November 2018

Shaping our future together

Our medium-term plan 2019-20 to 2021-22

Appendix 1 – Revenue and capital plan

Contents

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

2019-20 is the ninth year of austerity and government-imposed funding cuts and, coupled with the unfunded cost pressures we have faced over the same period, this has resulted in us needing to achieve savings of £267 million over the last eight years, and further savings next year, to balance our budget. 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 financial planning are:

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

The medium term financial 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 of 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 financial plan. In summary, our net revenue budget is determined by the level of Revenue Support Grant and Business Rates Top-Up Grant from government and the level of business rates and Council Tax collected locally.

Table 1 – net revenue budget over medium term financial plan period covering 2019-20 to 2021-22

All figures in £ million	2019-20	2020-21	2021-22
Revenue Support Grant	26.2	17.0	8.3
Business rates	90.8	92.7	94.5
Council tax	109.1	113.5	118.0
Net revenue budget	**226.2**	**223.2**	**220.8**

NOTE: Table 1 excludes the potential impact of 75% business rates retention in 2020-21
As can be seen from Table 1 the net revenue budget is expected to decrease from £226.2 million in 2019-20 to £220.8 million in 2021-22 due mainly to a cut in Revenue Support Grant (i.e. £17.9 million) off-set by potential increases in business rates (i.e. £3.7 million) and Council Tax (i.e. £8.9 million). Along with unfunded cost pressures this means we will need to find savings of £60.0 million over the next three years to balance our budget after taking into account the government-assumed Council Tax increase of 2.95% in each year plus an adult social care precept increase of 1.0% in 2019-20.

Table 2 – unfunded cost pressures and savings requirements over medium term financial plan period covering 2019-20 to 2021-22

All figures in £ million	2019-20	2020-21	2021-22	Three-year summary
Previous year's net revenue budget	228.4	226.2	223.2	228.4
Unfunded cost pressures	14.8	19.1	18.6	52.5
Savings requirement	(16.9)	(22.2)	(20.9)	(60.0)
Net revenue budget	**226.2**	**223.2**	**220.8**	**220.8**

Further details on the plans for meeting the 2019-20 savings requirement are set out later in this document and in Appendix 2. The planned use of reserves over the next three years has been factored into the reserves forecast set out in Annex 6.

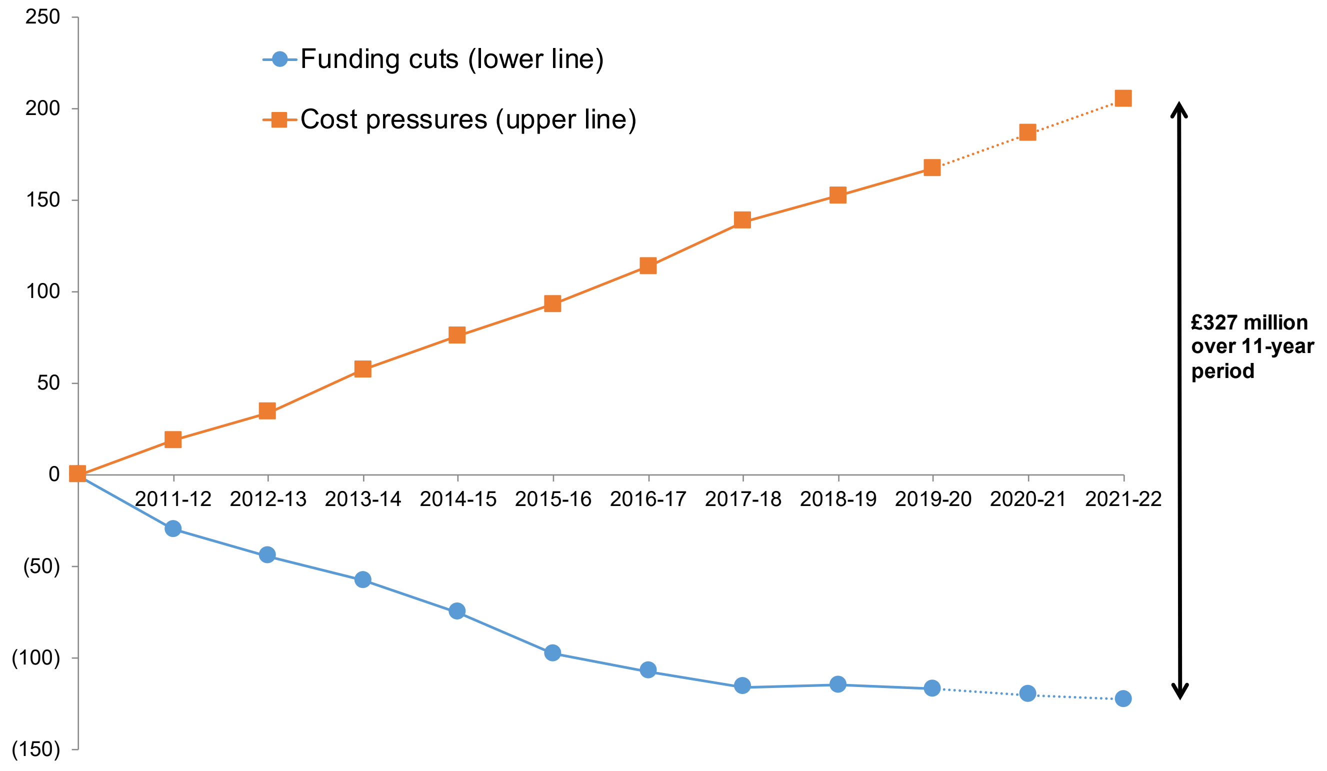
2.1 General Fund savings achieved to date

The savings required to balance the 2019-20 budget should be seen in the context of what we have already achieved over the last few years, and what we are forecasting may happen over the next few years.

