saving in the children's social care budget will be reinvested in care packages for new / other children with disabilities. Continuing improvement in medical treatments will lead to an increase in the number of young people with profound and multiple disabilities in future years.
If the cost pressure is due to increased demand, what evidence exists to support this?	This cost pressure is based on specific children currently receiving care who will continue to require care when they reach adulthood.
What, if anything, can be done to mitigate the cost pressure?	Any savings from improved partnership working are set out in the relevant budget proposal.
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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Description (initial estimate)	Adult social care underlying pressure (£7.3 million)
How have the above amounts been calculated?	This funding is needed to re-base the adult social care base budget following the overspend in 2019-20.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increased demand for placements across different client groups.
If the cost pressure is due to increased demand, what evidence exists to support this?	2019-20 overspend reported to Cabinet via quarterly performance reports.
What, if anything, can be done to mitigate the cost pressure?	Action is being taken by the directorate as part of the adult social care efficiency programme to reduce costs and increase income, as well as contributing to the 2021-22 and 2022-23 savings targets.
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 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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will continue to overspend our budget.

Description (initial estimate)	Waste management increased demand (£0.3 million)
How have the above amounts been calculated?	This funding is required to meet the increased costs of waste disposal for the growing number of houses in the city as well as the additional staffing and vehicle costs required to ensure an efficient and effective waste collection service is maintained.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increasing number of houses in the city.
If the cost pressure is due to increased demand, what evidence exists to support this?	Increasing number of properties as per Valuation Office valuation list and reflected in the Council Tax base.
What, if anything, can be done to mitigate the cost pressure?	Any savings from improving the efficiency of the waste collection service or minimising household waste arising are set out in the relevant budget proposal.
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 a statutory duty.
Is there scope to fund this investment 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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for this investment?	We will overspend our budget.

Description (initial estimate)	IT investment for home working (£0.2 million)
How have the above amounts been calculated?	This funding is required to meet the increased IT costs of more staff working from home (i.e. replacing desktop PCs of predominantly office-based staff with laptops / monitors of predominantly home-based staff).
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Changes in ways of working resulting primarily from COVID-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?	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 our budget gap in 2021-22.
Is there scope to fund this investment 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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for this investment?	We will overspend our budget.

Description (initial estimate)	Joint Transport Committee levy (£0.1 million)
How have the above amounts been calculated?	Funding is required to meet the increased costs of the Joint Transport Committee levy.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	The city's population has increased relative to other Tyne & Wear local authority areas, so the council needs to bear a higher proportion of the cost of the levy.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, activity is based on 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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Description (initial estimate)	Impact of car park disposals (£0.2 million)
How have the above amounts been calculated?	This funding is required to off-set the income loss arising from the disposal of a number of car parks across the city.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	The council has disposed of a number of car parks across the city and lost part of the income they were generating (i.e. we have assumed a proportion of the income lost is recovered via other car parks in the same vicinity).
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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Description (initial estimate)	Mainstreaming temporary funding (£2.0 million)
How have the above amounts been calculated?	In previous years temporary funding from reserves was included in the budget to fund permanent cost pressures. This funding now needs to be built into the permanent base budget to reduce the reliance upon reserves, which is not sustainable.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Previous decision to fund permanent cost pressures temporarily from reserves with a view to building this funding into the permanent base budget at some future point.
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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	Reserves will reduce more than planned.

Description (initial estimate)	Specific grant funding changes (£0.1 million)
How have the above amounts been calculated?	This cost pressure is based on estimated reductions in specific grant funding for housing benefit subsidy administration and Council Tax support administration.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Specific funding reduction to be made by government.
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?	We are required by legislation to provide these services.
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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Description (initial estimate)	Temporary mitigation of COVID-19 pressures (£5.8 million)
How have the above amounts been calculated?	This funding is required to off-set income reductions that have taken place in the current financial year due to COVID-19.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Reductions in income received in relation to car parks and the council's commercial property portfolio.
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?	Every effort is being made to mitigate the income reductions and increase income in other areas, but this is limited to what is achievable in the current financial and economic climate.
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?	No, but if individual car parks or commercial properties were to be sold, then this would create a larger pressure in the General Fund revenue budget.
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 our 2021-22 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The budget will overspend.

Annex 3 – 2020-21 and 2021-22 net revenue budget by directorate

All figures in £ million	**2020-21**	**2021-22**
Adult Social Care & Integrated Services	80.194	87.298
Children, Education & Skills	50.054	56.667
City Futures (including Public Health)	5.412	4.201
Operations & Regulatory Services	10.832	9.308
Place	6.803	5.590
Resources	25.602	26.330
Net Directorate Expenditure	**178.896**	**189.394**
JTC Levy	16.141	16.209
Net Service Expenditure	**195.037**	**205.603**
Corporate Items	41.688	31.371
Transfers to / (from) Reserves	(2.098)	(2.440)
Net Revenue Budget	**234.626**	**234.534**
Less: Revenue Support Grant	(26.637)	(26.784)
Less: Business Rates	(92.577)	(87.922)
Council Tax Requirement	**115.413**	**119.828**

Note: Council Tax Requirement figure above includes the income to be raised from the increase in the Adult Social Care precept

Annex 4 – 2020-21 and 2021-22 net directorate expenditure budget by service

All figures in £ million	2020-21	2021-22
Adult Social Care & Integrated Services		
Adult Social Care & Integrated Services	65.433	72.480
Director of Adult Social Care & Integrated Services	0.349	0.173
Integrated Services	14.412	14.645
Children, Education & Skills		
Children's Social Care	44.437	50.130
Director of Children, Education & Skills	0.093	0.455
Early Help & Family Support	2.452	2.696
Education	3.072	3.386
Schools	0.000	0.000
City Futures		
Communication Services	0.131	0.257
Communities Team	0.522	0.546
Director of City Futures	0.136	0.193
Economic Development	0.956	0.962
Museums, Arts & Culture	1.693	1.673
North of Tyne Combined Authority	0.043	0.037
Policy and Performance	0.596	0.610
Public Health	1.336	(0.077)
Operations & Regulatory Services		
Repairs & Construction Services	(7.829)	(8.115)
Community Hubs	4.202	3.306
Environment & Public Protection	0.714	0.582
Facilities Services & Civic Management	0.917	1.105
Local Services	23.223	23.596
Operations	(0.776)	(0.798)
Director of Operations & Regulatory Services	0.379	0.400
Parking	(10.186)	(10.950)
Resilience Planning	0.189	0.182
Place		
Commercial Development & Property	(1.324)	(2.814)
Development Management	0.745	0.771
Fairer Housing Unit	0.057	0.030
Major Projects	0.008	(0.020)
Director of Place	0.028	0.034
Transport	7.288	7.590
Resources		
Audit, Risk & Insurance	0.527	0.549
Business Management	8.104	8.215
Chief Executive	0.328	0.343
Democratic Services	2.022	2.049
Director of Resources	0.192	0.198
Financial Services	4.657	4.707
Human Resources	1.951	1.905
ICT	6.202	6.646
Legal Services	1.618	1.717
Net Directorate Expenditure	**178.896**	**189.394**

