



Title: **Capital Plan Budget Monitoring - 2010/11 Outturn (Subject to Audit)**

Public Agenda Item: **Yes**

Wards Affected: **All Wards in Torbay**

To: **Overview & Scrutiny Board Council** On: **29th June 2011
13th July 2011**

Contact Officer: **Martin Phillips**

☎ Telephone: **207285**

✉ E.mail: **martin.phillips@torbay.gov.uk**

1. What we are trying to achieve and the impact on our customers

- 1.1 The Council's capital plan with its investment in new and existing assets is a key part of delivering the Council's outcomes. This is the final Capital Monitoring report for 2010/11 under the Authority's agreed budget monitoring procedures. It provides high-level information on capital expenditure and income for the year (subject to Audit), compared with the latest budget position as at period 9 reported in February 2011.

2. Recommendation(s) for decision

Overview & Scrutiny Board

- 2.1 That Members note the outturn position for the Council's Capital expenditure and income for 2010/11 and make any recommendations to Council**

Council

- 2.2 That Council note the outturn position for the Council's Capital expenditure and income for 2010/11 and note the action taken by the Chief Finance Officer, under the Officer Scheme of Delegation, to carry forward the unspent budgets for expenditure or work in progress (together with their funding) from 2010/11 to 2011/12.**
- 2.3 That Council approves the funding of the capital plan for 2010/11 as outlined in paragraph C1.1 is approved.**
- 2.4 That Council approves the Prudential indicators for 2010/11 as shown in Annex 1 to this report.**

3. Key points and reasons for recommendations

- 3.1 Members of the Overview and Scrutiny Board and Cabinet have received regular budget monitoring reports on the Council's Capital Budget throughout the year.
- 3.2 This report presents monitoring information on schemes which have been completed during the year and provides the outturn Prudential Indicators for 2010/11 under the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code, which Council will be asked to approve. The capital outturn and its financing have close links to the Council's annual Treasury Management Report (being considered by Audit Committee 22nd June 2011 prior to approval by Council).
- 3.3 Outturn expenditure for the year was £43.8 million compared with the budgeted spend as per the last monitoring position in February of £47.3 million. Reasons for this variation over a number of schemes are included in paragraph B2.9. In percentage terms, spend was 93% of the forecast in February. This compares with 87% for 2009/10.
- 3.4 The 2010/11 total capital spend of £43.8 million is at a slightly lower level compared to 2009/10 which reflects the near completion of a number of major projects. 2011/12 spend is expected to be at a lower level due to the impact of the revision to the Castle Circus Regeneration Project and the part impact of the Coalition government's capital funding reductions before significantly reducing in 2012/13 onwards.
- 3.5 The original capital budget approved by Council in February 2010 was £58.9 million. That was subsequently revised during 2010/11 for slippage from 2009/10, new schemes and re profiling spend to future years. All changes with reasons have been included in previous monitoring reports. Variations in planned spend have an impact on cash flow and treasury management activities.
- 3.6 The overall expenditure position by Theme for 2010/11 is summarised in the table below:

Theme	Original Budget 2010/11 per Council Feb 10	Revised Budget per Cabinet Feb 10	Outturn for 2010/11	Variation (Outturn less Revised budget)
	£m	£m	£m	£m
Pride in the Bay	12.0	12.3	12.2	(0.1)
New Economy	5.2	7.1	6.5	(0.6)
Learning & Skills	26.9	22.3	21.0	(1.3)
Stronger Communities	4.8	2.2	1.8	(0.4)
Corporate Health	10.0	3.4	2.3	(1.1)
Total	58.9	47.3	43.8	(3.5)

- 3.7 Details of schemes completed and progressed during the year are included in the Supporting Information to this report along with a summary of the slippage that occurred in the last quarter.