Over the last eight years we have achieved savings of £267 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 proposals have had an impact on services, however, many of the savings 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.

Following the last local government finance settlement, we now have some certainty in relation to the level of funding cuts we will receive over the next two years. Cost pressures are more uncertain, however, which is why we have included a contingency or headroom figure in future years.

Chart 1 – cumulative savings achieved / required from 2011-12 to 2021-22 (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 2018-19

The 2019-20 budget is built upon the foundation of a sound financial position, and this is evidenced by the strong financial performance in the current year and in previous years. Before the start of the financial year, progress on achieving the savings was closely monitored at both officer and councillor level. This monitoring continued throughout the year and was enhanced by our formal budget monitoring process that looks at overall performance against the budget and not just delivery of specific savings proposals. Detailed budget monitoring reports are considered by directorate management teams and directors' team on a regular basis.

Based on the budget monitoring work undertaken to date, we are currently projecting a potential overspend of £3.5 million on our net revenue budget. The main areas of pressure relate to Transport, Children's Social Care, Local Services and Property Services. Projected underspends in Facilities Services and Civic Management and corporate items (including a one-off Council Tax surplus from 2017-18) have partly mitigated the impact of these pressures on the overall General Fund revenue budget. Additional funding has been included within cost pressures to help address these pressures over the next three years, and managers in these areas are working hard to address the underlying factors causing these pressures.

2.3 General Fund 2019-20 revenue budget

The following specific assumptions have been made in the development of the 2019-20 General Fund revenue budget.

- A cash reduction in Revenue Support Grant of £9.2 million (i.e. 25.9% of 2018-19 figure of £35.4 million).
- Increase of £1.8 million in the amount of business rates income receivable, due mainly to a 2.0% inflationary increase in the multiplier set by central government. Section 31 grant will continue to be received by us due to government decisions to limit inflationary increases in the business rates multiplier in previous years.
- Increase of £5.2 million in the amount of Council Tax income receivable, split between growth in the size of the Council Tax base (i.e. £1.0 million), a government-assumed increase of 2.95% (i.e. £3.1 million) and a government-recommended specific increase in relation to adult social care of 1.0% (i.e. £1.0 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).
- Pay award of 2.0% for 2019-20 agreed with trade unions and estimated pay awards in future years.
- General inflationary changes in essential utilities such as gas, electricity and water, external insurance premiums, and business rates payable by us.
- 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.
- Service specific cost pressures arising from inflation (including the National Living Wage) and increasing demand.
- Proposals totalling £16.9 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.
- Additional one-off funding for adult / children's social care announced in the Autumn Budget on 29 October 2018 – this will be utilised in line with any grant conditions with the aim of supporting transformation in these services.

Table 3 – assumed budget changes from 2018-19 to 2019-20

Description	£ million
2018-19 net revenue budget	228.4
Plus: unfunded cost pressures	14.8
Less: savings	(16.9)
2019-20 net revenue budget	**226.2**
Net funding increase / (cut)	(2.2)

The cash reduction in the net revenue budget in 2019-20 is £2.2 million or 1.0% of the 2018-19 net revenue budget. However, in real terms (i.e. after taking unfunded cost pressures into account) there is a reduction of £16.9 million or 7.4% of the 2018-19 net revenue budget.

The savings as a percentage of 2018-19 gross expenditure (i.e. total expenditure before any income is netted off) excluding housing benefits and schools is 3.1%.

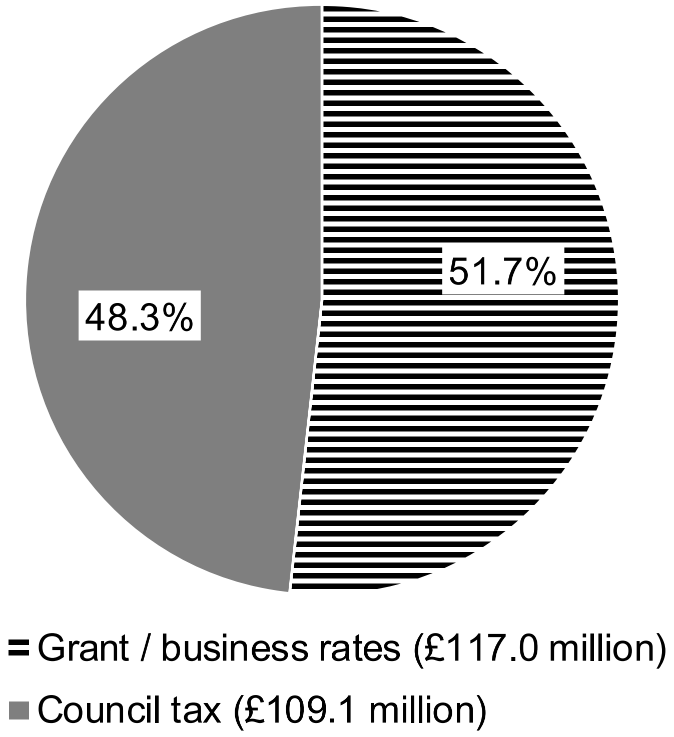
Table 4 sets out the change in our net revenue budget, broken down into the individual elements it is comprised of. The estimated reduction in Revenue Support Grant of £9.2 million is partly off-set by an increase in business rates income arising from an increase in the multiplier (i.e. £1.8 million), and an increase in Council Tax income arising from growth in the Council Tax base and a proposed Council Tax increase of 3.95% (i.e. £5.2 million).

