Cabinet 29 June 2020
Agenda Item xx

2019/20 Provisional Finance Outturn Report

INDEX

Section 1 – EXECUTIVE SUMMARY

1.1. Summary

1.1.1. The Authority's audited Statement of Accounts (the Accounts) for 2019/20 will be presented to the Audit Committee for approval in November 2020. This will be later than in other financial years as a result of the Covid-19 pandemic. National changes were made to deadlines covered in legislation relating to the publication and external auditing of the Accounts. These changes resulted in the deadline for the Chief Finance Officer to "certify" the draft accounts changing to 31 August 2020 and therefore the approval of the accounts by Audit Committee will not take place until November 2020. Audit Committee have been briefed on these changes. The figures contained in this report are provisional until the completion of the Accounts. .

1.1.2. The Accounts are a statutory document which set out the Authority's financial position and performance for the year in a series of formal accounts prepared according to a specific statutory and regulatory framework. Successive changes to local government accounting practice have made the Accounts a very technical document. As in previous years, this report sets out the Authority's financial performance in an outturn report. This reflects the Authority's structure and is set out on a similar basis to the financial management reports presented to Cabinet throughout the year.

1.1.3. The financial year has seen the Authority continue to manage its finances despite on-going funding reductions and continuing cost pressures in respect of social care services. Despite these challenges the proactive management of the General Fund Budget throughout the year has led to a year-end surplus of £0.050m. It is proposed to deal with this surplus by a transfer to the Strategic Reserve. In addition to this the Authority received two one-off dividend payments (£0.637m for the Airport and £0.400m following the closure of the Kier NT Joint Venture) in-year. In other years where a surplus has been generated this would be held in reserve for future investment in the Borough but in light of the significant and unexpected impact of the Covid-19 pandemic, it is proposed that these are transferred to reserves (£0.195m to General Fund balances and £0.842m to the Strategic Reserve) to support the increased financial impact and risk to the Authority expected during 2020/21 and future years. After the final transfers, the General Fund Revenue Account shows spend on Budget for 2019/20, with a closing balance on the Strategic Reserve of £15.489m and General Fund balances of £7.000m. Retaining these levels of balances is important for managing the financial resilience of the Authority through 2020/21 and beyond.

1.1.4. School balances have reduced from £1.599m at the start of the financial year to £0.165m at 31 March 2020. Whilst some schools have seen their individual balances increase, the value of individual school deficits overall has increased which contributes to the £1.434m reduction in balances. Overall the position improved by £6.095m from initial projected overall deficit balances of £4.661m. Further details are contained in Section 6 of this Annex.

1.1.5. The Housing Revenue Account balances have increased from £7.303m to £7.803m, an in-year increase of £0.500m. This change is as a result of an in-year improvement against Budget of £2.831m (this represents 4.1% of the gross Budget). Further details are given in Section 7 of this Annex**.**

1.1.6. The initial approved Investment Plan for 2019/20 was £62.758m. Variations and reprogramming of £2.424m were approved by Cabinet during 2019/20 to give a revised Investment Plan of £65.182m. Capital expenditure for the year was £59.080m (90.64% of the revised plan), a variation of £6.102m. This outturn includes further reprogramming of £6.262m as shown in Section 8.

1.2. Strategic Management of the Authority's Budget

1.2.1. Whilst statutorily the Authority's Budget and Statement of Accounts must be prepared annually, the pressures and opportunities that the Authority faces often extend across several accounting years. Decisions taken in one year may be felt in subsequent periods. One of the benefits of the Authority's regular Budget monitoring process is that issues can be identified early in the year and action taken to address them. The outcomes of these actions can then inform both Budget-setting and preparation of the Financial Statements. Budget-setting, Budget management and the Financial Statements can therefore be seen as related parts of a continuous process of financial management by the Authority. This part of the report sets out some of the key strategic issues managed by the Authority during 2019/20.

1.3. General Fund

1.3.1. The Budget for 2019/20 was approved by full Council at its meeting of 21 February 2019. The net General Fund Budget was set at £155.730m including efficiency savings of £10.533m (£6.875m new to 2019/20 and £3.658m of prior year savings requiring a permanent solution in 2019/20).

1.3.2. The Monitoring report up to 31 January 2020 projected a pressure of £2.932m and the final position is an underspend of £0.050m.

1.4. Budget Savings Programme

1.4.1. The Efficiency Programme for 2019/20 included savings of £6.875m and £3.658m of savings targets carried forward from 2018/19, for the delivery of projects/actions included as part of the previous Creating A Brighter Future Programme. The scale of the financial challenge for the year meant that wide ranging efficiencies and service reconfiguration were required to be implemented during 2019/20 leading to £6.233m or 90.66% of the £6.875m savings targets being achieved. The remaining balance of £0.642m combined with the £3.658m of prior year balances were handled through a range of alternative management activities, the success of which is demonstrated in the outturn. The majority of the prior year balances related to ambitious cross-cutting savings proposals that were identified as being challenging to achieve. The high-risk nature of these savings was identified early in the financial year and as such growth funding was allocated for 2020/21 in the 2020-2024 Medium-Term Financial Plan. The Efficiency

Programme is monitored as part of the overall financial position of the Authority, and regular updates of progress is shared with the Mayor and Cabinet members and also reported to Cabinet as part of the bi-monthly Financial Management reports. Further details of the Efficiency Programme outcomes are detailed in section 3.

1.5. Treasury Management

1.5.1. There has been an increase in the level of actual external borrowing (excluding PFI) from £451.146m at 31 March 2019 to £466.913m at 31 March 2020. The level of internal funding remains high at £57.655m at 31 March 2020 (£84.047m at 31 March 2019), subsequently this avoids interest charges. During 2019/20 the sustained approach to maximising the use of internal borrowing, using short-term borrowing at lower rates and the impact of reprogramming within the Investment Plan resulted in interest savings of £3.641m in-year (General Fund and HRA).

1.6. Reserves and Outlook

1.6.1. The end of the financial year 2019/20 saw the beginning of the COVID-19 Pandemic, the impact of which has been unexpected and significant. Cabinet and all Members have been kept up to date of the response the authority has implemented as lockdown was put in place and what that meant for essential services being maintained for the most vulnerable residents of the borough. There have been a range of services suspended such as the leisure and culture and the financial impact on the authority arising from additional costs and lost income is anticipated to be significant during 2020/21 and beyond.

1.6.2. There have been a range of financial interventions introduced by the Government , these are set out in Appendix E. Like all local authorities, North Tyneside Council has felt the impact of the on-going Covid-19 pandemic. The Authority received its share of the Government's Local Support Grant of £6.822m in March 2020 to support local authorities with the additional costs and income lost due to Covid-19. As 'Lockdown' measures were only introduced on 23 March 2020, the financial impact of this in 2019/20 was £0.733m and the remaining balance of £6.089m was moved to a ringfenced reserve on the balance sheet, ready for utilisation in 2020/21 when the greater financial impact is expected.

1.6.3. A further tranche of the Local Support Grant of £5.709m was received in May 2020 bringing the total received by North Tyneside Council to £12.531m. After the carry forward from 2019/20, the Authority currently has £11.798m of Local Support Grant funding in reserve. As the majority of the financial impact will be felt in 2020/21,work is on-going between Finance and the wider service areas to review and update on a regular basis the financial impact of additional costs and income forgone currently anticipated during 2020/21. Monthly returns are being submitted to the Ministry for Housing, Communities and Local Government containing the latest estimates of financial impact of Covid-19 on the Authority's finances. The May 2020 return projected the financial impact to be in the region of £24.930m (both General Fund and HRA), far in excess of the current funding made available from the Government. There are longer term impacts anticipated through an increased number of residents being eligible for Local council tax support, impact on collection of council tax. In addition, despite a range of government support being put in place we anticipate there being a significant impact on the businesses in the borough which will impact on Business rates raised and collected both during 2020/21 and beyond.

1.6.4. In addition to the Local Support Grant, the Authority also received a £38.494m grant from the Government aimed at supporting businesses in the retail, hospitality and leisure sector, small businesses in receipt of small business rate relief and other organisations such as community associations and sporting clubs during the pandemic. Using records held in the Northgate system, initial estimates were that 3,014 business premises would be eligible to apply for this grant at a cost of £34.270m. At the end of May 2020, the Authority had made payments to 2,567 (85.17%) of the eligible businesses, totalling £29.495m, payments have continued to be made during June.

1.6.5. Further impacts of the Covid-19 pandemic include the delay in the 2020 Spending Review, which was scheduled to be completed by July this year. This has been delayed to enable the Government to remain focused on responding to the ongoing coronavirus outbreak. Current indications suggest a one year settlement may be issued again, with a full spending review delayed with no timetable yet as to when indicative funding for local government for 2021/22 is likely to be announced.

1.6.6. Additionally the Fair Funding and Business Rates Retention (BRR) schemes review, scheduled for implementation in April 2021, will now not go ahead until April 2022 at the earliest. This lead to further significant risk remain to the Authority's ability to update the four year financial plan.

1.6.7. The general fund outturn position includes £1.037m of dividend that in "normal" circumstances Cabinet could have considered to use to fund further investment in the borough, however in light of the financial risks the authority faces it is being recommended to Cabinet to use this funding to increase the General Fund Balance to £7.000m and the Strategic Reserve to £15.489m.

1.6.8. It has been highlighted previously by the Chief Finance Officer that the Authority has a relatively low level of reserves. The level of uncertainty with regard to the levels of funding for Local Government Finance beyond 2020/21 alongside the uncertain long terms implications of how the borough and indeed the country will recovery from the impacts of Covid-19 is of concern when considering the financial sustainability of the authority remains a significant concern, particularly when taken in the context of funding reductions the authority has managed since 2007/18. Appendix A sets out in detail the movement on Reserves and Balances and despite some increases the general level of Reserves available to support the Authority's Budget remains relatively low when considering the current estimated gap arising from the financial impact of Covid-19.

1.6.9. The Strategic Reserve represents 4.32% of the General Fund 2020/21 gross Budget and 9.60% of the 2020/21 net Budget, with the General Fund balances added, these represent 6.27% of the 2020/21 gross Budget and 13.94% of the 2020/21 net General Fund Budget. There is no prescribed level of reserves advise by finance bodies with the level being considered in light of risks the authority faces not just in the current year but looking ahead.

1.6.10. The net movement in HRA reserves and balances is an increase of £1.567m. The HRA reserves have increased by £1.067m to £22.870m in 2019/20. The use of up to £1.500m of HRA PFI Reserve was approved by Cabinet under the Use of Reserves policy to finance the payment of a settlement agreement with S4NT & Galliford Try relating to the construction phase of the North Tyneside Living PFI project. Within the HRA reserve total, over £11.000m relates to PFI reserves. Included in the overall movement is an increase in Housing Revenue Account balances of £0.500m as set out in Section 7 of this Annex.

1.6.11. School Balances show a reduction of £1.434m as set out in section 6 of this Annex, but as stated previously this is a significant improvement of £6.095m against the planned deficit balance position of £4.661m. As at 31 March 2020, the DSG account is showing a net deficit balance of £3.262m. This compares to a surplus balance of £0.746m in 2018/19. Whilst the Authority does have some plans to recover this deficit position, there remains uncertainty as to how this is to be resolved, adding further risk for the Authority in the short to medium term.

1.6.12. Table 1 below represents the reserves and balances position of the Authority as at 31 March 2020. It shows a comparison of the position expected for the reserves and balances to be carried forward into 2020/21 (as at budget setting) an the actual position carried forward into 2020/21. Included in the carried forward figure for General Fund ringfenced reserves is £6.089m relating to the Covid-19 Local Authority Support Grant.

1.6.13. **Table 1: Reserves and Balances position as at 31 March 2020**

Reserves and Balances	2019/20 B/Fwd £m	2020/21 Projected £m	2020/21 C/Fwd £m
Reserves			
General Fund ringfenced	25.318	24.113	28.581
General Fund un-ringfenced	19.492	18.369	19.181
General Fund grants	3.795	1.243	0.084
HRA	19.852	17.279	19.102
Reserves Sub Total	**68.457**	**61.004**	**66.948**
Balances			
General Fund	6.805	6.805	7.000
Schools	1.599	(0.201)	0.165
HRA	7.304	7.593	7.804
Balances Sub Total	**15.708**	**14.197**	**14.969**
Grand Total Reserves and Balances	**84.165**	**75.201**	**81.917**

1.6.14 In these unpresented times the importance of robust financial management across the authority remains paramount. A range of tighter spending controls have been put in place to ensure no-non essential spend is incurred during 2020/21 and to ensure any Covid-19 related expenditure is appropriately considered and approved in advance of being incurred.

SECTION 2 - GENERAL FUND INCOME AND EXPENDITURE SUMMARY

2 General Fund Revenue Provisional Outturn

2.1 This section of the report details the provisional outturn at 31 March 2020. The Authority's approved net revenue Budget of £155.730m is provisionally expected to underspend by £0.050m. This is an improvement of £2.982m on the previous position reported to Cabinet based on forecasts at January 2020 which showed a pressure of £2.932m. The Budget includes £6.875m of 2019/20 savings as agreed at full Council on 21 February 2019. Table 2 in paragraph 2.5 below sets out the variation summary across the General Fund. In addition to this position is a £0.637m one-off dividend receipt from the Airport and a £0.400m one-off dividend receipt following the closure of the Keir NT Joint Venture. It is proposed that these balances are transferred into the General Fund balances (£0.195m) and the Strategic Reserve (£0.842m). The General Fund surplus of (£0.050m) is also proposed to be taken to the Strategic Reserve. With these final transfers included, the General Fund will show spend on Budget for 2019/20.

Accounting Adjustments

2.2 As part of the statutory reporting regulations there is a requirement to ensure that there is a clear audit trail between the figures reported to Cabinet and those published in the Statement of Accounts. The outturn therefore includes a series of year-end accounting adjustments which, whilst having no impact on the final overall position against the Budget, provide a link from the outturn reported to Cabinet to the published accounts. These adjustments include:

- Adjusting both budget and actual positions for support services. This has no impact on variances;
- Adjusting the service positions for actual (rather than budgeted) capital expenditure items; and,
- Adjusting the service positions for the impact of Private Finance Initiatives (PFI) which has reduced the reported costs of the services by £5.533m and has had the opposite impact on the corporate budget lines.

2.3 As in previous years, these accounting adjustments were not included in the previously reported forecasts presented to Cabinet.

2.4 Table 2 below shows the variance between the outturn to be published in the Statement of Accounts and the Budget and also shows the adjustments required to allow comparison of the provisional outturn for Cabinet to the last reported position:

2.5 Table 2: 2019/20 General Fund Revenue Provisional Outturn as at 31 March 2020

	Budget	Final Accounts Outturn	Variance	Accounting Adjustments	Adjusted Variance for Cabinet	January Forecast Variance for Cabinet	Movement from Last Cabinet Report
Services	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Health, Education, Care and Safeguarding	67.463	73.291	5.828	(0.069)	5.759	7.149	(1.390)
Commissioning and Asset Management	21.445	5.503	(15.942)	16.120	0.178	0.300	(0.122)
Environment, Housing and Leisure	42.140	38.114	(4.026)	3.389	(0.637)	(0.302)	(0.335)
Regeneration and Economic Development	1.259	1.687	0.428	(0.153)	0.275	0.035	0.240
Corporate Strategy	0.419	0.416	(0.003)	0.000	(0.003)	(0.068)	0.065
Chief Executive's Office	(0.100)	(0.190)	(0.090)	0.000	(0.090)	(0.048)	(0.042)
Resources	1.538	2.002	0.464	(0.012)	0.452	(0.097)	0.549
Law and Governance	0.019	0.223	0.204	0.000	0.204	0.171	0.033
Central Items	1.534	14.621	13.087	(19.275)	(6.188)	(4.208)	(1.980)
Support Services	20.013	20.013	0.000	0.000	0.000	0.000	0.000
Total Authority before dividends	**155.730**	**155.680**	**(0.050)**	**0.000**	**(0.050)**	**2.932**	**(2.982)**
Newcastle Airport Dividend	0.000	(0.637)	(0.637)	0.000	(0.637)	0.000	(0.637)
Kier NT Dividend	0.000	(0.400)	(0.400)	0.000	(0.400)	0.000	(0.400)
Total Authority	**155.730**	**154.643**	**(1.087)**	**0.000**	**(1.087)**	**2.932**	**(4.019)**

Main Movements From Previous Reported Forecast Variance (January Report)

2.6 Comparing the adjusted outturn variance to the previously reported January forecast outturn shows an overall improvement of £2.982m before dividends. The main reasons for these movements are itemised below with more detailed explanations of both the outturns and the changes compared to the January report being contained in Section 5 of this report.

Health Education Care and Safeguarding

2.7 There has been an overall improvement of £1.390m since the January report resulting mainly from an adjustment to direct payment costs reflecting a payment in advance for services supporting these clients.

Commissioning and Asset Management

2.8 There has been an improvement of £0.122m within Commissioning and Asset Management since the January report. There has been an increase in overspend within Facilities and Fair Access of £0.261m relating to price inflation in Catering and Cleaning and pressures within Home to School Transport resulting from higher numbers and increased complexity of the needs of children attending special schools. This has been offset by an improved position in Property due to PFI credits and a contribution from commercial arrangements with the Authority's Technical Partner.

Environment Housing and Leisure

2.9 Environment Housing and Leisure saw an improvement of £0.335m since the January report largely due to an improved position in relation to waste disposal costs.