Annex 5 – 2020-21 and 2021-22 Housing Revenue Account budget

All figures in £ million	**2020-21**	**2021-22**
Rent income	97.3	99.4
Other income	14.5	14.1
YHN management fee	(23.4)	(23.5)
Repairs and maintenance	(24.0)	(24.3)
Other running costs (e.g. utilities, supplies and services)	(14.9)	(15.4)
Bad debt provision	(1.7)	(1.5)
External interest payable	(17.0)	(17.7)
Operating surplus	**30.8**	**31.2**
Debt repayment / contribution to capital	(31.1)	(31.2)
Increase / (decrease) in HRA reserves	**(0.3)**	**(0.0)**

Annex 6 – projected trend in total General Fund earmarked reserves from 31 March 2017 to 31 March 2023

All figures in £ million	31 March 2017 (actual)	31 March 2018 (actual)	31 March 2019 (actual)	31 March 2020 (actual)	31 March 2021 (estimate)	31 March 2022 (estimate)	31 March 2023 (estimate)
ADZ reserve (1)	0.2	(1.3)	(1.3)	(1.7)	(1.7)	(0.6)	0.6
Asset management reserve (2)	(1.4)	(2.5)	(3.9)	(5.2)	(4.8)	(4.1)	(3.5)
Business rates pilot reserve (3)	0.0	0.0	0.0	(1.0)	0.0	0.0	0.0
Byker district heating scheme reserve (4)	0.0	0.0	0.0	(0.6)	0.0	0.0	0.0
Capital Projects Development Reserve (5)	0.0	0.0	0.0	0.7	0.5	0.2	0.2
Collection Fund reserve (6)	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Developers contributions reserve (7)	0.9	1.0	0.8	0.8	0.8	0.8	0.8
Directorate commitments reserve (8)	9.8	2.9	1.3	1.2	0.0	0.0	0.0
Financial risk & resilience reserve (9)	5.0	6.0	7.0	7.0	7.0	7.0	7.0
Housing benefit subsidy reserve (10)	2.6	2.2	2.2	1.1	0.9	0.6	0.4
Interim capital funding reserve (11)	0.0	(0.5)	(1.2)	(1.1)	(0.9)	(0.6)	(0.4)
Major developments reserve (12)	0.1	(0.6)	(1.9)	(3.8)	(1.1)	(3.3)	(4.1)
One-off funding reserve (13)	3.8	5.1	6.2	5.5	4.8	4.0	3.3
Parks Trust subsidy reserve (14)	0.0	0.0	1.4	2.4	3.3	2.2	1.0
Pension reserve (15)	4.0	4.0	4.0	2.3	2.3	2.3	2.3
PFI reserve (16)	5.6	4.9	4.6	4.1	3.3	3.0	2.7
Public Health Grant reserve (17)	1.2	1.9	2.1	1.3	1.8	0.9	0.9
Revenue grants to be applied (18)	10.1	15.6	6.8	4.3	3.8	3.3	2.8
Ring-fenced balances reserve (19)	0.0	7.2	15.6	19.4	18.9	18.4	17.9
Risk management & insurance reserve (20)	2.3	2.3	2.4	3.3	3.1	2.8	2.6
School kitchens reserve (21)	0.5	0.5	0.7	0.6	0.6	0.6	0.6
Single Point of Leadership reserve (22)	0.0	0.0	0.6	0.6	0.0	0.0	0.0
Strategic reserve (23)	9.0	2.5	4.6	2.6	5.4	2.3	1.6
Transformation reserve (24)	6.1	6.7	1.3	0.8	2.3	1.5	1.0
Treasury management reserve (25)	7.2	7.2	8.4	10.4	10.9	11.4	11.9
Other reserves (all under £0.5m)	0.1	0.1	1.1	1.1	1.0	0.8	0.7
SUB-TOTAL	**74.6**	**72.5**	**70.1**	**63.5**	**69.6**	**61.0**	**57.5**
Covid-19 grant funding reserve (26)	0.0	0.0	0.0	10.3	0.0	0.0	0.0
Financial Instruments Reserve (27)	0.0	0.0	8.4	(0.2)	(0.2)	(0.2)	(0.2)
PFI Lifecycle Prepayment Reserve (28)	12.2	13.6	14.6	16.0	16.0	16.0	16.0
School Balances (29)	10.5	8.2	9.5	10.3	10.3	10.3	10.3
TOTAL	**97.3**	**94.3**	**102.6**	**99.9**	**95.7**	**87.1**	**83.7**

Note: above figures exclude the section 31 grant funding received for the Extended Retail Discount, which will have the effect of significantly increasing reserves as at 31 March 2021 over and above figures shown above (i.e. amounts put into reserves in 2020-21 will be fully used in 2021-22)

Annex 7 – 2021-22 Council Tax resolution

At its meeting on 6 January 2021, the council agreed the overall Council Tax base for the city to be 66,838, and the Council Tax base for individual areas as shown in the following table, in accordance with the regulations made under Section 31B of the Local Government Finance Act 1992 (as amended):

Parish	**Council Tax Base**
Blakelaw and North Fenham	1,302
Brunswick	293
Dinnington	695
Hazlerigg	204
North Gosforth	2,287
Woolsington	1,768

Council Tax requirement		Amount the council requires for its own purposes (excluding parish precepts)	£119,827,840