Table 4 – change in net revenue budget between 2018-19 and 2019-20

All figures in £ million	2018-19	2019-20	Change
Revenue Support Grant	35.4	26.2	(9.2)
Business rates (including grants)	89.0	90.8	1.8
Council tax	104.0	109.1	5.2
Net revenue budget	**228.4**	**226.2**	**(2.2)**

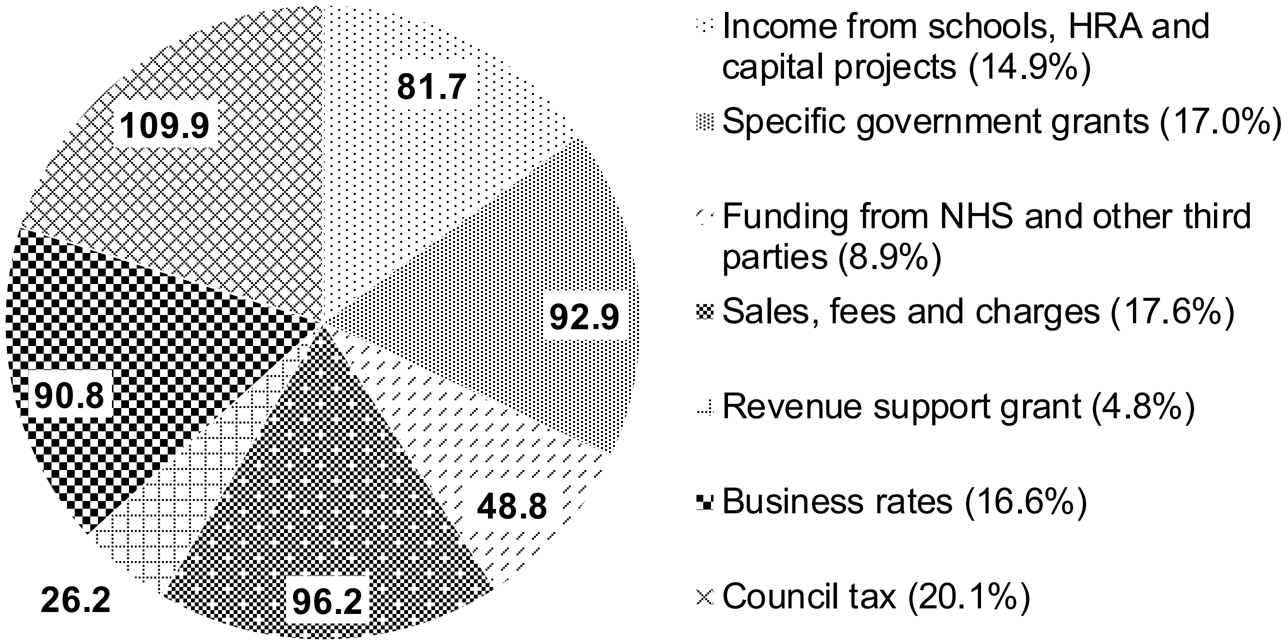
Revenue Support Grant and business rates constitute the total of un-ringfenced government funding we are expected to receive in 2019-20 and are currently collectively referred to as the settlement funding assessment ("SFA"). Together these will fund an estimated £117.0 million or 51.7% of our net revenue budget in 2019-20 compared with 54.5% in 2018-19. Council Tax will fund the other £109.1 million or 48.3% of the 2019-20 net revenue budget as shown in Chart

Chart 2 – breakdown between estimated government funding (including business rates) and Council Tax in 2019-20



When viewed as a percentage of total General Fund income excluding schools and housing benefits, Council Tax represents 19.0% of total income as shown in Chart 3.

Chart 3 – breakdown of total estimated General Fund income in 2019-20 (figures are in £ million)



2.4 Council Tax

We are proposing a general increase in Council Tax of 2.95% in 2019-20 plus a government-recommended increase in the adult social care precept of 1.0% that will only part-fund the significant cost pressures we face in relation to adult social care. Further details on the proposed increases are set out in an 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 2017-18 there was a significant surplus on the Collection Fund and a further surplus is anticipated in 2018-19. We will therefore be increasing our assumed long-term collection rate from 97.5% to 98.0% when we set our Council Tax base in January 2019. This will increase the Council Tax precept (all other things being equal) by £0.6 million 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. This will increase the premium payable on properties that have been empty over two years from 50% to 100% and will generate additional income estimated at £0.4 million in 2019-20.

2.5 Council Tax reduction

In 2013-14 Council Tax benefit came to an end, and Council Tax reduction was introduced in its place. At the same time, funding was transferred into the settlement funding assessment (comprising Revenue Support Grant and business rates) after being cut by over 10.0%. As this funding is not separately ring-fenced within the settlement funding assessment, it has effectively been cut at the same rate as our settlement funding assessment has been cut since then – i.e. 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%). We estimate the funding loss over the seven-year period to be in the region of £12.0 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.
City Council agreed a new Council Tax reduction scheme for 2018-19 that will allocate Council Tax reduction on a banded basis as shown below:

CTR Level	Singles (£)	Couples (£)	Families with 1 child (£)	Families with 2+ children (£)
Band A - 90%	0.00 to 110.00	0.00 to 160.00	0.00 to 210.00	0.00 to 260.00
Band B - 85%	110.01 to 150.00	160.01 to 200.00	210.01 to 250.00	260.01 to 300.00
Band C - 50%	150.01 to 230.00	200.01 to 270.00	250.01 to 330.00	300.01 to 370.00
Band D - 25%	230.01 to 300.00	270.01 to 350.00	330.01 to 400.00	370.01 to 450.00

There are no planned changes to the above in 2019-20.