2.10 Regeneration and Economic Development

There has been an increased overspend of £0.240m compared to the January report, mainly due to an underachievement of a target to recharge staff costs to capital schemes. This has resulted from a transfer of project management work to Commissioning and Asset Management allowing Regeneration and Economic Development to focus on sourcing external funding for capital investments within the Borough.

2.11 Resources

There has been an increased overspend of £0.549m, mainly due to not drawing down reserves to cover IT costs that had been previously planned within the January position. The overall improvement in the outturn position made this drawdown unnecessary.

Central Items

2.12 Central Items has improved by £1.980m since the January report. There has been £0.395m of additional Government funding received, whilst the position has benefited from £1.158m of year-end accounting adjustments in capital, PFI and salary sacrifice. The position on the Regional Adoption Agency has allowed a £0.175m support service recharge be made to Central Items and there is a surplus position on the Education Services Support Grant which is held centrally. Further details can be found within paragraph 5.9.

Other Services

2.13 Other services have been grouped together as individually the movements in outturn variances are not material. The largest items within the overall worsening of £0.056m related to reduced income and increased marketing costs in Corporate Strategy and additional barrister fees and coroner costs within Law and Governance following a period of staff turnover.

SECTION 3 - DELIVERY OF BUDGET SAVINGS PROPOSALS

3.1 The combined budget savings of £6.875m in 2019/20 approved by full Council in February 2019 bring the total savings the Authority has had to find in the nine years following the 2010 Comprehensive Spending Review (CSR) to £126.951m.

3.2 **Table 3: Year on Year savings since 2010 CSR**

Year	£m
2011/12	16.169
2012/13	16.739
2013/14	12.240
2014/15	16.552
2015/16	14.158
2016/17	15.737
2017/18	18.338
2018/19	10.143
2019/20	6.875
Total Savings	**126.951**

3.3 In addition to the £6.875m of savings proposals required in 2019/20, £3.658m of prior year savings required a permanent solution after these savings were successfully achieved by in-year management actions during 2018/19. The total amount of savings that needed to be achieved in 2019/20 was therefore £10.533m.

3.4 The full savings programme total of £10.533m has been achieved in-year with a total of £6.233m (90.66%) of the new projects achieved requiring £4.300m of the remaining savings targets to be achieved by other management actions evidenced by the balanced position within the General Fund for 2019/20. These figures include the mitigating items of £1.100m of management actions which were identified early in the year as achievable via Central Items in 2019/20 and the £0.300m additional health income reported previously which mitigated a savings target within HECS. Continued good management of the Authority's Treasury Management function has allowed the remaining balance to be met in-year. The high-risk nature of the cross-cutting savings was identified early in the financial year and as such growth funding was allocated for 2020/21 in the 2020-2024 Medium-Term Financial Plan, removing the impact of these savings in future years.

3.5 **Table 4: Efficiency Savings by Service at March 2020**

Service	2019/20 Target £m	Projected Delivery £m	Management Actions £m
Regeneration and Economic Development	0.103	0.103	0.000
Central Items	6.058	2.376	3.682
Commissioning & Asset Management	0.176	0.176	0.000
Corporate Strategy	0.042	0.042	0.000
Environment, Housing & Leisure	0.886	0.886	0.000
Health, Education, Care & Safeguarding	3.268	2.650	0.618
Total	**10.533**	**6.233**	**4.300**

3.6 The governance structure of the Efficiency Savings Programme includes a monthly review of progress by the Senior Leadership Team (SLT). In addition, in-year Budget and performance progress meetings were held between officers and Cabinet Members to consider progress and actions being taken to deliver savings. The main variations in relation to the savings achieved by management actions are as follows:

Central Items

3.7 The £3.682m of savings targets within Central Items included a total of £2.582m forecast as still needing achievement in the January report. These savings related to cross-cutting targets from the following Efficiency Statement categories; A Focus on the Social Care Customer Experience (£0.903m), How We Are Organised (£0.687m) and Delivering Our Fees & Charges Policy (£0.992m). The improvement in the Central Items outturn position has allowed the delivery of these targets in 2019/20.

3.8 These ambitious cross-cutting savings proposals were identified as being challenging to achieve. The high-risk nature of these savings was identified early in the financial year and as such growth funding was allocated for 2020/21 in the 2020-2024 Medium-Term Financial Plan.

Health, Education, Care and Safeguarding

3.9 HECS has delivered £2.650m (81%) of its original savings targets during the year with the remainder achieved through additional management actions. Targets yet to be permanently achieved are primarily made up of two schemes. An amount of £0.100m relating to the implementation of assistive technology under the Efficiency Statement category of A Focus on the Social Care Customer Experience. This project trialled new approaches in 2019/20 and there is cautious optimism that the full target will be permanently delivered in 2020/21 although the full impact of Covid-19 on this delivery is still being fully assessed. There is a further amount of £0.168m relating to expenditure reductions within Early Help and Vulnerable Families and HECS is working hard to identify permanent measures to achieve this target. A target relating to 2018/19, for care fee costs, has been met in-year by additional CCG income with arrangements progressing to permanently deliver this saving from 2020/21 although the impact of Covid-19 on the care market will make this more challenging.

SECTION 4 – NEW REVENUE GRANTS

4.1 The following new revenue grants have been received or notified during February and March 2020.

Table 5: Grants Received or Notified in February and March 2020

Service	Grant Provider	Grant	Purpose	2019/20 value £m
Commissioning and Asset Management	Education and Skills Funding Agency	Year 7 Catch Up Premium Allocations for Maintained Schools and PRU's	For the educational benefit of pupils who did not achieve level 4 Key Stage 2 in reading and/or mathematics.	0.150
Commissioning and Asset Management	Education and Skills Funding Agency	Free School Meals Supplementary Grant	Due to the roll-out of Universal Credit, the ESFA have introduced an income-based threshold for free school meal eligibility. As a result of this change to the benefit system and free school meal eligibility, the number of pupils eligible for free school meals will increase. This grant will provide schools with extra funding to help them meet the higher costs of providing extra meals before the lagged funding system catches up.	0.351
Commissioning and Asset Management	European Regional Development Fund	Killingworth Sustainable Retrofit Project	Killingworth Sustainable Retrofit Project	0.027

Service	Grant Provider	Grant	Purpose	2019/20 value £m
Public Health	Department of Health	Public Health England Innovation Fund - Bottled Up	Identifying and Supporting Children and Families to reduce Alcohol Harm.	0.263
Central Items	Ministry of Housing, Communities and Local Government	Covid-19 Local Authority Support Grant	To support the local authority in funding the financial impact of Covid-19	6.822
Central Items	Ministry of Housing, Communities and Local Government	Business Support Grant	To support small businesses effected by the Covid-19 pandemic	38.490
Total				**46.103**

SECTION 5 – SERVICE COMMENTARIES

5.1 Meetings have been held throughout the year between Finance officers and budget managers to review the forecast positions for 2019/20, with forecasts being prepared on a prudent basis. Meetings have taken place to review the quarter one, two and three positions with the Elected Mayor, the Deputy Mayor, the Cabinet Member for Finance and Resources, and other relevant Cabinet Members to discuss the in-year finance and performance position. Heads of Service and their senior teams also attend these challenge sessions to discuss plans in progress to mitigate any pressures.

5.2 Health, Education, Care & Safeguarding (HECS)

5.2.1 HECS has ended the year with an overspend of £5.759m against its £67.463m net controllable expenditure Budget. This represents an improvement of £1.390m since the January forecast variance of £7.149m. Please note that the Child Protection, Independent Assessment and Review Service has transferred to HECS from Commissioning and Asset Management since the January report (pressure of £0.025m at January) and the January comparative figure has been adjusted to reflect this change. This forecast position excludes the application of contingency budgets set aside in Central Items for overspends in Adult Services of £1.800m and within Children's Services of £2.616m.

5.2.2 The HECS service has been heavily impacted by the Covid-19 crisis and has put in place a range of responses to support existing clients and other residents directly affected by the virus who have required new support packages to be put in place on discharge from hospital or to prevent an admission. Work has also been ongoing to support social care providers to maintain their vital services. The following Covid-19 related costs have been identified within HECS in the last month of 2019/20 and have been transferred to Central Items and are offset by a drawdown from the Covid-19 Local Support Grant received in March 2020.

5.2.3 **Table 6: Impact of Covid-19 on HECS**

Service Area	Value £m	Description
Wellbeing & Assessment	0.068	Lost client contributions and additional care packages
Employment & Skills	0.004	Lost course fee income
School Improvement	0.038	Lost income from the Langdale Centre and High Borrans
Total	**0.110**	

5.2.4 The improvement is mainly within Adult Services where an accounting adjustment of £1.257m has been made to reflect expenditure on direct payments to clients where the services supporting those clients had not been received by 31 March. Further details are shown in paragraphs 5.2.8 to 5.2.38.

5.2.5 **Table 7: Outturn Variation for HECS at March 2020**

	Budget £m	Outturn March £m	Variance March £m	Variance Jan £m
Corporate Parenting & Placements	16.316	21.615	5.299	5.110
Child Protection, Independent Assurance and Review	0.673	0.679	0.006	0.025
Early Help & Vulnerable Families	1.317	1.228	(0.089)	(0.032)
Employment & Skills	0.546	0.478	(0.068)	(0.028)
Integrated Disability & Additional Needs Service	2.376	2.780	0.404	0.453
School Improvement	0.086	(0.080)	(0.166)	(0.081)
Regional Adoption Agency	0.000	0.000	0.000	0.000
Children's Services Sub-total	**21.314**	**26.700**	**5.386**	**5.447**
Wellbeing, Governance & Transformation	2.252	2.351	0.099	0.045
Disability & Mental Health	29.835	29.350	(0.485)	(0.265)
Wellbeing & Assessment	11.024	12.212	1.188	2.161
Integrated Services	2.639	2.234	(0.405)	(0.286)
Business Assurance	0.294	0.270	(0.024)	0.047
Adult Services Sub-total	**46.044**	**46.417**	**0.373**	**1.702**
Public Health	0.105	0.105	0.000	0.000
Total HECS	**67.463**	**73.222**	**5.759**	**7.149**

Main budget pressures across HECS

5.2.6 Throughout the year, in addition to its normal complex budget management, HECS has been required to deal with a combination of pressures and national policy changes. There are continuing upward pressures on care providers' fees partially resulting from the National Living Wage and negotiations continue around ensuring funding contributions from the NHS for clients with health needs as the North Tyneside Clinical Commissioning Group (NTCCG) themselves face continuing budget constraints. The financial impact of the Covid-19 crisis has been felt in the last month of the year, however this has been accounted for within Central Items and has been offset by a drawdown from the Covid-19 Local Support Grant. Under Government guidance which applied from 19 March 2020, the costs of packages for residents who have been discharged from hospital and any increased costs of packages which prevented admissions to hospital have been charged into a new pooled fund where the costs will be met by contributions from the Government paid via the NTCCG.

5.2.7 The main factor behind the overall outturn position is the significant pressure within Corporate Parenting and Placements in relation to care provision for children in care and care leavers. Although the number of children in care rose to 321 in January 2020, the numbers have now dropped to 299. (see 5.2.27 below) however, the numbers of care nights provided in 2019/20 overall has been almost 3000 higher than in 2018/19. In addition to third party care provision pressures, there are also on-going pressures in the workforce arising from staff retention costs and recruitment costs. Within adult services, cost pressures remain in relation to third party care provision especially in relation to older people.

Adult Services

5.2.8 In Adult Services, there is an overspend of £0.373m, which has reduced by £1.329m from the reported position in January.

5.2.9 The reduced position relates mainly to a review of balances on individual accounts of clients who receive a direct payment to arrange their own care. A sum of £1.257m has been identified which has been paid out to these clients but which has not yet been spent on care services at 31 March. An adjustment has been made to reflect this expenditure as a payment in advance.

5.2.10 There are on-going pressures in third party payments for care provision which is £4.195m above budget levels. There is also a smaller overspend relating to premises costs (£0.171m). These are partially offset by client contributions and contributions from the NHS (£3.482m). There are underspends against staffing budgets and supplies and services of £0.327m and £0.075m respectively. The demand pressures were foreseen by Cabinet and backed by £1.800m of centrally-held contingencies.

5.2.11 In common with most local authorities, the Authority has seen demand for adult social care continue to rise as the success story of longer lifespans means there are many more people with care and support needs arising from a mixture of physical health and mental health conditions including dementia and frailty in old age. In addition to older people, younger adults with learning disabilities and physical disabilities are also living longer, often with multiple complex issues.

5.2.12 In order to manage this demand as effectively as possible and ensure that the most intensive services are targeted at those in the greatest need, HECS has been going through transformation to develop an asset-based approach that focuses on enhancing an individual's strengths and informal support networks to maximise their independence. This has had the impact of containing the overall size of the population in receipt of services with a cost to the Authority, but the average cost of those services has increased due to the increased average complexity of the needs of those clients.

5.2.13 Pressures within external payments for care provision total £4.195m above budget. Table 8 below shows external payments for care pressures analysed into service types. The reduction in costs in Other Community Based Care results mainly from the reduced direct payment costs described in paragraph 5.2.9.

Table 8: Analysis of Adult Services Care Provision Pressure by Service Type

Type of Service	March £m	January £m
Residential and Nursing Care	3.934	3.770
Homecare and Extra Care	1.151	1.051
Other Community-Based Care	(0.890)	0.262
Total	**4.195**	**5.083**

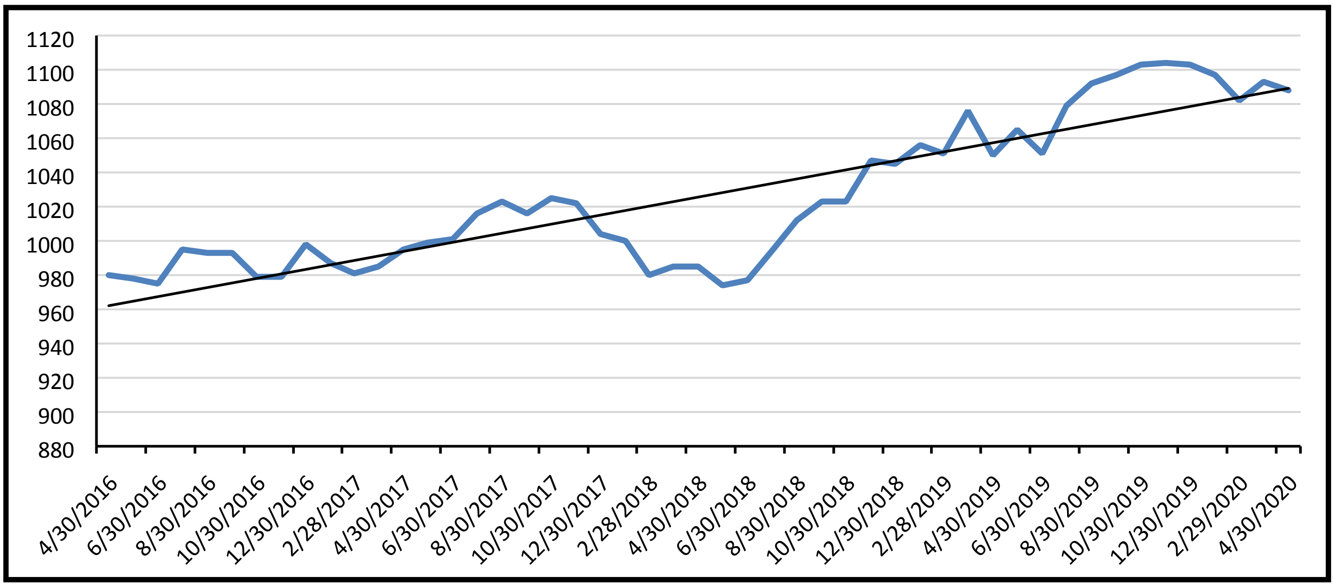
Residential and Nursing Care

5.2.14 In relation to Residential and Nursing Care, an increase in short-term placements in the later part of 2018/19 saw numbers of placements overall rise to 1,066 by the end of that financial year. Internal processes to monitor the use of short-term placements have been strengthened and numbers of placements had fallen in the first part of 2019/20 (1,027 at July 2019). However, challenges remain, for example the option to move clients from short-term placements to community provision diminishes after longer lengths of stay in short-term placement as clients lose skills and family concerns increase around risks at home.

5.2.15 Alternative provisions of services are being identified for short-term placements to prevent admission to long-term residential care such as reablement services, community-based intermediate care or extra care provisions. HECS is continuing a focused review of all short-term placements with support from colleagues from sheltered accommodation and with a view to maximising the appropriate use of assistive technology to identify exit plans for those people needing to move on from short-term residential placements.

5.2.16 The numbers of placements overall for residential and nursing care, however, has continued in an overall upward trend since July 2019 with a total number of clients placed in care homes of 1,093 at the end of March. The increased numbers of clients placed in residential and nursing care has led to further increase in the overspend for this type of service to £3.934m (£3.770m in January). HECS is continuing to review all placements made through an internal panel and is examining individual cases and the flow of clients through the whole system to understand the causes of this increased level of demand. The movement in numbers placed in residential and nursing care is shown in Chart 1 below.