The following amounts have been calculated by the council for the year 2021-22 in accordance with sections 31 to 36 of the Local Government Finance Act 1992 (as amended) ("the Act"):

Total expenditure adjusted for provisions, Collection Fund deficit and parish precepts	(a)	Aggregate of the amount the council estimates for the items set out in section 31A(2) of the Act:	£680,056,853
Total income including RSG and business rates adjusted for net contributions from reserves	(b)	Aggregate of the amounts the council estimates for the items set out in section 31A(3) of the Act:	£560,145,390
Council Tax requirement including parish precepts	(c)	Being the amount by which the amount at (a) above exceeds the amount at (b) above, calculated in accordance with section 31A(4) of the Act as the Council Tax requirement for the year:	£119,911,463
Basic Council Tax	(d)	The amount at (c) above, divided by the Council Tax base for the city as a whole calculated in accordance with section 31B of the Act as the basic amount of Council Tax for the year (including parish precepts):	£1,794.06
Special items (i.e. parish precepts)	(e)	Aggregate amount of all special items (i.e. parish precepts) referred to in section 34(1) of the Act:	£83,623

Basic Council Tax net of special items	(f)	The amount at (d) above less the result given by dividing the amount at (e) above by the Council Tax base for the city as a whole calculated in accordance with section 34(2) of the Act as the basic amount of Council Tax for the year for dwellings in those areas in which no parish precept relates:	£1,792.81
Basic Council Tax in areas where special items relate	(g)	The amounts given by adding to the amount at (f) above the amounts of the special items relating to each of those areas listed above divided in each case by the Council Tax base listed above calculated in accordance with section 34(3) of the Act as the basic amounts of Council Tax for the year for dwellings in those areas in which special items relate:	

Parish	**Council Tax Band D Equivalent (£)**
Blakelaw and North Fenham	1,813.99
Brunswick	1,811.58
Dinnington	1,810.94
Hazlerigg	1,823.29
North Gosforth	1,799.24
Woolsington	1,802.44

(h) The amounts given by multiplying the amounts at (f) and (g) above by the number which, in the proportion set out in section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band, divided by the number which in that proportion is applicable to dwellings listed in Band D, calculated in accordance with section 36(1) of the Act, as the amount to be taken into account for each of the categories of dwellings shown below:

Banded Council Tax levy before police and fire precepts

All figures in £s	**Blakelaw and North Fenham**	**Brunswick**	**Dinnington**	**Hazlerigg**	**North Gosforth**	**Woolsington**	**Other**
A	1,209.33	1,207.72	1,207.30	1,215.53	1,199.50	1,201.63	1,195.21
B	1,410.88	1,409.01	1,408.51	1,418.12	1,399.41	1,401.90	1,394.41
C	1,612.44	1,610.29	1,609.73	1,620.70	1,599.33	1,602.17	1,593.61
D	**1,813.99**	**1,811.58**	**1,810.94**	**1,823.29**	**1,799.24**	**1,802.44**	**1,792.81**
E	2,217.10	2,214.15	2,213.37	2,228.46	2,199.07	2,202.98	2,191.21
F	2,620.21	2,616.73	2,615.81	2,633.65	2,598.91	2,603.53	2,589.62
G	3,023.32	3,019.30	3,018.24	3,038.82	2,998.74	3,004.07	2,988.02
H	3,627.98	3,623.16	3,621.88	3,646.58	3,598.48	3,604.88	3,585.62

Banded Council Tax levy for police and fire precepts

(i) That it be noted the following bodies have stated the following amounts as precepts in accordance with section 40 of the Act for each of the categories of dwellings shown below:

All figures in £s	Tyne & Wear Fire & Rescue Authority	Northumbria Police & Crime Commissioner
A	57.09	95.89
B	66.61	111.88
C	76.12	127.86
D	**85.64**	**143.84**
E	104.67	175.80
F	123.70	207.77
G	142.73	239.73
H	171.28	287.68

Total banded Council Tax

That, having calculated the aggregate in each case of the amounts at (h) and (i) above, the council, in accordance with section 30(2) of the Act, hereby sets the following amounts as the amounts of Council Tax for each of the categories of dwellings shown below:

All figures in £s	Blakelaw and North Fenham	Brunswick	Dinnington	Hazlerigg	North Gosforth	Woolsington	Other
A	1,362.31	1,360.70	1,360.28	1,368.51	1,352.48	1,354.61	1,348.19
B	1,589.37	1,587.50	1,587.00	1,596.61	1,577.90	1,580.39	1,572.90
C	1,816.42	1,814.27	1,813.71	1,824.68	1,803.31	1,806.15	1,797.59
D	**2,043.47**	**2,041.06**	**2,040.42**	**2,052.77**	**2,028.72**	**2,031.92**	**2,022.29**
E	2,497.57	2,494.62	2,493.84	2,508.93	2,479.54	2,483.45	2,471.68
F	2,951.68	2,948.20	2,947.28	2,965.12	2,930.38	2,935.00	2,921.09
G	3,405.78	3,401.76	3,400.70	3,421.28	3,381.20	3,386.53	3,370.48
H	4,086.94	4,082.12	4,080.84	4,105.54	4,057.44	4,063.84	4,044.58

Annex 8 – 2021-22 capital investment strategy

Introduction

The CIPFA Prudential Code, which was revised in late-2017, introduced a new requirement for local authorities to produce a capital strategy that gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. In addition, the Ministry for Housing, Communities and Local Government's (DCLG) Guidance on Local Authority Investments requires the council to approve an investment strategy before the start of each financial year. This annex fulfils both of these requirements.

Capital Expenditure and Financing

Capital expenditure is where the council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government, this includes spending on assets owned by other bodies and loans and grants to other bodies enabling them to buy assets. The council has some limited discretion on what counts as capital expenditure, for example assets costing below £10k are not capitalised and are charged to revenue in year.

As set out in section 4, the council is expecting to spend £81.8 million in 2020-21, £93.6 million in 2021-22 and £93.9 million in 2022-23 within its General Fund capital programme, and the spend by each directorate is shown in Table 10.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately. The council is expecting to spend £47.0 million in 2020-21, £45.0 million in 2021-22 and £45.0 million in 2022-23 within its HRA capital programme, and the spend by each programme of activity is set out within the main budget report in Table 11.