2.6 Business rates

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

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 2018. 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.
Our share of business rates income in 2019-20 has been estimated at £73.6 million (including section 31 grant), which when taken together with the top-up grant provided by the government (i.e. £17.3 million) represents an increase of £1.8 million compared with the previous year.
The government continue to work towards greater retention of business rates by local authorities with current proposals being to increase the share retained by us from 49% to 74% (with 1% retained by Tyne and Wear Fire and Rescue Authority) in 2020-21. This will be done on a cost neutral basis with the increase in business rates retained being off-set by reductions in Revenue Support Grant and Public Health Grant, and an adjustment to the Business Rates Top-Up Grant to ensure ‘fiscal neutrality’ as shown in Table 5.

Table 5 – potential impact of the proposed move to 74% retention of business rates in 2020-21

All figures in £ million	**As Is**	**To Be**
Revenue Support Grant	17.0	0.0
Business rates:		
Retained business rates	75.1	113.3
Business Rates Top-Up Grant	17.6	19.2
Council tax	113.5	113.5
Net revenue budget	**223.2**	**246.1**
Public Health Grant	22.9	0.0
Revised net revenue budget	**246.1**	**246.1**

2.7 Revenue Support Grant

Revenue Support Grant for 2019-20 was announced as part of the last local government finance settlement and will be £26.2 million. This represents a reduction of £9.2 million or 25.9% compared with the amount received in 2018-19.

2.8 Unfunded cost pressures

Our need to find savings in 2019-20 and future years is driven also by unfunded cost pressures arising from a number of sources as well as the net funding cut imposed by the government. The cost pressures element of this is estimated at £14.7 million as shown in Table 6.

Table 6 – breakdown of 2019-20 savings target

Description:	£ million
Net funding (increase) / cut	2.2
Unfunded cost pressures	14.7
2019-20 savings requirement	**16.9**

Cost pressures arise for several reasons including:

- Pay and price inflationary increases – increases in pay and other staff related costs (for example pension costs) and general and 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 – cuts in specific grants (for example housing benefit subsidy administration grant and education services grant).

Table 7 shows the total cost pressures identified under each of the above headings.

Table 7 – breakdown of 2019-20 unfunded cost pressures

Description:	£ million
Inflation (pay and prices)	13.4
Increasing demand for services	2.0
External funding changes	(0.7)
TOTAL	**14.7**

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

2.9 Savings

As shown in Table 6, estimated savings of £16.9 million are needed in 2019-20 to address the net funding cut and the unfunded cost pressures we face. These savings have been identified in directorate and corporate budgets to ensure a balanced budget position. Table 8 summarises the savings proposed by directorate, and Appendix 2 sets out a more detailed breakdown of the individual savings proposals put forward by each directorate, some of which have a potential service impact set out within an integrated impact assessment.

Table 8 – 2019-20, 2020-21 and 2021-22 savings by directorate

All figures in £ million	2019-20	2020-21	2021-22
Assistant Chief Executive's	0.2	0.3	2.0
Operations & Regulatory Services	3.3	1.7	3.8
People	6.6	12.9	8.6
Place	0.9	0.6	2.0
Resources	1.6	0.8	0.8
Corporate	4.3	5.8	3.7
TOTAL	**16.9**	**22.2**	**20.9**

The impact on the net revenue budget of the savings and the other changes set out in this report is shown in Table 9 in summary form, and in Annex 3 and Annex 4 in more detail.

Table 9 – 2018-19 and 2019-20 net revenue budget by directorate

All figures in £ million	**2018-19**	**2019-20**
Assistant Chief Executive's	6.6	6.7
Operations & Regulatory Services	8.2	7.5
People	128.5	125.8
Place	6.6	6.3
Resources	20.2	20.6
NECA levy	16.2	16.0
Corporate items / reserves	42.1	44.3
Net revenue budget	**228.4**	**227.1**

NOTE: the difference between the 2019-20 net revenue budget figure of £227.1 million in Table 9 and Annex 3, and the 2019-20 net revenue budget figure of £226.2 million included in Tables 1 to 4 is due to the proposals to increase the amount of Council Tax income through changing the assumption in relation to the long-term collection rate from 97.5% to 98.0% (i.e. £0.6 million) and increasing the empty property premium from 50% to 100% (i.e. £0.4 million).

Annex 4 includes a breakdown of all services included within each directorate.

The NECA levy is the amount paid over to the North East Combined Authority 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 needs 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 2019-20 HRA revenue budget. The changes mainly reflect the rent reduction of 1% specified by government, pay and non-pay inflationary cost pressures, and do not take into account the recent government decision to remove the HRA debt cap.

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.

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. We must however ensure we use this, and any capital receipts we generate from asset disposals, to lever in the maximum amount of external funding possible.

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 a number of 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.

4.1 2018-19 to 2021-22 capital investment programme

The following tables set out the breakdown of the 2018-19 to 2021-22 capital investment programme between the General Fund and Housing Revenue Account (Table 10), between council directorates (Table 11), between HRA programme streams (Table 12) and by sources of funding (Table 13).