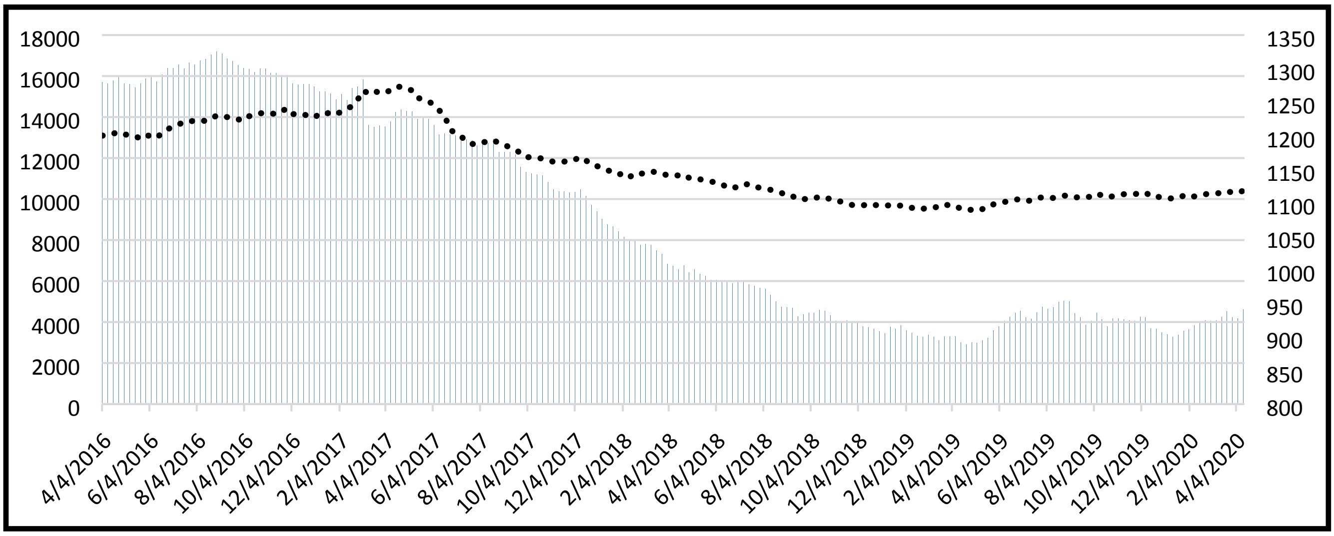
Chart 1: Movement in Numbers of Clients in Residential and Nursing Care since April 2016



<u>Homecare and Extra Care</u>

5.2.17 As reported during 2018/19, the Authority, in line with the national trend, has seen an in increase in the number of homecare hours provided despite a fall in the total number of clients receiving this type of service. It is noted, however, that the number of clients has risen by 3% during 2019/20 however the number of hours delivered has risen by 8.3%. The movement in client numbers (left axis) and hours delivered (right axis) is shown in Chart 2 below:

5.2.18 **Chart 2: Trend in Annual Cost per Client of Homecare/Extra Care Services**



5.2.19 HECS is working hard to continue to embed the asset-based approach by re-engineering the customer pathway through the service to ensure that assessments are proportionate and that clients receive the appropriate level of support to meet their needs to the extent that they are eligible under the Care Act as cost-effectively as possible. Work is continuing to develop further technology solutions to meet needs related to areas such as medication prompts and shopping in a more cost-effective way.

Client Related Income

5.2.20 There has been a net reduction in NTCCG contributions of £0.471m due to a reduction in contributions for clients who have a significant health need but who do not meet the threshold for continuing healthcare often referred to as 'shared care'. Shared care is not subject to the same statutory guidance as Continuing Healthcare and funding arrangements are agreed on an individual client basis between the Authority and the NTCCG. This form of funding has been reducing since 2015/16. Management within HECS are working hard to ensure that clients with significant health needs are appropriately supported by contributions from NHS funding. Contributions from clients and from the NHS ended the year significantly above budget with a surplus of £3.482m, partially offsetting the overspends within payments for externally provided care.

Premises

5.2.21 There is an overspend of £0.127m in premises costs relating mainly to rent for respite premises for clients with a learning disability and accommodation costs for teams based within the community.

Children's Services

5.2.22 In Children's Services the £5.386m overspend relates mainly to demand pressures of £5.299m in Corporate Parenting and Placements and £0.404m in Integrated Disability and Additional Needs. These overspends are partially offset by underspends in Early Help and Vulnerable Families, Employment and Skills and School Improvement. The pressures were foreseen by Cabinet and backed by £2.616m of centrally-held contingencies. The outturn position has improved overall since the last report in January of £5.447m. Note that the Child Protection, Independent Assessment and Review Service has transferred to HECS from Commissioning and Asset Management since the January report (pressure of £0.025m at January) and the January comparative figure has been adjusted to show this change.

5.2.23 Services for children in care did not suffer any additional expenditure relating to Covid-19 issues in the last weeks of 2019/20, however, a total of £0.042m in lost income has been identified within School Improvement and Employment and Skills and these amounts have been transferred to Central Items and have been met by a drawdown from the Covid-19 Local Support Grant.

Corporate Parenting and Placements

5.2.24 The overspends within Corporate Parenting and Placements can be broken down as follows:

Table 9: Analysis of Overspends in Corporate Parenting and Placements

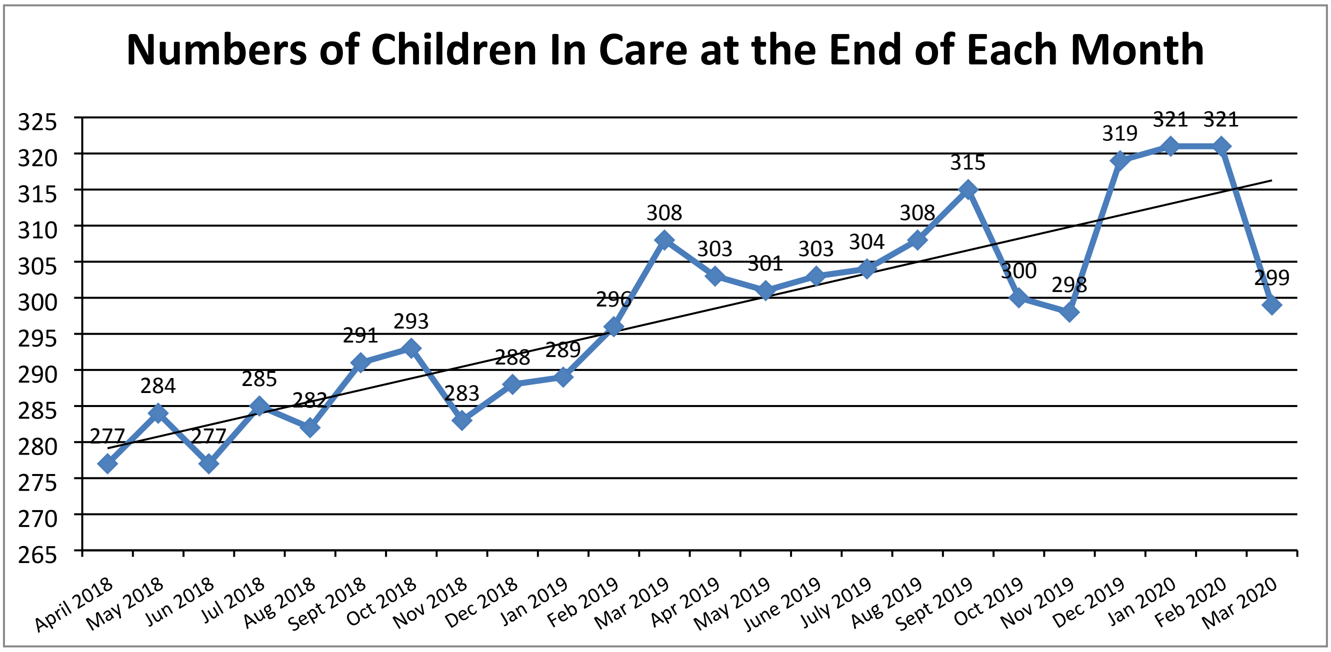
Type of Service	Budget 2019/20 £m	Variance March £m	Variance January £m
Care provision – children in care	9.167	4.362	4.089
Care provision – other children	3.200	0.634	0.416
Management & Legal Fees	(0.221)	(0.104)	0.165
Social Work	4.126	0.402	0.436
Safeguarding Operations	0.044	0.005	0.004
Total	**16.316**	**5.299**	**5.110**

5.2.25 The increase of £0.189m since the last report mainly relates to one new placement in residential care for the last two months of the year (£0.064m) and one extended placement (£0.024m) in addition to one new placement (£0.046m) and three extended placements (£0.028m) in supported accommodation.

Care Provision – Children in Care

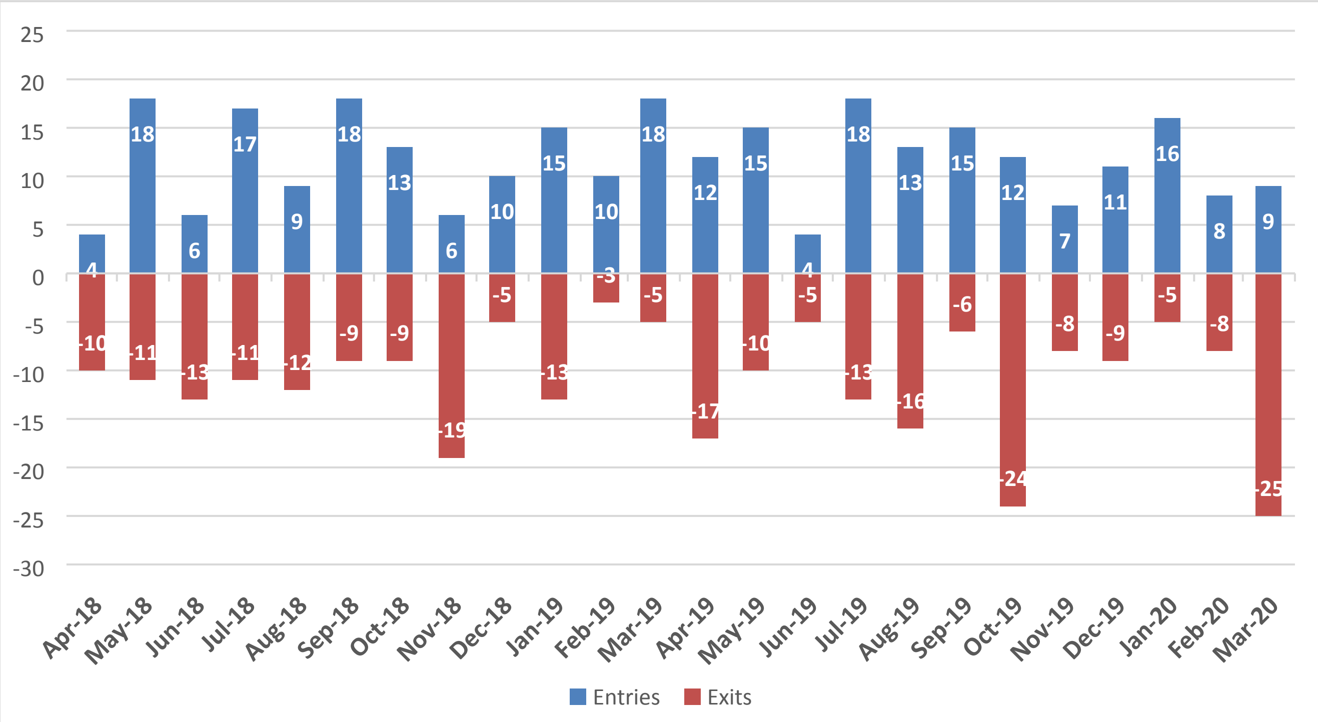
5.2.26 Over recent years, there has been an increase nationally in demand for children's residential placements but with no corresponding increase in government-funded provision. In North Tyneside over the last few years the overall number of children in care has mirrored the increases being felt nationally. Numbers were, however, steady through 2018/19 before rising to 308 at the year end. Although the number of children in care fell slightly from this during the first few months of this financial year, they rose to 321 in January and remained at that level until falling to 299 at the end of March.

5.2.27 **Chart 3: Children in Care at the End of Each Month**



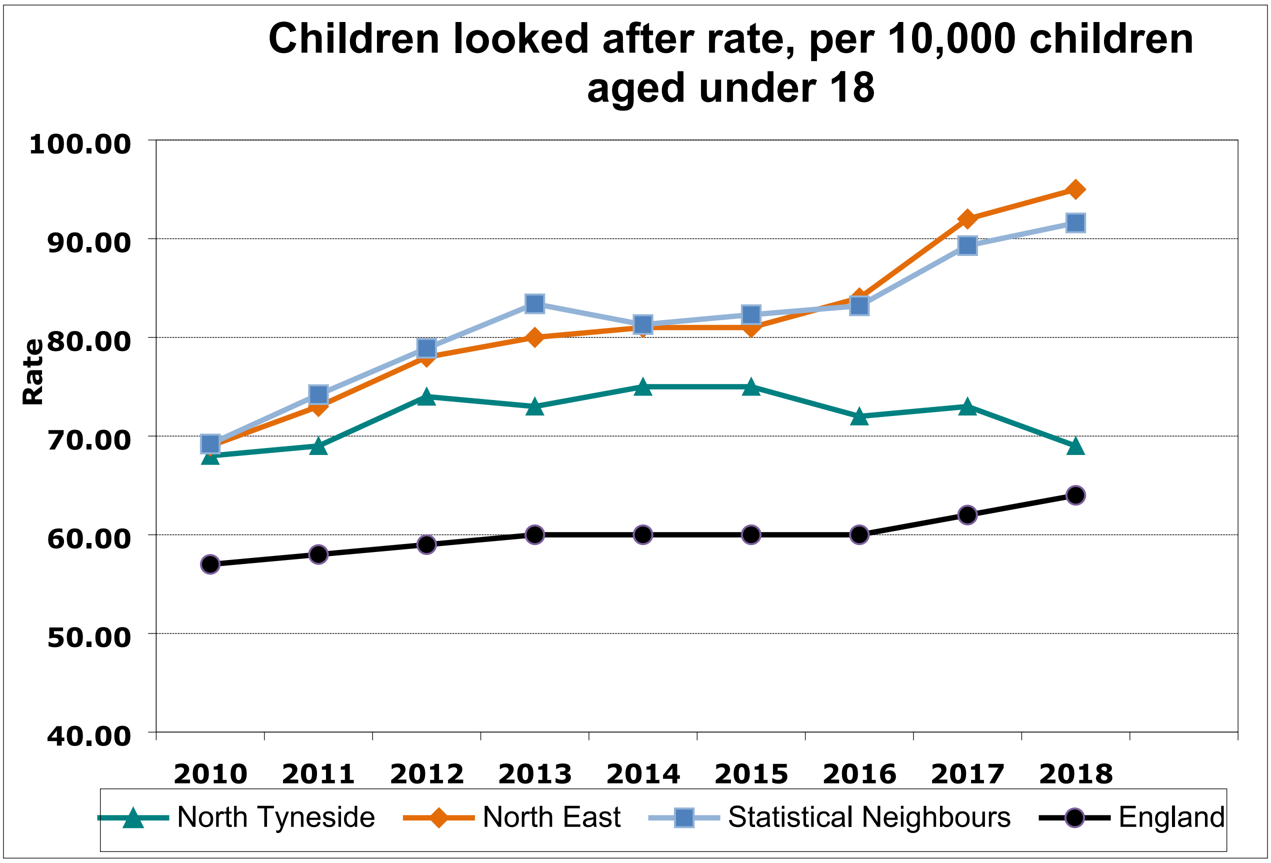
5.2.28 Delays within the court system continue to impact on the numbers of children leaving care. Although the situation had initially improved since the autumn, the impact of the Coronavirus pandemic has introduced further issues. The Authority currently has 11 cases delayed either because the court cannot complete the hearings remotely or because Covid-19 has affected the availability of specialist assessments. The impact of this is that children are remaining in care for longer where otherwise an improved situation for them could have achieved in a shorter time frame. The financial impact is the ongoing cost of placements. The pattern of children leaving care has proven to be much more volatile in 2019 as compared to 2018 but with a general pattern of less children leaving care, as shown in Chart 4 below.

Chart 4: Detailed Movement in the Numbers of Children in Care



5.2.29 The most recent available national comparators from 2018/19, as demonstrated by Chart 5 below, shows that North Tyneside, although above the England average, has historically performed well within the North East region in relation to the rates of children in care.

5.2.30 **Chart 5: Comparative Performance in Rates of Children in Care per 10,000 Children under 18**



5.2.31 Placement mix continues to change, moving towards the complex end of the spectrum and this is driving an increase in overall costs. Placements for adolescents (particularly males) with a combination of risks including aggressive behaviour, offending, substance use and sexualised behaviour are increasingly difficult to source. This has resulted in the use of more costly bespoke individual placements, where it is not suitable to place young people in group environments. This is demonstrated in Table 10 below where the main pressure results from residential placements which, in terms of total bed nights, represents only 8% of provision by bed nights but is very costly amounting to 65% of the overall placement cost. The average cost of a residential care placement at present is £0.264m; however, this is very volatile and is dependent on the individual needs of the cohort of children and young people in externally provided residential placements at any point in time. In 2019/20 there have been 18 children in residential services with a weekly cost in excess of £0.005m. External supported accommodation can also be expensive and there has been a cohort of eight young people with very complex needs being supported for the majority of the year at an average cost of approximately £0.005m per week.

