Shaping our future together

Our medium-term plan update for 2020-21

Appendix 1 – Revenue and capital plan

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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, 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 medium-term financial position

2020-21 is the tenth year of austerity and the second year of our current medium-term plan. Government-imposed funding cuts coupled with unfunded cost pressures has resulted in us needing to achieve savings of over £300 million since 2010. 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.
- 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 via detailed assessment of business cases.
- Effective management and forecasting of our day-to-day and longer-term cash flow requirements.
- Minimisation of longer-term treasury management risks, including smoothing out the debt maturity profile, by gradually reducing our reliance on short-term borrowing.
- 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 financial plan and the annual budget.
- Production of detailed implementation plans for all savings proposals.
- Sign off all revenue budgets by the relevant senior manager before the start of the financial year.
- Regular monitoring of budgets and robust management action to address any unplanned variances that arise.

Tables 1 to 4 give further details on 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 2019-20 and 2020-21

All figures in £ million	2019-20 (restated)	2020-21
Revenue Support Grant	26.2	26.6
Business rates	90.8	92.6
Council Tax	110.1	115.4
Net revenue budget	**227.1**	**234.6**

NOTE: the figures for 2019-20 have been restated to reflect the position excluding the effect of the business rate 75% retention pilot that we were part of in 2019-20.

As can be seen from Table 1 the net revenue budget is expected to increase from £227.1 million in 2019-20 to £234.6 million in 2020-21 due to assumed increases in Revenue Support Grant, business rates and council tax. Despite this we still need to find significant savings next year to balance our budget due to unfunded cost pressures. Further details on the plans for meeting the 2020-21 savings requirement are set out later in this document and in Appendix 2.

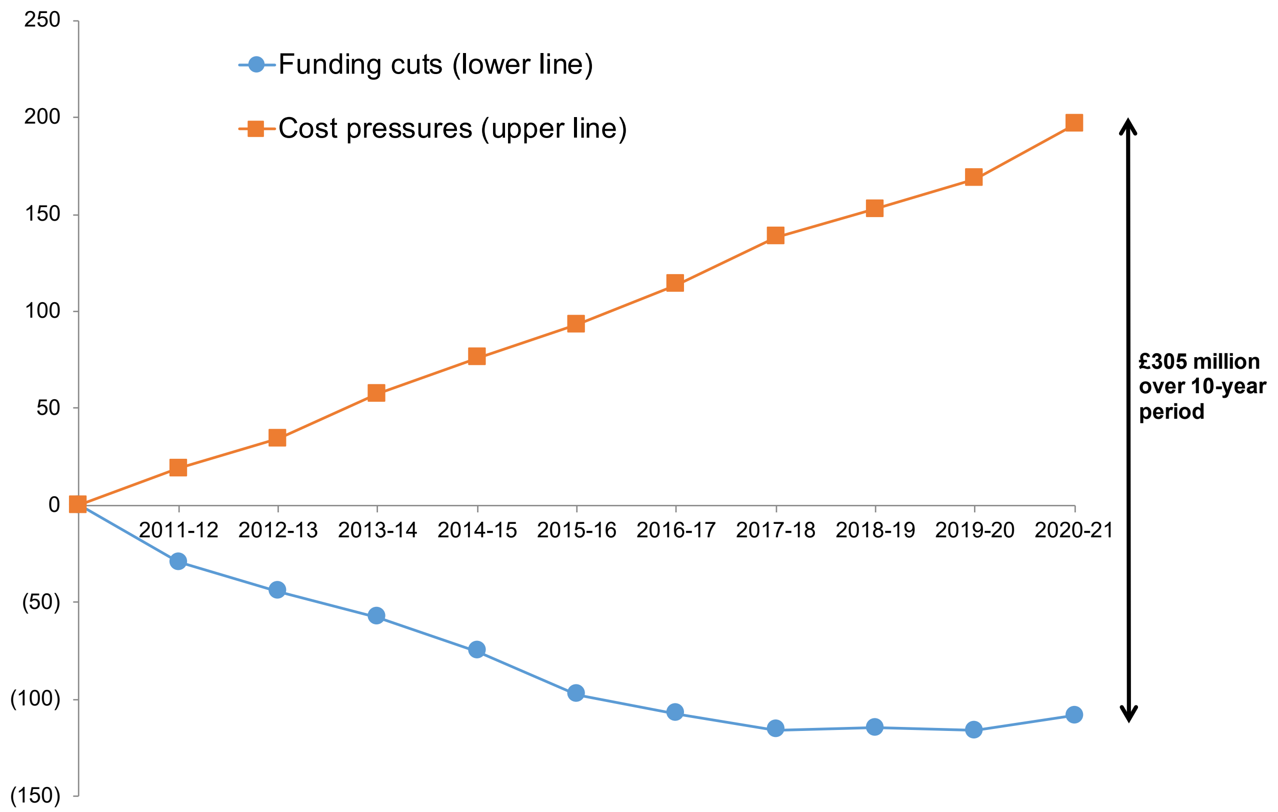
2.1 General Fund savings achieved to date

The savings required to balance the 2020-21 budget should be seen in the context of what we have already achieved over the last few years.

Over the last nine years, we have achieved savings of £284 million 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 target for 2020-21 is £20.3 million, and this has been built into Chart 1, which shows the total savings required since 2010 is over £300 million.

Chart 1 – cumulative savings achieved / required from 2011-12 to 2020-21 (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.

2.2 General Fund estimated outturn for 2019-20

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 2018/19). 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. However, despite the robust management arrangements in place, the council's revenue budget is under pressure from unprecedented increases in the number of looked after children as well as demand pressures in adult social care.

Based on the budget monitoring work undertaken to date, we are currently projecting a potential overspend of £4.9 million on our General Fund net revenue budget. The potential overspend is due mainly to pressures in the following services – i.e. adult social care, children's social care, local services and commercial development & property. Projected underspends in facilities services and civic management and corporate items (including a one-off Council Tax surplus from 2018-19) have partly mitigated the impact of these service pressures. Some additional funding has been included in the draft 2020-21 budget to help address these service pressures next year, and managers in these areas are also working hard to address the underlying factors causing these pressures.

2.3 General Fund 2020-21 net revenue budget

The 2020-21 General Fund net revenue budget is based on the following assumptions:

- An inflationary increase in Revenue Support Grant of £0.4 million.
- An inflationary increase in the amount of business rates income receivable (including Business Rates Top Up Grant and section 31 grants) of £1.7 million.
- An increase of £5.3 million in the amount of Council Tax income receivable, split between growth in the size of the Council Tax base (i.e. £0.7 million), a government-assumed adult social care precept of 2.0% (£2.2 million) a government-assumed general increase of 1.95% (i.e. £2.2 million) and a further increase in the long term empty property premium (£0.2 million).
- 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, 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).
- Estimated pay award of 2.75% (subject to ongoing 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 £20.3 million from a range of service and non-service proposals to off-set the funding cuts and unfunded cost pressures facing us as set out in Table 3.