Table 10 – planned capital investment from 2018-19 to 2021-22 split between the General Fund and the Housing Revenue Account (HRA)

All figures in £ million	2018-19	2019-20	2020-21	2021-22
General Fund	90.5	87.4	80.0	80.0
HRA	46.3	40.2	37.5	40.0
TOTAL	**136.7**	**127.6**	**117.5**	**120.0**

Table 11 – General Fund planned capital investment from 2018-19 to 2021-22 by council directorate

All figures in £ million	2018-19	2019-20	2020-21	2021-22
Assistant Chief Executive's	1.0	1.1	0.0	0.0
Operations & Regulatory Services	6.2	19.6	0.0	0.0
People	7.1	3.7	0.0	0.0
Place	64.6	28.6	0.0	0.0
Resources	4.4	2.6	0.0	0.0
Loans	7.2	1.9	0.0	0.0
Pipeline	0.0	30.0	80.0	80.0
TOTAL	**90.5**	**87.4**	**80.0**	**80.0**

Table 12 – HRA planned capital investment from 2018-19 to 2021-22 by programme

All figures in £ million	2018-19	2019-20	2020-21	2021-22
Communal areas	5.3	3.3	3.3	0.0
Environmental works	2.5	2.4	2.4	0.0
Lifecycle replacements	24.4	21.5	22.3	0.0
New build and acquisitions	5.7	9.3	5.8	0.0
Participatory budgets	0.5	0.0	0.0	0.0
Regeneration	4.6	1.3	1.3	0.0
Standard housing investment	3.3	2.4	2.4	0.0
Programme totals to be allocated	0.0	0.0	0.0	40.0
TOTAL	**46.3**	**40.2**	**37.5**	**40.0**

Table 13 – planned capital investment from 2018-19 to 2021-22 by source of finance

All figures in £ million	2018-19	2019-20	2020-21	2021-22
Grants / contributions (mainly General Fund)	36.1	10.9	0.0	0.0
Capital receipts (mainly General Fund)	12.6	4.4	0.0	0.0
Revenue (mainly HRA)	38.3	32.8	28.0	0.0
Borrowing (mainly General Fund)	49.8	49.5	9.5	0.0
Pipeline (no funding approved yet)	0.0	30.0	80.0	120.0
TOTAL	**136.7**	**127.6**	**117.5**	**120.0**

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 (£19.4 million)
- Civic Centre office accommodation (£17.2 million)
- Newcastle Life Sciences incubation hub (£14.7 million)
- Street lighting LED replacement programme (£9.0 million)
- IT investment (£6.9 million)
- Loans to third parties (£6.9 million)
- Killingworth Road Challenge Fund (£6.5 million)
- Science Central infrastructure (£5.8 million)
- Housing developments (£4.7 million)
- Highway and footpath improvements (£3.6 million)
- Investment in primary school estate (£3.5 million)
- Disabled facilities grants (£2.8 million)
- Grainger Market roof (£2.7 million)
- Northumberland Street improvements (£2.5 million)
- Regenerate (£1.9 million)
- Slatyford Road children’s residential care home (£1.3 million)
- Bullocksteads ground acquisition (£1.2 million)

5. Risk assessment of General Fund budget

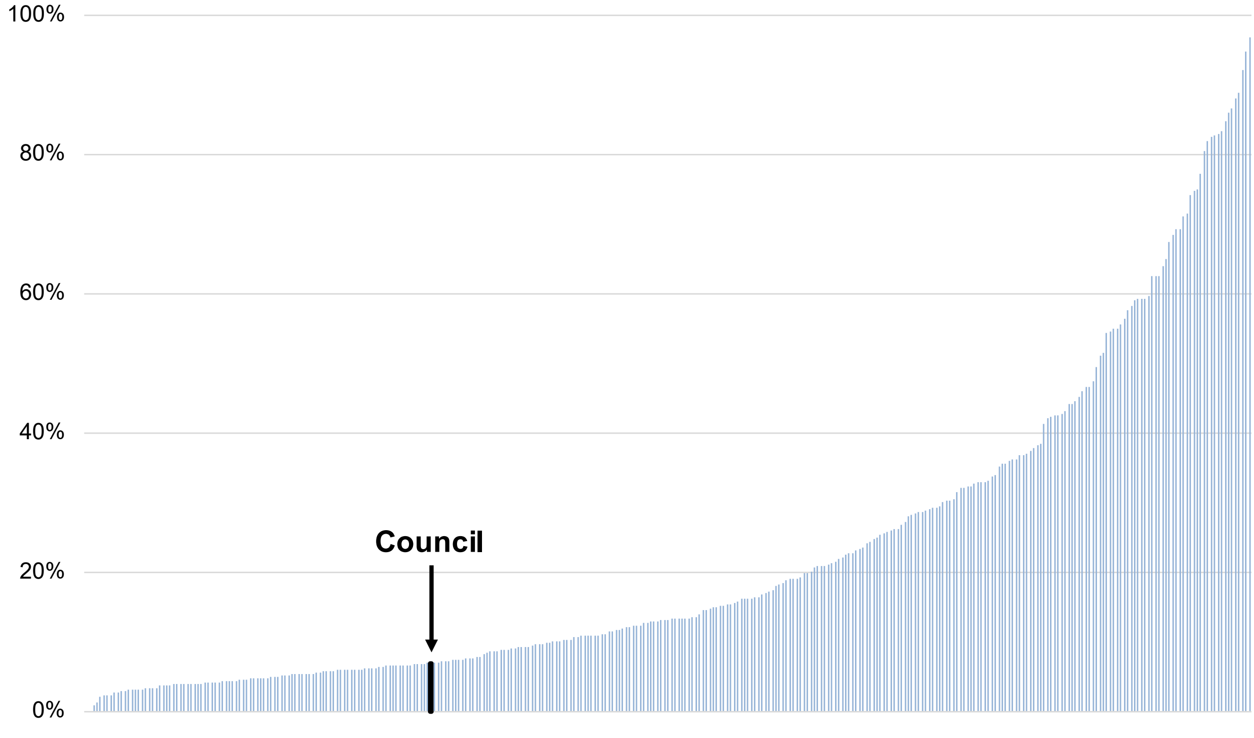
We adopt a risk-based approach to medium term financial planning, which aims to:

- 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.

