TORBAY COUNCIL

Report No: **F/16/04**

Title: **Capital Plan Budget (2004/05 - 2007/08) - Annual Review**

To:	Executive	on	16th February 2004
	Council		4th March 2004

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1. Purpose

1.1 To determine the resources available to fund new Capital Projects over the next four years and to consider options for amendment and addition to the approved 4-year Capital Plan Budget (2004/05 – 2007/08) for approval by Council.

2. Relationship to Corporate Priorities

2.1 The Council's Capital Plan includes schemes which support all of the Council's Key Areas and Corporate Priorities

3. Recommendation

3.1 That, having regard to the views expressed by Overview and Scrutiny Board on 28th January 2004

(i) The level of resources to be used to fund additions to the Capital Plan Budget be as stated in **Resource Option 2** (identified in Appendix 1 to the Report) and

(ii) Council be recommended to approve a revised 4-year Capital Plan Budget (2004/05 – 2007/08) based upon the amendments proposed in **Spending Option 2b** (identified in Appendix 2 to the Report).

3.2 That the use of any additional Government Grants or Supported Borrowing which may be offered be allowed only where consistent with the Council's corporate priorities or statutory service objectives, the project is sustainable, and requirements for match-funding and future revenue consequences have been considered.

4. Reason for Recommendation

4.1 The endorsement of the Capital Plan over a 4-year period within reasonably predictable resources enables forward planning of investment to be undertaken with some degree of certainty.

4.2 The proposed amendments to the Capital Plan present the best allocation of resources to enable the development of new capital projects in line with the Council's priorities, having regard to the views expressed by Overview and Scrutiny Board.

5. Background

5.1 Report F/18/03 to Executive on 6th Jan 2004 set out the demands for new Capital expenditure over the next 4 years, resulting from prioritisation against national and local pressures, and identified a range of potential new resources which could be available to fund those demands.

5.2 Overview and Scrutiny Board on 28th January 2004 (Report F/15/ 04) was asked to identify any specific concerns it wished to raise with the Executive in considering amendments/additions to the Capital plan budget, having particular regard to the following issues -

(i) The use and allocation of Borrowing supported by the Government
(ii) The risks associated with achieving receipts from the disposal of surplus sites
(iii) Whether Right-to-Buy clawback receipts should be spent or retained to generate investment income
(iv) Recommendations arising from the Housing Working Party and the Access to Coast review
(v) The requirement to provide for a Contingency for risk management
(vi) The revenue implications of using "unsupported borrowing"
(vii) The overall impact of new capital investment on revenue budgets and Council Tax

5.3 The views of Overview & Scrutiny Board are set out in a separate Report to Executive.

6. Resource Options

6.1 Taking into account all potential funding sources, three Resource Options for new spending over the next **4 years** were considered by Overview and Scrutiny Board. These options, presented in **Appendix 1**, are as follows –

- Resource Option 1 **£17.728m** – (Minimum) includes

	£000
• Supported Borrowing for Education & Transport already assumed in the Budget but not yet allocated to specific schemes	4,461
• New Supported Borrowing for Education & Transport	6,563
• Loss of Supported Borrowing for other services	-314
Total Borrowing	10,710
• Additional Government Grants for Education	5,570
• S106 monies actually received not yet committed	221
• Land sales at £0.5m over amount required for existing commitments	500
• 25% of RTB clawback receipts used (balance retained for interest)	687
• Use of Earmarked Reserves	40

- Resource Option 2 **£21.095m** – includes

	£000
• As Option 1 plus the following -	17,728
• S106 monies expected over the next 3 years	804
• A further £0.5m from Land sales	500
• The remaining 75% of RTB clawback receipts used	2,063

This option also assumes using Supported Borrowing for education to fund Sherwell Valley Phase II project releasing capital receipts of £0.45m previously earmarked

- Resource Option 3 **£22.095m** – includes

	£000
• As Option 2 plus the following -	21,095
• Unsupported Borrowing of £1m funded from Council Tax	1,000

6.2 Option 1 presents the lowest risk option. The revenue costs and risks inherent in Options 2 and 3 particularly with regard to the likelihood of securing capital receipts and the sustainability of long-term borrowing need to be weighed against the benefits of the capital investment which could be funded as a result. The major issues to be considered in deciding between these Options are summarised in the following paragraphs.