- 3.8 Capital expenditure will be carried forward to 2011/12 to enable schemes not completed or progressed in 2010/11 to be continued in the current year along with the funding sources for the scheme.
- 3.9 The overall funding position of the 4-year Capital Plan remains in balance, although there is a risk associated with the level of capital receipts due to be generated over the life of the plan. Capital Receipts in 2010/11 generated £0.5 million (£2.3m 2009/10).
- 3.10 At the start of 2010/11 the Council held £0.4m of unapplied capital receipts and generated a further £0.5m from disposals during the year. £0.4m of receipts were applied from this reserve in 2010/11 leaving a balance of £0.5m on the capital receipts reserve at year end.
- 3.11 In overall terms this means that at 1 April 2011 the approved Plan, as approved by Council in February 2011, still relies upon the generation of a further £3.1 million of capital receipts from asset sales by the end of 2014/15. These targets are expected to be achieved provided that -
- approved disposals currently “in the pipeline” are completed
 - the Council continues with its disposal policy for surplus and underused assets
 - no new (or amended) schemes are brought forward that rely on the use of capital receipts for funding and,
 - there is no significant impact on disposals from the current economic conditions in the life of the plan
- 3.12 There is an ongoing risk over the value of receipts. Current valuations on some sites to be disposed are below original forecasts. However the current approved plan has taken a prudent approach to the value of potential receipts and number of assets disposed of.
- 3.13 If additional capital receipts are generated these could be applied to fund schemes previously funded from revenue funded prudential borrowing such as Paignton Library Hub and Castle Circus Regeneration project. This would generate a benefit to the Council’s ongoing revenue budget.
- 3.14 The Council set its Prudential Indicators for 2010/11 and monitoring arrangements for “affordable borrowing” in March 2010. The detailed Outturn Indicators are provided in Annex 1. There are no significant variations to these Indicators. Council are asked to formally approve these indicators as required by the CIPFA Prudential Code.

For more detailed information please refer to the supporting information attached.

Paul Looby
Chief Finance Officer

Appendices

Appendix A Capital Plan Budget Outturn Information

Annex 1 Torbay Council Prudential Indicators Outturn 2010/11

Appendix B Capital Budget 2010/11 Outturn Summary

Appendix A – Background Information to Report

A1. General

- A1.1 Council approved the original 4-year Capital Plan Budget for the period 2010/11 - 2013/14 in March 2010. This Plan indicated spending of £58.9 million in 2010/11 out of the total 4-year Capital Plan Budget of £108.8 million. (This was before slippage from 2009/10 and any approval/revision of schemes during 2010/11).
- A1.2 Quarterly budget monitoring reports have been presented to the Overview & Scrutiny Board during the year. These reports identified any budget pressures faced by the Council and the action taken to ensure spending remained within the agreed overall Capital resources. New additions to the Plan and significant changes to approved budgets have been approved by Council and noted by the Board through this process. This process ensures that there is effective public monitoring and scrutiny of the Capital budget throughout the financial year. In addition during the year the Capital Programme & Asset Management Board reviews progress and performance on the capital plan.
- A1.3 The latest expenditure predictions as at January 2011 were presented in Capital Monitoring Report 33/2011 to Cabinet in February 2011. That Report noted anticipated expenditure of £47.3 million in 2010/11 out of a revised 4-year Capital Plan Budget of £109 million (prior to any further additions to the Budget approved by Council in February 2011).
- A1.4 This report presents Members with summary information on the 2010/11 outturn position (prior to Audit), compared with the latest Budget predictions for both expenditure and funding and highlights some significant variations.
- A1.5 Annex 1 provides the full schedule of the outturn for spending and funding in 2010/11. Column (4) shows the actual payments and funding applied during the year. Column (5) shows the variance between outturn and last reported budget and Column (6) shows the net budget to be carried forward to 2011/12. Budgets, where slippage has taken place, will be carried forward into 2011/12 where required to enable work in progress on uncompleted schemes to be continued. If budgets have overspent, the future year budgets for the relevant project will be reduced to compensate.
- A1.6 In order to meet the timetable for the statutory closure of accounts it is inevitable that assumptions are now made with regard to the final outturn figures which may be subject to challenge by the Audit Commission (the Council's external auditors) when the Audit of the Council's accounts is undertaken. Any changes will be reported to a future meeting.

B1. Expenditure Outturn & Performance

- B1.1 The actual service expenditure in 2010/11 was £43.8 million. The outturn for individual projects is provided in Annex 1. A summary at service level is in the table overleaf –

	Latest Budget	Outturn	Spent	Variation
	£m	£m	%	£m
Pride in the Bay	12.3	12.2	99	(0.1)
New Economy	7.1	6.5	92	(0.6)
Learning & Skills	22.3	21.0	94	(1.3)
Stronger Communities	2.2	1.8	82	(0.4)
Corporate Health	3.4	2.3	68	(1.1)
TOTALS	47.3	43.8	93	(3.5)

In overall terms there was net variation in the Budget spend of £3.5 million, which is under 10% of the revised budget. This compares with more than 10% slippage in 2009/10. A summary of the slippage and reasons is included at paragraph B2.9 below.