As can be seen in Chart 4, unearmarked General Fund reserves (consisting of the General Fund unearmarked reserve and the financial risk and resilience reserve) as at 31 March 2018 totalled £16.1 million, which represented 7.0% of 2017-18 net revenue expenditure, compared with an all-England mean average of 8.8%.

Chart 4 – unearmarked General Fund reserves as at 31 March 2018



It should be noted that 13 local authorities had unearmarked General Fund reserves that exceeded 100% of their 2017-18 net revenue expenditure, and a further six local authorities did not submit data.

At 31 March 2019, we expect to hold General Fund reserves totalling £94.1 million as shown in Annex 6 although this is expected to reduce to £82.9 million by 31 March 2022.

Our earmarked reserves are set aside for specific purposes. The main earmarked reserves are set out in Table 13 and a brief description of each one is set out below:

- **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.
- **Airport dividend reserve** – holds dividends received from Newcastle International Airport that have been earmarked for specific priorities.
- **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.
- **Collection Fund reserve** – holds funding to mitigate future Collection Fund deficits.
- **Developers contributions reserve** – holds funding received from developers for capital works linked to planning applications.
- **Directorate commitments reserve** – holds funding to meet future financial commitments of directorates.
- **Housing benefit subsidy reserve** – holds funding to mitigate future cost pressures in this area.
- **Interim capital funding reserve –** to fund cash outflows arising from capital works, which will be repaid in future years.
- **Major developments reserve** – to fund cash outflows arising in the early years of specific development projects.
- **Pensions reserve** – holds funding to mitigate future cost pressures in relation to our pension liabilities.
- **PFI / BSF reserve** – holds funding to meet future payments under our PFI / BSF contracts.
- **Public health reserve** – holds unspent public health grant funding to be used to meet future financial commitments.
- **Ring-fenced balances reserve** – holds funding that may only be spent on specific statutory activities.
- **Risk management and insurance reserve** – holds funding to invest in risk management initiatives and to mitigate future cost pressures in relation to our insurance liabilities.
- **School balances** – holds funding relating to individual schools.
- **School kitchens reserve** – holds funding to replace / refurbish school kitchens used by council staff to provide school meals to children.
- **Strategic reserve** – holds funding to support our medium term financial plan.
- **Transformation reserve** – holds funding set aside for future transformation / public sector reform work.
- **Treasury management reserve** – holds funding to mitigate future cost pressures in relation to our external debt portfolio.
- **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.

- **Revenue grants to be applied reserve** – holds unspent grant funding to be used to meet future financial commitments.

A risk assessment of the overall 2019-20 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 and a financial risk resilience reserve totalling £7.0 million as at 31 March 2019, which when combined represent 7.6% of the 2019-20 net revenue budget.
- Strategic reserve of £6.6 million as at 31 March 2019 to fund major one-off costs such as redundancies, and to underpin our budget strategy.
- Other earmarked reserves totalling £35.2 million as at 31 March 2019 (excluding PFI lifecycle replacement reserve, revenue grants unapplied and school balances), which may be used on a short-term temporary basis, provided the funding is replaced in future years.
- Completion of detailed implementation plans for all savings proposal.
- Planned sign-off by relevant senior managers of detailed budgets incorporating planned savings to be made in 2019-20.
- Effective governance arrangements at a service and corporate level to monitor the overall delivery of the 2019-20 budget plus regular monitoring reports to Cabinet and Finance and Budget Monitoring Scrutiny Sub-Committee.

Annex 1 – Initial risk assessment of the 2019-20 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 2019-20 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 were this is reasonable / achievable. Corporate income targets for Council Tax and business rates have been set using prudent assumptions.
Has 'at risk' external funding been identified?	Yes – each specific grant is separately coded within our 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 / 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) and increasing demand for services were considered when estimating our 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 our financial system. All budgets are monitored on a monthly basis and the results of this are reported to Cabinet and Finance and 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 2019-20 financial year with a £7.0 million financial risk and resilience reserve, which 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 2019 are expected to be £94.1 million, which represents 41.6% of the 2019-20 net revenue budget. Within this, General Fund unearmarked reserves (including the financial risk and resilience reserve) are expected to be £17.1 million, which represents 7.6% of the 2019-20 net revenue budget. This is deemed to be adequate based on the financial risks facing us.

