Newcastle 2020:

Investing for a fairer future

Appendix 1:

Revenue and capital plan

let's talk Newcastle

Newcastle City Council

Overview

The council spends 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 £160 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 the council with around £500 million to meet our wide range of statutory requirements and to meet the needs of our citizens, communities and city. The council's capital expenditure on its physical assets (such as buildings) is separate to revenue expenditure on day to day services and ranges from £100 – £150 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.

General Fund medium term financial plan

2017-18 is the seventh year of government imposed funding cuts and, coupled with the unfunded cost pressures the council has faced over the same period, this has resulted in the council needing to achieve savings of £221 million over the last six years, and further savings next year, to balance its budget. The council has sought to do this in a controlled manner, and by taking a medium-term approach rather than a short-term approach.

As well as meeting the council's legal responsibility to set a balanced budget, the benefits of medium term financial planning are:

- Ensuring resources are allocated to the council's 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 the council / 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 asset disposals to fund capital investment in line with our priorities.

- Maximisation of external grant funding that meets our priorities.

- Prudent use of the council's 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 the council's 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.

Table 1 and Table 2 give further details on how these principles have been translated into the council's medium term financial plan. In summary, the council's 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 the medium term financial plan period covering 2017-18 to 2019-20

All figures in £ million	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Revenue Support Grant	57.8	44.5	35.4	26.2
Business rates	74.5	67.3	68.1	68.9
Business Rates Top-Up Grant	8.2	16.3	16.8	17.4
Council tax	91.0	95.1	99.3	103.8
Net revenue budget	**231.5**	**223.1**	**219.7**	**216.3**

As can be seen from Table 1 the net revenue budget is expected to decrease from £231.5 million in 2016-17 to £216.3 million in 2019-20 due mainly to a cut in Revenue Support Grant (i.e. £31.6 million) off-set by potential increases in business rates (i.e. £3.6 million) and council tax (i.e. £12.8 million). The reduction in business rates income in 2017-18 is the result of revaluation, and is off-set by the increase in Business Rates Top-Up Grant.

Along with unfunded costs increases (referred to as 'cost pressures' within this report) this means the council needs to find savings of £70.3 million over the next three years in order to balance its budget as shown in Table 2.

Table 2 – unfunded cost pressures and savings requirements over the medium term financial plan period covering 2017-18 to 2019-20

All figures in £ million	2017-18	2018-19	2019-20	Three-year summary
Previous year's net revenue budget	231.5	223.1	219.7	231.5
Unfunded cost pressures	24.6	15.9	14.6	55.1
Savings requirement	(33.0)	(19.4)	(18.0)	(70.3)
Net revenue budget	**223.1**	**219.7**	**216.3**	**216.3**

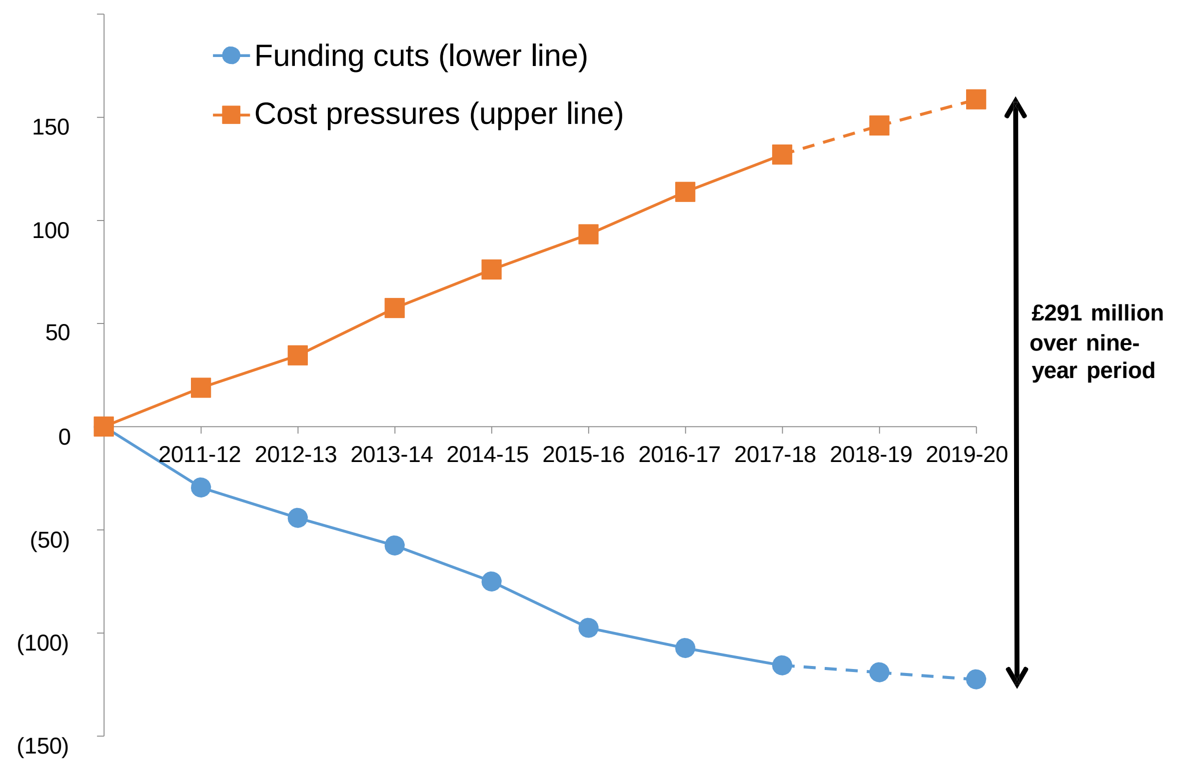
Further details on the plans for meeting the 2017-18 savings requirement are set out later in this document.

The savings required to balance the 2017-18 budget should be seen in the context of what the council has already achieved over the last few years, and the council's financial performance in the current year.

General Fund savings achieved to date

Over the last six years the council has achieved savings of £221 million in order to balance its budget in the face of funding cuts, and unavoidable and unfunded cost increases. Together with the estimated £70 million savings required over the next three years this gives a total of £291 million over the period from 2011-12 to 2019-20 as shown in Chart 1.

Chart 1 – savings achieved / required from 2011-12 to 2019-20 (cumulative)



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

Some of the proposals implemented to date 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.

General Fund estimated outturn for 2016-17

The 2017-18 budget is built upon the foundation of a sound financial position, and this is evidenced by the council's strong financial performance in the current year and in previous years.

The council has made good progress implementing its 2016-17 revenue budget, with delivery of the required budget savings largely on track.

Since 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 the council's formal budget monitoring process that looks at overall performance against the budget and not just delivery of specific savings proposals. Higher risk areas such as adult and children's social care commissioning budgets and traded services are monitored on a monthly basis, and all other areas are monitored on a quarterly basis. Detailed budget monitoring reports are considered by senior managers on a regular basis.

Based on the budget monitoring work undertaken to date, the council is currently projecting a potential underspend of £0.1m on its net revenue budget. Although there are potential pressures in some services, a number of other services are projected to perform better than the agreed budget for their areas and this is helping to off-set this.

2017-18 local government financial settlement

In the 2016-17 local government finance settlement, the council was given some certainty in relation to the level of funding cuts we will receive over the next three years subject to submitting an efficiency plan to the Department for Communities and Local Government ("DCLG") setting out how we will plan and manage our finances over the next three years. The main points arising from the provisional 2017-18 local government finance settlement, which was announced on 19 December 2016, are as follows:

- **Revenue Support Grant** – as expected there were no changes to the council's Revenue Support Grant figures (our efficiency plan was submitted by the 14 October 2016 deadline and accepted by DCLG as meeting the conditions set out in the published offer to local authorities).

- **New Homes Bonus** – changes to the scheme were announced in response to the consultation that took place early last year, which resulted in the national level of funding reducing from £1,493 million to £1,252 million. This was used to fund the new adult social care support grant of £241 million. Despite this reduction at a national level the council's New Homes Bonus allocation increased from £6.4 million in 2016-17 to £7.4 million in 2017-18 as a result of an above average increase in the number of properties on the council tax list.

- **Improved Better Care Fund** – as expected there were no changes to the Better Care Fund figures.

- **Adult Social Care Support Grant** – this new one-off grant was created by top-slicing the New Homes Bonus national allocation to fund adult social care pressures and is being distributed in line with the Relative Needs Formula used in 2013-14 when the existing funding allocations were initially set up. The council's share of the one-off grant is £1.5 million.