- B1.2 The Capital Plan spans 4 financial years and includes development projects where spending is expected to run for a number of years. It is normal that annual budgets need to be re-phased between years as schemes develop through feasibility, design and construction stages in order to ensure continuity. On occasion consultation with end-users, affordability of design and negotiation with external funders can significantly delay anticipated start dates.
- B1.3 During the year, budgets were regularly re-scheduled from between the four years of the plan by pro-active monitoring and the reasons were reported to the Overview & Scrutiny Board.
- B1.4 Performance at project level has been monitored by Senior Managers, Project Steering Groups, Capital Programme & Asset Management Board and through discussion with Cabinet Members.
- B1.5 On a number of schemes, even though works had not been undertaken by the year end there are a number of projects where contractual commitments have been entered into to progress the scheme. The Council's 2010/11 Statement of Accounts shows that at the end of 31/3/10 there was over £3 million of expenditure on Council assets that were "assets under construction".
- B1.6 From a purely financial perspective, a delay in spending in "normal" economic conditions does not generally harm the Council's overall financial position as delays in expenditure increases the Council's cash holding on a temporary basis leading to greater investment returns. However in 2010/11 investment rates were again significantly less than borrowing rates so any borrowing to fund the approved capital plan in advance of projected need would have a negative impact in the short term on the revenue budget. This short term impact needs to be considered with the longer term costs of borrowing where the Council's current average borrowing rate is 4.2% compared to the current market rate for 25 year borrowing of 5.25%.
- B1.7 In general better investment rates can be obtained by strategic rather than short term investments. In addition, in some cases, a delay in implementation of projects could result in inflationary cost increases which may not be offset by value for money savings achieved through a longer consultation, planning and

design period. Continuing to incur the revenue costs of inefficient assets waiting to be replaced can also have a detrimental effect on Revenue Budgets.

- B1.8 In overall terms individual projects have mainly stayed within budget once the “Decision to Invest” stage is reached. Where project costs have exceeded budget, and funds could not be brought forward from future year’s budgets, services were asked to identify additional sources of funding.
- B1.9 The Chief Finance Officer is authorised under the Officer Scheme of Delegation to approve re-phasing of expenditure between years provided the impact does not exceed the overall level of the approved programme and the available funding resources. Under this delegation, net budget provision of £4.0 million has been carried forward into 2011/12 to fund commitments on works in progress and to enable approved schemes to be completed. Conversely service budgets for 2011/12 have been reduced on those projects which have spent in advance. A revised Summary Capital Budget, incorporating the budgets carried forward and any schemes that are now significantly changed will be presented with the first capital monitoring report for 2011/12.
- B1.10 In 2010/11 within the outturn total of £43.8m there was some expenditure originally to be financed from revenue that has now been reclassified as capital expenditure. In addition there were a number of schemes that incurred additional expenditure in 2010/11, such as the Royal Terrace Gardens/Rock Walk project, that were funded in 2010/11 from either revenue or other capital resources.

B2. Individual Project Monitoring

- B2.1 Appendix B shows the expenditure in 2010/11 on each individual project.
- B2.2 The significant expenditure in year on projects within each theme is as follows: (spend over £0.5m):
- B2.3 Pride in the Bay – Total spend 10/11 £12.2 million

	£m
Completed Schemes:	
- Paignton Library Hub	2.5
- Rock Walk	1.9
- TOR2 Waste Collection	1.1
- Tweenaway Junction	2.5
- Roads – Structural Maintenance	0.8
- Integrated Transport Plan	2.7

- B2.4 New Economy – Total spend 10/11 £6.5 million

	£m
Ongoing Schemes:	
- Brixham Regeneration	4.2
- Cockington Court	2.0

B2.5 Learning & Skills – Total spend 10/11 £21.0 million

	£m
Completed Schemes:	
- PCSC – Sports Hub	1.7
- Early Years Capital Grant	0.6
- Schools – Devolved Formula Capital	1.2
Ongoing Schemes:	
- Cuthbert Mayne 14-19 development	1.2
- Roseland Remodelling	1.2
- My Place	1.9
- Queensway Primary	1.2
- Torquay Community College	7.4

B2.6 Stronger Communities – Total spend 10/11 £1.8 million

	£m
Completed Schemes:	
Disabled Facilities Grants	0.6

B2.7 Corporate Health – Total spend 10/11 £2.3 million

	£m
Ongoing Schemes:	
Castle Circus Regeneration	1.7

B2.8 The above list illustrates the wide variety of projects undertaken by a Unitary Council. The majority of schemes were delivered within budget and within a few weeks of the expected handover date.