7. Local Authority Borrowing supported by the Government

7.1 The general allocation of "Supported Borrowing" for 2004/05 available through the Single Capital Pot (which replaces the old Basic Credit Approval) is as follows –

Service	**Allocation 2004/05**	**Prediction**	**Change**
	£000	**£000**	**£000**
Transport – LTP	1,729	1,375	354
Transport – Maintenance	1,940	906	1,034
Education – New Pupil Places	3,417	2,390	1,027
Housing	918	931	-13
Social Services – Adults	76	90	-14
Social Services – Children	21		+21
All Other Services	0	308	-308
Total 2004/05	**8,101**	**6,000**	**2,101**

7.2 This has resulted in an increase in available resources identified for Education and Transport of £2.415m, which is good news, but there is an overall loss in predicted resources for the other Council services of £0.314m. The significant increase in resources identified for Education is mainly due to the change in the method of allocation of resources for pupil places to a formula-based approach rather than an individual bidding approach.

7.3 In addition to the above, further Supported Borrowing and Grant resources for schools have been announced by the Department for Education & Skills over the next two years as follows

		2004/05	2005/06
		£000	£000
New Pupil Places	Supported Borrowing		2,054
Modernisation	Supported Borrowing	1,653	
	Grant	1,731	2,183
School Access	Supported Borrowing	219	222
Seed Challenge	Grant	184	
Devolved Formula Capital	Grant	1,472	
Total		**5,259**	**4,459**

7.4 Issues to be considered in utilising Borrowing are -

- The net increase in Supported Borrowing available over the next two years is **£6.2m**.
- The full-year effect on the revenue budget of providing for repayment of principal and the cost of interest incurred is approx. **£0.5m p.a** over the Medium Term Financial Plan period. This assumes the statutory Minimum Revenue Provision for the repayment of principal of 4% and a Medium-term interest rate of 5%
- The cost of borrowing allocated through the Single Capital Pot is recognised by the Government through the Formula Spending Share (FSS) and partly supported through the Revenue Support Grant. The rate of Grant is less than 70% as the Council is expected to raise Council Tax to spend at FSS
- There will be other revenue running costs (or savings) arising from the development of any new assets which would be factored into future service revenue budgets
- Service and external scrutiny pressures in these areas of national priority mean that the Council needs to spend at least at the level indicated by the Single Capital Pot supported borrowing allocations
- There is no "ring-fencing" of the Supported Borrowing available under the Single Capital Pot. Councils are at liberty to allocate resources on the basis of their own analysis of national and local priorities demonstrated by local Capital Strategies and Asset Management Plans. However, Government Departments have a clear expectation that "their element" will be spent on their own service. They reinforce these

views through Corporate Performance Assessment (CPA) scoring.

7.5 In summary **it is recommended that the Council plans capital investment at least to the level indicated by the Single Capital Pot allocations, and spends broadly in line with the Service allocations determined by the Government**. This policy is reflected in all the Resource Options put forward.

7.6 Allocation of resources to individual schemes within those resources earmarked to services will be determined with appropriate consultation and Member approval, having particular regard to the Capital Projects Reserve List, Service Asset Management Plans, ongoing revenue implications, sustainability etc.