Authority to incur capital expenditure is based on the inclusion of a fully funded capital budget within the capital programme. The initial capital programme for the year is approved by City Council at the start of the year and is updated by Cabinet during the year to reflect changes in the cost and phasing of capital projects and the addition of new capital projects. New projects can be added to the capital programme by Cabinet or by a Member/officer delegated decision.

All capital expenditure must be financed from external sources (i.e. government grants and other contributions), the council's own resources (i.e. revenue, reserves and capital receipts) or debt (i.e. borrowing). The planned financing of capital expenditure is set out in Table 12.

Debt is only a temporary source of finance since loans must be repaid from a revenue budget via the minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to repay debt. The planned level of MRP charges is as follows:

All figures in £ million	**2020-21**	**2021-22**	**2022-23**
Housing Revenue Account	5.0	5.0	5.0
General Fund:			
Supported borrowing	0.0	0.0	0.0
Prudential borrowing	16.0	16.3	16.1
TOTAL	**21.0**	**21.3**	**21.1**

The council's MRP policy statement is set out in Annex 10.

The MRP for General Fund supported borrowing will be nil until 2025-26 because of the re-profiling agreed by City Council in November 2016.

The council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and is reduced by the annual minimum revenue provision charge and any capital receipts used to repay debt. Based on the estimated figures for expenditure and financing, the council's CFR will be as follows:

All figures in £ million	**2019-20**	**2020-21**	**2021-22**
Housing Revenue Account	376.5	385.3	380.3
General Fund:			
Supported borrowing	139.1	139.1	139.1
Prudential borrowing	393.1	404.4	397.3
TOTAL	**908.8**	**928.8**	**916.7**

Asset management

To ensure that capital assets continue to be of long-term use, the Council follows the approach set out below for each major type of asset:

Council dwellings

This consists of the council's social housing stock managed on our behalf by Your Homes Newcastle (YHN). The current strategy was approved by Cabinet in January 2015 and may be found here, and is currently in the process of being updated.

The HRA asset management strategy sets out the framework for the day-to-day work of delivering the HRA capital investment programme. Although the overall level of investment is determined by 30-year HRA financial model, this strategy directs how those funds will be invested. It shows how we will maintain and invest in the council's social housing stock and outlines the investment priorities and the principles of decision-making that enables us to maximise the quality, sustainability and value of housing revenue account assets.

The new HRA asset management strategy will set out a longer-term approach to maintaining and improving the Council's social housing assets and ensuring it is fit for purpose based on the age and economic profile of the city's residents. Workstreams have been established as a framework for gathering and presenting information that will be used to formulate the new asset management strategy covering:

- Sustainability – this workstream is considering our current position and the investment requirements to meet targets such as the 2050 carbon neutral target.
- Demand and housing requirements study – this workstream is considering current demand and needs data, the future needs, requirements and aspirations of prospective customers and population and socio-economic changes.
- High rise review – this workstream is considering the current performance of the blocks, investment requirements, considerations from the building regulations review and will consider the outcomes of the Grenfell Inquiry when this is published.
- Asset review – this workstream is reviewing net present value and sustainability ratings of stock and is assessing key management data. The information is being reality checked through estate-based planning meetings with local housing teams. It is also considering capital investment requirements and carrying out an analysis of available land for future new build.

Infrastructure

This consists of carriageways, footways, street lighting, structures, traffic signals, highway green spaces and street furniture.

The Transport Asset Management Plan (TAMP) is the document that sets out the council's approach to maintaining highway assets strategically and efficiently. The TAMP provides information and analysis of the maintenance of highway assets, including inventory information, levels of services, life cycle plans and risk profiles, which promotes and supports informed evidence-based decision making to enable us to make best use of available resources.

The current TAMP may be found here and consists of:

- Policy Statement
- Strategic Management Plan
- Data Management Plan
- Highway Asset Management Plan
- Skid Resistance Policy
- Winter Services Policy
- Network Management Plan

Schools

Asset management in council-maintained schools is a joint responsibility between the council and schools. Academies have sole responsibility for asset management for their own buildings.

All schools should have an inspection and maintenance programme based on compliance with health and safety legislation to ensure that plant, equipment, fixtures, fittings and the premises itself are maintained in a safe condition and are free from defect. The council has published guidance to assist school staff directly responsible for inspection, maintenance and repairs within their school, to create a planned preventive system of inspection and maintenance based on compliance with relevant health and safety legislation.

The council receives an annual grant from the Education and Skills Funding Agency to support a programme of planned capital maintenance in its maintained schools. A similar grant is made available for voluntary aided schools via their Diocesan bodies, and funding for planned capital maintenance is provided to academies directly by the Education and Skills Funding Agency.

The council undertakes condition surveys of its maintained schools on a five-year rolling programme. The condition of each element of a school's premises is assessed using the following grades:

- Grade A – good (i.e. performing as intended and operating efficiently)
- Grade B – satisfactory (i.e. performing as intended but exhibiting minor deterioration)
- Grade C – poor (i.e. exhibiting major defects and/or not operating as intended)
- Grade D – bad (i.e. life expired and/or serious risk of imminent failure)

When the condition of a school premises had been assessed, priorities are allocated according to the seriousness of the condition. The following priority grades are used:

- Priority 1 – urgent work that will prevent immediate closure of premises and/or address an immediate high risk to the health and safety of occupants and/or remedy a serious breach of legislation.
- Priority 2 – essential work required within two years that will prevent serious deterioration of the fabric or services and/or address a medium risk to the health and safety of occupants and/or remedy a less serious breach of legislation.
- Priority 3 – desirable work required within three to five years that will prevent deterioration of the fabric or services and/or address a low risk to the health and safety of occupants and/or remedy a minor breach of legislation.
- Priority 4 – work required outside the five-year planning period that will prevent deterioration of the fabric or services.

Resources are then allocated to projects in line with the above priorities.

<u>Other land and buildings</u>

This consists of other operational properties such as libraries, industrial estates, museums, office accommodation, day centres, respite centres, car parks and other operational land and buildings.