5.2.32 **Table 10: Forecast cost, forecast variance, average placement cost and placement mix**

Placement Type	19/20 Outturn Variance	Average Annual Placement cost (£m)	19/20 Bed nights	Placement Mix	No. of children Mar 20	No. of children Jan 20
External Residential Care	2.454	0.264	8,649	8%	23	24
External Fostering	0.179	0.038	11,184	10%	26	28
In-House Fostering Service	0.341	0.022	76,731	68%	203	220
External Supported Accommodation	1.377	0.183	4,349	4%	15	17
Other*	0.011	various	11,709	10%	32	30
Total	**4.362**		**112,622**	**100%**	**299**	**319**

*Other includes Placed for Adoption, Placed with Parents/Parental Responsibility and NTC Children's Homes.

5.2.33 The impact of the increasingly complex needs of children within the care system can be seen in the increase in average costs of placements between 2018/19 and 2019/20 shown in Charts 6 and 7 below.

Chart 6: Changes in Average, Minimum and Maximum Weekly Fee Rates Between 2018/19 and 2019/20 for Residential Care (net of health and education contributions)

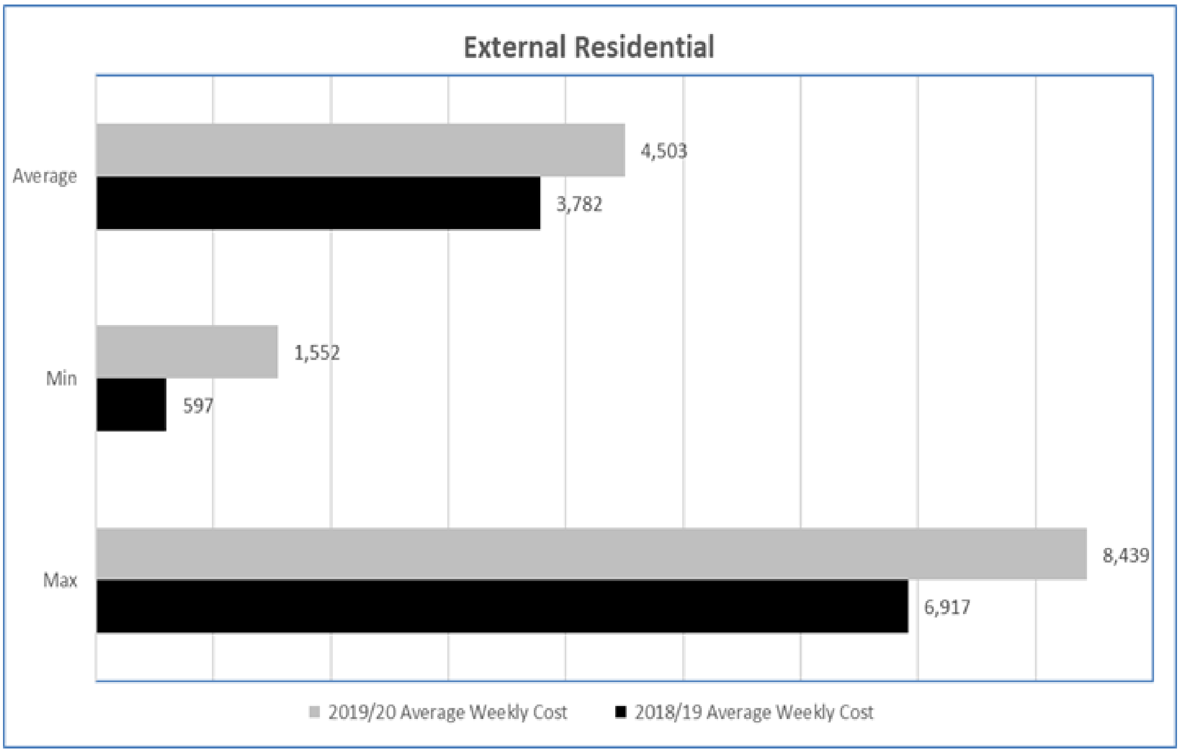
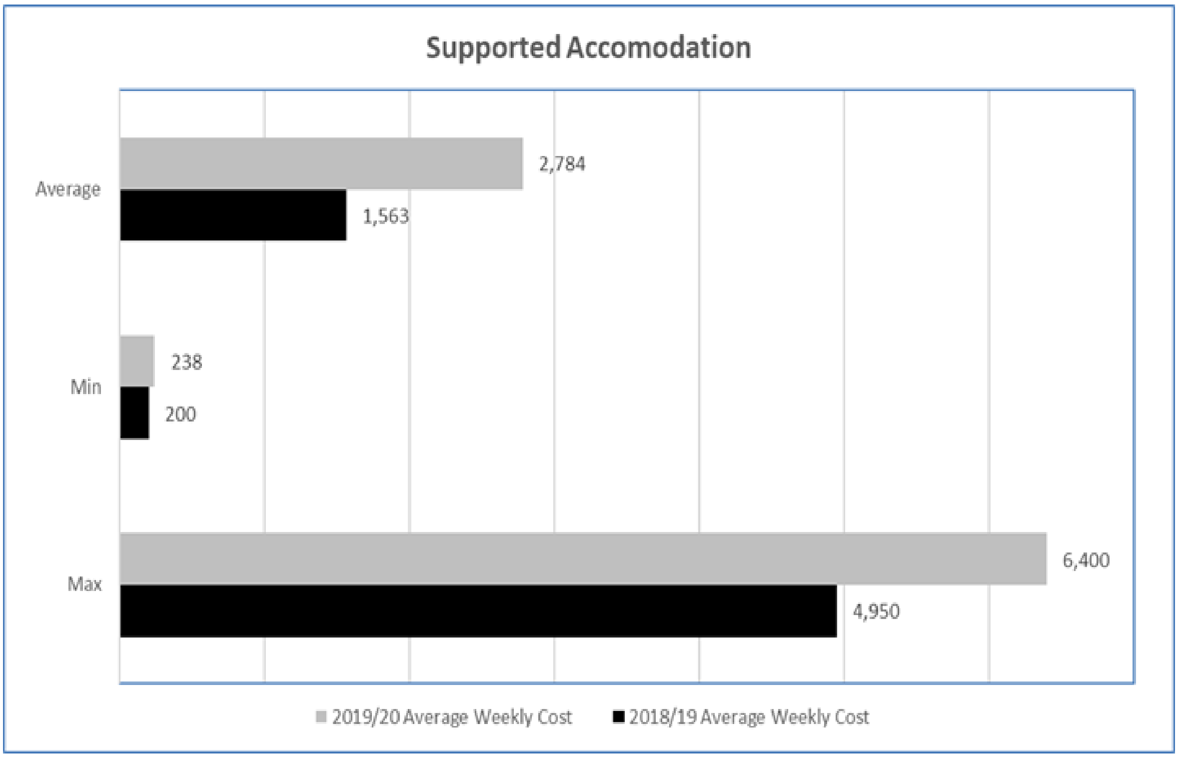


Chart 7: Changes in Average, Minimum and Maximum Weekly Fee Rates Between 2018/19 and 2019/20 for Supported Accommodation (net of health and education contributions)



5.2.34 Children's Services has been successful in reducing the use of externally provided supported accommodation, which is the next most expensive form of provision after residential care. This has been achieved by making full use of the Authority's in-house provision jointly working with the housing team and supporting young people who have been involved in risk taking behaviour with stable and resilient staff teams. This has allowed the placement of young people within internal services that may otherwise have required an external placement at significant additional cost.

Care Provision – Children not in care

5.2.35 The overspend of £0.634m relating to care provision for children not in the care system relates predominantly to children under a Special Guardianship Order (SGO). Cabinet will recall that the Authority's policy for supporting children in SGOs was amended in 2018 and that this brought about additional costs. The contingency budget of £2.616m established in Central Items in 2018/19 was, in part, intended to mitigate against these costs.

Management and Legal Fees

5.2.36 This area ended the year with an underspend position of £0.104m (January: pressure of £0.165m) due to the release of grant funding to support pressures across the service.

Social Work

5.2.37 Within the overall overspend of £5.299m for Corporate Parenting and Placements, there are staffing overspends of £0.199m. Cabinet is aware of the particular challenges faced across the children's social care sector nationally. The net overspend is due to the need to establish an additional team, to support with case load management (£0.150m) and market supplement payments (£0.160m). Children's services ended the year with no agency staff in place and caseloads were in line with good practice. There is also an overspend of £0.184m within the social work team budgets for child related costs such as professional fees, DNA tests, drug and alcohol testing, asylum seeker support, counselling sessions and costs for other therapeutic interventions.

Integrated Disability and Additional Needs

5.2.38 There was an overspend of £0.404m at March 2020 which is an improvement of £0.049m since the last report. Within this service area the main overspends relate to operational staffing costs within in-house residential services of £0.150m, and an associated unachieved health income target of £0.096m. There were also staffing overspends of £0.138m in Educational Psychology during the year partly relating to cover arrangements associated with maternity leave. The IDANS service is continuing to carefully review planned provision.

5.3 Commissioning and Asset Management

5.3.1 Commissioning and Asset Management (C&AM) has an outturn overspend of £0.178m as set out in Table 12. This is an improvement of £0.122m compared to the previously reported variance of £0.300m. Note that the Child Protection, Independent Assessment and Review Service has transferred to HECS from Commissioning and Asset Management since the January report (pressure of £0.025m) and the January comparative figure has been adjusted to reflect this change.

5.3.2 The Commissioning and Asset Management service has been heavily impacted by the Covid-19 crisis particularly in relation to supporting schools and in relation to lost income. The following Covid-19 related costs have been identified within C&AM in the last month of 2019/20 and have been transferred to Central Items and are offset by a drawdown from the Covid-19 Local Support Grant received in March 2020.

5.3.3 **Table 11: Covid-19 Financial Impact within Commissioning and Asset Management**

Service Area	Value £m	Description
Catering	0.352	Lost school meals income and hospitality income and costs of providing additional free school meals services
Cleaning	0.025	Lost course fee income
Total	**0.377**	

5.3.4 **Table 12: Commissioning and Asset Management Outturn Variation**

	Budget £m	Outturn £m	Variance March £m	Variance Jan £m
School Funding & statutory staff costs	18.288	18.259	(0.029)	(0.036)
Commissioning Service	0.383	0.373	(0.010)	0.000
Facilities & Fair Access	0.530	1.035	0.505	0.244
Community & Voluntary Sector Liaison	0.439	0.421	(0.018)	(0.015)
Strategic Property & Investment	0.894	0.894	0.000	(0.005)
High needs Special Educational Needs	0.000	0.000	0.000	0.000
Property	0.786	0.517	(0.269)	0.120
Commissioning & Asset Management & support	0.154	0.153	(0.001)	(0.008)
Procurement	(0.029)	(0.029)	0.000	0.000
Total Commissioning & Asset Management	**21.445**	**21.623**	**0.178**	**0.300**

5.3.5 The main budget issues relate to Facilities and Fair Access which worsened by £0.261m since the January report. The overspends are across Cleaning (£0.112m), Home to School Transport (£0.223m), Catering (£0.170m) and Quadrant car parking income (£0.036m) marginally offset by an underspend on Attendance and Placement Access and Admissions (£0.036m). The issues in Catering and Cleaning relate to inflationary cost increases which have not been met by increases in income while the Home to School Transport pressures relate to the increase in children with complex needs attending special schools which is a known issue nationally and is also impacting on the High Needs budget within the Dedicated Schools Grant (see paragraphs 6.17 to 6.23 for more details).

5.3.6 The previously reported Property pressures of £0.120m were mitigated by a PFI surplus and a contribution from commercial arrangements with the Authority's technical partner resulting in an underspend of £0.269m.

5.3.7 C&AM is continuing to look at additional ways to achieve further efficiencies across the Catering and Cleaning services to mitigate these overspends in 2020/21 although this will be further complicated by the ongoing challenge of Covid-19 related changes to the way schools will operate in 2020/21. Within Home to School Transport, work is actively progressing on route rationalisation using the new QRoute system.

5.4 Environment, Housing & Leisure (EHL)

5.4.1 EHL has made a saving of £0.637m against the £42.140m budget, as set out in Table 14 below, which is an improvement of £0.335m from the January forecast. This monitoring position reflects a transfer from reserves to cover Private Finance Initiative (PFI) pressures and includes £0.889m savings against the waste and recycling disposal service due to reduced waste volumes.

5.4.2 EHL has been heavily impacted by the Covid-19 crisis most notably by the closure of its Sports and Leisure facilities and libraries. The following Covid-19 related financial impacts have been identified within EHL in the last month of 2019/20 and have been transferred to Central Items and are offset by a drawdown from the Covid-19 Local Support Grant received in March 2020.

5.4.3 **Table 13: Impact of Covid-19 on EHL**

Service Area	Value £m	Description
Sport and Leisure	0.164	Lost income due to closures of facilities and additional costs
Local Environmental Services	0.027	Additional costs and lost income from café closures
General Fund Housing	0.001	Additional bed and breakfast costs to prevent homelessness
Total	**0.192**	

5.4.4 **Table 14: Outturn Variation in Environment Housing & Leisure to Budget**

	Budget £m	Outturn £m	Variance March £m	Variance Jan £m
Sport & Leisure	3.100	3.410	0.310	0.187
Cultural Services	6.925	6.969	0.044	0.069
Security & Community Safety	0.301	0.310	0.009	0.028
Fleet Management	0.808	0.827	0.019	0.000
Waste and Recycling Disposal	7.129	6.240	(0.889)	(0.581)
Waste Management	3.707	3.808	0.101	0.074
Local Environmental Services	7.245	7.139	(0.106)	(0.051)
Head of Service and Resilience	0.234	0.198	(0.036)	0.045
Street Lighting PFI	4.396	4.396	0.000	0.000
Consumer Protection & Building Control	0.928	0.888	(0.040)	(0.042)
Transport and Highways	6.328	6.312	(0.016)	0.003
Planning	0.217	0.273	0.056	0.000
General Fund Housing	0.822	0.733	(0.089)	(0.034)
Total	**42.140**	**41.503**	**(0.637)**	**(0.302)**

5.4.5 Cabinet will recall from previous reports that EHL committed to delivering a balanced position. Whilst EHL started the year with identified pressures around energy and staffing costs plus target income pressures, a plan of mitigation was identified which included the following areas:

- Waste volume cost
- Fleet operational costs
- Whitley Bay Playhouse profit-share
- Bereavement income
- Operational costs in Cultural Services and Local Environmental Services

5.4.6 This planned management of pressures has been successful in 2019/20, as in previous years, with mitigating actions and savings now offsetting the pressures and resulting in an overall saving.

5.4.7 The main area of the underlying improvement in the position since January is in relation to waste disposal tonnage volumes, which have been lower than previously forecast resulting in improved savings.

Sport & Leisure

5.4.8 Cabinet will recall Sport & Leisure had an increased income target of £0.600m in the 2019/20 Budget following increased income streams in 2018/19. At January the forecast showed an expectation to significantly improve over this budgeted position however the income levels closed nearer to budget, despite inclusion of a £0.164m grant draw-down to cover the impact of Covid-19. Sport and Leisure has reported overspends of £0.103m around staffing costs which is mainly caused by the need to cover shifts and back-fill for sickness.

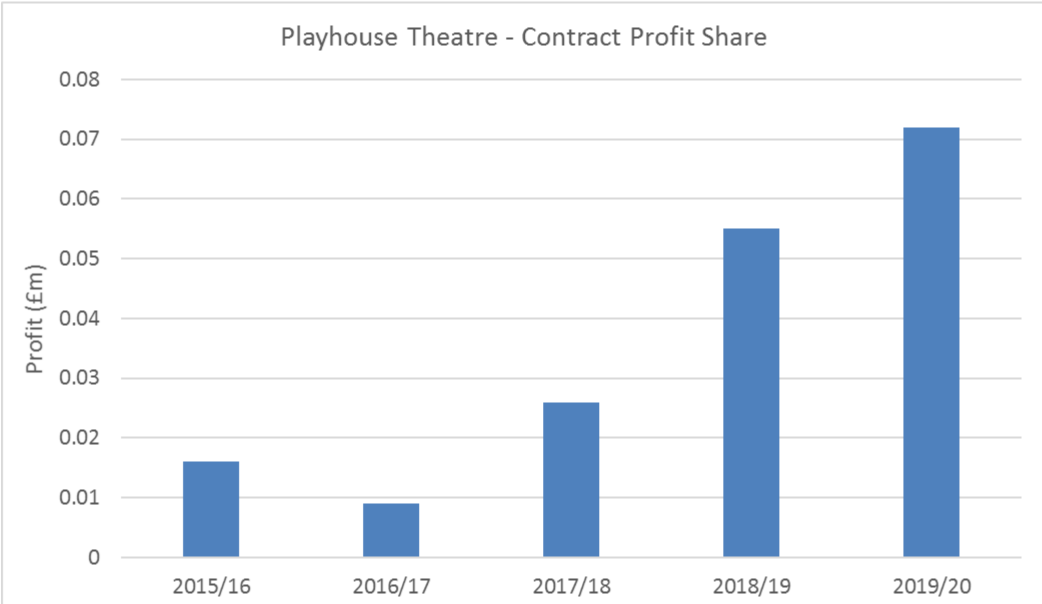
5.4.9 The service also has other overspends relating to premises costs of £0.207m, principally energy and water costs, in addition to other, smaller operational overspends. This leaves Sport & Leisure overall showing a net overspend of £0.310m.