8. Capital Receipts & Contributions

8.1 If it is assumed for the purposes of determining the overall Capital Budget that Supported Borrowing and Capital Grants are allocated to those services identified by the Government, the only flexibility the Council has to fund local service priorities, which fall outside of Government mainstream funding, is availability of Capital Income and "Unsupported Borrowing" (or direct Revenue Budget contributions). The loss of predicted Supported Borrowing for 2004/05 of £0.314m anticipated for other services will have to be covered from these sources to support the existing Capital Plan.

8.2 Capital Income is predicted over the next 4 years from four main sources –

(i) Land sales **-** Sale of surplus and underused assets through the Council's Disposal Policy
(ii) Right-to-Buy Clawback – the Council's share of receipts from the sale of dwellings by Riviera Housing Trust to ex-Council tenants
(iii) Section 106 (Planning Gain) agreements – contributions from developers mainly in respect of Education and Affordable Housing provision
(iv) External Grants

8.3 The current Capital Plan Budget for 2003/04 – 2006/07 requires £3m to be generated from land sales by the end of the Plan period. To date £1.9m has been received leaving an outstanding requirement of £1.1m to be secured before March 2007. The current disposal schedule approved by Council in October 2003 could realise up to a net £2.6m if all the sites are successfully sold at open market value. This would generate potential new resources of £1.5m after the outstanding commitment to the existing Capital Plan Budget has been deducted.

8.4 **Because of the risks associated with disposal of some complicated sites it is recommended that only a potential increase in capital receipts from land sales of up to £1m are considered at this time**. Only **£ 0.5m** is assumed in **Resource Option 1** with **£1m** assumed in **Options 2 and 3**.

8.5 The opportunity to generate interest income in support of the Revenue Budget as a result of saving rather than spending capital receipts needs to be weighed against the service benefits which would arise from using the receipts to fund new capital investment. If the Council chose to keep these receipts to generate interest income rather than using them to fund capital projects, £1m would earn approx. £37,500 p.a. at the current investment rate of around 3.75%.

8.6 The issue of provision of sites for Affordable Housing also needs to be considered here. Subject to consideration of the Local Plan, the Council has the option to earmark sites in its ownership for the provision of 100% affordable housing; to ring-fence sale receipts on appropriate sites or to donate sites as subsidy "in kind" to Registered Social Landlords in support of its Housing Partnership Strategy. If the Council was to adopt such a policy this would have a bearing on the level of receipts that would be available to support other projects in the Capital Plan.

8.7 Receipts are due to the Council annually in arrears from Riviera Housing Trust (RHT) as a result of the continuing sale of former Council houses under the Right-to-Buy. The amount the Council will receive depends upon a number of factors including the state of the local economy, mortgage rates and the housing market. Based upon latest information from RHT receipts of £1m are expected in 2004/05 as a result of 48 sales anticipated in the current year. Receipts in future years have been assumed based upon sales reducing to 36 properties in 2004/05 and 24 properties in 2005/06 and 2006/07 respectively. These predictions could produce a total of £2.75m over the Plan period and are considered to be within reasonable limits.

8.8 Historically the Council could only spend 25% of these receipts, the balance being held to reduce external debt. From 1st April 2004 100% can be spent on new capital investment. The potential interest (at current rate of 3.75%) which could be earned on these receipts if they remain unspent would be £37,500 in 2004/05 rising to £103,000 p.a. by 2007/08.

8.9 There is an argument that some or all of these receipts should be recycled back into providing Affordable Housing to replace the stock lost by sales to tenants and to address the increasing pressure on the Council's Homelessness budget.

8.10 Potential options for using these receipts which Members are asked to consider are –

- Reserve 100% to generate investment income in support of the Revenue Budget
- Continue to reserve 75% to earn interest with the balance used to support the Capital Plan generally
- Spend 100% of the receipts to support the Capital Plan generally
- Earmark all or part of the receipts to support Housing Associations providing Affordable Housing in Torbay
- A combination of some of the above e.g. use 50% to support affordable Housing and 50% to support the remainder of the Capital Plan

8.11 On balance, taking into account the service demands for Capital investment demonstrated by the Capital Projects Reserve List combined with the low Medium Term investment rate predictions, it is considered that using capital receipts to support the Capital Plan will provide greater benefits for improved service provision than retaining them to generate direct revenue income. This policy is reflected in **Resource Option 2 and 3** with only 25% of receipts assumed to be spent in **Option 1**.