Specific managers have operational responsibility for ensuring these assets are managed effectively and efficiently and have access to revenue resources to ensure all essential repairs and maintenance is undertaken. Decisions to incur capital expenditure must be considered alongside other capital expenditure decisions in line with the council's financial regulations.

Managers will be assisted in this task by the council’s Estate Management Fund, which provides additional resources to address essential issues regarding health and safety including the building fabric to ensure wind and water tightness, ensure adequate mechanical and electrical systems are in place, and tackle inequality by improving disabled access to council buildings for service users and employees.

Asset disposals

When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The council plans to receive £38.9 million of capital receipts in the current and next two financial years as follows:

All figures in £ million	**2020-21**	**2021-22**	**2022-23**
Housing Revenue Account	4.9	5.9	10.4
General Fund	5.3	10.9	1.5
TOTAL	**10.2**	**16.8**	**11.9**

The council is currently also permitted to spend capital receipts on service transformation projects until 2021-22, and the council is planning to use some of the above capital receipts to fund the subsidy to the newly formed parks and allotments trust (Urban Green Newcastle) as shown in the following table.

All figures in £ million	**2019-20**	**2020-21**	**2021-22**
Parks and allotments trust	2.0	1.7	1.8

Treasury Management

The council’s treasury management activities are focused on ensuring there is enough cash available to meet the council’s day-to-day spending needs and managing the risks involved with holding cash. Surplus cash is invested until required to avoid excessive credit balances in the council’s main current account, and cash shortages are met by borrowing to avoid overdrafts in the council’s main current account.

The contribution these investments make to the objectives of the council is to support effective treasury management activities.

Due to decisions taken in the past, the council had £777.6 million of borrowing as at 31 March 2020 at an average interest rate of 3.19%, and £82.6 million of investments as at 31 March 2020 at an average rate of 0.39%.

<u>Borrowing strategy</u>

The council is a net borrower due to its ambitious capital investment plans. The council’s main objectives when borrowing is to minimise the costs of and risks associated with the council’s external loans portfolio. These objectives are often conflicting, and the council therefore seeks to strike a balance between cheaper short-term loans that increase the level of interest rate risk the council faces but reduce the short-term costs incurred by the council and more expensive long-term loans that reduce the level of interest rate risk the council faces but increase the short-term costs incurred by the council.

The council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the authorised limit.

All figures in £ million	**2020-21**	**2021-22**	**2022-23**
Capital financing requirement	928.8	916.7	895.6
Operational boundary	938.8	926.7	905.6
Authorised limit	948.8	936.7	915.6

Statutory guidance is that the council's level of external borrowing should remain below the authorised limit. As can be seen from the following table, the council expects to comply fully with this statutory requirement due to the ongoing use of internal cash balances (from working capital and usable reserves) to fund capital expenditure – this is also known as "internal borrowing".

All figures in £ million	**2020-21**	**2021-22**	**2022-23**
Authorised limit	948.8	936.7	915.6
Net debt	(715.0)	(702.9)	(681.8)
DIFFERENCE	**233.8**	**233.8**	**233.8**

Further details on borrowing are set out in the council's treasury management strategy at Annex 9.

<u>Investment strategy</u>

The council's policy on treasury management investments is to prioritise security and liquidity over yield – i.e. minimising risk takes precedence over maximising returns. The council also aims to minimise the credit risk it faces by minimising the total value of investments held by using surplus cash balances to fund capital investment. The council monitors its short-term cash incomings / outgoings each day and forecasts its medium-term / long-term cash requirements on a monthly basis. Positive cash balances are invested for an appropriate period (based on our cash flow forecasts) with credit-worthy organisations in line with the investment limits agreed by Members in the annual treasury management strategy. The following table sets out the minimum level of balances to be maintained by the council.

All figures in £ million	**2020-21**	**2021-22**	**2022-23**
Treasury management investments	84.6	10.0	10.0

Further details on treasury management investments are set out in the council's treasury management strategy at Annex 9.

Decisions on treasury management investment and borrowing are required each day and are therefore delegated to officers, who must act in line with the treasury management strategy approved by City Council. Reports on treasury management activity are presented to Cabinet, Audit Committee and City Council for review / challenge.

Service Investments

The council also invests to achieve service outcomes by making loans to and buying shares in third parties. Although the primary objective of these investments is service-related the council still aims for such investments to break even (as a minimum) after all costs are taken into account. State aid requirements must also be adhered to in the setting of interest rates on loans. The following table sets out details of service investments (loans) as at 31 March 2019 and 31 March 2020.

All figures in £ million	**Purpose of investment**	**31 March 2019**	**31 March 2020**
Leazes Homes	Housing development across the city	29.0	28.0
Cedars mortgages	Purchase of properties in The Cedars	1.7	1.4
Newcastle International Airport Ltd.	Re-finance bank debt	13.7	13.7
Various cultural & leisure bodies	Development of cultural & leisure facilities across the city	1.8	1.7
Fusion Lifestyles	Development of City Pool	5.1	5.7
Live Theatre	Development of Quayside office accommodation	5.9	5.9
Stephenson Hotel Ltd.	Construction of hotel in Stephenson Quarter	12.3	27.1
Greenwich Leisure Ltd.	Improve leisure facilities across the city	2.5	2.3
Your Homes Newcastle	Facilitate transfer of assets from HRA to YHN	6.5	6.5
Newcastle Falcons	Development of Kingston Park stadium	6.2	6.1
Newcastle Eagles	Development of new stadium	3.0	3.0
Helix District Energy Centre	Heating and power to Helix site	3.1	7.8
Tynexe	Housing and other developments	0.0	2.0
TOTAL		**90.8**	**111.1**

Most of the above are deemed to be capital loans and funded from prudential borrowing except for the Newcastle Internal Airport Ltd debt, which was not treated as a capital loan and hence was not funded from borrowing.

Further loans totalling £0.3 million have been issued to date in the current year and principal repayments of £1.0 million have been received.

Accounting standards require the council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the council's statement of accounts from 2018-19 onwards will be shown net of this loss allowance. However, the council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

It should be noted that the council does not budget for the net income associated with service investments (loans) and transfers the actual surplus on these loans to the treasury management earmarked reserve.

The following table sets out details of service investments (equity) as at 31 March 2020.