Cultural Services

5.4.10 Cultural Services is showing an outturn overspend of £0.044m, which includes historical issues due to energy and rates costs and income shortfalls due to changing patterns of consumer behaviour.

5.4.11 Cultural Services overspends are partially mitigated by the profit share from the Playhouse, along with continued close management of operational expenditure.

5.4.12 Chart 8: Playhouse Profit Shares for previous 5 years



Security & Community Safety

5.4.13 Cabinet will recall from previous reports that this service area has reviewed and realigned both structure and finances to increase its overall viability. Following this review, it has closed with a small £0.009m overspend.

Fleet Services/Facilities Management

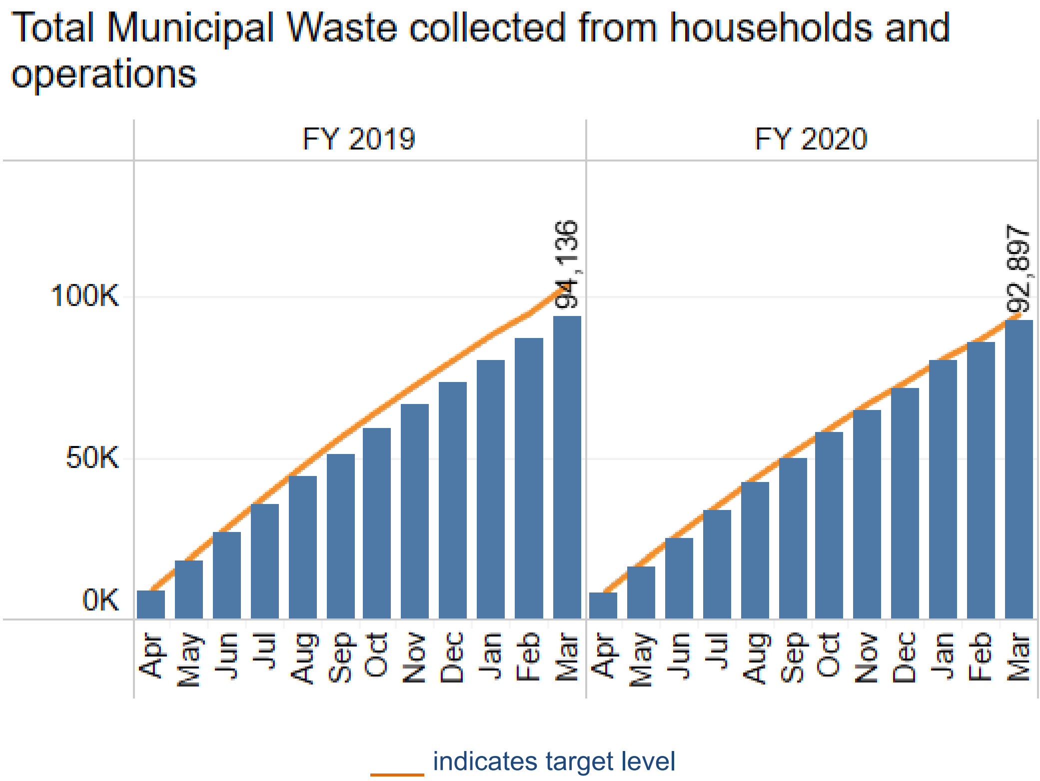
5.4.14 The Fleet Services and Facilities Management Service ended the year with a marginal overspend against budget of £0.019m despite absorbing a cost burden of £0.310m in relation to meeting the increased capital financing costs for newly purchased vehicles. The additional costs have continued to be offset by the associated reduction in servicing and maintenance costs of a newer fleet. In addition, the service area has benefitted from reduced fuel costs associated with more efficient vehicles.

Waste Management including Recycling and Disposal

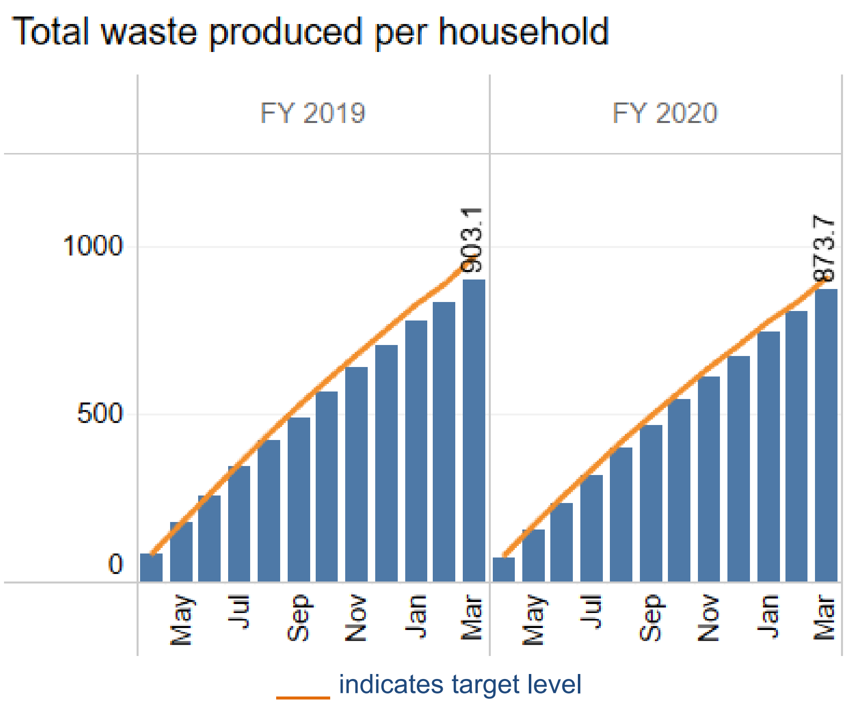
5.4.15 The Waste Management service experienced overspends following policy decisions to provide larger bins at no extra cost to residents. There have been expenditure increases during the year linked to coping with expanding routes for new housing developments across North Tyneside totalling £0.139m.

5.4.16 The proportion of household refuse, recycling and composting continued to show improvement since the introduction of alternate weekly collections. The reduction in waste volumes going to landfill has resulted in a significant underspend for the year of £0.889m against the waste disposal contract costs. The chart below shows the change in waste volume, both in total waste collected and in waste produced per household, over the last two years.

5.4.17 **Chart 9: Improvement of Municipal Waste Volumes Year on Year 2018/19 to 2019/20**

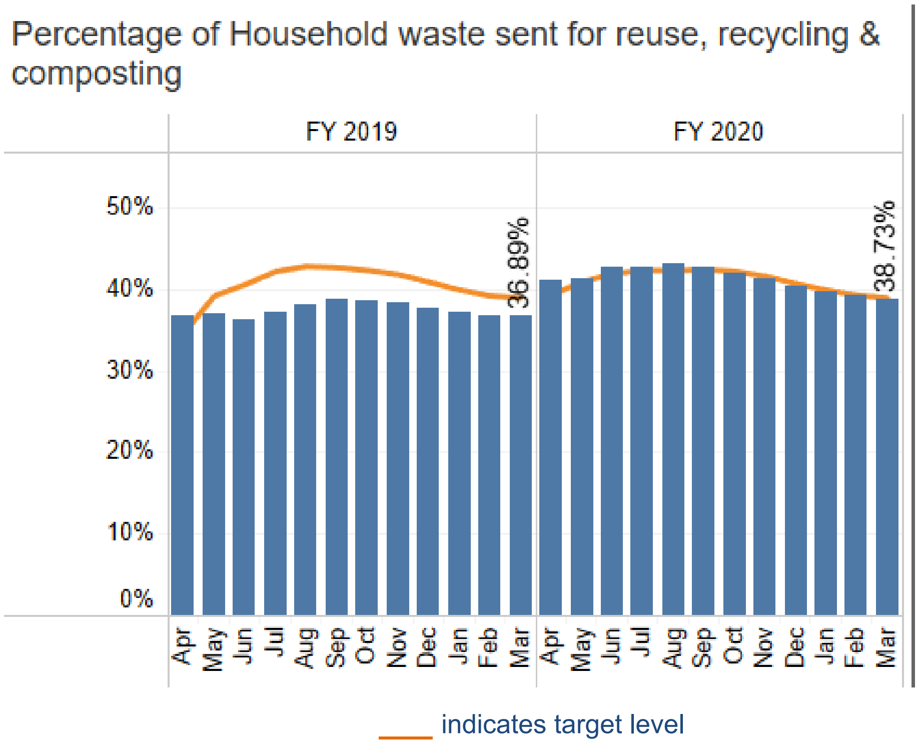


5.4.18 **Chart 10: Improvement of Household Waste Volumes Year on Year 2018/19 to 2019/20**

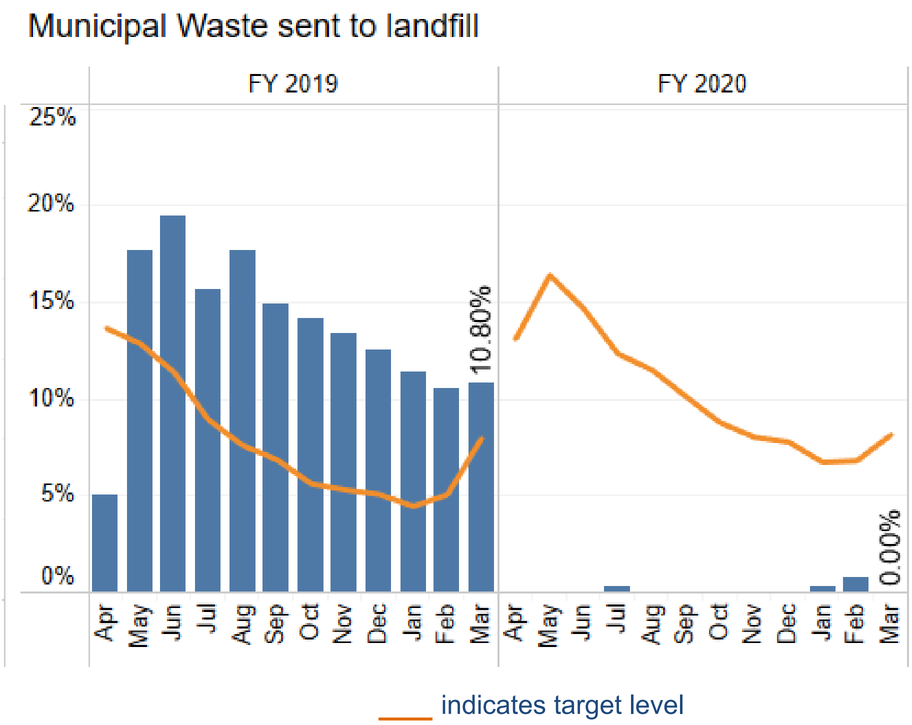


5.4.19 The change in overall waste disposal is even clearer when reviewing the change in household waste recycled and municipal waste disposed in landfill, as shown in Charts 11 and 12 below.

5.4.20 **Chart 11: Percentage changes in waste disposal methods for household waste**



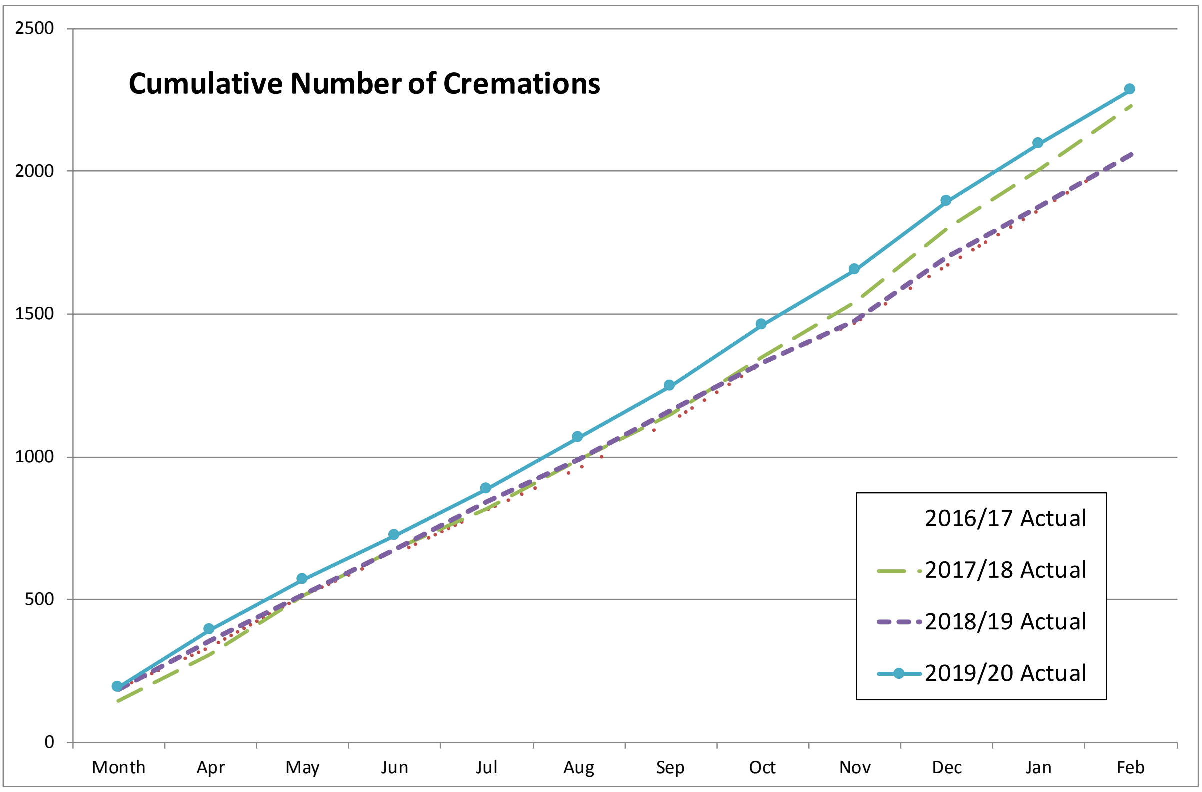
5.4.21 **Chart 12: Percentage changes in waste disposal methods for municipal waste**



Local Environmental Services

5.4.22 Local Environmental Services has produced an underspend of £0.106m against budget. The main variances relate to savings in Grounds Maintenance operational costs, which has improved further since January and includes an favourable variance of £0.041m on Bereavement income. Bereavement income has improved since a dip in 2018/19, as seen in Chart 13 below:

5.4.23 **Chart 13: Annual Number of Cremations (2016/17 to 2019/20)**



Street Lighting PFI

5.4.24 Following the draw-down of reserves for the street-lighting PFI, the area is balanced.

Technical Package Services

5.4.25 These services include Planning, Transport and Highways, Consumer Protection and Building Control which show a joint break-even position. The outturn position regarding Planning has resulted in a variance of £0.056m. This is mainly as a result of reduced income from planning applications of £0.051m following a reduction in the number of applications towards the end of the year.

5.4.26 Overall the Technical Package (including the services within Commissioning and Asset Management) has delivered a balanced position in 2019/20.

General Fund Housing

5.4.27 This service has reported a final outturn saving of £0.089m, mainly due to reduced costs in Housing Growth and increased recharges for staff time to the HRA.

5.5 Regeneration & Economic Development (R&ED)

5.5.1 R&ED has ended the year with an overspend of £0.275m as shown in Table 15 below. The movement of £0.240m since the January report is due to combination of staffing costs no longer being rechargeable to capital schemes, reduced income at the Swan Hunter sites plus Spanish City utility cost pressures pre let. There were no identified Covid-19 cost or income implications for R&ED in 2019/20 due to the crisis hitting at the end of the financial year. R&ED is continuing to review the impact moving into 2020/21 on commercial income and site management costs.

5.5.2 **Table 15: Outturn Variation Regeneration and Economic Development**

	Budget £m	Actual Outturn £m	Variance March £m	January Variance £m
Business & Enterprise	0.753	0.731	(0.022)	(0.065)
Regeneration	0.309	0.576	0.267	0.079
Resources & Performance	0.197	0.227	0.030	0.021
Total	**1.259**	**1.534**	**0.275**	**0.035**

5.5.3 The Regeneration outturn has worsened by £0.188m since the January reported position. The service ended the year carrying staffing costs that had been previously forecast to be recharged to various capital schemes, which makes up £0.113m of this overspend. This shortfall has arisen due to a transfer of project management work to Commissioning and Asset Management allowing Regeneration and Economic Development to focus on sourcing external funding for capital investments within the Borough. An early reallocation of this target across the Investment Programme will be undertaken in 2020/21.

5.5.4 Other previously reported pressures result from a shortfall against budget for berthing fee income of £0.103m and for rental income for business units at the Swans Centre for Innovation of £0.092m. These overspends are partially offset by savings in supplies and services at Swans Quay, mainly relating to security services.

5.5.5 The rest of the service includes operational overspends in Resources & Performance predominantly from staffing being partially offset by savings in Business & Enterprise resulting from grants to business organisations being lower than budget.

5.6 Resources

5.6.1 Overall the Chief Executive Office & Resources is showing an outturn overspend of £0.362m, a movement of £0.507m since the January forecast of a £0.145m underspend. This is mainly due to not drawing down £0.594m from reserves to cover costs of IT transformation which was assumed in the January forecast position. This transfer from reserves was not required due to the overall improvement of the General Fund position.