8.12 Section 106 Planning Gain agreements to date indicate potential receipts as follows –

	Received & uncommitted	**Due over next 3 years**	**Total**
	£m	£m	£m

Education	0.213	0.429	0.642
Housing	0.008	0.375	0.383

8.13 Resources shown in the Table above can be used to supplement resources available for specific schemes. **Resource Option 1** assumes only those receipts actually received. **Options 2 and 3** assume that all predicted monies will be received and in these cases it should be noted that there are inherent risks associated with this assumption.

8.14 In addition to capital receipts there are significant resources obtained through bidding for ring-fenced Government funding, other external grants and private sector contributions. These opportunities are reported and the Capital Plan amended when bids are successful. In some instances Council match-funding will need to be earmarked in the Capital Budget in anticipation of external funding being secured. Only assured or reasonably anticipated resources are included within predicted resources at this time.

9. Unsupported Borrowing

9.1 The new Prudential Framework, described for Members in Report F/9/03 to Executive on 11th November 2003, starts from April 2004. This new freedom allows Councils to borrow money to fund capital projects without Government restriction provided it is "affordable". This borrowing would be over and above the borrowing which is identified through the Single Capital Pot and which is part supported by the Government through the FSS.

9.2 Following consideration of Report F/9/03 Executive recommended that
"A cautious approach be taken to the use of "unsupported borrowing" (because of the long-term revenue consequences of interest and principal repayments) *and that consideration be given initially to the potential for funding capital schemes which will generate sustainable revenue budget savings for the future".*

9.3 It is a reality that, with the effective "ring-fencing" of Government support for borrowing to the national priorities represented by the Single Capital Pot, it is likely that "unsupported borrowing" may be the only source of supplementing corporate funding for local services. e.g. Libraries, museums, tourism, coast protection, leisure, sports, IT and central office accommodation etc. Consideration could be given to approving some "unsupported borrowing" to fund capital projects where ongoing revenue savings or increased income can be sustained to cover the borrowing costs or where it is more economic than other forms of procurement such as operating leases. This could produce revenue benefit to the Council as opposed to increasing the burden on Council Tax.

9.4 For example – The Council currently procures its fleet vehicles under operating leases. Under these leases, ownership of the vehicles remains with the leasing company and thus capital spending restrictions under existing Capital Finance Regulations are avoided. The procedure is time-consuming to administer and can be expensive but avoids using Council capital resources. Under the new Prudential Framework the possibility of the Council borrowing either directly or through finance leases (HP) is now an option which can be considered to replace operating leases. The Fleet Management Section will need to acquire up to £4m of new vehicles over the next four years and will need to consider the risks and benefits of the various options now available.

9.5 It is recommended at this time that the use of "unsupported borrowing" should be dealt with on a "case by case" basis with an analysis of the revenue consequences and benefits arising from each scheme. It is also recommended that for the purposes of setting the Council's Authorised Borrowing Limit, the scope to borrow directly or take up finance leases to purchase assets such as fleet vehicles and IT is factored in when the Prudential Indicators are set by the Council (see below). This will enable alternative options for procuring this type of asset to be considered by Members at the appropriate time.

9.6 Only **Resource Option 3** includes provision for £1m of "unsupported borrowing" where there would be a resultant cost to the Taxpayer. The full year effect of this would be in the order of £100,000 p.a. over the medium to long term, based upon the statutory Minimum Revenue Provision of 4% and interest at 5%. A "Local Policy Growth Item" has been included for consideration in the draft Revenue Budget for 2004/05 to enable £1m of new borrowing. It is considered unlikely that Council, bearing in mind other competing priorities for revenue funding and the long-term budget consequences, will finally approve this item.