All figures in £ million	**Asset value as at 31 March 2020**	**Outstanding borrowing as at 31 March 2020**
Newcastle International Airport	10.5	0.0
Newcastle Helix (see note)	6.2	0.6
New Tyne West Development Company	5.5	4.2
TOTAL	**22.1**	**4.8**

Note: the outstanding borrowing figure for Newcastle Helix excludes amounts that are being funded from retained business rates in the Accelerated Development Zone.

The main risks related to the above service investments are as follows:

- Planned income and expenditure profiles set out in the respective business cases may be overly optimistic and the borrower may be unable to meet interest and principal repayments (loans).
- Security may be insufficient to underwrite repayment of loan principal in the event of a credit-default (loans).
- Dividend income may not be enough to fund the council's interest and principal repayments (equity).

To ensure service investments remain proportionate to the size of the council, these are subject to an overall maximum borrowing limit of £220 million and contingency plans are in place to mitigate the potential risks including the following:

- Due diligence of all business cases supporting loan applications including sensitivity analysis using external advisors where necessary (loans).
- Security is professionally valued by external property surveyors (loans).
- Borrowers' annual accounts are reviewed to ensure they remain financially sustainable (loans).
- Surplus income is transferred to earmarked reserves to off-set any future credit-defaults (loans).
- Council officers / Members involved at board level and able to influence company performance / direction (equity).
- Business plans setting out planned financial returns are developed to support the decision to incur the initial capital outlay (equity).

The £220 million limit is based on the principle of proportionality – at this level the interest payments at the council's average interest rate payable equate to approximately 3.0% of the council's 2021-22 General Fund net revenue budget, which does not expose the council to a disproportionate level of risk. The limit will be kept under review and amended if required.

It should be noted that the council does not budget for any income associated with service investments (equity) and the costs, which mainly relate to the outstanding borrowing, are met from the corporate treasury management budget. There have been no regular dividend payments from Newcastle International Airport Ltd for several years, but the council has received two special dividends in recent years, and these have been used to fund a range of specific policy initiatives. The Helix development and the Scotswood housing development (i.e. New Tyne West Development Company) are expected to generate dividends and capital receipts in future years and these will be used to repay the outstanding borrowing when received.

Shares are the only investment type that the council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the council's upper limits on non-specified investments. The council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Decisions on service investments are made in accordance with the council's financial regulations. Expenditure on all the above service investments (except for the Newcastle International Airport investment and loan) were also included in the council's capital programme.

Commercial Investments

With central government financial support for local public services declining, some local authorities have invested heavily in commercial property purely or mainly for financial gain. The council has no such investments.

Other Investments

Although not held purely or mainly for financial gain, the council does hold a range of other income-generating property assets including a 40% share of Eldon Square, Partnership House and the former Sage Warehouse. As at 31 March 2020 these assets were valued at £207.1 million.

It should be noted that the council does budget for the costs and income associated with other investments.

Financial Impact of Commercial and Other Investments

The following table shows the extent to which the council's General Fund net revenue budget is dependent on achieving the expected net income from commercial and other investments. Should the council fail to achieve the expected net income in 2021-22, then the council's contingency plan is as follows:

- Fund in-year shortfall from any in-year underspends in other parts of the council (including corporate items).
- Fund in-year shortfall from the financial risk & resilience reserve.
- Fund in-year shortfall from other earmarked reserves.
- Fund in-year shortfall from General Fund unearmarked reserve.

A and B are in £	2019-20	2020-21	2021-22
Expected net income from commercial and other investments (A)	9,951,010	6,933,880	3,505,200
Net revenue budget (B)	227,124,810	234,626,290	231,113,347
Proportion (i.e. A / B)	**4.4%**	**3.0%**	**1.5%**

The above figures for budgeted net income take into account the revenue costs associated with any borrowing undertaken to fund the purchase of these assets and any subsequent refurbishment costs.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the council and are included here for completeness.

The council is currently committed to lend up to £7.7 million to Transco Ltd, the council's joint venture with Newcastle University, to develop a multi-storey car park on the Helix site.

The council may also have to pay for pension deficits of third parties it has provided a guarantee for but has not put aside any resources for these potential liabilities because the likelihood of these liabilities crystallising is deemed to be low.

Further details on the above guarantees are set out in the council's latest annual accounts, which may be found here.

Liabilities

In addition to the council's external debt of £777.6 million as at 31 March 2020, the council is committed to making future payments to cover its pension deficit (valued at £692.9 million as at 31 March 2020), to meet PFI capital repayments (valued at £193.7 million as at 31 March 2020) and to meet finance lease capital repayments (valued at £7.3 million as at 31 March 2020). We have also set aside £26.0 million as at 31 March 2020 to cover risks in relation to business rates appeals, insurance claims and severance costs. Finally, premiums totalling £23.9 million were held on the balance sheet as at 31 March 2020 and will be charged to the General Fund over the next 40 years in line with the re-structured loans they related to.

Decisions on incurring new liabilities are made in accordance with the council's financial regulations. The risk of liabilities crystallising and requiring payment is monitored by officers on a continuous basis and reported to Cabinet as and when necessary.

Further details on the above liabilities are set out in the council's latest annual accounts, which may be found here.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP charges are. The following shows these revenue costs as a proportion of the council’s net revenue budget (i.e. the amount funded from Council Tax, business rates and general government grants in relation to the General Fund and housing rents and other service income in relation to the Housing Revenue Account). It should be noted that most of these costs are funded from service income and efficiency savings.

	2020-21	2021-22	2022-23
General Fund	14.12%	14.51%	13.98%
Housing Revenue Account	19.83%	19.61%	19.03%

Further details on the revenue implications of capital expenditure are set out in the treasury management strategy at Annex 9.

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Director of Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable based on the following factors:

- There is enough budget held within corporate items to fund the interest payable and MRP charges associated with the council’s supported borrowing.
- All proposals to utilise prudential borrowing are reviewed / signed-off by finance staff and must generate enough income and / or efficiency savings to repay the revenue costs associated with the borrowing.
- The council currently uses an internal interest rate of 4.5% to evaluate all proposals to utilise prudential borrowing, which is more than the current average borrowing rate of 3.2%. This margin provides a buffer against interest rate risk and is reviewed in the light of changes in the council’s external loans portfolio.
- The council aims to undertake a high proportion of long-term fixed rate borrowing to minimise its interest rate risk.