Table 2 – assumed budget changes in 2020-21

All figures in £ million	2020-21
Previous year's net revenue budget	227.1
Unfunded cost pressures	27.8
Savings requirement	(20.3)
This year's net revenue budget	**234.6**

The cash increase in the net revenue budget in 2020-21 is £7.5 million or 3.3% of the 2019-20 net revenue budget. However, in real terms (i.e. after taking unfunded cost pressures into account) there is a reduction of £20.3 million or 8.9% of the 2019-20 net revenue budget.

The savings as a percentage of 2019-20 gross controllable expenditure (i.e. total expenditure before any income is netted off) excluding housing benefits and schools is 3.7%.

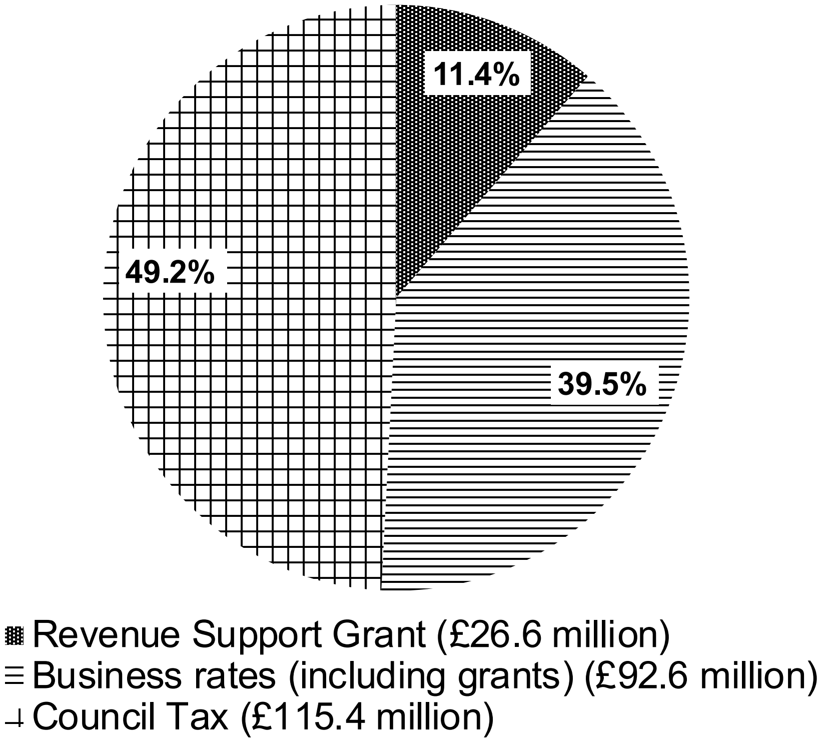
Table 4 sets out the change in our net revenue budget, broken down into the individual elements it is comprised of.

Table 3 – change in net revenue budget between 2019-20 and 2020-21

All figures in £ million	2019-20	2020-21	Change
Revenue Support Grant	26.2	26.6	0.4
Business rates (including grants)	90.8	92.6	1.7
Council Tax	110.1	115.4	5.3
Net revenue budget	**227.1**	**234.6**	**7.5**

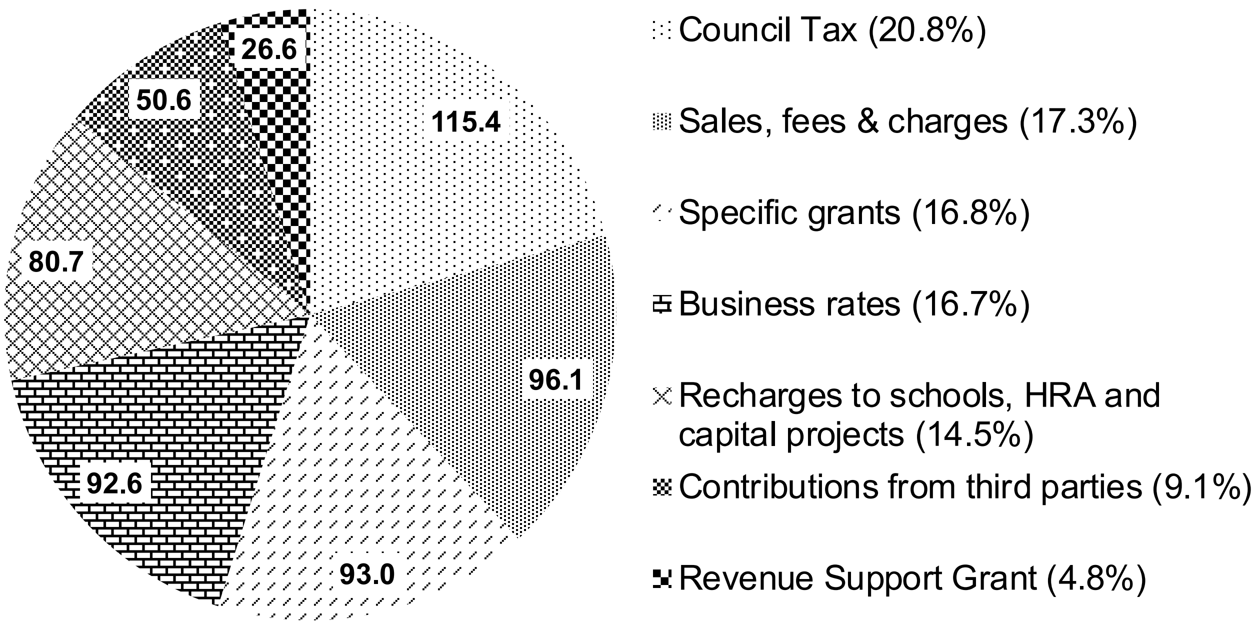
Business rates and Revenue Support Grant constitute the total of un-ringfenced government funding we are expected to receive in 2020-21. This will fund an estimated £119.2 million or 50.8% of our net revenue budget in 2020-21 compared with 51.5% in 2019-20. Council Tax will fund the other £115.4 million or 49.2% of the 2020-21 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 2020-21



When viewed as a percentage of total General Fund income excluding schools and housing benefits, Council Tax represents 20.7% of total income as shown in Chart 3.