10. Summary of Resource Issues

10.1 The Council has a clear corporate Asset Management Plan and Capital Strategy, which identifies the need to improve and enhance its assets to aid service delivery in support of both national and local objectives. A robust Capital Projects Prioritisation Process is followed whereby individual capital projects are assessed for fit with Council objectives and prioritised taking into account Options appraisal and Value for Money.

10.2 The main issue the Council has to consider is, having identified its priority capital projects, whether it can afford to fund them bearing in mind the revenue consequences of financing charges (borrowing costs or loss of investment income) together with any potential increase in running costs.

10.3 Maintaining a balance between capital and revenue spending decisions is not straightforward. In summary the main issues to consider are as follows –

- Whether Supported Borrowing, bearing in mind it is not fully supported by the Government through Grant, should be used to fund new projects. In reality this is not a "real" choice for a Unitary Council - Service pressures and external scrutiny of Council performance mean that effectively the Council has little choice but to spend at the level indicated by Single Capital Pot allocations on those services given national priority. Individual schemes funded from this source are subject to scrutiny through the Capital Prioritisation Process to ensure options appraisal and Value for Money. Ongoing revenue implications will be supported through the FSS mechanism.

- The use of Unsupported Borrowing - The Council's ability to "afford" this is in doubt - £1m costs around £100k p.a. which is £2 on Band D Council Tax if revenue savings or increased income cannot be sustained to pay for the investment

- The level of assumed capital receipts - There are risks of achieving the predicted level of capital receipts from the disposal of surplus assets and Right-to-Buy clawback. The current Disposal Schedule could generate up to £1.5m but conservatively expectations should be limited to £1m. Earmarking sites wholly for affordable housing could reduce this prediction and it is recommended this issue is considered on a site-by-site basis bearing in mind the Local Plan. RTB sales may not be sustained at the current level although an assumption of reducing numbers has been built into the income prediction.

- Whether capital receipts should be spent or saved - Reserving receipts expected over the next four years could generate up to £0.14m interest income p.a. to support the revenue budget by 2006/07 (depending on investment rates) or be used to reduce external debt. In view of the limited resources available to meet the demands identified on the Capital Reserve List, totalling £20m, it is considered that the service benefits arising from spending the receipts outweigh the limited potential for interest income.

10.4 In order to provide a basis upon which capital spending decisions can be made and satisfy a reasonable level of demand for local priorities **in line with the recommendation of Overview & Scrutiny Board, Resource Option 2 is recommended as the most acceptable scenario**. Within this Option there are a number of spending choices which could be considered which may have differing cost implications for the Council.

11. Spending Pressures

11.1 The demand for capital spending was examined in Report F/18/03 to Executive in November. The latest Capital Projects Reserve List attached at **Appendix 3** totals nearly £20m, of which £15m arises from services outside of the mainstream capital support provided by the Government.

11.2 As previously mentioned, Government Departments have a clear expectation that national resources provided to support the costs of Local Authority borrowing should be spent in line with the allocations. i.e. on Education, Transport, Housing and Social Services. The 2004/05 allocations for Education and Transport show a substantial increase over previous years reflecting both service need and recognition of improvement in the Council's performance. The allocations for Housing and Social Services remain in line with the Council's expectations already reflected in the existing forward Capital Plan budget. The Council would be subject to severe criticism if it were not seen to spend these allocations on these services.

11.3 **It is recommended that the Council continues its current policy of using Single Capital Pot "supported borrowing" resources in line with Government allocations.** This policy will enable Capital funding to be earmarked for all Reserve List Band "A" projects for Education and Transport, subject to any further detailed scrutiny of individual schemes which may be required.