B2.9 The slippage by scheme, (with variations over £0.3m), is summarised in the table below:

Scheme	(Slippage) £m	Reason
School's Devolved Formula Capital	(1.3)	Money allocated to schools during the financial year but returned by the schools as unspent at year end.
Castle Circus	(1.0)	Delay in starting work on Torhill House and Torquay Town Hall until tenants departure and specification finalised
Tweenaway Cross Junction	(0.4)	Due to the high number of utility apparatus discovered within the junction the works were delayed by three weeks
Sea Change - Cockington	(0.3)	Completion on the New Build element happened in May and completion on the Court is to take place in June. The project has been complicated and is running several weeks behind programme.
Brixham Regeneration	(0.3)	A complicated major project that is still ongoing.

In addition, two schemes , My Place at Parkfield House and Torquay Community College Rebuild both incurred expenditure of £0.5 million ahead of schedule.

C1. Receipts & Funding

C1.1 Resources used in the year to fund the actual spending, compared to the anticipated use of resources, are as follows –

	Latest Budget £m	Outturn £m	Difference £m
Borrowing -	12.3	12.3	0
<i>of which -</i>			
<i>Supported (by Gov't funding)</i>	<i>4.7</i>	<i>4.2</i>	<i>(0.5)</i>
<i>Unsupported (Prudential)</i>	<i>7.6</i>	<i>8.1</i>	<i>0.5</i>
Grants	29.2	28.0	(1.2)
Other Contributions	1.1	0.9	(0.2)
Revenue & Reserves	1.4	2.2	0.8
Capital Receipts	3.3	0.4	(2.9)
Total Required	47.3	43.8	(3.5)

C1.2 Capital Grants continue to be the major funding stream (64%) for the Council to progress its investment plans. The majority of these grants are a result of a “bid” process from other public sector bodies. With potential significant reductions on public sector expenditure expected this funding stream could be significantly reduced for future capital projects.

C1.3 Borrowing was kept within Affordable Borrowing limits and the effect on the Revenue Accounts was within Budget (see Prudential Indicators below).

C1.4 In addition to the £4.2 million of borrowing supported by central government, i.e. costs of borrowing funded in future year grants, unsupported (Prudential) borrowing of £8.1 million was utilised to fund (or part fund) expenditure on the following projects:

- Paignton Library
- South Devon Link Road
- Haldon Pier
- Brixham Regeneration
- Castle Circus Regeneration Project

C1.5 Repayment of the prudential borrowing by services varies between projects and reflects the anticipated use of the asset or a suitably shorter period over which the service feels is appropriate, however prudential borrowing is never taken over a period which is greater than the anticipated life of the asset.

C1.6 An issue is often raised over the level of borrowing undertaken by the Council and how it will be repaid. The Council sets aside an amount in its revenue budget (known as minimum revenue provision) for this repayment. In 2010/11 it set aside £3.6m in respect of capital expenditure by the Council, along with £0.4m in relation to the PFI scheme for Westlands and Homelands Schools (funded by the PFI Grant). This ensures that in the long term all borrowing will be repaid.

C1.7 Borrowing is related to the funding of fixed assets. The costs of these assets tend to be spread over the long term which is line with the long term use of these

assets. The value of Council long term assets as at 31/3/11 was approx. £350 million.

C1.8 Capital Receipts –

C1.9 Capital receipts in the year were £0.5 million. Receipts included the following:

- £0.2m Right to Buy Housing “clawback”
- £0.3m Land sales including land at Blythe Way & Hawkins Avenue

C1.10 The general target for securing capital receipts from asset sales to fund the 4-year Capital Budget, following review of the Budget in February 2011 was £4.0 million (required by March 2015). Of this sum receipts applied in 2010/11 were £0.4m whilst the Council held £0.5m in the capital receipts unapplied reserve at year end.

C1.11 This means that the approved Plan at 1 April 2011 still relies upon the generation of a total of £3.1 million capital receipts from asset sales by the end of 2014/15. As identified at the time that the Council approved the 2011/12 capital plan this target was considered reasonable provided that significant approved disposals currently in the pipeline are completed and the Council's rationalisation policy is continued.