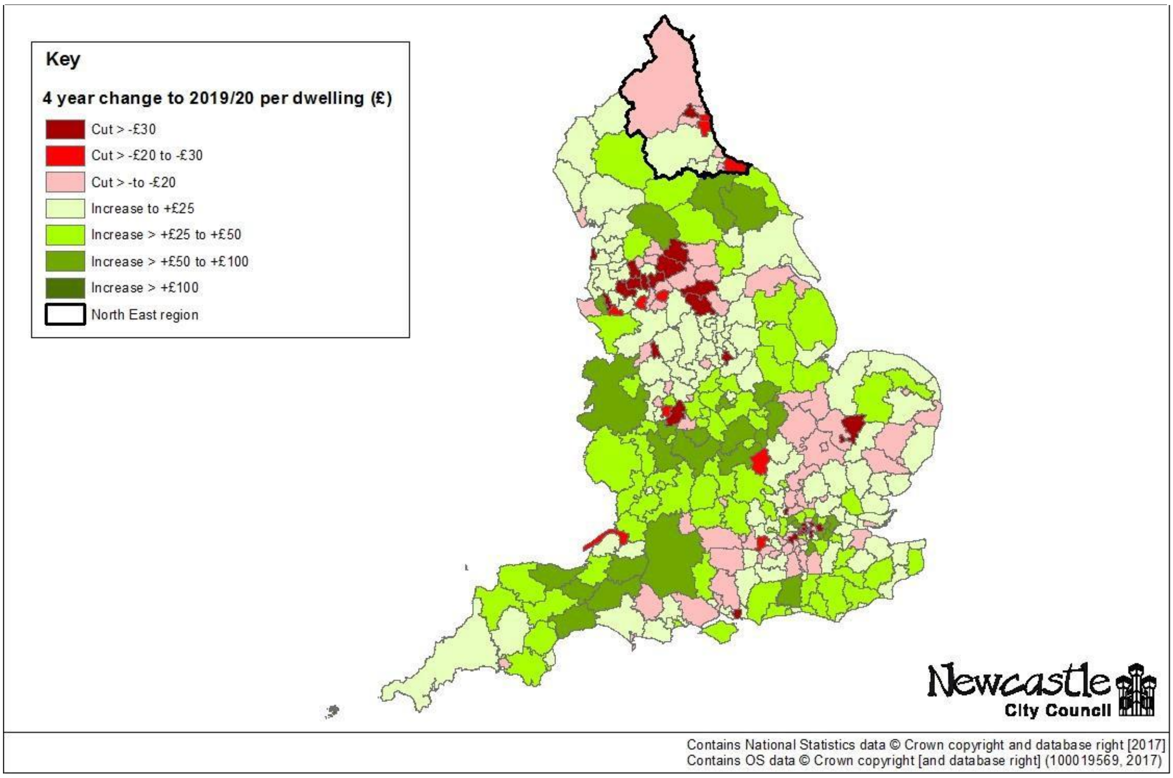
- **Adult social care council tax precept** – the previous **maximum** limits of 2% in 2017-18, 2% in 2018-19 and 2% in 2019-20 have been revised to 3% in 2017-18, 3% in 2018-19 and 2% in 2019-20 with a **maximum** limit of 6% over the next three year period. So whilst this change does not increase the maximum level of council tax the council can charge by the end of the MTFP it does create the opportunity to generate additional one-off income of £0.9 million in 2017-18 and £1.8 million in 2018-19.

- **Business Rates Top-Up Grant** – this was revised as a result of the 2017 revaluation, and increased from £8.2 million in 2016-17 to £16.3 million in 2017-18. This is revenue neutral as the increase is off-set by a reduction in the amount of business rates receivable.

- **Education Services Grant** – separate to the settlement there was an announcement about the abolition of the Education Services Grant from 1 September 2017. Although this was expected the level of grant payable in the first five months of 2017-18 was also cut, which was not expected. As a result the total funding cut in 2017-18 is estimated to be £1.7 million.

Chart 2 shows the distributional impact of the 2016-17 and 2017-18 local government financial settlements.

Chart 2 – change in area spending power from 2016-17 to 2019-20



Changes to the draft 2017-18 General Fund budget

As a result of the local government financial settlement and other government announcements there have been a number of changes to the draft 2017-18 General Fund budget since it was published in October 2016. These are set out below:

- **Adult social care council tax precept** – the council will follow the government's recommendation to increase the adult social care council tax precept from 2.0% to 3.0% in 2017-18. The additional one-off income of £0.9 million that this will generate will be used to fund additional investment in adult social care.

- **Adult Social Care Support Grant** – this one-off grant totalling £1.5 million, which was not expected, will be used to fund additional investment in adult social care.

- **Airport dividend** – the special dividend received in 2016-17 (i.e. £3.9 million) was included as part of the strategic reserve in Table 12 of the draft budget report published in October 2016. Cabinet have developed plans to use this money in line with their strategic priorities, and so this is now shown in Table 14 as being committed in 2017-18.

- **Reduction in premium payments** – the 2017-18 saving arising from changing premium payments made to staff (i.e. £1.0 million) has been reduced following engagement with staff and trade unions.

- **Education** – the Education Services Grant is being cut more quickly than previously anticipated and this, coupled with the demand pressures related to SEN transport, mean that additional council resources of £2.3 million are needed to support this service.

- **Waste strategy** – further investment of £0.3 million has been included in the budget.

- **New Homes Bonus** – further income of £1.0 million in relation to the New Homes Bonus has been included in the budget.

Other changes, which help to fund some of the above changes, include a higher than expected increase in the council tax base (i.e. £0.1 million), management savings (i.e. £0.4 million), a lower than expected increase in the Newcastle Living Wage (i.e. £0.3 million), reduced business rates on council properties (i.e. £0.3 million), lower than expected increase in pension costs (i.e. £0.3 million) and a lower than expected increase in the National Living Wage (i.e. £0.8 million).

General Fund savings to be achieved over next three years

The three-year savings requirements of £70.3 million will be met through a combination of service proposals, savings in corporate budgets, additional council tax income, management of estimated cost pressures and prudent use of reserves as set out in Table 3.

Table 3 – plans to meet the £70.3 million savings requirement over the medium term financial plan period covering 2017-18 to 2019-20

All figures in £ million	**2017-18**	**2018-19**	**2019-20**
Directorate savings proposals	14.0	27.4	43.2
Corporate savings	9.4	10.3	12.2
Additional council tax	1.5	3.0	1.5
Managing cost pressures	2.3	6.2	9.7
Prudent use of reserves	5.7	5.5	3.7
Cumulative savings requirement	**33.0**	**52.3**	**70.3**

Service proposals totalling £43.2 million in 2017-18 have been developed, some of which have a potential service impact set out within an integrated impact assessment.

Corporate savings totalling £12.2 million will be achieved as set out in Table 4.

Table 4 – breakdown of corporate savings from 2017-18 to 2019-20

All figures in £ million	2017-18	2018-19	2019-20
Treasury management	2.8	3.3	3.3
Newcastle Fund	0.2	0.2	0.2
Premium payments	0.0	0.3	0.3
Management savings	0.4	0.5	0.5
Severances	0.5	0.5	0.5
NECA levy	0.4	0.7	0.9
Pension costs	0.4	0.4	0.4
HB subsidy	0.4	0.4	0.4
New Homes Bonus	1.0	0.9	0.0
ASC grant (one-off)	1.5	0.0	0.0
Other income	1.5	2.8	5.4
Business rates on council properties	0.3	0.3	0.3
CUMULATIVE TOTAL	**9.4**	**10.3**	**12.2**

Additional council tax will be generated from a slightly higher than anticipated council tax base and from increasing the adult social care council tax precept from 2.0% to 3.0%.

Cost pressures assumptions within the medium term financial plan have been revised by £9.7 million, and changes to the figures set out in Annex 2 are shown in Table 5.