11.4 A proposal for direct Council financial support for **Affordable Housing** of £1m per annum is included in Band "A" of the Reserve List in line with recommendations from the Housing Strategy Working Party. Executive will need to consider if corporate Council funding should be allocated for Affordable Housing in addition to support available from S106 (Planning Gain) and Government subsidy allocated direct to Registered Social Landlords via the Housing Corporation. Issues to consider include –

- at least 30% of dwellings on development sites over 15 dwellings or 0.5 hectare will be for affordable housing through Planning Policy

- 30% of regional resources identified for Housing have already been top-sliced and allocated via the new Regional Housing Body to the Housing Corporation for support to Housing Associations. The new Development Programme to be undertaken by Housing Associations is expected to be £6.6m for 2004/05 - 2005/06 which will provide 106 new dwellings for rent and 46 for shared ownership in Torbay

- The Single Capital Pot allocation of "supported borrowing" for Housing (£0.918m) is largely spent on Renovation and Disabled Facilities Grants in the private sector and the budget is already over-subscribed. Executive is aware of the waiting list for **Disabled Facilities Grants** which is being monitored by a cross-directorate Panel - a demand for increased funding for these Grants also appears on the Capital Projects Reserve List competing for corporate resources

- The Council's (£2.85m) direct support to Housing Associations using the capital receipt from the Housing Stock Transfer to Riviera Housing will be spent by 2004/05.

- There is a convincing argument that some of the receipts received from the RTB Clawback should be recycled back into direct subsidy for providing Affordable Housing particularly in view of the current pressure on the Council's revenue budget for Homelessness and demand for new housing identified in the Council's Housing Strategy document. Overview & Scrutiny Board recommend that 50 % of the receipts should be recycled.

11.5 A number of corporate and local service projects (including those Access to the Coast projects recently considered by the Overview & Scrutiny Board) are also included on the Reserve List for which there are no "ring-fenced" funding sources and capital receipts or "unsupported borrowing" may be the only source of funding. e.g.

- **Higher Brixham Watercourse -** match-funding £0.265m required
- **Goodrington Sea Wall** – Repairs £0.35m
- **Disability Discrimination Act works to Council properties -** (potentially £0.8m but yet to be prioritised)
- **Torquay Library** – Electrical works £ 0.1m
- **Central Office Accommodation** –additional provision (medium term) £0.3m
- **Council-wide Computer (PC) replacement plan** – for e-Gov and new Financial Information System £0.5m
- **Princess Promenade -** Structural Repairs £0.5m
- **Babbacombe Cliff Railway -** major Repairs £0.5m
- **Redgate Beach** – demolition of buildings £0.025m

There are potential risks of not pursuing these projects particularly with regard to providing an initial budget to enable priority Disability Discrimination Act works to be planned. Members are reminded that if capital funding is not identified for these projects then any ongoing liability will have to be found from Revenue Budgets

11.6 The Department for Environment, Food & Rural Affairs (DEFRA) have recently announced Grant funding for Higher Brixham Watercourse and there is a good possibility that "scheme specific supported borrowing" will also be available for this scheme. It is recommended that this scheme be approved in the Capital Plan Budget subject to additional "supported borrowing" being available. The position with regard to DEFRA Grant aid for Goodrington Sea Wall repairs, however looks less hopeful but may qualify for grant aid in 2005/06. Provision for match-funding for these projects could be considered.

11.7 Attention is also drawn to the fact that there are a number of projects already on the Reserve List and/or emerging through the "corporate scrutiny process" where match-funding or additional support may be required during or beyond the Capital Plan period. Recent examples include recommendations arising from the Review of the **Library Service** and through the development of the **Heritage Strategy**.