Annex 2 – Breakdown of cost pressures over medium-term financial plan period covering 2019-20 to 2021-22

All figures in £ million	2019-20	2020-21	2021-22
Inflationary changes (pay and prices):			
- Pay inflation	5.0	4.5	4.5
- Non-pay inflation	1.5	0.8	0.8
- Adult social care inflation (incl. NLW / NMW)	5.1	5.2	4.4
- Children's social care inflation (incl. NLW / NMW)	1.0	1.0	0.9
- Waste management inflation	0.5	0.5	0.5
- PFI contractual inflation	0.3	0.4	0.4
Increasing demand for services:			
- Adult social care increasing demand	0.4	0.5	0.6
- Children's social care increasing demand	0.3	0.3	0.2
- Temporary ASC expenditure	(1.9)	0.0	0.0
- Children with disabilities turning 18	0.8	0.6	0.6
- Children's social care underlying pressure	1.5	1.5	0.0
- SEN transport increasing demand	0.4	0.5	0.5
- Waste management increasing demand	0.5	0.2	0.3
Funding changes:			
- Mainstreaming temporary funding	1.3	1.3	1.3
- Improved Better Care Fund	(3.3)	0.0	0.0
- Other external funding reductions	1.2	(0.2)	0.9
SUB-TOTAL			
Headroom	0.0	2.0	2.5
TOTAL	**14.7**	**19.1**	**18.6**

Description (initial estimate)	Pay inflation (£5.0m in 2019-20)
How have the above amounts been calculated?	This relates to the annual pay award for all staff. The cost pressure is calculated based on the agreed pay award of 2% 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 already agreed by employers as part of national pay bargaining.
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 2019-20.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to our 2019-20 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 (£1.5m in 2019-20)
How have the above amounts been calculated?	This cost pressure is an estimate based on assumed inflationary increases in 2019-20. 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?	If we reduce the number of buildings, the resulting utilities / business rates savings will be factored into specific budget proposals. Energy efficiency measures – savings arising from improving energy efficiency in the Civic Centre are already included in the office accommodation 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 2019-20. 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 2019-20.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to our 2019-20 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 (£6.1m in 2019-20)
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 have agreed an inflationary increase hourly rates payable to third party providers to reflect the costs incurred by providers, and to avoid legal challenge. 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, and to avoid legal challenge.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	Any savings from greater investment in preventative services and improved partnership working are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Cost pressure is based on 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 2019-20 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 (£0.8m in 2019-20)
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?	Further behavioural change to divert waste away from landfill.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Inflation factors to be used to calculate inflationary increases are set out in the relevant contracts.
Does the activity causing the cost pressure need to continue?	Yes, 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 2019-20 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 (£0.7m in 2019-20)
How have the above amounts been calculated?	This cost pressure is based on assumed population growth in 2019-20.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Assumed increase in 18+population and assumed increase in 0-17 population.
If the cost pressure is due to increased demand, what evidence exists to support this?	Future population projections.
What, if anything, can be done to mitigate the cost pressure?	Any savings from greater investment in preventative services and improved partnership working are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	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 2019-20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Description (initial estimate)	Adult social care temporary expenditure (-£1.9m in 2019-20)
How have the above amounts been calculated?	Not a cost pressure as such, this relates to the reversal of temporary items funded from the additional 1% adult social care Council Tax precept agreed in 2017-18 and 2018-19.
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?	Yes, this was a condition of agreeing the additional 1% adult social care Council Tax precept in 2017-18 and 2018-19.
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Description (initial estimate)	Children with disabilities turning 18 (£0.8m in 2019-20)
How have the above amounts been calculated?	This cost pressure is based on specific children who will turn 18 during 2019-20 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. Improvements in medical treatment mean there will be growth in young people with profound and multiple disabilities and severe learning disabilities over the next 20 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 separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to our 2019-20 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 (£1.5m in 2019-20)
How have the above amounts been calculated?	This cost pressure is a part-contribution to reduce the current overspend in children's social care. Other measures will need to be taken by the directorate to reduce costs.
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?	Efforts to reduce the number / cost of looked after children will continue to try and reduce the cost pressure in future years. The level of funding will need to be reviewed annually as part of the medium term financial planning process.
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 2019-20 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)	SEN transport increasing demand (£0.4m in 2019-20)
How have the above amounts been calculated?	This cost pressure is based on assumed increases in the number of children with SEN requiring transport to school.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increasing demand to transport children with high needs to school.
If the cost pressure is due to increased demand, what evidence exists to support this?	This cost pressure is based on average increase in numbers of children with SEN requiring transport in previous years.
What, if anything, can be done to mitigate the cost pressure?	Various actions are being planned to mitigate future cost increases.
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 2019-20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will continue to overspend our budget.

Description (initial estimate)	Waste management increasing demand (£0.5m in 2019-20)
How have the above amounts been calculated?	This cost pressure is based on assumed increases in the amount of waste that needs to be collected and disposed of.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increasing demand to increasing population and number of dwellings across the city.
If the cost pressure is due to increased demand, what evidence exists to support this?	This cost pressure is based on expected increases in the population and number of dwellings.
What, if anything, can be done to mitigate the cost pressure?	Various actions are being planned to mitigate future cost increases as well as reduce the current overspend, however, these will not fully resolve the issue.
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, collection and disposal of household waste is 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 2019-20 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)	Mainstreaming temporary funding (£1.3m in 2019-20)
How have the above amounts been calculated?	In previous years temporary funding from reserves was included in the budget to fund permanent cost pressures and shortfalls in savings. This funding now needs to be built into the permanent base budget to reduce the reliance upon reserves.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	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 2019-20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Description (initial estimate)	Improved Better Care Fund (-£3.3m in 2019-20)
How have the above amounts been calculated?	Based on specific announcements made by government
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Not a cost pressure but a specific funding increase announced by government to fund adult social care pressures set out elsewhere in this report.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Description (initial estimate)	Changes in external funding (£1.2m in 2019-20)
How have the above amounts been calculated?	This cost pressure is based on assumed 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 2019-20 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	We will overspend our budget.