Table 5 – breakdown of changes to medium term financial plan cost pressure assumptions from 2017-18 to 2019-20

All figures in £ million	2017-18	2018-19	2019-20
Headroom	2.5	3.8	4.5
Apprenticeship levy	0.2	0.3	0.3
Increments	0.5	1.0	1.5
Additional adult social care investment	(1.4)	(1.4)	0.0
National Living Wage (non-NCC staff)	0.8	2.2	2.5
Staffing costs	0.5	1.2	1.5
Waste strategy	(0.3)	(0.5)	(0.3)
Education	(0.6)	(0.3)	(0.3)
Housing benefit / council tax support grant	(0.0)	(0.0)	(0.0)
CUMULATIVE TOTAL	**2.3**	**6.2**	**9.7**

Please note that a positive figure represents a reduction in an assumed cost pressure – e.g. apprenticeship levy was originally assumed to be £1.0 million in 2017-18 as per Annex 2 but the actual cost pressure included in the budget is £0.8 million thus giving rise to a 'saving' of £0.2 million against the original 2017-18 savings requirement.

Some use of reserves has been assumed in order to meet the £70.3 million savings requirement. This planned use of reserves is being undertaken on a prudent basis and has been factored into the future projection of reserve levels set out in Table 14.

General Fund 2017-18 revenue budget

The following specific assumptions were made in the development of the 2017-18 General Fund revenue budget.

- A cash reduction in Revenue Support Grant of £13.3 million (i.e. 23.0% of 2016-17 figure of £57.8 million).
- Increase of £0.9 million in the amount of business rates income receivable, due mainly to the inflation assumption made by the government as part of revaluation.
- Increase in the amount of council tax income receivable based on an increase of 4.95% in the rate of council tax. The increase of 4.95% is split between a general increase of 1.95% and a government-recommended specific increase in relation to adult social care of 3.0%.
- 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).
- 1.0% pay award and specific cost increases resulting from incremental progression of some staff.
- An increase in the Newcastle Living Wage.
- An increase in the cost of commissioning social care services due to various legal / regulatory changes.
- An increase in employer's pension contributions arising from the latest triennial valuation of the Tyne & Wear Pension Fund.
- General inflationary changes in essential utilities such as gas, electricity and water, external insurance premiums, and business rates payable by the council.
- 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, increasing demand and legislative changes – any 'excess' cost pressures over and above these amounts will need to be absorbed within service budgets or funded on a one-off basis from reserves.
- Proposals totalling £33.0 million from a range of service and non-service proposals to off-set the funding cuts and unfunded cost pressures facing the council as set out in Table 6.

Table 6 – assumed budget changes from 2016-17 to 2017-18

Description	£ million
2016-17 net revenue budget	231.5
Plus: unfunded cost pressures	24.6
Less: savings	(33.0)
2017-18 net revenue budget	**223.1**
Net funding cut	**(8.3)**

The reduction in our net revenue budget in 2017-18 is significant in cash terms (£8.3 million or 3.6% of the 2016-17 net revenue budget), and even more significant in real terms when unfunded cost pressures are taken into account (£33.0 million or 14.3% of the 2016-17 net revenue budget).

The savings as a percentage of 2016-17 gross expenditure (i.e. total expenditure before any income is netted off) excluding housing benefits and schools is 6.3%.

Table 7 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 £13.3 million is partly off-set by an increase in business rates income (i.e. £0.9 million), and an increase in council tax income arising from growth in the council tax base and the proposed council tax increase (i.e. £4.1 million).

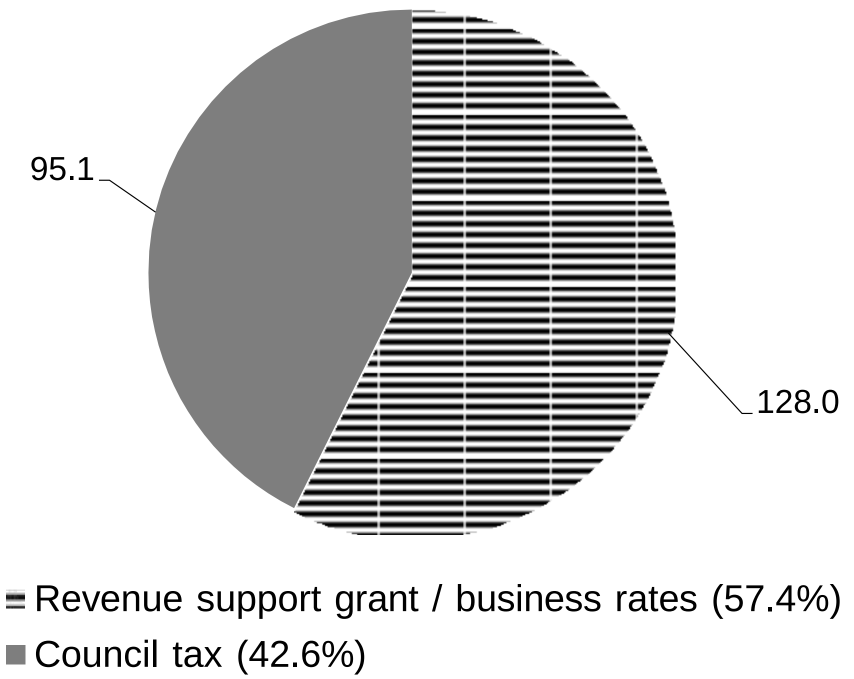
Table 7 – change in net revenue budget between 2016-17 and 2017-18

All figures in £ million	2016-17	2017-18	Change
Revenue Support Grant	57.8	44.5	(13.3)
Business rates (including grant)	82.7	83.6	0.9
Council tax	91.0	95.1	4.1
Net revenue budget	**231.5**	**223.1**	**(8.3)**

As can be seen from Table 7, the net revenue budget is expected to reduce from £231.5 million in 2016-17 to £223.1 million in 2017-18, which is a net funding cut of £8.3 million or 3.6%.

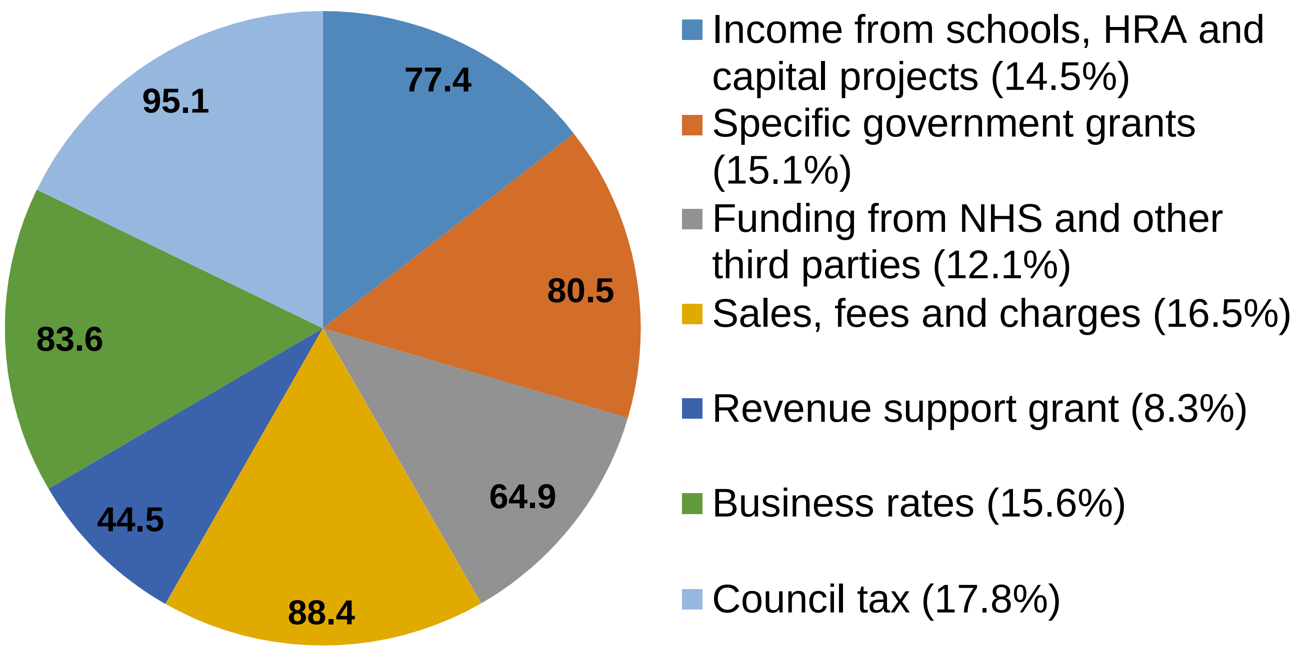
Revenue Support Grant and business rates constitute the total of un-ringfenced government funding the council is expected to receive in 2017-18, and are currently collectively referred to as the settlement funding assessment ("SFA"). Together these will fund an estimated £128.0 million or 57.4% of our net revenue budget in 2017-18 compared with 60.7% in 2016-17. Council tax will fund the other £95.1 million or 42.6% of the 2017-18 net revenue budget as shown in Chart 3.