11.8 Contingencies for Unforeseen variations & Match -funding - The approved current Plan Budget is £48m comprising individual schemes and annual programmes. Schemes are monitored to ensure delivery within time and budget. Monitoring Reports to Executive Members and Overview & Scrutiny Board ensure that issues are detected and options considered to rectify potential budget problems early. Nevertheless the risk of unforeseen variations to budget costs exists. In addition there are some risks that external funding bids will fail or fall short of expectations. It is advisable to reinstate a "Contingency against unforeseen variations" following its use in 2003/04 to support the Waterfront project and the review of central Office Accommodation. A sum of **at least £0.5m** is recommended to plan for these issues.

11.9 Redundancy Costs - it would be prudent at this time to reserve provision for Redundancy costs arising across all services from a number of reviews which have been undertaken or which are likely to be undertaken during the Capital Plan period. Education related costs can be regarded as a call upon the Education allocation of Supported Borrowing**. A general budget of £0.2m is recommended for other services** at this time. Members are reminded that capitalisation of revenue costs requires Government permission and ongoing efficiency savings must be demonstrated.

11.10 In recommending a Capital Plan the Council is mindful of the revenue consequences of the Plan. In terms of borrowing, only part of the cost of "supported borrowing" is met by the Government through the calculation of Formula Spending Share (FSS). The costs of "unsupported borrowing" and the effect of spending capital receipts rather than retaining them for investment purposes are a direct revenue cost. There may also be ongoing revenue running costs which either have to be met from existing budgets or be subject to a specific budget bid. This latter issue is evaluated when services submit their project proposals through the Capital Prioritisation Process.

11.11 In summary , the spending issues which need to be considered include –

- The use of Supported Borrowing - The majority of new resources available are effectively "ring-fenced" for Education and Transport by Government Department pressure – using these resources for other services risks external criticism and will impact upon performance assessment

- Consideration needs to be given to when and if any new Council support for Affordable Housing from capital receipts or provision of sites should be provided in addition to projected S106 (Planning Gain) income and Government support already supplied direct to Housing Associations through the Regional Housing Body

- The effect of not undertaking some high priority (Reserve List Band A) projects needs to be considered against the potential revenue budget implications

- A budget for Risk Management including a Contingency for variations and match-funding (minimum £0.5m) and Redundancy costs (£0.2m) should be identified

12. Spending Options

12.1 A number of Spending Options are put forward for discussion in **Appendix 2** based upon the Resource Options suggested in Para 6 (detailed in **Appendix 1**).
The risks and rewards are illustrated against each Option.

- **Spending Option 1** provides very little scope for spending over and above the level of "supported borrowing" and only enables limited support for Housing related services.
- **Spending Options 2a & 2b** illustrate possible uses of additional capital receipts available balanced between Affordable Housing and other local service priorities.
- **Spending Option 3** proposes additional capital spending which could be undertaken if Resource Option 3 is chosen which would result in a rise in Council Tax if revenue costs could not be contained within existing budgets

12.2 It is recommended that, bearing in mind the issues raised in this Report, Executive supports either Option 2a or 2b (or a variation of these options). **In the light of the views of Overview and Scrutiny Board regarding the provision of Affordable Housing, it is suggested that Spending Option 2b is recommended for approval.**

12.3 Appendix 2 shows the statutory Prudential Indicator " Incremental Effect on Council Tax" for each Option which gives an indication of the relative cost of each proposal (financing + running costs) in terms of Band D Council Tax. These Indicators are provided to aid comparison of Options but do not mean that Council Tax needs to increase specifically to accommodate the proposals. Members are reminded that Government support towards the revenue financing and running costs of capital projects is generally provided through the FSS mechanism but Option 3 potentially requires an increase in Council Tax to reflect the use of "unsupported borrowing"

13. Prudential Indicators

13.1 Report F/9/03 to Executive in November outlined the Prudential Indicators the Council has to approve prior to the beginning of the new financial year as part of the revenue and capital budget setting process. The Indicators cannot be finalised until the budget development process has been completed. By way of illustration provisional Prudential Indicators relating to "affordability" and "prudence" based upon Option 2b are provided at **Appendix 4**. Draft Prudential Indicators relating to Treasury Management are presented in the Report on the 2004/05 Treasury Management Strategy elsewhere on this Agenda. These indicators will be finalised for presentation to Council before the end of March 2004.