Chart 3 – breakdown of total estimated General Fund income in 2020-21 (figures are in £ million)



2.4 2019 Spending Round

The 2019 Spending Round was published on 4 September 2019 and included the following specific announcements in relation to local government funding in 2020-21:

- Inflationary increase in the Settlement Funding Assessment (i.e. Revenue Support Grant and retained business rates). Compared with our previous budget assumption of a 6.4% reduction in SFA, this equates to additional resources of £9.7 million next year.
- Additional 2% adult social care council tax precept, and a proposed referendum limit on the core Council Tax increase of 2%. Compared with our previous budget assumption of 3% increase in Council Tax, this equates to additional resources of £1.1 million next year.

The estimated additional resources of £10.8 million have been factored into the draft 2020-21 budget set out in this report. The other main local government funding announcements related to 2020-21 included in the 2019 Spending Round were as follows:

- Continuation of £2.5 billion funding for social care consisting of Improved Better Care Fund, adult social care winter pressures grant and social care support grant and additional £1.0 billion funding for social care – the council's share of this temporary funding is shown in Table 4 and this will be used to fund pressures in adult social care and children's social care.

Table 4 – Social Care One-Off Funding in 2020-21

All figures in £ million	**England**	**Council**
Improved Better Care Fund	1,837.0	14.9
Winter pressures grant (now included in Improved Better Care Fund)	240.0	1.5
Existing social care support grant	410.0	2.6
New social care grant	1,000.0	7.0
TOTAL	**3,487.0**	**26.0**

- Real terms increase in public health grant but no removal of the ring-fence – the Spending Round document is slightly ambiguous on the percentage increase, but this could be worth £0.7m to the council, however, it's not clear if any additional burdens will accompany this additional funding.
- 3.4% real terms increase in Better Care Fund, which could be worth up to £0.5 million to the council. Although the use of this additional funding will need to be agreed with health partners, we would aim to use it to fund pressures in adult social care.
- Additional £700 million funding for children with special educational needs.
- Additional £7.1 billion increase in funding for schools by 2022-23.
- Continuation of New Homes Bonus with further details to be shared via local government finance settlement technical consultation.
- Continuation of Troubled Families programme and funding.

- The 75% business rates pilot across North of Tyne will not continue in 2020-21 and the planned changes in relation to the Fairer Funding Review and Business Rates Reform have been deferred until 1 April 2021.

Please see https://www.gov.uk/government/topical-events/spending-round-2019 for further details.

2.5 2020-21 local government finance settlement technical consultation

The government issued a consultation on some technical matters related to the 2020-21 local government finance settlement following the 2019 Spending Round on 3 October 2019. This covered the following points:

- Inflationary increase in revenue support grant in line with planned increase in business rates next year.
- Continued compensation for local authorities affected by negative RSG.
- Council Tax referendum limit of 2.0% or £5 (whichever is greater) for lower tier local authorities.
- Core Council Tax increase of 2.0% and an adult social care precept of 2.0% for single and upper tier local authorities, and no referendum limit for mayoral combined authorities and parish councils.
- Proposed distribution of additional social care grant of £7.0 million.
- Continuation of Improved Better Care Fund.
- Continuation of New Homes Bonus in its current form in 2020-21 but reductions planned for 2021-22.
- Continuation of rural services delivery grant.

Please see https://www.gov.uk/government/consultations/local-government-finance-settlement-2020-to-2021-technical-consultation for further details. The council submitted a response to this consultation by the 31 October 2019 deadline.

2.6 2020-21 local government finance settlement

The provisional local government finance settlement was announced on 20 December 2019. The main headlines for the council were broadly in line with the 2019 Spending Round and 2020-21 local government finance settlement technical consultation, and were also in line with the assumptions made in the council's draft 2020-21 budget:

- £0.4 million increase in Revenue Support Grant.
- £0.5 million increase in New Homes Bonus.
- £7.0 million increase in one-off financial support for social care.
- Adult social care precept increase of 2.0% and core Council Tax increase of 2.0%.

The final local government financial settlement was announced on 6 February 2020 and contained no changes from the provisional local government financial settlement.

2.7 Council Tax

We are proposing a general increase in Council Tax of 1.95% in 2020-21 plus an adult social care precept of 2.0%. Further details on the proposed increase are set out in a separate integrated impact assessment.

We perform well in collecting Council Tax with in-year collection rates amongst the highest within core cities and North East local authorities. In 2018-19 there was a significant surplus on the Collection Fund and a further surplus is anticipated in 2019-20.

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 £0.2 million in 2020-21.

2.8 Council Tax reduction

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 has been cut since then – 2014-15 (i.e. 10.0%), 2015-16 (i.e. 14.4%), 2016-17 (i.e. 8.3%), 2017-18 (i.e. 5.1%), 2018-19 (i.e. 5.1%) and 2019-20 (i.e. 5.9%) with the exception of 2020-21 when it will increase by 2.0%. We estimate the funding loss over the eight-year period to be in the region of £11.7 million. This has put significant additional strain onto the General Fund budget and resulted in us, as well as many other local authorities, seeking to collect some Council Tax from working age people who previously received 100% Council Tax Benefit.

We consulted on an updated Council Tax reduction scheme for 2020-21 that incorporates a number of relatively minor changes, and this was agreed by City Council in January 2020.

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, from 2013-14 to 2018-19, 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. In 2019-20, 75% of the business rates collected in the city is being retained locally (i.e. 74% to the council and 1% to the Tyne and Wear Fire and Rescue Authority) and the remaining amount is being paid over to the government. However, in 2020-21 we will revert to retaining only 50% of business rates locally (49% to the council and 1% to the Tyne and Wear Fire and Rescue Authority).

We are now also exposed to the risk of business rate appeals, which are determined by the Valuation Office Agency. Since 2013-14 the level of appeals has been far higher than were originally anticipated, and this led to a collection fund deficit as at 31 March 2019. The government has consulted on a range of practical changes designed to improve the efficiency of the appeals process and reduce the financial uncertainty facing local authorities, with new streamlined processes being introduced in 2017-18 alongside revaluation, however, this has yet to make a tangible difference to the effectiveness or timeliness of the appeals process.

2.10 Revenue Support Grant

Revenue Support Grant is estimated to increase from £26.2 million to £26.6 million in 2020-21 in line with inflation.

2.11 Unfunded cost pressures

Our need to find savings in 2020-21 and future years is driven by unfunded cost pressures arising from several sources although this is partly off-set by the estimated increase in the net revenue budget.