Chart 3 – breakdown between estimated government funding (including business rates) and council tax in 2017-18 (figures are in £ million)



When viewed as a percentage of total General Fund income excluding schools and housing benefits, council tax represents 17.8% of total income as shown in Chart 4.

Chart 4 – breakdown of total estimated General Fund income in 2017-18



Council tax

Out of the 326 local authority areas in England, we are currently ranked 309th highest in terms of average council tax payable. In terms of the Band D equivalent we are 116th highest in England, 4th highest amongst Core Cities (out of 8), 8th highest amongst Chartered Institute of Public Finance Accountants ("CIPFA") nearest neighbours, and 6th highest amongst Association of North East Councils ("ANEC") (out of 16).

The council is proposing to increase council tax by 4.95% in 2017-18. 3.0% of this increase is for adult social care (increased from 2.0% in draft budget report). The income generated from this increase will part-fund the significant cost pressures we face in relation to adult social care. Whilst this additional income is welcome, and will help to mitigate the impact of these cost pressures on the council's overall budget, the amount raised (i.e. £2.7 million) is a relatively small proportion of the adult social care cost pressures faced by the council, and will favour those areas with a relatively high council tax base. The remaining 1.95% increase in council tax will be to fund cost pressures in other services areas. Further details on the proposed increase are set out in an integrated impact assessment.

We are currently estimating a council tax surplus on the Collection Fund of up to £0.5 million, which will be transferred to a specific earmarked reserve and used to off-set any future deficits.

Council tax support

In 2013-14 council tax benefit came to an end, and council tax support was introduced in its place. At the same time, funding was transferred into the settlement funding assessment (comprising Revenue Support Grant and business rates) after being cut by over 10.0%. As this funding is not separately ring-fenced within the settlement funding assessment, it has effectively been cut at the same rate as our settlement funding assessment has been cut in 2014-15 (i.e. 10.0%), 2015-16 (i.e. 14.4%), 2016-17 (i.e. 8.3%) and 2017-18 (i.e. 8.3%). We estimate the funding loss over the five-year period to be in the region of £10.5 million. This has put significant additional strain onto the General Fund budget and resulted in the council, as well as many other local authorities, seeking to collect some council tax from working age people who previously received 100% council tax benefit (estimated at £2.8 million in 2016-17).

Council tax support under our current scheme is capped at 85% of an individual's council tax liability, meaning that working age people will be charged 15% of their council tax before they receive council tax support.

Pensioners and severely disabled people are not subject to the cap referred to above, and may still be awarded reductions of up to 100% of their council tax liability.

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. The council previously had no direct financial interest in the collection of business rates and acted purely as an agent of the government. However, since 2013-14 we have retained 49% of the business rates we collect and paid the other 51% over to the government (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.

New rateable values will come into effect for all properties from 1 April 2017 and will reduce the level of business rates income receivable in 2017-18. The government has therefore increased our Business Rates Top-Up Grant to off-set this but we will not know if this increase is sufficient until all appeals have been received and assessed in several years' time.

Our share of the business rates base for 2017-18 has been estimated at £67.3 million, which when taken together with the top-up grant provided by the government (i.e. £16.3 million) represents an increase of £0.9 million compared with the previous year.

In addition, we are currently expecting to receive section 31 grants totalling £3.2 million to compensate us for various government decisions made in previous years affecting the amount of business rates that can be collected locally.

Revenue Support Grant

The Revenue Support Grant for 2017-18 was announced as part of the 2016-17 local government finance settlement and will be £44.5 million. This represents a reduction of £13.3 million or 23.0% compared with the amount received in 2016-17.

Unfunded cost pressures

Our need to find savings in 2017-18 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 was estimated at £24.6 million as shown in Table 8.

Table 8 – breakdown of 2017-18 savings target

Description:	**£ million**
Net funding cut	8.3
Unfunded cost pressures	24.6
2017-18 savings requirement	**33.0**

Cost pressures arise for a number of reasons including:

- Legislative / regulatory changes (for example impact of national living wage on social care providers and change in employer's national insurance rates as a result of changes to state pension).

- 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).

- Headroom – this is a contingency to cover cost pressures that may occur in future years that are currently not visible to the council.

Table 9 shows the total cost pressures identified under each of the above headings.

Table 9 – breakdown of 2017-18 unfunded cost pressures

Description:	£ million
Legislative / regulatory changes	8.0
Inflation (pay and prices)	9.5
Increasing demand for services	2.5
External funding changes	2.1
Headroom	2.5
TOTAL	**24.6**

Further details of the cost pressures included under each of the above headings are included in Annex 2. Some of these cost pressure assumptions have been amended since the draft budget was published in October 2016 (see Table 5 for further details).

Savings

Savings of £33.0 million are required to balance the General Fund revenue budget in the face of government imposed funding cuts and unavoidable and unfunded cost pressures. These are set out in more detail in Appendix 2 and the associated integrated impact assessments, and in Table 3.

The impact on the net revenue budget of the savings and other changes set out in this report is shown in Table 10 by priority, and in Annex 3 and Annex 4 by directorate / service.

Table 10 – 2016-17 and 2017-18 net revenue budget by priority

All figures in £ million	2016-17	2017-18
Working City	(6.9)	(9.3)
Decent Neighbourhoods	144.1	144.6
Tackling Inequalities	7.5	5.5
Fit for Purpose	28.3	27.6
NECA levy	16.9	16.4
Corporate items / reserves	41.5	38.3
Net revenue budget	**231.5**	**223.1**

The **working city** priority total includes services such as car parking and building services, which are budgeted to generate surpluses, and other services such as economic development, development management and strategic property services.

The **decent neighbourhoods** priority includes services such as adult social care, children's social care, fairer housing unit, highways, environmental / local services and regulatory services / public protection.

The **tackling inequalities** priority total includes services such as education, schools, supporting people, active inclusion, family services, and the corporate property portfolio, which is budgeted to generate a significant surplus.

The **fit for purpose** priority total includes services such as business management, HR, ICT and financial services.

The **NECA levy** is the amount paid over to the North East Combined Authority to fund transport services in the Tyne & Wear area such as concessionary fares.

Corporate items / reserves includes a range of non-service-specific items such as treasury management costs, historic pension costs, severance costs and insurance costs.

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 the council's 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 the council's social housing stock is affordable.

Annex 5 includes a summary of the Housing Revenue Account 2017-18 budget. The main changes between 2016-17 and 2017-18 are as follows:

- Reduction of 1.0% in housing rents; and

- Reduction of 5.0% in YHN management fee.

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. It can also, with the express permission of the Secretary of State, cover revenue expenditure on items such as equal pay claims or statutory redundancy costs.

Capital investment plays an important role in improving economic opportunities across all parts of the city. Whilst some investments directly contribute to the working city priority, all have an important indirect economic impact, for example, by providing a much needed stimulus to the economy, creating employment opportunities, supporting skills development or contributing to confidence.

Our capital investment programme has been developed with a strong focus on the delivery of our four 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 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 (for example it needs to be affordable and sustainable). In general terms, this means the revenue costs associated with the borrowing (for example 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); or

3. a new or increased revenue budget that is not dependent on the planned capital investment.

If borrowing is on a 'self- financing' basis (option 1 or 2 above) then it 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 rate 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).

2016-17 to 2018-19 capital investment programme

The following tables set out the breakdown of the 2016-17 to 2018-19 capital investment programme between the General Fund and Housing Revenue Account (Table 11), between the council's priorities (Table 12) and between different funding sources (Table 13).

Table 11 – planned capital investment in 2016-17, 2017-18 and 2018-19 split between the General Fund and the Housing Revenue Account (HRA)

All figures in £ million	2016-17	2017-18	2018-19	2019-20
General Fund - specific projects	79.8	69.5	8.1	0.0
HRA - specific programmes	52.9	37.4	38.7	0.0
Pipeline	0.0	20.0	80.0	120.0
TOTAL	**132.6**	**126.9**	**126.8**	**120.0**

Pipeline figures represent capital projects that are expected to form part of future years' capital programmes but which have yet to be fully assessed in detail and approved by Cabinet.

The figures for the HRA capital programme could be significantly affected by the financial implications of the Housing & Planning Act 2016.