13.2 In setting its Authorised and Operational Borrowing Limits, the Council is obliged to follow the advice of the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Prudential Code for Capital Finance. Members' attention is drawn to the fact that under the Code the debt that the Council "owes" to Devon County Council, following reorganisation in 1998, is not included in its Borrowing Limits at this time. This "Transferred Debt" is currently £26m. The Council has to fund £2.6m p.a. from its Revenue Budget for repayment of principal together with annual interest charges (at around 6%). If an opportunity arises to repay this outstanding debt to the County, at some time in the future, the Council will need to increase its statutory Borrowing Limits accordingly.

14. Alternative Options (if any)

14.1 A number of options for addition/amendment to the Capital Plan are being considered during the Budget development process.

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Director of Finance

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IMPLICATIONS, CONSULTATION AND OTHER INFORMATION

Part 1

These sections may be completed by the Report author but must be agreed by named officers in the Legal, Finance, Human Resources and Property Divisions. If these are not completed and agreed the Report will not be included on the agenda.

Does the proposal have implications for the following issues?

		Insert name of responsible officer
Legal (including Human Rights)	The are potential legal implications of not carrying out certain projects identified on the Reserve List	Bill Norman
Financial – Revenue	Identified in the Report	Lynette Royce
Financial – Capital Plan	Identified in the Report	Lynette Royce
Human resources (including equal opportunities)	Progress of Capital schemes is dependent upon staffing resources being available to manage the disposal of surplus assets and to design and manage approved projects, particularly where external funding is obtained	Geoff Williams
Property	Investment in capital projects generally enhances the Council's property portfolio	Sam Partridge

Part 2

These sections must be completed by the author of the Report.

Does the proposal have implications for the following issues?		Please give details as appropriate
Sustainability	Yes	Addressed at individual scheme level
Crime and Disorder	Yes	Addressed at individual scheme level
*OfSTED Post Inspection Action Plan	Yes	Capital projects support the Plan
*Social Services Action Plan	Yes	Capital projects support the Plan
*Change Management Plan	Yes	Addressed at individual scheme level

* *not applicable to reports to Licensing, Development Control and Area Development Committees*

Part 3

These sections must be completed by the author of the Report.

Does the proposal have implications for the following Directorates? If so, please inform the relevant Director.		Please give details as appropriate
Chief Executive/Corporate Services	Yes	Resources available for capital investment potentially affect all directorates
Education Services	Yes	
Environment Services	Yes	
Social Services	Yes	
Strategic Services	Yes	

Part 4

Is the proposal contrary to or does it propose amendment to the Policy Framework or contrary to (or not wholly in accordance with) the Council's budget?	Yes X Fill in Box 1	No Fill in Box 2
1. Details of the nature and extent of consultation with stakeholders and relevant select committees. Consultation has been undertaken through Corporate Asset Management Team and Executive Asset Management Group. Overview and Scrutiny Board is providing its comments to Executive in a separate Report. Consultation at scheme level is undertaken through Service Asset Management.		
2. Details and outcome of consultation, as appropriate.		

Part 5

Is the proposal a Key Decision in relation to an Executive function?	Yes Reference Number X69/2003	No

Part 6

Wards
All

Appendices

Appendix 1	Resource Options for Additions to the Capital Plan 2004/05 –2007/08
Appendix 2	Spending Options for Additions to the Capital Plan 2004/05 –2007/08
Appendix 3	Latest Capital Projects Reserve List
Appendix 4	Draft Prudential Indicators

Documents available in Members' Room

Background Papers:
The following documents/files were used to compile this report:
Report F/18/03, F/15/04
Government announcements of allocation of Supported Capital Expenditure 2004/05