C1.12 Of the receipts expected £1.2 million is in relation to the Tesco development at Brixham. An additional sum is expected for the disposal of the old Paignton Library site. No receipt has been included in relation to the disposal of Oldway Manson. All capital receipts are required to fund approved capital schemes.

C1.13 The Council approved a capital contingency of £1.1 million during the annual Budget review completed in February 2011. This contingency is still in place to provide for unforeseen emergencies or shortfall in projected income over the 4-year Plan period.

D1. Overall Financial Performance & Prudential Indicators

D1.1 The Prudential Indicators for prudence and affordability required by the CIPFA Code became a statutory requirement from April 2004.

D1.2 The Actual Indicators (subject to Audit) are calculated from the Council's 2010/11 Income & Expenditure Account and Balance Sheet presented in the (draft) Statement of Accounts. A brief description of the Indicators that must be reported at Outturn and which will be formally approved by Council is provided in Annex 2. Performance against the main indicators is also incorporated into the “Local” Performance Indicators Table below.

D1.3 The prudential indicators are calculated using the original principal value of the borrowing. The balance sheet values, as required by the application of financial reporting standards in relation to financial instruments, will vary from the principal value as under the new reporting standards borrowing is shown at “fair value”.

D1.4 Overall Capital Budget “Local” Performance Indicators -

Objective	Indicator	Outturn 2010/11	Concern
<ul style="list-style-type: none"> To contain External Borrowing within the Authorised Borrowing Limit 	<ul style="list-style-type: none"> ➤ External Borrowing including long term liabilities as % of Authorised Limit (must be less than 100%) 	77%	No
<ul style="list-style-type: none"> To contain External Borrowing within +5%/- 15% of the Operational Boundary 	<ul style="list-style-type: none"> ➤ External Borrowing as % of Operational Boundary (must be between 85% and 105%) 	99%	No
<ul style="list-style-type: none"> To ensure that Net Borrowing does not exceed the Capital Financing Requirement 	<ul style="list-style-type: none"> ➤ Net Borrowing is less than Capital Financing Requirement (must be greater than Zero) 	£56m < £138m	No
<ul style="list-style-type: none"> To progress the schemes in the approved Capital Budget 	<ul style="list-style-type: none"> ➤ Percentage of Latest Budget spent at year end to be at least 80% ➤ Percentage of Original Budget spent at year end to be at least 80% 	93% 74%	No Yes
<ul style="list-style-type: none"> To ensure the Revenue costs of Capital are within budget 	<ul style="list-style-type: none"> ➤ Financing costs excluding RCCO as a % of Net Revenue Budget 	7.7%	No
<ul style="list-style-type: none"> To generate sufficient Capital Receipts to fund the Plan Budget 	<ul style="list-style-type: none"> ➤ Receipts in year as a % of receipts anticipated in year 	38%	Yes
<ul style="list-style-type: none"> To maximise the amount of Government Grants and External Funding available to support Council service objectives 	<ul style="list-style-type: none"> ➤ Percentage of Outturn funded from External Funding 	66%	No
<ul style="list-style-type: none"> To ensure that sufficient funding is available to finance the Approved 4-year Capital Plan 	<ul style="list-style-type: none"> ➤ Capital Receipts to be Generated over remainder of Plan period 	£3.1m	Yes

D1.5 The Local Performance Indicators are in the main within expected tolerances. The main concern is the level of capital receipts generated in 2010/11 of £0.5 million compared to the four year target over the life of the capital plan of £3.1 million.

E. Summary

E1.1 In overall terms financial performance and risk management of the Capital Budget has been acceptable and consistent with previous years. The budget has been effectively monitored throughout the year. Any increased cost arising on individual schemes has been funded from existing Council resources or additional external funding secured.

- E1.2 The spend of £43.8 million is 12% lower than the 2009/10 spend of £49.8m which reflects the near completion of a number of major projects.
- E1.3 A number of projects have been completed during the year and are now delivering improved services to users. The Council produces a regular “capital success” leaflet which highlights the benefits of a number of schemes on the capital plan. These can be accessed on the Council’s website on this link:
- http://www.torbay.gov.uk/index/council/financial_services/capitalprogramme.htm
- E1.4 The general capital contingency of £1.1 million during the annual budget review, is still in place to provide for unforeseen emergencies or shortfall in projected income over the 4-year Plan period.
- E1.5 Capital receipts in the year were disappointing but, in part, probably a reflection of current economic conditions. The aim is that generation of sufficient receipts from the remaining assets on the Disposal List and from other earmarked assets to fund the ongoing Plan Budget remains a priority. This will continue to be monitored through quarterly reports to the Overview and Scrutiny Board.
- E1.6 There are however, with the exception of the Tesco development in Brixham and the disposal of the old Paignton Library, no significant capital receipts expected in the short term.