Table 12 – planned capital investment in 2016-17, 2017-18 and 2018-19 by priority

All figures in £ million	2016-17	2017-18	2018-19	2019-20
Working City	41.7	56.0	5.2	0.0
Decent Neighbourhoods - General Fund	24.9	8.4	3.0	0.0
Decent Neighbourhoods - HRA	52.9	37.4	38.7	0.0
Tackling Inequalities	12.2	4.5	0.0	0.0
Fit for Purpose	1.0	0.6	0.0	0.0
Pipeline	0.0	20.0	80.0	120.0
TOTAL	**132.6**	**126.9**	**126.8**	**120.0**

Table 13 – planned capital investment in 2016-17, 2017-18 and 2018-19 by source of finance

All figures in £ million	2016-17	2017-18	2018-19	2019-20
Grants / contributions (mainly General Fund)	30.4	18.3	0.5	0.0
Capital receipts (mainly General Fund)	11.3	9.9	2.8	0.0
Revenue (mainly HRA)	34.7	30.4	19.2	0.0
Borrowing (mainly General Fund)	56.2	48.3	24.3	0.0
Pipeline (no funding in place yet)	0.0	20.0	80.0	120.0
TOTAL	**132.6**	**126.9**	**126.8**	**120.0**

Funding has yet to be finalised for pipeline projects.

The majority of 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 General Fund projects over £2.5 million in the capital investment programme are:

Decent Neighbourhoods
- Brownfield site development (£3.8 million)
- Cluster empty homes (£2.7 million)
- Highway and footpath improvements (£2.7 million)
- Byker district heating scheme (£2.5 million)

Tackling Inequalities
- Investment in primary schools estate (£3.7 million)

Working City
- Civic Centre office accommodation (£34.6 million)
- Newcastle Lab Space (£25.2 million)
- Loans to Leazes Homes (£10.4 million)
- Eldon Square (£6.7 million)
- Vehicle replacement programme (£3.0 million)

Risk assessment of General Fund budget

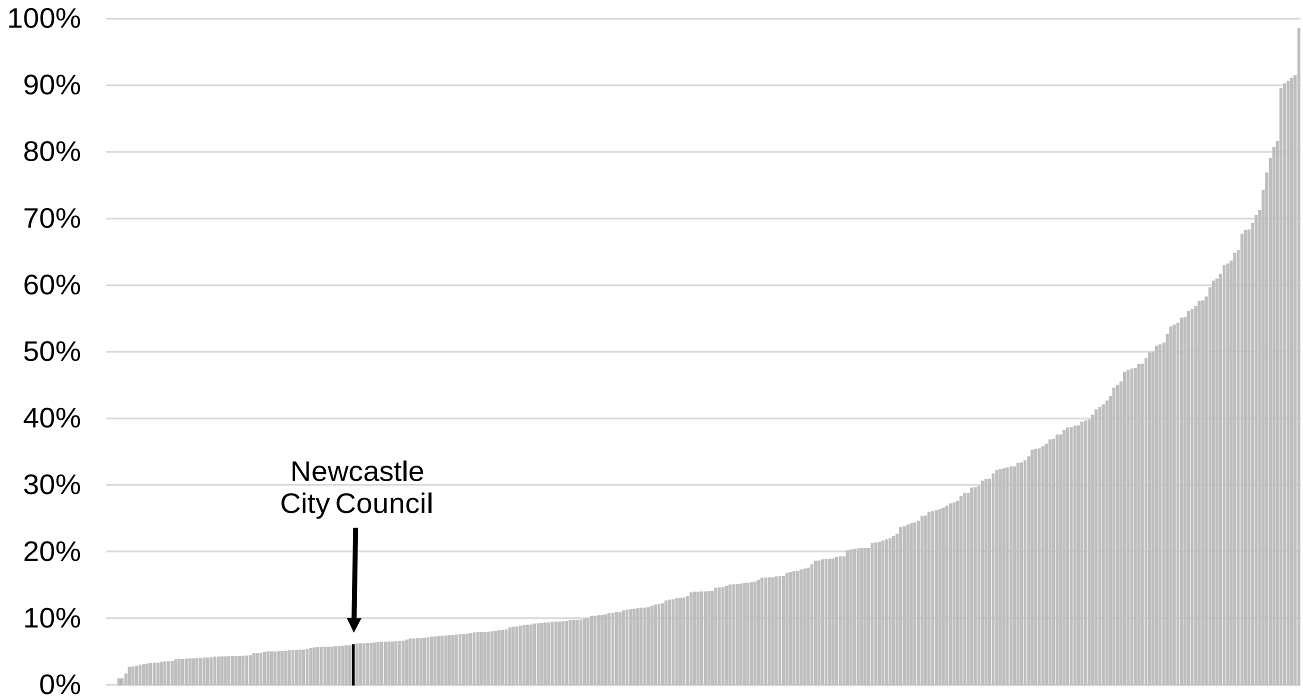
We adopt a risk-based approach to medium term financial planning, which aims to:

- 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 the council – 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 takes into account 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 5, unearmarked General Fund reserves (consisting of the General Fund unearmarked reserve and the financial risk and resilience reserve) as at 31 March 2016 totalled £14.1 million, which represented 5.7% of 2015-16 net revenue expenditure, compared with an all-England mean average of 8.8%.

Chart 5 – unearmarked General Fund reserves as at 31 March 2016



At 31 March 2017, we expect to hold General Fund reserves totalling £106.8 million as shown in Table 14 although this is expected to reduce to £88.7 million by 2019-20.

Table 14 – projected trend in total General Fund reserves from 31 March 2016 to 31 March 2020

All figures in £ million	31 March 2016 (actual)	31 March 2017 (estimated)	31 March 2018 (estimated)	31 March 2019 (estimated)	31 March 2020 (estimated)
Unearmarked General Fund reserve	10.1	10.1	10.1	10.1	10.1
Financial risk and resilience reserve	4.0	5.0	6.0	6.0	6.0
General Fund earmarked reserves:					
- Strategic reserve	30.6	35.9	28.1	23.1	17.0
- PFI lifecycle replacement reserve	17.1	18.6	20.1	21.6	23.1
- Collection Fund reserve	9.2	3.0	3.0	4.0	5.0
- Transformation reserve	6.6	6.6	3.7	2.7	3.5
- PFI/BSF reserve	5.4	4.9	4.4	3.9	3.4
- Revenue grants unapplied	5.2	5.0	5.0	5.0	5.0
- Treasury management reserve	4.6	5.6	6.6	6.6	6.6
- Pensions reserve	4.3	3.8	4.1	3.9	3.2
- Risk management & insurance reserve	2.5	2.2	2.0	1.7	1.5
- Public health reserve	2.2	1.7	1.2	0.7	0.2
- Housing benefit subsidy reserve	2.2	2.2	2.2	2.2	2.2
- Major developments reserve	1.4	1.4	1.4	1.4	1.4
- Other	0.6	0.6	0.6	0.6	0.6
- ADZ reserve	0.5	0.3	0.1	0.0	0.0
TOTAL	**106.3**	**106.8**	**98.4**	**93.3**	**88.7**

Our earmarked reserves are set aside for specific purposes. The main earmarked reserves are set out in Table 14 and a brief description of each one is set out below:

- **Strategic reserve** – amount set aside to fund directorate commitments and major one-off costs such as redundancies, and to underpin the council's budget strategy.

- **PFI lifecycle replacement reserve** – notional amount set aside in line with accounting requirements from payments made to PFI contractors.

- **Collection Fund reserve** – amount set aside to mitigate increased financial risks arising from the localisation of business rates.

- **Transformation reserve** – amount set aside to fund work on reforming and transforming public services within the city, and to provide bridging funding whilst these transformation projects are being implemented.

- **Private Finance Initiative ("PFI") / Building Schools for the Future ("BSF") earmarked reserve** – amount set aside as a result of the timing difference between receipt of government grant and expenditure being incurred.

- **Revenue grants unapplied** – grant funding received for which the terms and conditions have not yet been fully met.

- **Treasury management reserve** – amount set aside to mitigate risk of third party loans, and other treasury management risks.

- **Pensions reserve** – amount set aside to fund increased pension costs arising from latest triennial actuarial valuation.

- **Risk management & insurance reserve** – amount set aside to fund risk management activities and potential insurance liabilities.

- **Public health reserve** – unspent ring-fenced public health grant funding.

- **Housing benefit subsidy reserve** – amount set aside to mitigate risk of housing benefit subsidy overspends.