Description (initial estimate)	Headroom (nil in 2019-20)
How have the above amounts been calculated?	This amount has been included in the budget to fund new cost pressures that come to light, or any cost pressure increases that occur, over the next few years. If it is not needed then it will be written out of the budget, which will have the effect of reducing the savings target in future years.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	n/a
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	n/a
More generally, what is the impact of not agreeing funding for the cost pressure?	n/a

Annex 3 – 2018-19 and 2019-20 net revenue budget by directorate

All figures in £ million	2018-19	2019-20
Assistant Chief Executive	6.6	6.7
Operations & Regulatory Services	8.2	7.5
People	128.5	125.8
Place	6.6	6.3
Resources	20.2	20.6
Net Directorate Expenditure	**170.1**	**166.8**
NECA Levy	16.2	16.0
Net Service Expenditure	**186.3**	**182.8**
Corporate Items	47.7	48.3
Transfers to / (from) Reserves	(5.6)	(4.0)
Net Revenue Budget	**228.4**	**227.1**
Less: Revenue Support Grant	(35.4)	(26.2)
Less: Business Rates	(89.0)	(90.8)
Council Tax Requirement	**104.0**	**110.1**
Precepts (TBC)	13.0	13.0
Total Council Tax Requirement	**117.0**	**123.1**

Annex 4 – 2018-19 and 2019-20 net directorate expenditure by service

All figures in £ million	2018-19	2019-20
Assistant Chief Executive:		
Assistant Chief Executive	0.1	0.1
Communities Team	0.6	0.6
Democratic Services	2.0	2.0
North East Combined Authority	0.0	0.0
Museums, Arts & Culture	1.8	1.7
Policy, Comms & Performance	0.7	0.7
Public Health	1.3	1.5
Operations		
Single Point of Leadership	(7.3)	(7.6)
Community Hubs	4.9	4.2
Operations Management	(0.1)	0.5
Facilities Serv and Civic Mgmt	(0.6)	(0.9)
Local services	19.5	20.4
Operations	(0.3)	(0.4)
Resilience Planning	0.2	0.2
Parking	(8.9)	(9.7)
Environment & Public Protection	0.9	0.8
Place		
Major Projects	0.1	0.1
Transport	7.1	7.1
Development Management	0.8	0.8
Economic Development	1.2	1.1
Fairer Housing Unit	0.3	0.0
Place Director	0.1	0.1
Commercial Dev & Property	(2.9)	(3.0)
People		
Adult Social Care	76.5	72.0
Inclusion Comm & Procurement	14.8	12.6
Children's Social Care	33.0	36.6
Education	3.9	4.3
Education Schools	0.0	0.0
People Management	0.3	0.3
Resources		
Audit, Risk and Insurance	0.5	0.5
Financial Services	3.8	3.9
Human Resources	2.0	2.0
ICT	5.8	5.9
Legal Services	1.3	1.4
Business Management (Res)	6.3	6.3
Chief Executive	0.3	0.3
Director of Resources	0.2	0.2
Net Directorate Expenditure	**170.1**	**166.8**

Annex 5 – 2018-19 Housing Revenue Account budget

All figures in £ million	2018-19	2019-20
Rent income	96.5	96.0
Other income	14.0	14.2
YHN management fee	(22.6)	(22.9)
Repairs and maintenance	(22.1)	(22.5)
Other running costs (e.g. utilities, supplies and services)	(14.1)	(14.8)
Bad debt provision	(2.6)	(1.7)
External interest payable	(16.7)	(16.4)
Operating surplus	**32.5**	**31.9**
Debt repayment / contribution to capital	(32.7)	(31.5)
Increase / (decrease) in HRA reserves	**(0.1)**	**0.4**

Annex 6 – projected trend in total General Fund reserves from 31 March 2019 to 31 March 2022

All figures in £ million	31 March 2019 (estimated)	31 March 2020 (estimated)	31 March 2021 (estimated)	31 March 2022 (estimated)
General Fund unearmarked reserves:				
- General Fund balance	10.1	10.1	10.1	10.1
- Financial risk and resilience reserve	7.0	7.0	7.0	7.0
General Fund earmarked reserves:				
- Strategic reserve	6.6	6.3	6.1	7.2
- Directorate commitments reserve	2.4	1.9	1.4	0.9
- Ring-fenced balances reserve	6.7	6.2	5.7	5.2
- Collection Fund reserve	6.0	5.0	4.0	3.0
- Transformation reserve	0.2	1.0	2.5	3.5
- PFI/BSF reserve	4.6	4.4	4.1	3.9
- Treasury management reserve	7.2	7.2	7.2	7.2
- Pensions reserve	4.0	4.0	4.0	4.0
- Airport dividend reserve	4.6	3.6	2.6	1.6
- Risk management & insurance reserve	2.0	1.8	1.5	1.3
- Public health reserve	1.8	1.6	1.5	1.5
- Housing benefit subsidy reserve	1.9	1.7	1.4	1.2
- Major developments reserve	(0.6)	(0.6)	(0.6)	(0.6)
- School kitchens reserve	0.6	0.7	0.8	0.9
- Asset management reserve	(3.4)	(4.2)	(3.5)	(3.0)
- Developers contributions reserve	1.0	1.0	1.0	1.0
- Interim capital funding reserve	(1.0)	(1.5)	(2.0)	(1.5)
- Other	0.2	0.3	0.4	0.5
- ADZ reserve	(2.8)	(3.0)	(1.9)	0.7
SUB-TOTAL	**59.2**	**54.4**	**53.3**	**55.5**
- PFI lifecycle replacement reserve	13.1	12.6	12.1	11.6
- School balances	8.2	8.2	8.2	8.2
- Revenue grants to be applied	13.6	11.6	9.6	7.6
TOTAL	**94.1**	**86.8**	**83.2**	**82.9**