5.6.2 **Table 16: Outturn Variation Chief Executive Office & Resources**

	Budget £m	Outturn £m	Variance March £m	Variance Jan £m
Chief Executive	(0.100)	(0.190)	(0.090)	(0.048)
ICT	1.891	2.446	0.555	0.681
Finance	(0.329)	(0.479)	(0.150)	(0.835)
HR & Organisational Development	(0.024)	0.023	0.047	0.057
Total	**1.438**	**1.800**	**0.362**	**(0.145)**

5.6.3 The Chief Executive office is showing a saving against the non-staffing budgets, which increased since January following a transfer of budget to Corporate Strategy relating to Marketing. In addition, the service received funding from the North of Tyne Combined Authority for officer time.

5.6.4 The overspend within HR relates to staffing costs, including the costs of transferring HR services back to the Authority from its partner organisation, Engie. Revenues and Benefits has further improved by £0.288m over the period, through £0.128m improvement in bad debt provision and £0.160m in the final subsidy and overpayments positions.

5.6.5 Costs relating to the transformation programme have increased spend in ICT as it was previously assumed these would be met from reserves however, due to the overall improvement in the Authority's position, the drawdown was no longer required.

5.7 Corporate Strategy

5.7.1 Corporate Strategy has ended the year with a surplus of (£0.003m) as set out in Table 17 below (January, underspend of £0.068m). The movement since the January reported position is due to reduced income generation within Corporate Strategy Management and within Marketing. Corporate Strategy identified only £0.001m of Covid-19 related costs in 2019/20 comprising of marketing materials. This cost has been transferred to Central Items to be offset by a drawdown from the Covid-19 Local Support Grant.

5.7.2 **Table 17: Outturn Variation Corporate Strategy**

	Budget £m	Outturn £m	Variance March £m	Variance Jan £m
Children's Participation & Advocacy	(0.019)	(0.131)	(0.112)	(0.034)
Corporate Strategy Management	0.162	0.251	0.089	0.009
Elected Mayor & Executive Support	0.013	0.008	(0.005)	(0.012)
Marketing	0.019	0.081	0.062	0.046
Policy Performance and Research	0.244	0.207	(0.037)	(0.077)
Total Corporate Strategy	**0.419**	**0.416**	**(0.003)**	**(0.068)**

5.7.3 The final outturn income shortfalls were offset by previously reported reductions in costs due to staffing costs being rechargeable and transformation costs being met from reserves.

5.8 Law & Governance

5.8.1 Law & Governance has ended the year with an overspend of £0.204m compared to the January forecast of £0.171m. The movement since the last report relates to increased barristers' fees and higher than forecasted running costs within the Coroner's Service. There were no identified Covid-19 cost or income implications for Law and Governance in 2019/20 due to the crisis hitting at the end of the financial year. Law & Governance is however, continuing to review the impact moving into 2020/21 on commercial income and Coroner's costs.

5.8.2 **Table 18: Outturn Variation Law and Governance**

	Budget £m	Outturn £m	Variance March £m	Variance Jan £m
Customer, Governance and Registration	(0.076)	(0.073)	0.003	0.003
Democratic and Electoral Services	(0.063)	(0.062)	0.001	0.025
Information Governance	0.000	0.007	0.007	0.040
Legal Services	(0.135)	0.002	0.137	0.102
North Tyneside Coroner	0.293	0.349	0.056	0.001
Total	**0.019**	**0.223**	**0.204**	**0.171**

5.8.3 The pressure predominantly relates to staffing within the service as it was forced to incur high costs for locum staff. In addition, costs for the shared Coroner's Service have proven higher than anticipated.

5.9 Central Budgets & Contingencies

5.9.1 The 2019/20 draft outturn set out in Table 19 below reflects an underspend of £6.188m on central budgets (January: underspend of £4.208m).

5.9.2 **Table 19: Outturn Variation Central Budgets and Contingencies**

	Budget £m	Outturn £m	Outturn Variance £m	Variance Jan £m
Corporate & Democratic Core	9.521	9.539	0.018	0.000
Other Central Items	(7.987)	(14.193)	(6.206)	(4.208)
Total Central Items	**1.534**	**(4.654)**	**(6.188)**	**(4.208)**

5.9.3 The improvement of £1.980m in Central Items relates mainly to the items shown below;

- Levy account surplus £0.162m (one-off)
- Section 31 Grant- NNDR £0.233m (continues into 2020/21)
- Cost of Capital £0.411m (one-off)
- PFI adjustments £0.400m (one-off)
- Salary sacrifice £0.211m (continues)
- Regional Adoption Agency support service charge £0.175m (continues)
- Education Services Grant £0.193m (subject to review)

5.9.4 Within Other Central Items, throughout the year there were several areas where spend and income were forecasted to deviate from budget. Continued savings have been identified in 2019/20 resulting from the application of the Authority's Treasury Management Strategy. There is a saving of £1.462m relating to Public Works Loan Board loans taken out at a lower rate of interest than budgeted for (£0.355m) and a reduction in borrowing costs resulting from higher 'internal borrowing' (£1.334m). In addition, reprogramming within the Investment Plan has delivered a credit against Minimum Revenue Provision of £0.370m. Of this total saving, an amount of £1.100m was proposed as in-year mitigation to the cross-cutting savings targets outlined in sections 2.7 to 2.9. There is also a saving against budget of £0.966m for Strain on the Fund costs, increased from £0.900m at January. There are contingency budgets of £4.526m including the £4.416m held against pressures in social care. There is a construction service contribution to insurance provision for 2019/20 of £0.200m, the use of the construction and maintenance reserves of £0.250m for corporate costs and a total of £0.311m other smaller savings.

5.9.5 These underspends are partially offset by savings targets shortfalls outlined in sections 2.7 to 2.9. These relate to the following Efficiency Statement Categories: A Focus on the Social Care Customer Experience, How We Are Organised and Delivering Our Fees and Charges Policy.

SECTION 6 - SCHOOLS FINANCE

Schools Balances in 2019/20

6.1 Schools have concluded their 2019/20 accounts closure in line with the Local Scheme For Financing Schools and the Authority's year-end timetable. Collective school balances in North Tyneside maintained schools reduced from a surplus of £1.599m at the start of the year to a closing surplus of £0.165m. This position is significantly better, by £6.095m, than the forecast at the start of the year when the outturn was expected to be an overall deficit of £4.661m. The most recent set of monitoring performed with schools during the year and completed in early February 2020 showed an overall forecast deficit balance of £3.935m. The final balance position for schools is reported in the Authority's statutory accounts and is before any commitments are taken into account. The reported position across 2019/20 is analysed below in Table 20 by phase:

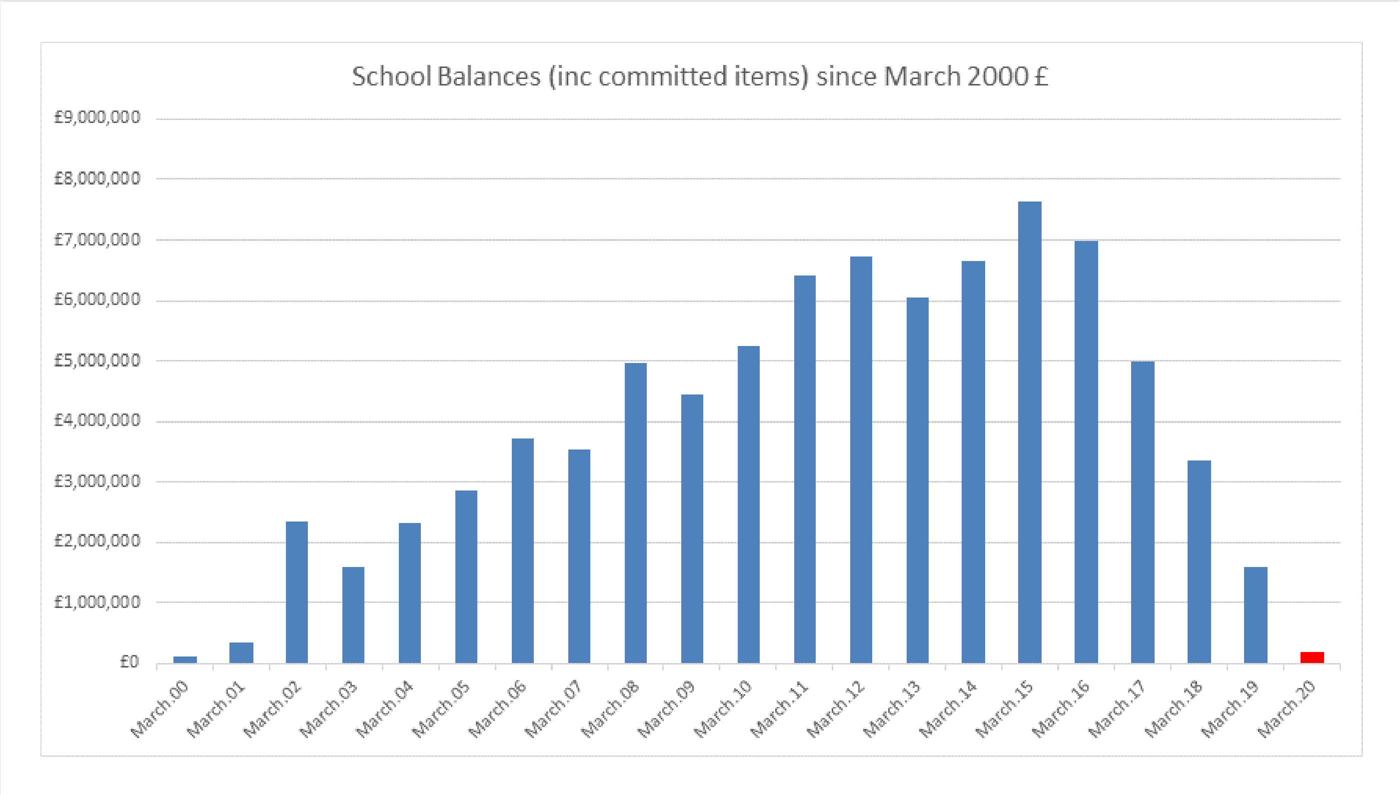
6.2 **Table 20: Total School balance position against plan Surplus/ (Deficit) - committed and uncommitted**

Phase	Outturn 2018/19 £m	Budget Plan 2019/20 £m	Monitoring 1 2019/20 £m	Monitoring 2 2019/20 £m	Provisional Outturn 2019/20 £m	Annual Movement £m
Nursery	0.009	0.002	0.029	0.097	0.127	0.118
First	0.654	0.412	0.433	0.433	0.636	(0.018)
Primary	3.134	2.346	2.317	2.314	3.497	0.363
Middle	0.380	0.369	0.346	0.256	0.547	0.167
Secondary	(3.658)	(8.028)	(7.817)	(7.647)	(5.549)	(1.891)
Special / PRU	1.080	0.238	0.501	0.612	0.907	(0.173)
Total	**1.599**	**(4.661)**	**(4.191)**	**(3.935)**	**0.165**	**(1.434)**

6.3 Cabinet will be aware that, under legislation, schools retain a high degree of autonomy when setting budgets unless they are in a deficit position. Therefore, whilst Elected Members and officers are able to advise schools on the adequacy of balances, they cannot intervene. Schools have been reminded of the need to forecast as accurately as possible so that decisions are taken in the light of accurate budget projections.

6.4 Although the outturn position for 2019/20 is better than predicted during the year, this is the fifth year of balances decreasing following a long-term trend of rising balances in North Tyneside. Chart 14 below sets out the long-term trend:

6.5 **Chart 14: Long-Term Trend in School Balances within North Tyneside**



6.6 Adequacy of school funding continues to be a high profile issue nationally and the position of school balances provides a useful indicator of the health of school finances. Moving forward into 2020/21, the Department for Education (DfE) has increased funding to schools, however indications are the number of schools expecting to be in deficit is increasing.

School Deficits

6.7 Cabinet will recall from the January update that some individual schools continue to face significant financial challenges. During the year, the Authority and Schools Forum paid particular attention to those schools with approved deficits.

6.8 There were eleven schools with approved deficits in 2019/20, with an initial total budgeted deficit value of £10.052m. Schools Forum and senior officers worked closely and collaboratively with these schools during the year which contributed to an improved outturn of £9.289m, a movement of £0.763m. Four of these schools ended the year in a surplus position. The progress of individual schools is outlined in Table 21 below:

6.9 **Table 21: Provisional Outturn – Schools in deficit**

Deficit School Positions 2019/20	Deficit Approval £m	Provisional Outturn £m	Improvement £m
Beacon Hill	(0.210)	0.149	0.359
Fordley Community Primary	(0.018)	(0.055)	(0.037)
Forest Hall Primary	(0.013)	0.000	0.013
Holystone Primary	(0.053)	(0.051)	0.002
Ivy Road Primary	(0.288)	(0.257)	0.031
St Aidan's R C Primary	(0.025)	0.001	0.026
St Bartholomew's C of E Primary	(0.018)	0.004	0.022
Longbenton High	(2.195)	(2.093)	0.102
Marden High	(0.513)	(0.479)	0.034
Monkseaton High	(4.420)	(4.310)	0.110
Norham High	(2.299)	(2.198)	0.101
Total	**(10.052)**	**(9.289)**	**0.763**

6.10 Cabinet should note that seven schools are expected to remain in deficit for 2020/21. In addition to these schools with planned deficits in 2020/21, an additional three schools have warned the Authority that they expect to need to apply for a licenced deficit agreement in 2020/21. Consequently, ten schools are expected to request deficit approval in 2020/21. Initial deficit challenge sessions have taken place during May 2020. Full details of deficit approval applications will be reported to Members as part of the first financial management report of 2020/21.

6.11 In 2019/20, Schools Forum agreed to delegate an amount of £0.133m for schools in financial difficulty often referred to as 'headroom' funding. Schools Forum also agreed to centrally retain a sum of £0.250m to support schools with falling rolls. In addition to the 2019/20 centrally retained and de-delegated sums, an amount of £0.803m was carried forward from 2018/19 (net of repayments of funding back to academies during the year). After support payments made, an amount of £0.752m has been carried forward into 2020/21 as summarised in Table 22 below:

6.12 **Table 22: Centrally retained and de-delegated funds to support schools in financial difficulty**

	£m
Carried forward from 2018/19	0.803
Less repayments to academies	(0.029)
Falling Rolls Payments to Schools	(0.049)
Headroom Payments to Schools	(0.356)
Falling rolls funding 2019/20	0.250
Headroom funding 2019/20	0.133
Procurement Officer costs	0.000
Carried forward into 2020/21	**0.752**

6.13 Unlike previous years, the DfE is not requiring the Authority to report details of schools balances through the Consistent Financial Reporting (CFR) return, to ease the burden on schools during the Covid-19 outbreak. This return would normally be co-ordinated by the Authority to be submitted by the deadline in July 2020.

Traditionally, the CFR is used to populate parts of the s251 outturn return, however, the DfE has removed this requirement for this year. The Authority will continue to work with schools to allow the value of each individual schools' balance after commitment adjustments to be reported to Cabinet in due course.

6.14 Cabinet will recall that a programme of work is in progress with schools to consider further actions required to address the longer-term approach to financial planning in North Tyneside. The programme is focussing on three work streams and is also consolidating work on two existing projects. The work streams are:-

- Financial review and analysis;
- Planning and modelling;
- Tools for schools;
- Keeping Children and Young People in school; and
- Closing the Gap.

2019/20 Dedicated Schools Grant (DSG) Outturn

6.15 After allowing for school allocations, the 2019/20 DSG account of £141.425m (after removing academy funding) is showing a net deficit balance of £3.262m. This compares to a surplus of £0.746m in 2018/19. Cabinet should note that in 2019/20 the DfE issued guidance that any shortfall in dedicated schools grant should not be supported using funds from the General Fund.

6.16 Within the individual blocks, the balance on the High Needs block is a pressure of £4.542m. This is partially offset by an underspend of £0.432m on the Early Years block and an underspend of £0.848m on Centrally Retained and de-delegated items which mainly relates to the headroom and falling roles funding referred to in section 6.12 above. As the DSG is a ringfenced account, any balance is carried forward into the next financial year.

High Needs Block

6.17 Cabinet will recall that the High Needs block outturn in 2018/19 was a pressure of £0.920m. This pressure has continued in 2019/20 in line with national trends. In recognition of the nationwide issue of increasing demand within Special Educational Needs and Disabilities (SEND), the Government announced additional funding for High Needs in 2018/19 and 2019/20. The additional funding amounted to £0.426m for the Authority in each of the two years. This funding was built into forecasts in 2019/20, however, despite this additional funding, in-year forecasted pressure in January was £3.886m. The provisional 2019/20 outturn has improved slightly to £3.622m (excluding the carried forward balance from 2018/19). Cabinet should note that the High Needs block forms part of the DSG, which is ringfenced and does not form part of the General Fund.

6.18 This overall pressure in the High Needs block is in line with the national and regional picture and results from additional places required in special schools, out of borough placements and in relation to top up payments as outlined in Table 23 below;

6.19 **Table 23: Breakdown of High Needs Pressures at March 2020**

Provision	Budget £m	Provisional Outturn Variance £m	Comment
Special schools and PRU	11.398	1.474	Pressure on places for children with Profound, Multiple Learning Difficulties, Social Emotional and Mental Health problems and Autism Spectrum Disorder
ARPs/Top ups	3.520	1.314	Pressures in pre 16 top ups e.g. Norham ARP
Out of Borough	1.225	0.944	Additional costs of the most complex children currently not able to be supported in the Borough
Commissioned services	3.977	(0.110)	
Subtotal	**20.120**	**3.622**	
2018/19 brought/forward balance		0.920	
Cumulative Outturn		**4.542**	

6.20 The Department for Education guidelines state that Schools Forum can approve a transfer of up to 0.5% of the School Block to support other blocks. Transfers have been made to the High Needs Block from the Schools Block in previous years. The Authority has not requested a transfer for 2020/21.