Table 5 – breakdown of 2020-21 savings target

All figures in £ million	**2020-21**
Net funding (increase) / cut	(7.5)
Unfunded cost pressures	27.8
Annual savings requirement	**20.3**

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

Table 6 – breakdown of 2020-21 unfunded cost pressures

All figures in £ million	**2020-21**
Inflation (pay and prices)	15.5
Increasing demand for services	8.5
External funding changes	3.7
TOTAL	**27.8**

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

2.12 Savings

As shown in Table 5, estimated savings of £20.3 million are needed in 2020-21 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 7 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 7 – 2020-21 savings by directorate

All figures in £ million	**2020-21**
Adult Social Care & Integrated Services	9.7
Children, Education & Skills	0.9
City Futures (including Public Health)	0.4
Operations & Regulatory Services	1.5
Place	0.4
Resources	0.5
Corporate	6.9
TOTAL	**20.3**

The impact on the 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 – 2019-20 and 2020-21 net revenue budget by directorate

All figures in £ million	2019-20	2020-21
Adult Social Care & Integrated Services	80.8	79.5
Children, Education & Skills	44.7	50.1
City Futures (including Public Health)	5.6	5.3
Operations & Regulatory Services	8.2	10.8
Place	4.4	6.9
Resources	24.9	26.3
JTC levy	16.0	16.1
Corporate items / reserves	42.5	39.6
Net revenue budget	**227.1**	**234.6**

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 2020-21 HRA revenue budget. The changes mainly reflect the rent increase of CPI+1% specified by government, pay and non-pay inflationary cost pressures, pension fund savings 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. job creation, housing growth etc.
- Maximisation of social value including using locally-based suppliers, and sub-contractors as far as possible.

Capital investment 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.

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 front line 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:

1. a reduction in cost against an existing revenue budget (for example vehicle / IT replacement programme); or
2. a new or increased revenue budget that is dependent on the planned capital investment (for example Eldon Square).

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 evaluated and viable in its own right.

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).

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.

The following tables set out the breakdown of the 2019-20 to 2021-22 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 2019-20 to 2021-22 split between the General Fund and the HRA

All figures in £ million	2019-20	2020-21	2021-22
General Fund	113.4	107.3	80.0
HRA	55.4	47.0	45.0
TOTAL	**168.8**	**154.3**	**125.0**

Table 10 – General Fund planned capital investment from 2019-20 to 2021-22 by council directorate

All figures in £ million	2019-20	2020-21	2021-22
Adult Social Care & Integrated Services	0.2	0.1	0.0
Children, Education & Skills	7.1	8.9	0.0
City Futures (including Public Health)	0.5	0.4	0.0
Operations & Regulatory Services	17.9	11.4	0.0
Place	51.6	32.0	0.0
Resources	1.5	2.2	0.0
Loans	34.6	2.3	0.0
Pipeline	0.0	50.0	80.0
TOTAL	**113.4**	**107.3**	**80.0**

Table 11 – HRA planned capital investment from 2019-20 to 2021-22 by programme

All figures in £ million	2019-20	2020-21	2021-22
Communal areas	4.2	5.6	0.0
Environmental works	4.9	3.5	0.0
Voids	5.3	5.3	0.0
Lifecycle replacements	19.8	18.2	0.0
New build and acquisitions	13.7	10.1	0.0
Regeneration	4.7	1.5	0.0
Standard housing investment	2.6	2.8	0.0
Participatory budget	0.1	0.0	0.0
Pipeline	0.0	0.0	45.0
TOTAL	**55.4**	**47.0**	**45.0**

Table 12 – planned capital investment from 2019-20 to 2021-22 by source of finance

All figures in £ million	2019-20	2020-21	2021-22
Grants / contributions (mainly General Fund)	29.3	20.4	0.0
Capital receipts (mainly General Fund)	8.6	9.5	0.0
Revenue (mainly HRA)	45.9	44.0	0.0
Borrowing (mainly General Fund)	85.0	30.5	0.0
Pipeline (no funding approved yet)	0.0	50.0	125.0
TOTAL	**168.8**	**154.3**	**125.0**

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.

We have reviewed our council-wide internal arrangements for agreeing and delivering the capital investment programme, to ensure a robust, outcome-focus system of approvals and ongoing monitoring. This includes robust business case development at directorate level, with detailed scrutiny by a senior officer group prior to approval by councillors and inclusion within the capital programme, with ongoing rigorous monitoring and reporting upwards through a clear governance structure.

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

- Vehicle replacement programme (£16.2 million)
- Stephenson Quarter hotel loan (£14.8 million)
- Civic Centre office accommodation (£13.6 million)
- RVI MSCP loan (£13.3 million)
- Street lighting LED replacement programme (£8.9 million)
- Pilgrim Street Southern Block (£6.2 million)
- Regenerate loan (£5.4 million)
- Parks Trust subsidy – capitalised under flexible use of capital receipts direction (£4.4m)
- IT investment (£3.7 million)
- Highway and footpath improvements (£3.7 million)
- Investment in primary school estate (£3.4 million)
- Barras Bridge highways improvements (£3.3 million)
- Disabled facilities grants (£3.2 million)
- Science Central infrastructure (£2.9 million)
- Northern Access Corridor programme (£2.8 million)
- Newcastle Life Sciences incubation hub (£2.7 million)
- Roundhill Avenue (£2.7 million)
- Urban Traffic Management Centre (other local authorities) (£2.6 million)
- Grainger Market roof (£2.5 million)

- Loadman Street (£2.4 million)
- Scotswood highways improvements (£2.2 million)
- Northumberland Street improvements (£2.2 million)
- Tynexe loan (£2.0 million)
- Contingency arrangements for Newcastle Great Park middle / secondary school (£1.9 million)
- Kingston Park Road junction improvements (£1.8 million)
- Newington Road licensing office (£1.4 million)
- Slatyford Lane children’s residential care home (£1.3 million)
- Housing developments (£1.2 million)
- Newcastle International Airport business park infrastructure (£1.2 million)