Knowledge and Skills

The council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Resources is a qualified accountant with over 30 years’ experience and the Director of Place is a qualified property surveyor with over 30 years’ experience. The council encourages relevant staff to study towards professional qualifications including CIPFA, MRICS etc.

Where council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. For example, the council currently engages Arlingclose Ltd as treasury management advisers, and engages a range of financial, legal and property consultants. This approach is more cost effective than employing such staff directly and ensures that the council has access to knowledge and skills commensurate with its risk appetite.

Annex 9 – 2021-22 treasury management strategy

Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the Code) requires the council to approve a treasury management strategy before the start of each financial year. In addition, the Ministry for Housing, Communities and Local Government's (DCLG) Guidance on Local Authority Investments requires the council to approve an investment strategy before the start of each financial year. This report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance. The council has borrowed and invested sums of money and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the council's treasury management strategy.

CIPFA's Treasury Management Code

The Code requires the council to comply with the following key principles:

1. Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

2. Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

3. They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

The Code also requires the council to include the following four clauses within its treasury management strategy:

1. This organisation will create and maintain, as the cornerstones for effective treasury management:

   - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and
   - suitable treasury management practices (TMPs), setting out the way the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

   The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the council. Such amendments will not result in the council materially deviating from the Code's key principles.

2. City Council will receive reports on the council's treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

3. City Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Director of Resources and his nominated deputy, the Assistant Director Financial Services, who will act in accordance with the council's policy statement and TMPs, and CIPFA's Standard of Professional Practice on Treasury Management.

4. City Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and related policies.

Treasury Management Policy Statement

1. The council defines its treasury management activities as:

   - the management of investments and cash flows, its banking, money market and capital market transactions.
   - the effective control of the risks associated with those activities.
   - the pursuit of optimum performance consistent with those risks.

2. The council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the council, and any financial instruments entered into to manage these risks.

3. The council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Treasury Management Practices

The council's treasury management practices follow the format set out in the Code and are updated on an annual basis alongside the treasury management strategy.

Borrowing Strategy

The council's main objective when borrowing money is to strike an appropriate balance between minimising external interest payable and minimising interest rate risk.

Given the significant cuts to local government funding, the council's borrowing strategy will continue to seek to minimise long-term external interest payable. With short-term interest rates currently much lower than longer-term rates, it is more cost effective in the short-term to either use internal resources, or to use short-term loans. However, whilst such a strategy is likely to be beneficial in the short term it is unlikely to be sustainable over the medium / long-term as short-term borrowing rates are expected to increase in the future.

Therefore, whilst we will continue to utilise internal balances and short-term loans to fund capital expenditure, we will also look carefully at opportunities to borrow cost-effectively over the longer term. This will have the effect of marginally increasing the average interest rate payable, but it will also have the significant benefit of decreasing the council's exposure to interest rate risk and reducing the external interest payable by the council over the longer term.

In addition, we will limit the amount of borrowing that is due to mature in a specific financial year to a maximum of 5% of the council's total borrowing levels (except for borrowing due in less than two years to take advantage of low short-term interest rates) to reduce the re-financing risk faced by the council. This is set out in more detail in Annex 10.

Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB).
- UK local authorities.
- Any institution approved for investments (see overleaf).
- Any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK.
- UK public / private sector pension funds (except the Tyne and Wear Pension Fund); and
- Local authority special purpose vehicles created to enable local authority bond issues (for example, the Municipal Bonds Agency).

The council will consider alternatives to the above sources of debt finance such as leasing on a case by case basis.

Debt Rescheduling

The PWLB allows local authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also seek to negotiate premature redemption terms. The council may take advantage of any debt re-structuring opportunities where this is expected to lead to an overall saving or a reduction in risk and has delegated authority to the Director of Resources and his nominated deputy, the Assistant Director Financial Services, to complete any such transactions.

Investment / Lending Strategy

The Code requires the council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Due to the continuing low interest rates the council will seek to minimise temporary loans to third parties by using internal balances to fund capital expenditure. However, due to the timing of money coming in from the government the council may have some cash balances to invest. The following table shows the different organisations the council will lend its cash balances to and the appropriate financial / time limits:

Type of institution / fund	Financial limit	Time limit
UK central government (irrespective of credit rating)	Unlimited (no change)	Unlimited (no change)
UK local authorities	£25 million each (no change) £20 million each (no change) £15 million each (no change)	1 year (no change) 2 years (no change) 3 years (no change)
UK banks with AAA, AA+, AA, AA-, A+ and A credit ratings	£20 million each (no change)	6 months unsecured (no change) 1 year secured (no change)
UK banks with A- credit rating	£15 million each (no change)	100 days unsecured (no change) 6 months secured (no change)
UK money market funds and similar pooled vehicles whose lowest published credit rating is AAA	Higher of £20 million or 0.5% of individual fund value (was £15 million)	1 year (no change)
UK building societies with AAA, AA+, AA, AA-, A+ and A credit ratings	£10 million each (no change)	6 months unsecured (no change) 1 year secured (no change)
UK building societies with A- credit rating	£5 million each (no change)	100 days unsecured (no change) 6 months secured (no change)
Banks with AAA, AA+, AA, AA-, A+ and A credit ratings domiciled in AAA rated sovereign countries	£5 million each (no change)	6 months unsecured (no change) 1 year secured (no change)
Registered housing providers	£10 million each (new)	5 years unsecured (new)
CCLA Local Authority Property Fund / Altana Public Sector Social Impact Fund CCLA Diversified Income Fund / Public Sector Deposit Fund	£10 million (no change)	10 years (was unlimited) 1 year (no change)

Under accounting standards, the accounting for certain investments depends on the council's business model for managing them. The council aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Current Account

The council's current account banking contract is with Lloyds Bank plc and there are no plans to change in the next financial year.