- **Major developments reserve** – amount set aside from surpluses generated on major developments such as Stephenson Quarter that will be used to manage related financial risks and fund future project development costs.

- **Accelerated Development Zone ("ADZ") reserve** – additional business rate income over and above baseline generated within ADZ area that will be used to fund the annual borrowing costs associated with capital investment in the same area.

- **Other earmarked reserves** – amounts set aside to deal with specific financial issues, which if used for other purposes must be replaced.

A risk assessment of the overall 2017-18 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 £5.0 million as at 31 March 2017, which when combined represent 6.8% of the 2017-18 net revenue budget.
- Strategic reserve of £35.9 million as at 31 March 2017 to fund directorate commitments and major one-off costs such as redundancies, and to underpin the council's budget strategy.
- Transformation reserve of £6.6 million as at 31 March 2017 to fund work on reforming and transforming public services within the city, and to provide bridging funding whilst these transformation projects are being implemented.
- Other earmarked reserves totalling £32.2 million as at 31 March 2017 (excluding revenue grants unapplied and PFI lifecycle replacement reserve), which may be used on a short-term temporary basis, provided the funding is replaced in future years.
- Positive projected outturn position in the current year, which will result in the creation of additional reserves that can be used to off-set potential cost pressures in 2017-18.
- 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 2017-18.
- Effective governance arrangements at a service and corporate level to monitor the overall delivery of the 2017-18 budget plus regular monitoring reports to Cabinet and Overview & Scrutiny Committee.

Annex 1 – risk assessment of the 2017-18 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 2017-18 budget proposals as appropriate, or will be funded from temporary resources to allow time for a permanent solution 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 the council's financial systems meaning it is easy to identify. 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) as is the case with housing benefit / council tax support administration grant and education services grant.
Has a reasonable estimate of future cost pressures been made?	Yes – all significant cost pressures covering legislative / regulatory changes, inflation (pay and prices) and increasing demand for services were taken into account when calculating the £70 million three-year savings target. These have been reviewed over the last few months and there is some scope to reduce these to help meet the £70 million savings requirement.
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 systems. All budgets are monitored on a monthly basis and reported to Cabinet and Overview & Scrutiny Committee via the quarterly performance dashboard report.
Is there a reasonable contingency available to cover the financial risks faced by the council?	Yes – the council will start the 2017-18 financial year with a £5.0 million financial risk and resilience reserve, which represents 15.2% of the 2017-18 savings requirement.

Annex 1 – risk assessment of the 2017-18 net revenue budget (continued)

Potential Risk	Response
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 2017 are expected to be £106.8 million. Within this, General Fund unearmarked reserves are expected to be £15.1 million, which represents 6.6% of the 2017-18 net revenue budget. This is deemed to be adequate based on the financial risks facing the council. Earmarked reserves may be used on a short-term temporary basis, provided the funding is replaced in future years.

Annex 2 – breakdown of cost pressures included in medium term financial plan period covering 2017-18 to 2019-20 (as per October 2016 Cabinet report)

All figures in £ million	2017-18	2018-19	2019-20
Legislative / regulatory changes:			
- Apprenticeships levy	1.0	0.0	0.0
- National Living Wage (non-NCC staff)	7.0	4.5	4.5
Inflationary changes (pay and prices):			
- Pay increases	3.0	3.0	3.0
- Pension fund revaluation	1.0	1.0	1.0
- Non-pay inflation	1.0	1.0	1.0
- Adult social care inflation	3.1	2.0	2.0
- Children's social care inflation	0.4	0.4	0.4
- Long term contract costs	1.0	1.0	1.0
Increasing demand for services:			
- Adult social care demographics	0.5	0.5	0.5
- Children with disabilities turning 18	1.0	1.0	1.0
- SEN transport	1.0	0.0	0.0
Funding changes:			
- Mainstreaming temporary funding	2.0	2.0	0.0
- Improved Better Care Fund	(1.4)	(6.0)	(5.3)
- Reduction in New Homes Bonus	0.0	1.5	1.5
- Other external funding reductions	1.5	1.5	1.5
SUB-TOTAL	**22.1**	**13.4**	**12.1**
Headroom	2.5	2.5	2.5
TOTAL	**24.6**	**15.9**	**14.6**

Description (initial estimate)	Apprenticeship levy (£1.0m in 2017-18)
How have the above amounts been calculated?	This cost pressure is based on the proposed 0.5% government levy applied to the 2016-17 staffing budget excluding non-community schools (approx. £200m).
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	This cost pressure is due to the introduction by the government of the apprenticeship levy.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	There may be some scope to reduce the net cost to the council by claiming costs currently incurred relating to the training of apprentices from government, however, detailed guidance on the operation of the scheme has yet to be published.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, the cost pressure is based on our staffing costs. Staff are involved in delivering a range of statutory and discretionary services, which are being reviewed as part of the identification of savings to meet the council's budget gap in 2017-18.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**No**

Description (initial estimate)	National Living Wage (£7.0m in 2017-18)
How have the above amounts been calculated?	This cost pressure is based on agreed increases in hourly rates payable to third party providers covering 2016-17 and 2017-18.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Inflation on payments to independent sector providers.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	Any savings from greater investment in preventative services and improved partnership working are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Cost pressure is based on increases in hourly rates agreed with third party providers, which are related to the increases specified by government.
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**Yes, the 2017-18 estimate has been reduced by £0.8 million because the government announced a lower than expected increase in the National Living Wage in November 2016.**

Description (initial estimate)	Pay increases (£3.0m in 2017-18)
How have the above amounts been calculated?	There are three components to this cost pressure – annual pay award, pay increments and Newcastle Living Wage annual increase. The pay award calculation is based on an assumed pay award of 1% applied to 2016-17 staffing budgets (including salary, employer's national insurance, and employer's pension contributions) less an estimated amount in respect of staff who will leave the council in 2016-17. The pay increments cost pressure is an estimate based on previous years.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Annual pay award agreed by employers as part of national pay bargaining / contractual obligation to move staff up an increment towards the top of the relevant pay scale.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	National cap on public sector pay increases of 1%.
Does the activity causing the cost pressure need to continue?	Yes, staff are involved in delivering a range of statutory and discretionary services, which are being reviewed as part of the identification of savings to meet the council's budget gap in 2017-18.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**No**

Description (initial estimate)	Pension fund revaluation (£1.0m in 2017-18)
How have the above amounts been calculated?	This cost pressure is an estimate (based on the annual average cost increase over the previous three years).
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	The estimated cost increase is due to various changes in the assumptions made by the actuary in the next three-year valuation of the pension fund. The main assumptions are the discount rate used to value pension fund liabilities, pension fund performance, inflation and longevity.
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?	Discussions with the Tyne & Wear Pension Fund identified an opportunity to reduce costs by paying the historic deficit contribution for the three years on 1 April 2017. This saving was factored into corporate savings in the budget report published in October 2016.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, the council has a contractual obligation under Local Government Pension Scheme regulations to fund pension benefits for staff. Staff are involved in delivering a range of statutory and discretionary services, which are being reviewed as part of the identification of savings to meet the council's budget gap in 2017-18. In addition, approximately half of the estimated cost increase relates to repayment of the council's historic pension deficit.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**Yes, the 2017-18 estimate has been reduced by £0.5 million due mainly to the results of the actuarial valuation that were received in October 2016.**

Description (initial estimate)	Non-pay inflation (£1.0m in 2017-18)
How have the above amounts been calculated?	This cost pressure is an estimate based on the average inflationary increases over the previous three years. We will not know the specific inflation factors to be applied in 2017-18 until later this 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 the council reduces 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?	We have estimated the cost pressures using the average inflationary cost increases experienced in the previous three years.
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 the council's budget gap in 2017-18.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**No**

Description (initial estimate)	Adult social care inflation (£3.1m in 2017-18)
How have the above amounts been calculated?	This cost pressure is based on agreed increases in hourly rates payable to third party providers covering 2016-17 and 2017-18.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Inflation on payments to independent sector providers.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	Any savings from greater investment in preventative services and improved partnership working are set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Cost pressure is based on increases in hourly rates agreed with third party providers.
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**No**

Description (initial estimate)	Children's social care inflation (£0.4m in 2017-18)
How have the above amounts been calculated?	This cost pressure is based on an estimated inflationary increase in care packages as well as in-house foster carer allowances, special guardianship order allowances, child arrangement order allowances and adoption allowances in 2017-18.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Although strictly speaking the increase is discretionary the council needs to agree an inflationary increase in order to remain competitive with rates offered by other agencies and local authorities, and 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?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Cost pressure is based on estimated increases in hourly rates payable to third party providers.
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty. If funding is not agreed then foster carers may defect to other agencies or local authorities, which would result in more placements being required with external agency foster carers that are more expensive.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**No**