5. Risk assessment of General Fund budget

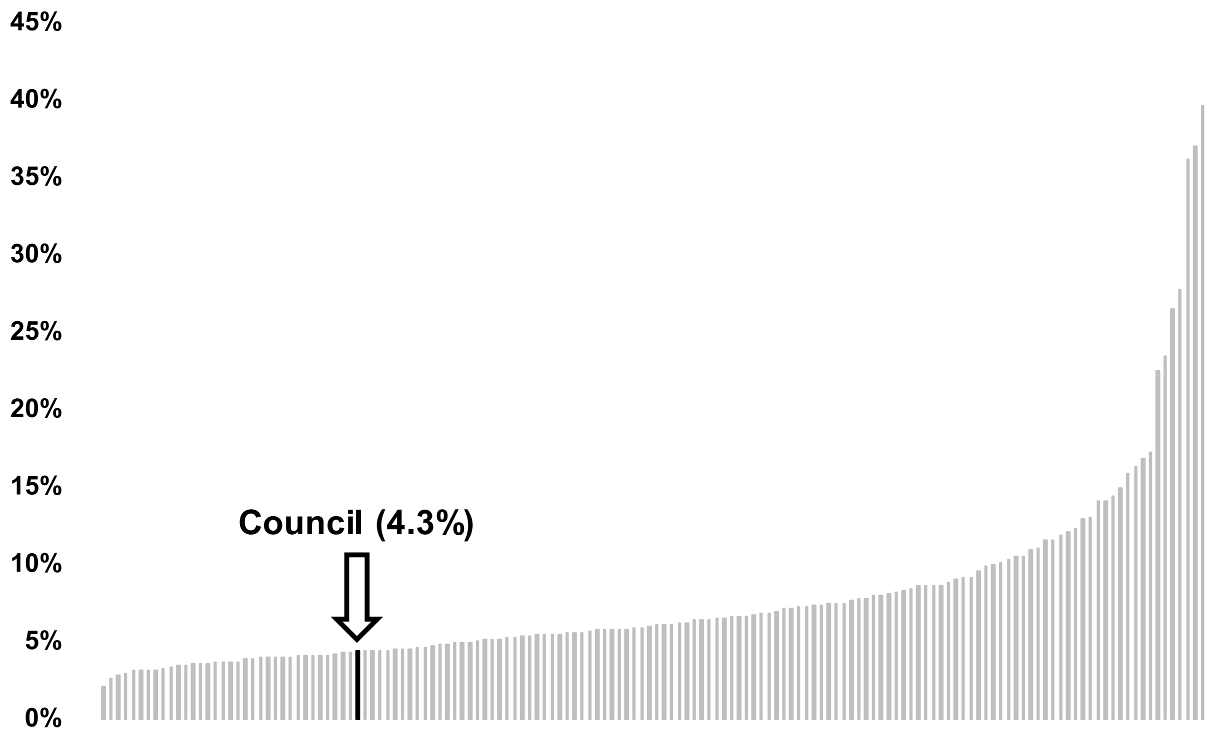
We adopt a risk-based approach to medium-term financial planning, which aims to:

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

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.

The unearmarked General Fund reserve as at 31 March 2019 totalled £10.1 million. This represented 4.2% of 2018-19 net revenue expenditure, compared with an average of 7.0% for all single and upper tier local authorities.

Chart 4 – unearmarked General Fund reserve as at 31 March 2019 for all single and upper tier local authorities



At 31 March 2020, we expect to hold General Fund earmarked reserves totalling £100.8 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. **Collection Fund reserve** – holds funding to mitigate future Collection Fund deficits.
4. **Developers contributions reserve** – holds funding received from developers for capital works linked to planning applications.
5. **Directorate commitments reserve** – holds funding to meet future financial commitments of directorates.
6. **Financial risk & resilience reserve** – holds funding to off-set any shortfalls in planned savings and any unexpected cost pressures.
7. **Housing benefit subsidy reserve** – holds funding to mitigate future cost pressures in this area.
8. **Interim capital funding reserve –** to fund cash outflows arising from capital works, which will be repaid in future years.
9. **Major developments reserve** – to fund cash outflows arising in the early years of specific development projects.
10. **One-off funding reserve** – holds dividends received from Newcastle International Airport that have been earmarked for specific priorities.
11. **Parks Trust subsidy reserve** – holds funding that will be used to pay the subsidy to Urban Green Newcastle in future years.
12. **Pensions reserve** – holds funding to mitigate future cost pressures in relation to our pension liabilities.
13. **PFI reserve** – holds funding to meet future payments under our PFI / BSF contracts.
14. **Public Health Grant reserve** – holds unspent public health grant funding to be used to meet future financial commitments.
15. **Revenue grants to be applied reserve** – holds unspent grant funding to be used to meet future financial commitments.
16. **Ring-fenced balances reserve** – holds funding that may only be spent on specific statutory activities.
17. **Risk management & insurance reserve** – holds funding to invest in risk management initiatives and to mitigate future cost pressures in relation to our insurance liabilities.
18. **School kitchens reserve** – holds funding to replace / refurbish school kitchens used by council staff to provide school meals to children.
19. **Single Point of Leadership reserve** – holds surpluses generated by Your Homes Newcastle above the budget target for the former Building & Commercial Enterprise service managed under the Single Point of Leadership arrangement.
20. **Strategic reserve** – holds funding to support our medium-term financial plan.
21. **Transformation reserve** – holds funding set aside for future transformation / public sector reform work.
22. **Treasury management reserve** – holds funding to mitigate future cost pressures in relation to our external debt portfolio.

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:

23. **Financial instruments reserve** – holds gains / (losses) on financial instruments calculated in line with International Financial Reporting Standard 9.
24. **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.
25. **School balances** – holds funding relating to individual schools.

A risk assessment of the overall 2020-21 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 at risk external funding been identified?
- Has a reasonable estimate of cost pressures been made?
- 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 issues arising?

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 2020, which represents 4.3% of the 2020-21 net revenue budget.
- Financial risk resilience reserve of £7.0 million as at 31 March 2020, which represents 3.0% of the 2020-21 net revenue budget.
- Strategic reserve of £3.8 million as at 31 March 2020 to fund major one-off costs such as redundancies, and to underpin our budget strategy.
- Transformation reserve of £0.3 million as at 31 March 2020 (but increasing in future years) 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 £55.6 million as at 31 March 2020 (excluding 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.
- Planned sign-off of detailed budgets by relevant senior managers incorporating planned savings to be made in 2020-21.
- Effective governance arrangements at a service and corporate level to monitor the overall delivery of the 2020-21 budget plus regular monitoring reports to Cabinet and Finance & Budget Monitoring Scrutiny Sub-Committee.

Annex 1 – Risk assessment of the 2020-21 net revenue budget

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 2020-21 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. The budget proposals set out in this report include funding for cuts in New Homes Bonus and Housing Benefit Subsidy / Council Tax Support Administration Grant.
Has a reasonable estimate of future cost pressures been made?	Yes – all significant cost pressures covering inflation (pay and prices), increasing demand for services and external funding changes 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 2020-21 financial year with a £7.0 million financial risk and resilience reserve, which represents 3.0% of the 2020-21 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 2020 are expected to be £110.9 million, which represents 47.3% of the 2020-21 net revenue budget. Within this, General Fund unearmarked reserve is expected to be £10.1 million, which represents 4.3% of the 2020-21 net revenue budget. This is deemed to be adequate based on the financial risks the council is facing. Earmarked reserves as at 31 March 2020 are estimated to total £100.8 million.