Credit Ratings

The council uses long-term credit ratings from the three main rating agencies (for example Fitch, Moody's and Standard and Poor) to assess the counterparty risk. The lowest available counterparty credit rating will be used to determine credit quality unless an investment-specific rating is available. Credit ratings are obtained and monitored by the council's treasury management advisors, who will notify us of any changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made.
- Any existing investments that can be recalled or sold at no cost will be.
- Full consideration will be given to the recall of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

The council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the financial press. No investments will be made with an organisation if there are any doubts about its credit quality, even though it may meet the credit rating criteria. In these circumstances, the council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that an insufficient number of high credit quality organisations are available then the surplus will be deposited with the UK government, via the Debt Management Office, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Approved Borrowing / Lending Instruments

The council may lend or invest money using any of the following instruments:

- interest-bearing bank accounts
- fixed term deposits and loans
- callable deposits where the council may demand repayment at any time
- callable loans where the borrower may demand repayment at any time
- certificates of deposit
- bonds, notes, bills, commercial paper and other marketable instruments
- shares in money market funds and other pooled funds

Investments may be made at either a fixed rate of interest, or at a variable rate.

Liquidity Management

The council forecasts its future cash flows to determine the maximum period for which cash balances may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the council being forced to borrow on unfavourable terms to meet its cash flow requirements.

Policy on Use of Financial Derivatives

The council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivatives may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Policy on Apportioning Interest to the Housing Revenue Account

Interest charged to the HRA will be fixed at an appropriate rate during the year based on the assumption made in the 30-year financial model.

Governance

City Council is responsible for agreeing the treasury management strategy and the mid-year and year-end reviews. Audit Committee will review the treasury management strategy at its March meeting, the mid-year review at its December meeting and the year-end review at its September meeting. These reports will include the following information as required by the Code:

Annual reporting requirements before the start of the year:

- review of the organisation's approved clauses, treasury management policy statement and practices
- strategy report on proposed treasury management activities for the year

Mid-year review:

- treasury management activities undertaken
- variations (if any) from agreed policies/practices
- interim performance report
- regular monitoring
- monitoring of treasury management indicators for local authorities

Annual reporting requirements after the year-end:

- transactions executed and their revenue effects
- report on risk implications of decisions taken and transactions executed
- compliance report on agreed policies/practices, and on statutory/regulatory requirements
- performance report
- report on compliance with CIPFA Code recommendations
- monitoring of treasury management indicators for local authorities

Training will be provided to Audit Committee members to ensure they are able to undertake this role effectively.

Treasury Management Indicators

The council measures and manages its exposures to treasury management risks using the following indicators.

- **Security** – the council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating / credit score] of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Security indicator:	**Target**
Portfolio average credit rating / score	6

- **Liquidity** – the council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity indicator:	**Target**
Minimum cash available over rolling 3 month period	£10 milion

- **Interest rate risk** – the purpose of this indicator is to control the council's exposure to interest rate risk by limiting the proportion of total debt with variable interest rates as shown below.

Interest rate risk indicator:	**Upper limit**
Fixed rate debt as a proportion of total debt	100%
Variable rate debt as a proportion of total debt	10%

The council's LOBO loans will be treated as fixed rate loans for the purpose of the above indicator but there is a risk that lenders may exercise the option to vary the interest rate that would give the council the option of repaying the loan without penalty, and potentially re-financing at the prevailing market rate.

- **Re-financing risk** – the purpose of this indicator is to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Re-financing risk indicator:	Lower limit	Upper limit
Less than one year	0%	10%
Between one and two years	0%	10%
Between two and five years	0%	15%
Between five and ten years	0%	25%
Greater than ten years	50%	100%

In the above table LOBO loans are treated as maturing at the end of the loan period, however, there is a possibility that some lenders may exercise their option to increase the interest rate on these loans and at that point the council will be able to repay the loan in full without any financial penalty.

- **Principal sums invested for periods longer than a year** – the purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sums invested to final maturities beyond one year will be:

Price risk indicator:	£ million
Upper limit of principal sums invested for longer than one year	50

Markets in Financial Instruments Directive

The council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the council's treasury management activities, officers believe this is the most appropriate status.

Treasury Management Advisors

The council has appointed Arlingclose as treasury management advisors and receives specific advice on investment, debt and capital finance issues.

Staff Training

Treasury management staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA and other appropriate organisations.

Financial Implications

For the purpose of setting the budget, the average interest rate payable has been assumed to be 3.7%. As set out in the capital investment strategy at Annex 8, the General Fund capital financing requirement (excluding PFI) is estimated to increase from £554.6 million as at 31 March 2020 to £564.2 million as at 31 March 2021. Based on the capital financing requirement, the external interest payable in 2020-21 is estimated to be £20.7 million and the minimum revenue provision is estimated to be £12.5 million. Most of these costs relate to self-financed prudential borrowing, which is funded from a range of sources.

Other Options Considered

The Code does not prescribe any particular treasury management strategy for local authorities to adopt. Officers believe that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Potential impact on income and expenditure	Potential impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income may be lower	Reduced likelihood of losses from credit-related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income may be higher	Increased likelihood of losses from credit-related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Short-term interest costs will be higher, and this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a credit-related default, however, long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Short-term interest costs will initially be lower	Medium / long-term interest costs may be less certain

Annex 10 – 2021-22 minimum revenue provision policy statement

The Minimum Revenue Provision (MRP) is the annual amount the council charges to revenue to repay its borrowing. The council follows the MRP guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003 and will assess its MRP in accordance with the main recommendations contained within the guidance.

A proportion of the MRP relates to the council's supported borrowing approvals and will be charged at the rate of 2% (based on the capital financing requirement as at 1 April 2008 and all supported borrowing undertaken since then).

The MRP related to capital expenditure that is financed from unsupported or prudential borrowing will be calculated under option 3 of the guidance over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure using the equal annual instalment method. For example, capital expenditure on a new building or on the refurbishment or enhancement of a building will be repaid related to the estimated life of that building. An MRP holiday might be taken until such time as the asset associated with the investment is fully or largely operational.

Principal repayments received on capital loans made to third parties, which were originally funded by prudential borrowing, will be treated as capital receipts and set aside to reduce the council's underlying need to borrow. There will be no MRP due on such loans.

Where prudential borrowing is used to fund the acquisition of an equity stake, MRP is calculated in accordance with option 3 of the guidance over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure using the equal annual instalment method.

As some types of capital expenditure incurred by the council are not capable of being related to an individual asset, asset lives will be assessed on a basis that most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.