Management of the High Needs Block Pressure

6.21 North Tyneside, like many local authorities in the North East and nationally, continues to experience a significant increase in the numbers of children with Special Educational Needs and Disabilities (SEND). All local authorities have a statutory responsibility to keep High Needs provision under review. In North Tyneside, review work has taken place in line with the High Needs Strategic Plan endorsed by School's Forum and the Joint Commissioning Strategy agreed with the North Tyneside Clinical Commissioning Group. Work has focussed on improving data and intelligence to inform the future pattern of educational provision, considering changes needed to commissioned services and how inclusion in mainstream schools could be strengthened. It has involved the Authority working with School's Forum, the Special School Heads Group, Primary Learning Partnership (primary headteachers), Education Improvement Partnership (secondary headteachers), the NTCCG, NHS Foundation Trust Therapeutic Services, the Parent Carer Forum and other stakeholders.

6.22 A new North Tyneside Inclusion Strategy will be developed in 2020 to strengthen the Authority's capacity to meet the needs of children with SEND in line with North Tyneside Children's Services pledges to:

- Intervene early with evidence based, family focussed services;
- Work in partnership to keep children in school;
- Keep children safe at home and connected to their local communities.

6.23 Plans are in progress to strengthen the graduated response in mainstream schools, strengthen the gatekeeping around access to High Needs top-up funding and to improve management of demand for out of borough placements by looking at the reasons behind current requests for an external placement.

Early Years Block

6.24 The Early Years block has ended the year with a cumulative surplus of £0.432m. This included a brought forward surplus of £0.881m from 2018/19. The 2018/19 surplus included £0.571m surplus generated on the 3 and 4 year-old funding, £0.471m of which was returned to providers of the 3 and 4 year-old entitlement as was recommended by the Early Years Sub-Group of Schools Forum. An adjustment to funding takes place each May/June when the DfE reviews initial funding estimates in relation to the numbers of pupils actually taking places compared to the initial funding estimates based on the January pupil census prior to the financial year. The Authority is anticipating a clawback of funding as a result of this review.

SECTION 7 - HOUSING REVENUE ACCOUNT (HRA)

Outturn Position

7.1 The HRA shows an underspend of £2.831m against the in-year 2019/20 Budget, with a further £1.101m improvement against budgeted brought forward balances. The overall position is shown in Table 24 below and shows a position that has improved steadily throughout the year. Rental income showed continued improvement against budget as the number of empty homes continued to out-perform business plan assumptions (£0.367m). In addition, income from temporary dispersed accommodation came in above budget (£0.115m); whilst service charge income, including furniture packs also maintained the positive trend to year-end coming in well above budget (£0.108m) with garage rents coming in slightly better than budget (£0.024m). Income from commercial properties and properties rented to HECS for various client groups came in well above budget (£0.124m), with a number of new properties coming on stream e.g. Bonchester Mews, Bridlington Close as well as existing schemes at Mitford Gardens, Perth Gardens and Purley Close.

7.2 There is a significant underspend of £2.061m in the position for HRA Management Costs, which is down to a number of factors. A significant proportion was part of the benefits realisation from the Construction Options Project (COP), and the creation of the in-house Construction Service. This had the following main elements:

- A permanent saving from the creation of the new structure for the in-house Service and the assimilation of the former Housing Property Client service of £1.000m;
- In addition there were one-off in-year savings of £0.710m against the Construction Project budget for delivery of the transition;
- A one-off saving from reductions and a rebate on Council Tax payments for empty homes totalling £0.258m; and,
  There were a range of other smaller variations, one-off savings and pressures totalling a saving of £0.093m in water rate commission, training, staffing, equipment and consultancy costs due to timings around appointments and development of the project requirements.

7.3 A Use of Reserves decision was made in 2018 to utilise PFI Reserve Resources of up to £3.000m to fund the purchase of the new fleet for the in-house Construction Service, of which £2.760m was used. This funding is being recovered through hire charges from fleet users, with the sums collected put initially into a Vehicle Replacement Reserve, with the stipulation that the PFI Reserve has first call on the funds collected. A total of £0.183m was returned to the PFI reserve via this route in 2019/20, however, the improved position in-year on the HRA enabled additional contributions to be made back to the reserve (£0.637m) which will significantly reduce the time taken to get the reserve back into balance as per the original financial model.

7.4 The continued flexible approach to Treasury Management enables advantage to be taken of low interest rates on temporary borrowing to be able to achieve interest charges below budgeted levels, and due to additional debt set aside from increased prior year right to buy sales, this led to a year-end improvement £0.221m in the interest payments charged to the HRA.

7.5 The growing rate of take-up of Universal Credit has seen an increasing impact on the in-year bad debt provision requirement and the outturn position was an overspend of £0.240m. In addition, the HRA general contingency provision will not be required, resulting in a saving of £0.150m and the Transitional Protection Fund used to maintain PFI tenants rents at pre PFI levels continued to trend under budget resulting in a saving of £0.015m.

7.6 All of the £1.866m of savings identified in the 2019/20 Budget approved by Cabinet were delivered in full.

7.7 **Table 24: Outturn Variance Housing Revenue Account**

	FULL YEAR – 2019/20			
		Outturn		
	Full Year Budget £m	Actual £m	Outturn Variance £m	Jan 2020 Variance £m
INCOME				
Rental Income	(58.697)	(59.311)	(0.614)	(0.836)
Other Rental Income - Shops & Offices etc.	(0.275)	(0.399)	(0.124)	(0.000)
Interest on Balances	(0.050)	(0.058)	(0.008)	(0.000)
PFI Credits	(7.693)	(7.693)	0.000	0.000
	(66.715)	**(67.461)**	**(0.746)**	**(0.836)**
EXPENDITURE				
Capital Charges - Net Effect	12.110	11.889	(0.221)	(0.000)
HRA Management Costs	12.014	9.953	(2.061)	(2.039)
PFI Contract Costs	9.641	10.278	0.637	0.438
Repairs	11.981	11.457	(0.524)	(0.511)
Revenue Support to Capital Programme	9.053	9.053	0.000	0.000
Contribution to Major Repairs Reserve – Depreciation	12.392	12.401	0.009	0.000
Contingencies, Bad debt Provision & Transitional Protection Payments	1.000	1.075	0.075	0.315
Pension Fund Deficit Funding	0.855	0.855	0.000	0.000
	69.046	**66.961**	**(2.085)**	**(1.797)**
	2.331	**(0.500)**	**(2.831)**	**(2.633)**
BALANCES BROUGHT FORWARD	**(6.202)**	**(7.303)**	**(1.101)**	**(1.101)**
BALANCES TO CARRY FORWARD	**(3.871)**	**(7.803)**	**(3.932)**	**(3.734)**

Rent Arrears and Universal Credit Cases

7.8 The Authority has faced an increasingly difficult set of challenges in rent collection, which have impacted on maintaining the level of rent collected. One of the biggest issues has been the Government's welfare reform changes and the introduction of Universal Credit (UC) which was fully implemented across North Tyneside on 2 May 2018. This means the authority has seen a steady fall in the level of direct payments in the form of Housing Benefit to cover housing rents via the Department of Work and Pensions (DWP), and an increased level of cash that has to be collected because of the increased numbers of UC cases where tenants are paid directly for the housing element of benefit along with all other benefit due to them.

The Authority continues to work with residents to provide ICT support to help them make applications and to provide personalised budget support to help residents manage their household finances. A team is working proactively with tenants to minimise arrears, and this was closely monitored as the year progressed to identify any adverse impacts on the budget position. For the first time in the last 15 years, 2018/19 saw a pressure on the bad debt provision, which was repeated this year; an indication of the impact this change is having on levels of arrears.

There are currently around 40 tenants per week moving onto UC. At 1 April 2019 there were 1,991 North Tyneside Homes tenants on UC with arrears totalling £1,142,459, by 31 March 2020 this number had increased to 3,503 with related arrears of £2,140,743. The overall position on Rent Arrears has seen a £2.000m increase in the overall level of arrears over the last five years. Table 25 below illustrates the change in levels of rent arrears and UC cases over the last five years:

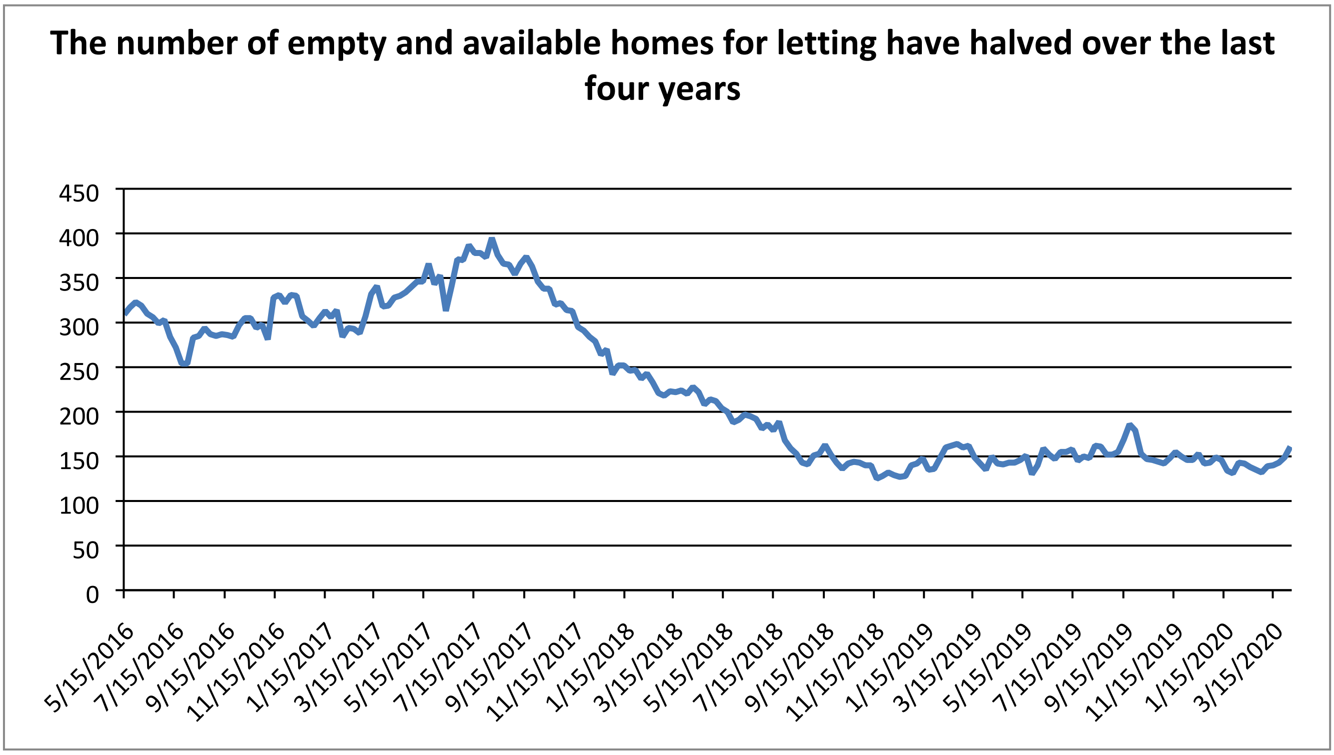
7.9 **Table 25: Trends in rent arrears and Universal Credit cases 2015-2020**

Year	Rent Arrears (Former and Current)	Number of Universal Credit Cases	Rent Arrears for those on UC
2015-16	**£3.295m**	**0**	**0**
2016-17	**£3.575m**	**0**	**0**
2017-18	**£3.748m**	**231**	**£0.133m**
2018-19	**£4.375m**	**1,991**	**£1.142m**
2019-20	**£5.299m**	**3,503**	**£2.141m**

Empty Homes

7.10 In terms of the impact of empty homes on the financial picture to date, rates during 2019/20 generally continued to trend below previous levels and this positive performance continues the trend over the last couple of years following the completion of the North Tyneside Living Schemes. As a result, income received exceeded budget projections, as there was a positive impact on both rental income and service charges attached to the increased level of occupancy. Chart 15 below illustrates the movement in levels of empty homes over the last four years from 2017/18 through to the end of 2019/20. There was a spike in the numbers of empty homes at year-end due to the impact of the Covid-19 pandemic during the last few weeks of the 2019/20 financial year:

7.11 **Chart 15: Number of Empty Homes vacant and available for letting**



Right to Buy (RTB) Trends

7.12 The impact of RTB is critical to long-term planning for the HRA. Prior to the introduction of self-financing in 2012, average RTB sales had dropped to around 25 per annum, mainly due to the capped discount (£22,000) which had remained static as property values had increased, making RTB less financially attractive to tenants. Shortly after self-financing began, the Government announced a change to RTB significantly increasing the maximum discount, initially to £75,000 and then subsequently annual inflation was added to the maximum. Table 26 below shows the trend in RTB sales since that time, and the financial impact this has had on income for the HRA:

7.13 **Table 26: RTB Trends and Financial Impact**

	Sales assumed by self-financing	**Actual RTB Sales**	**Additional RTB Sales above Budget assumptions**	**Estimated lost rent per annum (£m)**	**Capital Receipts (£m)**
2012-13	40	85	45	0.315	3.477
2013-14	47	122	75	0.457	4.957
2014-15	53	100	47	0.397	3.938
2015-16	55	135	80	0.577	5.548
2016-17	55	136	81	0.557	5.632
2017-18	56	158	102	0.630	7.758
2018-19	56	135	79	0.538	6.533
2019-20	**57**	**118**	**61**	**0.475**	**5.662**
	419	**989**	**570**	**3.946**	**43.505**

7.14 In the period (2012-2020), the Authority has built over 150 new homes through the HRA, which has helped mitigate a portion of the revenue loss from the 989 sales in the same period. However, the cumulative impact on HRA annual rental income from RTB over this period is in excess of £3.900m per annum.

SECTION 8 - INVESTMENT PLAN

8.1 The Investment Plan represents the Authority's capital investment programme in projects across all service areas, including General Fund and HRA activities.

8.2 All capital investment follows a structured gateway process, and is challenged by Members and senior officers, from the initial ideas stage, through the delivery stage and finally to post implementation. Delivery of the Investment Plan year by year, through both physical on site development and capital spend, is key to the successful attainment of the Authority's objectives.

2019/20 Capital Expenditure

8.3 The initial 2019/20 Investment Plan Budget was £62.758m (£36.944m General Fund and £25.814m Housing). Further variations to the Plan and reprogramming were agreed by Cabinet during the year as part of the Financial Monitoring process to give an approved Plan at the year-end of £65.182m (£40.873m General Fund and £24.309m Housing). Table 27 below summarises these changes:

Table 27: 2019/20 Investment Plan – Summary of changes to Budget

	£m
Investment Plan approved by full Council – 21 February 2019	62.758
Reprogramming from 2018/19	14.317
Reprogramming to 2020/21	(17.739)
Other variations (net)	5.846
Revised Investment Plan	**65.182**

8.4 Actual capital expenditure in 2019/20 totalled £59.080m (£69.359 in 2018/19), comprising General Fund expenditure of £35.911m and £23.169m on Housing Schemes.

8.5 Not all of the expenditure relates to the creation or improvement of fixed assets for the Authority. £6.551m relates to spend on other items, with £2.409m for share capital, £1.941m on loans, £1.493m spent on Disabled Facilities Grants and £0.336m grants for Clean Bus Technology.

8.6 Table 28 below compares the actual capital expenditure with the revised Budget for the year, as well as the actual spend for 2018/19:

Table 28: Comparison of Capital Expenditure to Revised Budget for 2019/20

Actual Capital Expenditure 2018/19 £m		Revised Capital Budget 2019/20 £m	Actual Capital Expenditure 2019/20 £m	Variation from Budget over / (under) £m
41.708	General Fund	40.873	35.911	(4.962)
27.651	Housing	24.309	23.169	(1.140)
69.359	**Total**	**65.182**	**59.080**	**(6.102)**

8.7 Included within the appendices is further information on the Investment Plan and activities in the year. **Appendix B** shows the final expenditure, and how that expenditure was financed, with **Appendix C** showing a comparison of expenditure against budget for each individual project. The reasons for these variations have been analysed as reprogramming and other variations.

8.8 Across all capital projects, further reprogramming of £6.262m has been identified and it is requested that Cabinet approve the carry forward of this amount into the 2020/21 Investment Plan. A detailed breakdown of this amount is included in **Appendix C**.