Annex 2 – Breakdown of cost pressures in 2020-21

	£ million
Inflationary changes (pay and prices):	
- Pay inflation	4.5
- Non-pay inflation	0.7
- Adult social care inflation (incl. NLW / NMW)	7.4
- Children's social care inflation (incl. NLW / NMW)	1.3
- Waste management inflation	1.3
- PFI contractual inflation	0.3
Increasing demand for services:	
- Adult social care increasing demand	0.6
- Children's social care increasing demand	0.3
- Children with disabilities turning 18	0.9
- Children's social care underlying pressure	4.5
- Investment in local services / neighbourhoods	1.2
- Emerging issues (i.e. Brexit, climate change)	1.0
Funding changes:	
- Mainstreaming temporary funding	2.0
- Property portfolio income reduction	2.0
- Other external funding changes	(0.3)
TOTAL	**27.8**

Description (initial estimate)	Pay inflation (£4.5 million)
How have the above amounts been calculated?	This relates to the annual pay award for all staff. The cost pressure is calculated based on an assumed pay award of up to 2.75% applied to all non-vacant posts (including salary, employer's national insurance, and employer's pension contributions) excluding ring-fenced services such as public health, adult education and licensing.
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 2020-21.
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 2020-21 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 (£0.7 million)
How have the above amounts been calculated?	This cost pressure is an estimate based on assumed inflationary increases in 2020-21. 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 will be 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 2020-21. 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 2020-21.
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 2020-21 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 (£8.7 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 2020-21 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 long-term contracts (£1.6 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 long-term 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 divert waste away from landfill 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 pay the PFI unitary charge on the various assets constructed / funded in this way. 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 2020-21 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 / children's social care increasing demand (£0.9 million)
How have the above amounts been calculated?	This cost pressure is based on assumed population growth in 2020-21 applied to current year projected expenditure.
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 18+ and 0-17 populations in 2020-21.
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 2020-21 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 (£0.9 million)
How have the above amounts been calculated?	This cost pressure is based on specific children who will turn 18 during 2020-21 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 2020-21 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 underlying pressure (£4.5 million)
How have the above amounts been calculated?	This funding is needed to replace temporary funding currently supporting the children’s social care base budget.
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 particularly external residential care and external foster care.
If the cost pressure is due to increased demand, what evidence exists to support this?	Current projected 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 Right Child Right Care programme to safely reduce the number of looked after children.
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 2020-21 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)	Local services / neighbourhoods (£1.2 million)
How have the above amounts been calculated?	This funding is required to invest in additional staffing resources to be deployed as rapid response teams for the east, west and north of the city.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	n/a
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this investment from existing resources?	No
More generally, what is the impact of not agreeing funding for this investment?	Long-standing pressures on service delivery may not be addressed.

Description (initial estimate)	Brexit and climate change (£1.0 million)
How have the above amounts been calculated?	This funding is required to invest in specific activities to mitigate the impact of Brexit on the local economy plus address climate change.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	n/a
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this investment from existing resources?	No
More generally, what is the impact of not agreeing funding for this investment?	The impact of Brexit on the local economy may be greater than would otherwise be the case and necessary actions to address climate change may not take place.

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 2020-21 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)	Reduced commercial income (£2.0 million)
How have the above amounts been calculated?	This cost pressure is based on income reductions that have taken place in the current financial year.
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 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 commercial property market.
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 the commercial property assets 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
More generally, what is the impact of not agreeing funding for the cost pressure?	The budget will overspend.

Description (initial estimate)	Changes in external funding (-£0.3 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, Council Tax support administration and the New Homes Bonus.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Specific funding reductions 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. The New Homes Bonus does not fund any specific services as such but has been built into the base budget within corporate items.
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 2020-21 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Annex 3 – 2019-20 and 2020-21 net revenue budget by directorate

All figures in £ million	**2019-20**	**2020-21**
Adult Social Care & Integrated Services	80.8	79.5
Children, Education & Skills	44.7	50.1
City Futures (including Public Health)	5.6	5.3
Operations & Regulatory Services	8.2	10.8
Place	4.4	6.9
Resources	24.9	26.3
Net Directorate Expenditure	**168.6**	**178.9**
JTC Levy	16.0	16.1
Net Service Expenditure	**184.6**	**195.0**
Corporate Items	48.0	41.7
Transfers to / (from) Reserves	(5.4)	(2.1)
Net Revenue Budget	**227.1**	**234.6**
Less: Revenue Support Grant	0.0	(26.6)
Less: Business Rates	(117.0)	(92.6)
Council Tax Requirement	**110.1**	**115.4**

Annex 4 – 2019-20 and 2020-21 net directorate expenditure budget by service

All figures in £ million	2019-20	2020-21
Adult Social Care & Integrated Services		
Adult Social Care & Integrated Services	72.2	71.1
Director of Adult Social Care & Integrated Services	0.6	0.7
Inclusion & Commissioning	7.6	7.4
Other	0.4	0.3
Children, Education & Skills		
Children's Social Care	38.4	44.4
Director of Children, Education & Skills	0.1	0.1
Early Help & Family Support	3.1	2.5
Education	3.1	3.1
Schools	0.0	0.0
City Futures		
Communication Services	(0.0)	0.1
Communities Team	0.6	0.5
Director of City Futures	0.1	0.1
Economic Development	1.1	1.0
Museums, Arts and Culture	1.7	1.7
North of Tyne Combined Authority	0.0	0.0
Policy and Performance	0.7	0.5
Public Health	1.3	1.3
Operations & Regulatory Services		
Single Point of Leadership	(7.6)	(7.8)
Community Hubs	4.2	4.2
Environment & Public Protection	0.8	0.7
Facilities Serv and Civic Mgmt	0.2	0.9
Local Services	20.4	23.2
Operations	(0.9)	(0.8)
Director of Operations & Regulatory Services	0.5	0.4
Parking	(9.7)	(10.2)
Resilience Planning	0.2	0.2
Place		
Commercial Development & Property	(3.6)	(1.4)
Development Management	0.8	0.7
Fairer Housing Unit	0.0	0.1
Major Projects	0.1	0.1
Director of Place	0.1	0.1
Transport	7.1	7.3
Resources		
Audit, Risk and Insurance	0.5	0.5
Business Management	7.5	8.1
Chief Executive	0.3	0.3
Democratic Services	2.0	2.0
Director of Resources	0.2	0.2
Financial Services	5.1	5.4
Human Resources	2.0	2.0
ICT	5.9	6.2
Legal Services	1.4	1.6
Net Directorate Expenditure	**168.6**	**178.9**