Description (initial estimate)	Inflation on long-term contracts (£1.0m in 2017-18)
How have the above amounts been calculated?	This cost pressure is based on a range of RPI-related inflation factors built into long-term contracts with third parties.
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, the council is contractually committed to pay the PFI unitary charge on the various assets constructed / funded in this way. Yes, the council has a statutory duty to dispose of all waste collected.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**No**

Description (initial estimate)	Adult social care demographics (£0.5m in 2017-18)
How have the above amounts been calculated?	This cost pressure is based on estimated population growth in 2017-18.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increasing adult population (18+).
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 the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**No**

Description (initial estimate)	Children with disabilities turning 18 (£1.0m in 2017-18)
How have the above amounts been calculated?	This cost pressure is based on specific children who will turn 18 during 2017-18 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 the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**No**

Description (initial estimate)	SEN transport (£1.0m in 2017-18)
How have the above amounts been calculated?	This cost pressure is based on the current level of budget overspend.
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?	Current level of overspend in budget.
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, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**Yes, the 2017-18 estimate was initially reduced by £1.0 million in the October budget report but this has been re-instated following the ongoing demand pressures being faced in this service area.**

Description (initial estimate)	Mainstreaming temporary funding (£2.0m in 2017-18)
How have the above amounts been calculated?	Temporary funding from reserves was included in the 2015-16 budget to fund permanent cost pressures. This funding now needs to be built into the permanent base budget.
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?	Yes, the original cost pressure submissions covered statutory services.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**No**

Description (initial estimate)	Improved Better Care Fund (-£1.4m in 2017-18)
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. We have assumed this funding will come directly to the council and its use will not need to be agreed with NHS partners.
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
Has cost pressure been amended since original budget report was published in October 2016?	**No**

Description (initial estimate)	Changes in external funding (£1.5m in 2017-18)
How have the above amounts been calculated?	This cost pressure is based on estimated reductions in specific grant funding for housing benefit administration, council tax support administration and education services.
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?	The council is required by legislation to provide these services.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the budget that can absorb this pressure, plus all areas of the budget are being reviewed to find savings to contribute to the council's 2017-18 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The council will overspend its budget.
Has cost pressure been amended since original budget report was published in October 2016?	**Yes, the 2017-18 estimate was initially reduced by £0.8 million in the October budget report but this has been re-instated and increased by a further £0.5 million following the higher than expected cuts in Education Services Grant and Housing Benefit / Council Tax Support Administration Grant that were announced in December 2016.**

Annex 3 – 2017-18 Net Revenue Budget by Directorate

All figures in £ million	**2016-17**	**2017-18**
Assistant Chief Executive	7.3	6.5
Operations	11.4	7.3
Place	9.1	8.2
Resources	16.5	16.0
People	128.8	130.3
Net Directorate Expenditure	**173.1**	**168.4**
NECA Levy	16.9	16.4
Net Service Expenditure	**189.9**	**184.8**
Corporate Items	45.9	45.7
Transfers to / (from) Reserves	(4.4)	(7.4)
Net Revenue Budget	**231.5**	**223.1**

Annex 4 – 2017-18 Net Directorate Expenditure by Service

All figures in £ million	2016-17	2017-18
Assistant Chief Executive:		
Assistant Chief Executive	0.2	0.1
Co-operative Communities	1.0	0.7
Democratic Services	2.2	2.0
Museums, Arts & Culture	1.8	1.7
Policy, Communictions & Performance	0.8	0.8
Public Health	1.4	1.2
Regional Transport	(0.0)	(0.0)
Operations:		
Building Commercial Enterprise	(6.7)	(8.0)
Car Parking	(7.8)	(8.2)
Community Hubs	5.3	5.3
Facilities Services & Civic Management	(8.0)	(8.9)
Highways & Local Services	28.1	26.7
Other	0.5	0.4
Place:		
Capital Investment	(0.0)	(0.0)
Development Management	1.0	0.9
Economic Development	1.4	1.3
Fairer Housing Unit	(0.2)	(0.2)
Public Safety & Regulation	1.5	1.4
Strategic Property Services	5.1	4.7
Transportation	0.2	0.1
Other	0.1	0.1
Resources:		
Audit, Risk & Insurance	0.6	0.5
Business Management	3.3	2.9
Financial Services	3.9	3.6
Human Resources	2.0	2.0
ICT	5.1	5.6
Legal Services	1.1	1.1
Other	0.5	0.5
People:		
Adult Social Care	73.6	77.3
Business Management	6.6	6.5
Children's Social Care	33.1	31.9
Education (including schools)	0.0	0.5
Inclusion, Commissioning & Procurement	15.3	14.1
Other	0.2	0.2
Net Directorate Expenditure	**173.1**	**168.4**

Annex 5 – 2017-18 Housing Revenue Account

All figures in £ million	2016-17	2017-18
Rent income	99.4	98.0
Other income	14.4	14.1
YHN management fee	(24.1)	(23.4)
Repairs and maintenance	(20.6)	(21.0)
Other running costs (e.g. utilities, supplies and services)	(16.4)	(16.1)
Bad debt provision	(2.6)	(2.6)
External interest payable	(16.5)	(16.3)
Operating surplus	**33.6**	**32.7**
Debt repayment / contribution to capital	(32.3)	(32.3)
Increase / (decrease) in HRA reserves	**1.3**	**0.4**

Annex 6 – 2017-18 Council Tax Resolution

At its meeting on 4 January 2017 the council agreed the overall council tax base for the city as a whole as 64,126, 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	1,191
Brunswick	217
Dinnington	486
Hazlerigg	254
North Gosforth	2,237
Woolsington	1,634

Council tax requirement		Amount the council requires for its own purposes for 2017-18 (excluding parish precepts)	£96,598,760

The following amounts have been calculated by the council for the year 2017-18 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:	£661,392,035
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:	£564,725,785
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:	£96,666,250

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):	£1,507.44
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:	£67,490
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:	£1,506.39
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	1,527.03
Brunswick	1,524.90
Dinnington	1,524.43
Hazlerigg	1,530.52
North Gosforth	1,512.29
Woolsington	1,512.99

(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 2017-18 for each of the categories of dwellings shown overleaf:

Banded council tax levy before police and fire precepts

All figures in £s	Brunswick	Dinnington	Hazlerigg	North Gosforth	Woolsington	Blakelaw and North Fenham	Other
A	1,016.60	1,016.29	1,020.35	1,008.19	1,008.66	1,018.02	1,004.26
B	1,186.03	1,185.66	1,190.40	1,176.22	1,176.76	1,187.68	1,171.63
C	1,355.46	1,355.05	1,360.46	1,344.25	1,344.88	1,357.36	1,339.01
D	**1,524.90**	**1,524.43**	**1,530.52**	**1,512.29**	**1,512.99**	**1,527.03**	**1,506.39**
E	1,863.76	1,863.19	1,870.63	1,848.35	1,849.21	1,866.36	1,841.14
F	2,202.63	2,201.95	2,210.74	2,184.41	2,185.42	2,205.70	2,175.89
G	2,541.49	2,540.71	2,550.86	2,520.47	2,521.64	2,545.04	2,510.64
H	3,049.80	3,048.86	3,061.04	3,024.58	3,025.98	3,054.06	3,012.78

Banded council tax levy for police and fire precepts

(i) That it be noted for the year 2017-18 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	51.75	65.55
B	60.37	76.48
C	69.00	87.40
D	77.62	98.33
E	94.87	120.18
F	112.12	142.03
G	129.37	163.88
H	155.24	196.66

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 2017-18 for each of the categories of dwellings shown below:

All figures in £s	Brunswick	Dinnington	Hazlerigg	North Gosforth	Woolsington	Blakelaw and North Fenham	Other
A	1,133.90	1,133.59	1,137.65	1,125.49	1,125.96	1,135.32	1,121.56
B	1,322.88	1,322.51	1,327.25	1,313.07	1,313.61	1,324.53	1,308.48
C	1,511.86	1,511.45	1,516.86	1,500.65	1,501.28	1,513.76	1,495.41
D	1,700.85	1,700.38	1,706.47	1,688.24	1,688.94	1,702.98	1,682.34
E	2,078.81	2,078.24	2,085.68	2,063.40	2,064.26	2,081.42	2,056.19
F	2,456.78	2,456.10	2,464.89	2,438.56	2,439.57	2,459.85	2,430.04
G	2,834.74	2,833.96	2,844.11	2,813.72	2,814.89	2,838.29	2,803.89
H	3,401.70	3,400.76	3,412.94	3,376.48	3,377.88	3,405.96	3,364.68

Annex 7 – Treasury Management Strategy

Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) requires the council to approve a treasury management strategy before the start of each financial year. In addition, the Department for 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 DCLG 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.