8.9 The major achievements delivered as part of the capital investment programme in 2019/20 include:

(a) Completion of projects including;

- a new artificial grass pitch at Amberley Playing Fields;
- accommodation improvements to meet the requirements of children with Special Education Needs and Disabilities (SEND) at Beacon Hill School, Melrose resourced provision at Longbenton High School and Silverdale School;
- highway improvement works including resurfacing of 12.5 miles of roads, 38 footway improvement schemes, 16 road safety schemes, Gibraltar rock stabilisation of the clifftop sea wall, as well as improvement works A189 Haddricks Mill to West Moor; and, cycling and walking improvements to Northumberland Park to Cobalt, Tyneview Terrace and Coast Road;
- various works to housing stock (kitchen and bathroom replacements, heating upgrades, roof replacements, replacement windows and doors);
- various projects as part of the Asset Planned Maintenance programme (including replacing sports hall floor and roof works at the Lakeside Leisure Centre, boiler works at Segedunum Museum, works at Tynemouth Pool and Saville Exchange);
- improvement works to the schools estate (DDA improvements, roof replacements, heating improvements, electrical rewires, kitchen refurbishments etc.);
- environmental improvements at Lockey Park;

- fleet replacements including gritters, grounds maintenance vehicles, sweepers, small vans and hybrid cars;
- ICT refresh; and,
- purchase of a further 13 affordable homes for rent and completion of 12 homes for sale at Empress Point by North Tyneside Trading Company.

(b) In addition there are a number of projects underway including;

- the Centre for Innovation (CFI) phase 2 at the former Swan Hunter site;
- operational depot accommodation;
- internal fit out of Wallsend Customer First Centre to accommodate the substance use service and local police office;
- building new HRA affordable homes at various locations; and,
- North Tyneside Trading Company building homes for sale.

Further details can be found in the Investment Programme Board end of year report which is included as a background paper to this report.

Capital Financing

8.10 Local authorities can finance capital expenditure from a variety of sources: grants; external contributions; capital receipts; borrowing; and contributions from revenue. This section of the report considers how the Investment Plan has been financed.

8.11 Under the Prudential System for capital financing, the Authority can decide to borrow to fund capital expenditure, known as prudential (or unsupported) borrowing. There are associated revenue costs (interest and Minimum Revenue Provision (MRP)) which must be met from the Authority's own resources, i.e. funded by Council Tax payers. MRP is a charge included in the Authority's accounts that effectively spreads the cost of capital expenditure over a period that generally equates to the period in which the asset is used. When deciding whether to take out additional borrowing, the Authority must consider whether the Investment Plan is affordable, sustainable and prudent.

8.12 When determining how to finance the Authority-funded element of the Investment Plan, the Authority's MRP Policy is used to maximise the effectiveness of borrowing in relation to individual schemes in the Investment Plan.

8.13 The total capital expenditure of £59.080m has been financed as shown in table 29 below:

Table 29: 2019/20 Capital Financing

	2019/20 Capital Financing £m
<u>Council Contribution</u>	
Prudential (Unsupported) Borrowing – General Fund	12.001
Capital Receipts -General Fund	0
Capital Receipts – HRA	0.357
Direct Revenue Funding - General Fund	0.173
Direct Revenue Funding – HRA	12.012
Major Repairs Allowance	10.800
	35.343
<u>External funding</u>	
Specific Government Grants	15.355
ERDF	0.128
Capital Grants and Contributions	8.254
	23.737
	59.080

8.14 Total Prudential borrowing for the General Fund was £12.001m. During the year £2.119m of General Fund capital receipts were generated. £1.446m have been used to repay loans and £1.773m will be carried forward for future years.

8.15 For Housing, capital receipts of £6.295m were received during 2019/20, of which £1.874m were pooled and paid across to central government leaving a balance of £4.421m available for financing. This balance plus the brought forward receipts of £7.251m gave an available balance of £11.672m. Of this £0.357m was used to finance 2019/20 capital spend and £3.003m was set aside to repay debt leaving a balance of £8.312m to be carried forward into 2020/21.

8.16 Table 30 below shows the movement in capital receipts during 2019/20 including receipts received during 2018/19 (identified in paragraphs 6.15 and 6.16 above), receipts brought forward at 1 April 2019, receipts used to finance the 2019/20 Investment Plan, receipts set aside to repay debt and loans, and receipts carried forward at 31 March 2020.

Table 30: Movement in Capital Receipts during 2019/20

	Receipts brought forward 1 April 2019 £m	Net Useable Receipts received £m	Receipts used for financing £m	Receipts set aside for repayment of debt £m	Receipts set aside for repayment of loans £m	Receipts carried forward 31 March 2020 £m
General Fund	1.100	2.119	0	0	(1.446)	1.773
Housing	7.251	4.421	(0.357)	(3.003)	0	8.312
Total	**8.351**	**6.540**	**(0.357)**	**(3.003)**	**(1.446)**	**10.085**

8.17 The Authority also used £15.355m of funding from specific Government grants. These grants included:

- £5.533m Education and Schools Capital funding;
- £7.796m Transport and Infrastructure funding; and,
- £1.493m Better Care Fund (including Disabled Facilities Grant).

8.18 Capital Grants and Contributions of £8.254m used in the year included:

- £2.675m North East Local Enterprise Partnership (NELEP);
- £1.612m Section 278 highway works; and,
- £3.229m Section 106 contributions.

8.19 As required, under self-financing for Housing, there is a Major Repairs Allowance calculated and used to finance ongoing works to Council dwellings. This contribution is financed from within the HRA (i.e. it is self-financed) and so appears as part of the Authority's contribution shown in Table 29 above.

8.20 An analysis of the overall capital financing is also shown in **Appendix B**.

International Financial Reporting Standards (IFRS) adjustments to Capital Expenditure in 2018/19

8.21 Under IFRS any expenditure incurred relating to PFI schemes and finance leases is classed as capital expenditure and the resulting assets are added to the Authority's balance sheet.

8.22 During 2019/20 spend of £0.136m was incurred under the street lighting PFI contract.

Priority Schools Building Programme 2 (PSBP2)

8.23 The refurbishment of Cullercoats Primary School was delivered as part of PSBP2 and as such it was not part of the Authority's own Investment Plan. Works commenced in May 2018 with the main works being completed at the end of August 2019 and handed across to the Authority. All works are now finalised and the refurbished buildings are included on the Authority's balance sheet. The notional cost of the works has been assumed to be £5.800m based on the original grant award from the Government.

SECTION 9 – ANNUAL TREASURY MANAGEMENT REVIEW AND PRUDENTIAL INDICATORS

9.1 Regulatory Environment

9.1.1 The Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This section of the report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

9.1.2 During 2019/20 the minimum reporting requirements were that the full Council or Cabinet should receive the following reports:

- an annual treasury strategy in advance of the year (Council 21 February 2019);
- a mid-year (minimum) treasury update report (Cabinet 25 November 2019); and
- an annual review following the end of the year describing the activity compared to the strategy (this report).

9.1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by members.

9.1.4 The Authority confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports. Reports are reviewed by Lead Member Briefing before they are reported to Cabinet. A joint session for North Tyneside Council and North of the Tyne Combined Authority Member training on treasury management issues was undertaken during the year on 10 December 2019 in order to support members' scrutiny role.

9.2 Capital Expenditure and Financing

9.2.1 The Authority undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authority's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

9.2.2 The actual capital expenditure forms one of the required prudential indicators. Table 31 below shows the actual capital expenditure and how this was financed. Further details of this are shown in table 29 in section 8 of this report.

Table 31: Actual Capital Expenditure and its Financing

	2018/19 Actual £m	2019/20 Estimate £m	2019/20 Actual £m
General Fund	41.708	40.873	35.911
HRA	27.651	24.309	23.169
Total Capital Expenditure	**69.359**	**65.182**	**59.080**
Financed in-year (grants, contributions and capital receipts)	48.994	53.589	47.079
Unfinanced Capital Expenditure (Prudential borrowing)	20.365	11.593	12.001

9.3 The Authority's Overall Borrowing Need

9.3.1 The Authority's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

9.3.2 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short-term, exceed the total of the capital financing requirement in the preceding year (2018/19) plus the estimates of any additional capital financing requirement for the current (2019/20) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. Table 32 below highlights the Authority's gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

Table 32: Gross Borrowing against the CFR

	2018/19 Actual £m	2019/20 Estimate £m	2019/20 Actual £m
CFR General Fund	323.761	325.714	317.191
CFR HRA	328.669	324.774	321.772
Total CFR	**652.430**	**650.488**	**638.963**
Gross borrowing position	568.383	585.404	581.308
Under/over funding	84.047	65.084	57.655

9.3.3 **The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Authority does not have the power to borrow above this level. The table below demonstrates that during 2019/20 the Authority has maintained gross borrowing within its authorised limit.

9.3.4 **The operational boundary** – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

9.3.5 **Table 33 - Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

	2019/20 £m
Authorised limit	1,250.000
Maximum gross borrowing position during the year	585.367
Operational boundary	680.000
Average gross borrowing position	565.364
Financing costs as a proportion of General Fund net revenue stream	15.83%
Financing costs as a proportion of HRA net revenue stream	27.56%

9.4 Treasury Position as at 31 March 2020

9.4.1 The Authority’s treasury position (excluding borrowing by PFI and finance leases) at 31 March 2019 and 31 March 2020 is shown in table 34 below:

Table 34: Treasury Position as at 31 March

Borrowing Position	31 March 2020 Principal £m	Rate/Return %	31 March 2019 Principal £m	Rate/Return %
Fixed Rate Funding:				
-*PWLB long - term	250.250	3.81	231.250	4.12
(HRA-Self Financing)	128.193	3.49	128.193	3.49
-Market **(LOBO's)	20.000	4.35	20.000	4.35
-Temporary	68.470	1.09	70.703	0.80
Total External Debt	**466.913**	3.35	**450.146**	3.43
CFR	**524.568**		**534.193**	
Over (Under) borrowing	**(57.655)**		**(84.047)**	

*Public Works Loan Board **Lender Option Borrower Option

Table 35: The maturity structure of the external debt portfolio was as follows:

	31 March 2020 Actual £m	31 March 2019 Actual £m
Within 12 months	54.470	76.703
12 months and within 24 months	15.000	11.000
24 months and within 5 years	14.000	19.000
5 years and within 10 years	38.475	21.575
10 years and within 20 years	77.200	74.100
20 years and within 30 years	63.575	73.575
30 years and within 40 years	115.000	115.000
40 years and within 50 years	69.193	48.193
Greater than 50 years	20.000	11.000

9.5 Investment Portfolio

Table 36: Treasury and Non Treasury Investments

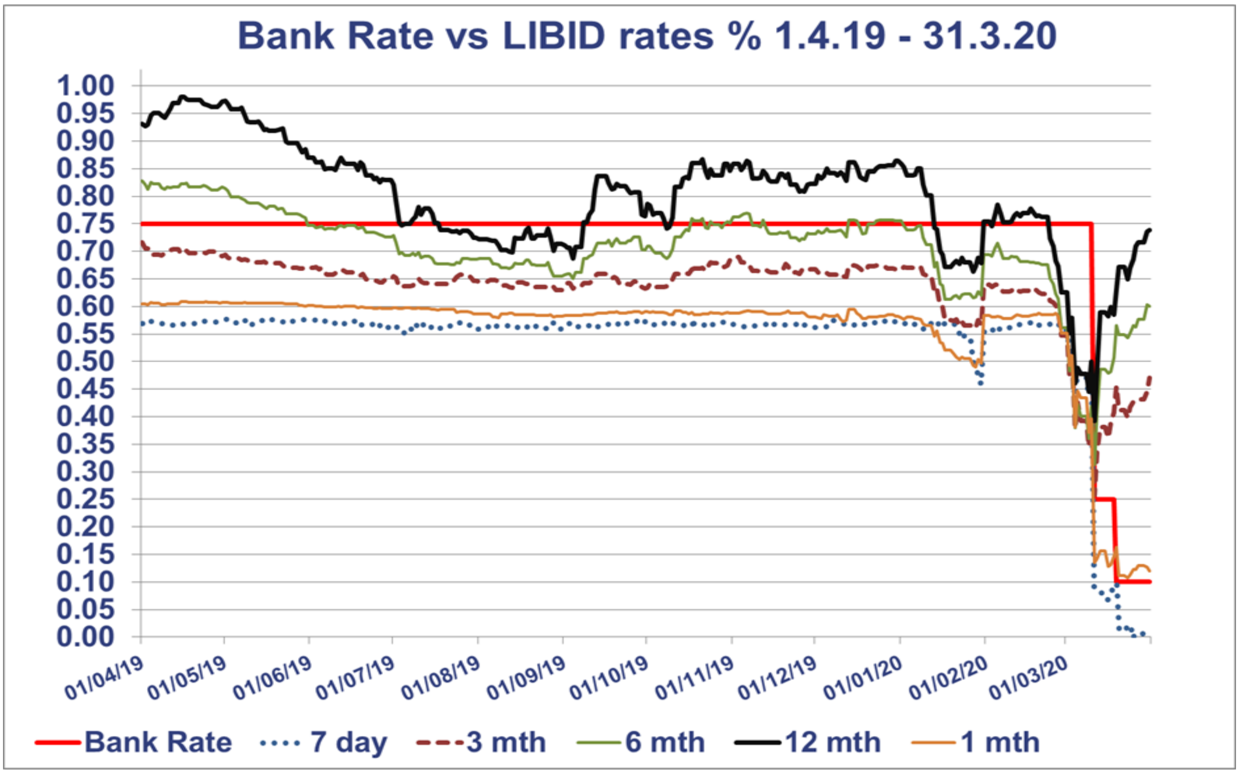
Treasury investments	**Actual 31 March 2020 £m**	**Actual 31 March 2019 £m**
DMADF (H M Treasury)	35.100	12.300
Other Local Authorities	17.000	0.000

Non Treasury investments	**Actual 31 March 2020 £m**	**Actual 31 March 2019 £m**
Joint venture	1.322	2.650
Companies	4.000	1.869
TOTAL NON TREASURY INVESTMENTS	**5.322**	**4.519**

9.5.1 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that the Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in the Bank Rate until the Brexit issue was finally settled. However, there was an expectation that the Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.

9.5.2 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

Chart 16: Investment strategy and control of interest rate risk



9.6 Borrowing strategy and control of interest rate risk

9.6.1 During 2019/20, the Authority maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Authority's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

9.6.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost, the difference between (higher) borrowing costs and (lower) investment returns.

9.6.3 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

9.6.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Head of Resources monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp fall in long and short-term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long-term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short-term borrowing would have been considered; and,

- if it had been felt that there was a significant risk of a much sharper rise in long and short-term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

9.6.5 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2019/20 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Chart 17: Interest Rate View

Link Asset Services Interest Rate View 31.3.20								
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

9.6.6 Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.

9.6.7 HM Treasury has imposed two changes in the margins over gilt yields for PWLB rates in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ended on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.

Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard** Rate is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty** Rate is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

9.6.8 There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

9.7 Borrowing Outturn for 2019/20

9.7.1 Long-term borrowing undertaken during the year for the General Fund to fund capital expenditure and maturing debt was £25.000m and is detailed in table 37 below:

Table 37 - Replacement PWLB Loans 2019/20

Principal £m	Interest Rate %	Start Date	Maturity Date	Certainty Rate
5.000	2.18	26 March 2020	03 September 2029	PWLB
5.000	1.50	24 March 2020	01 May 2065	HRA
5.000	1.50	24 March 2020	30 April 2066	HRA
5.000	1.49	24 March 2020	03 May 2067	HRA
5.000	2.28	26 March 2020	01 October 2069	PWLB

This compares with a budget assumption of borrowing at an interest rate of 3% which was set in line with projections from the Authority's treasury management advisors.

9.7.2 Internal borrowing and low rate short-term borrowing was also undertaken during the year. General Fund short-term borrowing outstanding at 31 March 2020 was £49.000m. The HRA also took advantage of low rate short-term borrowing with a balance of £19.470m outstanding at 31 March 2020.

9.7.3 Maturing long-term loans of £6.000m were repaid in 2019/20 as detailed in Table 38 below:

Table 38 - Maturing Long-Term Loans repaid during 2019/20

Principal £m	Interest Rate %	Date Repaid
6.000	11.25	15 October 2019

9.7.4 Short-term savings were achieved during the year by internally financing new capital expenditure by running down existing cash balances and replacing maturing debt by taking advantage of borrowing low rate loans from PWLB as detailed in Table 37 above. Lower cash balances also meant lower counterparty risk on the investment portfolio.

9.7.5 **Borrowing in advance of need**
The Authority has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

9.7.6 **Rescheduling**
No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

9.7.8 **Summary of debt transactions**
Management of the debt portfolio resulted in £3.412m in interest savings for the General Fund and £0.229m for the HRA.

9.8 Investment Outturn

9.8.1 **Investment Policy** – the Authority's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by full Council on 21 February 2019. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

9.8.2 The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

9.8.3 **Resources** – the Authority's cash balances comprise revenue and capital resources and cash flow monies. The Authority's core cash resources comprised as follows:

Table 39: Core Cash Balances

Balance Sheet Resources	31 March 2020 £m	31 March 2019 £m
Balances	14.968	15.707
Earmarked reserves	66.948	68.455
Provisions	4.015	4.374
Usable capital receipts	10.085	8.351
Total	**96.016**	**89.784**

9.8.4 **Investments held by the Authority** - The Authority maintained an average balance of £17.908m of internally managed funds invested with the Debt Management Office (DMO). Additionally an average balance of £5.000m was deposited with other local authorities for a period between December 2019 into January 2020, and an average balance of £3m was deposited with Lloyds Bank from November 2019 to March 2020. The internally-managed funds earned an average rate of return of 0.635% and, total investment income was £0.170m compared to a budget of £0.023m.

9.9 A full list of the Prudential and Treasury Indicators is shown in **Appendix D**.