Annex 5 – 2019-20 and 2020-21 Housing Revenue Account budget

All figures in £ million	**2019-20**	**2020-21**
Rent income	96.0	97.3
Other income	14.1	14.5
YHN management fee	(23.4)	(23.4)
Repairs and maintenance	(23.7)	(24.0)
Other running costs (e.g. utilities, supplies and services)	(15.2)	(14.9)
Bad debt provision	(1.7)	(1.7)
External interest payable	(16.4)	(17.0)
Operating surplus	**29.8**	**30.8**
Debt repayment / contribution to capital	(31.5)	(31.1)
Increase / (decrease) in HRA reserves	**(1.7)**	**(0.3)**

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 (estimate)**	**31 March 2021 (estimate)**	**31 March 2022 (estimate)**	**31 March 2023 (estimate)**
ADZ reserve (1)	0.2	(1.3)	(1.3)	(1.3)	(0.8)	(0.3)	0.2
Asset management reserve (2)	(1.4)	(2.5)	(3.9)	(3.9)	(3.6)	(3.4)	(3.1)
Collection Fund reserve (3)	7.4	7.4	7.4	8.5	8.5	8.5	8.5
Developers contributions reserve (4)	0.9	1.0	0.8	0.8	0.8	0.8	0.8
Directorate commitments reserve (5)	9.8	2.9	1.3	1.1	0.8	0.6	0.3
Financial risk & resilience reserve (6)	5.0	6.0	7.0	7.0	7.0	7.0	7.0
Housing benefit subsidy reserve (7)	2.6	2.2	2.2	1.9	1.7	1.4	1.2
Interim capital funding reserve (8)	0.0	(0.5)	(1.2)	(1.0)	(1.0)	(0.7)	(0.7)
Major developments reserve (9)	0.1	(0.6)	(1.9)	(1.7)	(1.4)	(1.2)	(0.9)
One-off funding reserve (10)	3.8	5.1	6.2	5.4	4.7	3.9	3.2
Parks Trust subsidy reserve (11)	0.0	0.0	1.4	2.4	3.3	2.5	1.3
Pension reserve (12)	4.0	4.0	4.0	4.0	4.0	4.0	4.0
PFI reserve (13)	5.6	4.9	4.6	3.8	3.1	2.5	1.8
Public Health Grant reserve (14)	1.2	1.9	2.1	1.5	1.2	0.3	0.0
Revenue grants to be applied (15)	10.1	15.6	6.8	6.3	5.8	5.3	4.8
Ring-fenced reserve (16)	0.0	7.2	15.6	15.1	14.6	14.1	13.6
Risk management & insurance reserve (17)	2.3	2.3	2.4	2.0	1.0	0.5	0.5
School kitchens reserve (18)	0.5	0.5	0.7	0.5	0.5	0.5	0.5
Single Point of Leadership reserve (19)	0.0	0.0	0.6	0.5	0.0	0.0	0.0
Strategic reserve (20)	9.0	2.5	4.6	3.8	2.8	2.8	2.8
Transformation reserve (21)	6.1	6.7	1.3	0.3	3.0	4.9	4.9
Treasury management reserve (22)	7.2	7.2	8.4	8.9	9.4	9.9	10.4
Other reserves (all under £0.5m)	0.1	0.1	1.1	0.8	0.8	0.8	0.8
SUB-TOTAL	**74.6**	**72.5**	**70.1**	**66.8**	**66.1**	**64.7**	**61.7**
Financial Instruments Reserve (23)	0.0	0.0	8.4	9.0	9.0	9.0	9.0
PFI Lifecycle Prepayment Reserve (25)	12.2	13.6	14.6	15.0	15.0	15.0	15.0
School Balances (24)	10.5	8.2	9.5	10.0	10.0	10.0	10.0
TOTAL INCLUDING OTHER EARMARKED RESERVES	**97.3**	**94.3**	**102.6**	**100.8**	**100.1**	**98.7**	**95.7**

Annex 7 – 2020-21 Council Tax resolution

At its meeting on 8 January 2020 the council agreed the overall Council Tax base for the city to be 67,429, 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	1,304
Brunswick	238
Dinnington	663
Hazlerigg	212
North Gosforth	2,288
Woolsington	1,694

Council Tax requirement		Amount the council requires for its own purposes (excluding parish precepts)	£115,186,938

The following amounts have been calculated by the council for the year 2020-21 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:	£671,172,802
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:	£555,903,262
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:	£115,269,540
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):	£1,709.50
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:	£82,602

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: £1,708.27

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	1,729.42
Brunswick	1,727.13
Dinnington	1,727.12
Hazlerigg	1,739.96
North Gosforth	1,714.83
Woolsington	1,717.90

(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	1,152.95	1,151.42	1,151.42	1,159.98	1,143.22	1,145.27	1,138.85
B	1,345.10	1,343.32	1,343.31	1,353.30	1,333.75	1,336.14	1,328.65
C	1,537.26	1,535.22	1,535.22	1,546.63	1,524.29	1,527.02	1,518.46
D	**1,729.42**	**1,727.13**	**1,727.12**	**1,739.96**	**1,714.83**	**1,717.90**	**1,708.27**
E	2,113.74	2,110.94	2,110.93	2,126.62	2,095.91	2,099.66	2,087.89
F	2,498.05	2,494.74	2,494.73	2,513.27	2,476.98	2,481.41	2,467.50
G	2,882.37	2,878.55	2,878.54	2,899.94	2,858.05	2,863.17	2,847.12
H	3,458.84	3,454.26	3,454.24	3,479.92	3,429.66	3,435.80	3,416.54

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	55.98	91.33
B	65.31	106.56
C	74.64	121.78
D	**83.97**	**137.00**
E	102.63	167.44
F	121.29	197.89
G	139.95	228.33
H	167.94	274.00

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	1,300.26	1,298.73	1,298.73	1,307.29	1,290.53	1,292.58	1,286.16
B	1,516.97	1,515.19	1,515.18	1,525.17	1,505.62	1,508.01	1,500.52
C	1,733.68	1,731.64	1,731.64	1,743.05	1,720.71	1,723.44	1,714.88
D	**1,950.39**	**1,948.10**	**1,948.09**	**1,960.93**	**1,935.80**	**1,938.87**	**1,929.24**
E	2,383.81	2,381.01	2,381.00	2,396.69	2,365.98	2,369.73	2,357.96
F	2,817.23	2,813.92	2,813.91	2,832.45	2,796.16	2,800.59	2,786.68
G	3,250.65	3,246.83	3,246.82	3,268.22	3,226.33	3,231.45	3,215.40
H	3,900.78	3,896.20	3,896.18	3,921.86	3,871.60	3,877.74	3,858.48

Annex 8 – 2020-21 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 £113.4 million in 2019-20, £107.3 million in 2020-21 and £80.0 million in 2021-22 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 £55.4 million in 2019-20, £47.0 million in 2020-21 and £45.0 million in 2021-22 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	**2019-20**	**2020-21**	**2021-22**
Housing Revenue Account	5.0	5.0	5.0
General Fund:			
Supported borrowing	0.0	0.0	0.0
Prudential borrowing	10.7	12.5	12.8
TOTAL	**15.7**	**17.5**	**17.8**

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	370.8	374.2	369.2
General Fund:			
Supported borrowing	139.1	139.1	139.1
Prudential borrowing	415.4	425.1	412.3
TOTAL	**925.4**	**938.4**	**920.7**

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 other 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 are assisted in this task by the council's Good Stewardship 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 £38.3 million of capital receipts in the current and next two financial years as follows:

All figures in £ million	2019-20	2020-21	2021-22
Housing Revenue Account	8.2	8.2	8.2
General Fund	5.0	8.5	0.2
TOTAL	**13.2**	**16.7**	**8.4**

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	0.6

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 £742.7 million of borrowing as at 31 March 2019 at an average interest rate of 3.34%, and £79.1 million of investments as at 31 March 2019 at an average rate of 0.66%.