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 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 over the next year it is unlikely to be sustainable in the medium / longer-term as borrowing to fund capital expenditure is estimated to increase.

Therefore, whilst we will continue to fully 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 exposure to interest rate risk (which as set out above will potentially increase over the next few years).

In addition, we will maximise 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 (with the exception of borrowing due in less than two years in order to take advantage of low short-term interest rates). This is set out in more detail in Annex 9.

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 Tyne and Wear Pension Fund);
- European Investment Bank; and

- Local authority special purpose vehicles created to enable local authority bond issues (for example Municipal Bonds Agency).

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 negotiate premature redemption terms. The council may take advantage of this opportunity where this is expected to lead to an overall saving or a reduction in risk.

Investment / Lending Strategy

The council's main objective when lending money is to strike an appropriate balance between maximising external interest receivable and minimising credit risk (for example risk of monies not being repaid to us).

In this context UK legislation on rescuing failing banks will protect individuals and small businesses at the expense of local authorities and financial organisations. This will increase the credit risk associated with making unsecured deposits with banks relative to the risk of other investment options.

Due to the above issue and the continuing low borrowing rates the council will seek to minimise the levels of investments / 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 cash balances to invest. The following table shows the different organisations the council will lend its surplus funds to and the appropriate financial / time limits:

Type of institution	Financial limit	Time limit
UK central government (irrespective of credit rating)	Unlimited (no change)	Unlimited (no change)
UK local authorities	£15 million each (no change)	3 years (no change)
UK banks with AAA, AA+, AA, AA-, A+ and A credit ratings	£20 million each (no change)	1 year unsecured (no change) 2 years secured (no change)
UK banks with A- credit rating	£15 million each (no change)	6 months unsecured (no change) 1 year secured (no change)
UK banks with BBB+ credit rating	£5 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)	1 year unsecured (no change) 2 years secured (no change)
Type of institution	**Financial limit**	**Time limit**
UK building societies with A- credit rating	£5 million each (no change)	6 months unsecured (no change) 1 year secured (no change)
UK building societies with BBB+ credit rating	£1 million each (no change)	100 days unsecured (no change) 6 months secured (no change)
UK building societies without a credit rating with assets greater than £250m	£5 million each (no change)	6 months unsecured (no change) 1 year 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)	1 year unsecured (no change) 2 years secured (no change)

Current Account

The council’s current account banking contract is with Lloyds Bank plc.

Money Market Funds

Money market funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risk, coupled with the services of a professional fund manager. Fees of between 0.1% and 0.2% per annum are deducted from the interest payable to the council. The council uses funds that offer same-day liquidity and aim for a constant net asset value as an alternative to instant access bank accounts.

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 quality 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.

Specified / Non-Specified Investments

The DCLG Guidance on Local Authority Investments defines specified investments as those denominated in pounds sterling, due to be repaid within 12 months of arrangement, not defined as capital expenditure by legislation, and invested with either the UK government, a UK local authority, parish council or community council, or a body or investment scheme of ‘high credit quality’ (for example minimum credit rating of A-).

Any investment not meeting the definition of a specified investment is therefore classed as non-specified. The council will limit itself to the following categories of non-specified investments during the year:

- Loans to other local authorities greater than one year – £50 million.
- UK building societies without credit ratings with assets greater than £250 million – £50 million (limit relates to sector as a whole and not to individual institutions).

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; and

- 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 uses purpose-built cash flow forecasting software to determine the maximum period for which funds 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 general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' powers to use of standalone financial derivatives (for example those that are not embedded into a loan or investment). However, the council's policy is not to use standalone financial derivatives (such as swaps, forwards, futures and options).

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

Audit Committee will review the treasury management strategy at its March meeting and the mid-year review at its December meeting. Training will be provided to Audit Committee members to ensure they are able to undertake this role effectively.

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.

Financial Implications

For the purpose of setting the budget, the average interest rate payable has been assumed to be 3.5%. As set out in Annex 9, the General Fund capital financing requirement (excluding PFI) is estimated to increase from £481.1 million as at 31 March 2017 to £510.0 million as at 31 March 2018. Based on the capital financing requirement, the external interest payable in 2017-18 is estimated to be £14.4 million and the minimum revenue provision is estimated to be £17.3 million. The majority of this relates to self-financed prudential borrowing, which is funded from a range of sources. The supported borrowing element of this will not change in 2017-18 due to the payment holiday arising from the change in approach to calculating MRP.

Annex 8 – Minimum Revenue Provision 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 for 2017-18 in accordance with the main recommendations contained within the guidance.

A proportion of the MRP for 2017-18 will relate 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 assets associated with the investment are 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.

Annex 9 – Prudential Indicators

	2016-17	2017-18	2018-19	2019-20
Capital expenditure (including loans to third parties): (£ million)				
- General Fund	79.8	69.5	8.1	0.0
- Housing Revenue Account	52.9	37.4	38.7	0.0
- Pipeline	0.0	20.0	80.0	120.0
TOTAL	**132.6**	**126.9**	**126.8**	**120.0**
Capital financing requirement at end of year: (£ million)				
- General Fund (excluding PFI)	481.1	510.0	499.4	484.5
- General Fund PFI	212.2	204.4	196.5	188.7
- Housing Revenue Account	366.0	371.0	390.4	390.4
TOTAL	**1,059.3**	**1,085.3**	**1,086.4**	**1,063.6**
Annual change in capital financing requirement: (£ million)				
- General Fund (excluding PFI)	26.2	28.9	(10.5)	(15.0)
- General Fund PFI	(7.8)	(7.8)	(7.8)	(7.8)
- Housing Revenue Account	16.9	4.9	19.5	0.0
TOTAL	**35.3**	**26.0**	**1.1**	**(22.8)**
Incremental impact of capital investment decisions: (£)				
- General Fund (per Band D equivalent)	26.42	15.77	(5.84)	(8.47)
- Housing Revenue Account (per dwelling)	29.48	8.65	34.35	0.00
Ratio of financing costs to net revenue stream: (%)				
- General Fund	12.39%	14.24%	15.23%	15.34%
- Housing Revenue Account	14.20%	14.79%	15.42%	15.95%

Annex 9 – Prudential Indicators (continued)

	2016-17	2017-18	2018-19	2019-20
Net debt: (£ million)				
- Borrowing	721.8	755.6	764.6	749.6
Operational boundary for external debt: (£ million)				
- Borrowing	857.1	890.9	899.9	884.9
- PFI liabilities	222.2	214.4	206.5	198.7
TOTAL	**1,079.3**	**1,105.3**	**1,106.4**	**1,083.6**
Authorised limit for external debt: (£ million)				
- Borrowing	867.1	900.9	909.9	894.9
- PFI liabilities	232.2	224.4	216.5	208.7
TOTAL	**1,099.3**	**1,125.3**	**1,126.4**	**1,103.6**
Actual external debt: (£ million)				
- Borrowing (excluding accrued interest)	731.8	765.6	774.6	759.6
Debt maturity profile: (%)				
- Less than one year	12.0%	0 - 25%	0 - 25%	0 - 25%
- Between one and two years	9.9%	0 - 20%	0 - 20%	0 - 20%
- Between two and five years	9.8%	0 - 15%	0 - 15%	0 - 15%
- Between five and ten years	6.1%	0 - 25%	0 - 25%	0 - 25%
- Greater than ten years	62.2%	0 - 75%	0 - 75%	0 - 75%
Upper limit for fixed interest rates: (£ million)				
- Borrowing	731.8	765.6	774.6	759.6
Upper limit for variable interest rates: (£ million)				
- Borrowing	365.9	382.8	387.3	379.8
Upper limit for investments > 364 days: (£ million)				
- Investments	50.0	50.0	50.0	50.0
Adoption of CIPA Code of Practice on Treasury Management in Public Services				
- Fully Compliant	Yes	Yes	Yes	Yes