Borrowing strategy

The council is a net borrower due to its ambitious capital investment plans. The council's main objectives when borrowing are 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	**2019-20**	**2020-21**	**2021-22**
Capital financing requirement	925.4	938.4	920.7
Operational boundary	935.4	948.4	930.7
Authorised limit	945.4	958.4	940.7

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	**2019-20**	**2020-21**	**2021-22**
Authorised limit	945.4	958.4	940.7
Net debt	(802.0)	(815.0)	(797.3)
DIFFERENCE	**143.4**	**143.4**	**143.4**

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	**2019-20**	**2020-21**	**2021-22**
Treasury management investments	10.0	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 these loans. The following table sets out details of service investments (loans) as at 31 March 2018 and 31 March 2019.

All figures in £ million	Purpose of investment	31 March 2018	31 March 2019
Leazes Homes	Housing development across the city	29.9	29.0
Cedars mortgages	Purchase of properties in The Cedars	2.2	1.7
Newcastle International Airport Ltd.	Re-finance bank debt	13.7	13.7
Various cultural & leisure bodies	Development of cultural & leisure facilities across the city	8.7	12.8
Stephenson Hotel Ltd.	Construction of hotel in Stephenson Quarter	12.3	12.3
Greenwich Leisure Ltd.	Improve leisure facilities across the city	2.8	2.5
Your Homes Newcastle	Facilitate transfer of assets from HRA to YHN	6.5	6.5
Newcastle Falcons	Development of Kingston Park stadium	6.2	6.2
Newcastle Eagles	Development of new stadium	0.0	3.0
Helix District Energy Centre	Heating and power to Helix site	0.0	3.1
Other	Various	2.9	2.8
TOTAL		**85.1**	**93.6**

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 £23.3 million have been issued to date in the current year and principal repayments of £2.8 million have been received. A further loan of £11.0 million is expected to be issued to the Newcastle upon Tyne Hospitals NHS Foundation Trust before the end of the year subject to all the final legal formalities being concluded.

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 2019.

All figures in £ million	Asset value as at 31 March 2019	Outstanding borrowing as at 31 March 2019
Newcastle International Airport	15.5	0.0
Newcastle Helix (see note)	16.7	0.6
New Tyne West Development Company	5.5	4.2
TOTAL	**37.7**	**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).
- The initial capital outlay may not be recovered (equity).

To ensure service investments remain proportionate to the size of the council, these are subject to an overall maximum borrowing limit of £190 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 £190 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 2020-21 General Fund net revenue budget (6.0% when commercial investments are also taken into account), 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 such as housing development, cultural and other events, play areas and improving the life chances of the most disadvantaged. 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. 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 following table sets out details of the council's commercial investments as at 31 March 2018.

All figures in £ million	Asset value as at 31 March 2019	Outstanding borrowing as at 31 March 2019
40% of Eldon Square	145.9	73.9
Former Sage warehouse	1.6	1.8
Partnership House	17.5	19.7
TOTAL	**165.0**	**95.4**

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

- Expected income and expenditure profiles may be overly optimistic and the council may be unable to meet related interest and principal repayments.
- Property values may decrease due to external factors reducing the potential value the council may achieve through disposing of an asset.

To ensure commercial investments remain proportionate to the size of the council, these are subject to an overall maximum borrowing limit of £190 million and contingency plans are in place to mitigate the potential risk including the following:

- Council undertakes due diligence of all business cases including sensitivity analysis using external advisors where necessary.
- All properties purchased are professionally valued by external property surveyors.
- Regular monitoring of financial performance of all commercial investments through the council's budget monitoring process.

The rationale for the £190 million limit is based on the principle of proportionality – at this level the interest payments at the council's internal rate equate to approximately 3.0% of the council's General Fund net revenue budget (6.0% when service investments are taken into account), which does not expose the council to a disproportionate level of risk. The limit will be kept under review and amended if required.

Decisions on commercial investments are made in accordance with the council's financial regulations. All the above commercial investments were also included in the council's capital programme.

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

Other Investments

Although not held purely or mainly for financial gain, the council does hold a range of other income-generating property assets. As at 31 March 2019 these assets were valued at £148.7 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 in 2018-19, 2019-20 and 2020-21. Should the council fail to achieve the expected net income in 2020-21, 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 £ million	2017-18	2019-20	2020-21
Expected net income from commercial and other investments (A)	8.9	9.4	7.5
Expected net revenue expenditure (B)	228.4	227.1	234.6
Proportion (i.e. A / B)	**3.9%**	**4.2%**	**3.2%**

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 2018-19 annual accounts, which may be found here.

Liabilities

In addition to the council's external debt of £742.7 million as at 31 March 2019, the council is committed to making future payments to cover its pension deficit (valued at £735.6 million as at 31 March 2019), to meet its PFI contractual obligations (valued at £202.8 million as at 31 March 2019) and to meet its contractual obligations under finance leases (valued at £27.8 million as at 31 March 2019). It also set aside £34.6 million as at 31 March 2018 to cover risks in relation to business rates appeals, insurance claims and severance costs. Finally, premiums totalling £24.7 million were paid out up to 31 March 2019 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 2018-19 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.

	2019-20	2020-21	2021-22
General Fund	13.01%	14.13%	14.47%
Housing Revenue Account	19.50%	19.46%	19.04%

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 3.5%. 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 – 2019-20 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);
- European Investment Bank; 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	£15 million each (no change)	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)
CCLA Local Authority Property Fund / Altana Public Sector Social Impact Fund CCLA Diversified Income Fund / Public Sector Deposit Fund	£10 million (no change)	Unlimited (no change) 1 year (no change)

Under the new IFRS 9 accounting standard, 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; and
- 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 derivative transactions 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 – 2020-21 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.