Annex 2 to Report

Torbay Council Prudential Indicators Outturn 2010/11

The Prudential Indicators for 2010/11 were set by Council in March 2010 and were reviewed in the Capital Budget Report presented in February 2011. The Outturn Indicators compared with that revision are as follows-

Prudential Indicators for Affordability

Ratio of Financing Costs to Net Revenue stream

This indicator shows how much of the net Revenue Budget is used to pay the costs of borrowing and other credit. It includes the costs of interest on borrowing and for setting aside provision for the repayment of principal, offset by investment income. These costs are then shown as a percentage of the net Revenue Budget (to be met from General Grants, including Area Based Grant, and Council Tax). The change year on year shows the effect that capital investment has upon the overall financial strategy of the Council.

As capital projects take time to complete the effect on the Revenue Budget builds up over time. i.e. the full year effect of spending in 2010/11 is not felt until 2011/12 and so on.

Revenue Costs of Capital Financing	Outturn 2009/10	Estimate 2010/11	Outturn 2010/11
	£m	£m	£m
Interest on Borrowing & Other Finance	5.2	5.5	6.3
Debt Rescheduling	0	0	0
Finance Costs re PFI	0.6	0.6	0.6
Investment Income	(2.7)	(1.5)	(1.6)
Cost of Transferred Debt & other deferred liabilities	2.0	2.0	1.0
Minimum Revenue Provision (MRP)	3.7	3.6	3.6
MRP re PFI	0.4	0.4	0.4
Direct financing of capital from the revenue account	1.3	0	2.1
Total Financing Costs	10.5	10.6	12.4
Net Revenue Budget	123.3	134.0	133.0
Ratio - Including direct financing from Revenue	8.5%	7.9%	9.3%
Ratio - Excluding direct financing from Revenue	7.5%	7.9%	7.7%

In calculating this indicator the following assumptions are made –

- Payment to Devon County Council for debt administered by them but “transferred” to this Authority in 1998 is reflected in the calculation. During 2010/11 £20m of liability to DCC was transferred to PWLB borrowing.
- The calculation does not include Government support towards the costs of Borrowing paid through Revenue Support Grant or PFI Grant
- The calculation does not include any repayment by services of any service (saving) funded prudential borrowing.
- Direct Financing of Capital would have been funded from revenue budgets.

Prudential Indicators for Prudence

Net Borrowing and the Capital Financing Requirement

This indicator measures the Council's underlying need to borrow for a capital purpose over the medium term. It is derived from Balance Sheet values including Fixed Assets and increases as a result of Capital spending not financed immediately from capital receipts, grants, contributions and revenue.

	2009/10 Actual	2010/11 Estimate	2010/11 Actual	2011/12 Estimate
Borrowing as at 31/03/xx	£132m	£132m	£162m	£157m
Less Investments as at 31/03/xx	(£109m)	(£47m)	(£116m)	(£73m)
Net Borrowing	£23m	£85m	£46m	£84m
Long Term Liabilities as at 31/3/xx	£31m	£30m	£10m	£10m
Net Borrowing & Long Term Liabilities as at 31/3/xx	£54m	£115m	£56m	£94m
Capital Financing Requirement	£130m	£158m	£138m	£152m

In line with best practice, the Council has adopted the CIPFA Code of Practice for Treasury Management and has an integrated Treasury Management Policy and therefore does not associate borrowing with particular schemes or types of expenditure. External borrowing primarily arising as a direct result of the approved capital plan however in daily cash management no distinction can be made between revenue and capital cash, however over the medium term borrowing should only be undertaken for a capital purpose.

To demonstrate this Net Borrowing (except in the short-term) should not exceed the CFR.

Prudential Indicators for Capital Expenditure, External Debt & Treasury Management

Authorised Limit for External Debt

This is the Statutory "affordable borrowing limit" required under section 3(1) of the Local Government Act 2003. Impending breach would require the Council to take avoiding action. The Limit approved for 2010/11 was £224m. Within that limit the part relating to borrowing was £203m and the level of external debt during the year of £162m was within this limit.

Included in this limit is any long term liability the Council has such as the PFI scheme for two schools. With the introduction of International Financial Reporting Standards the Council is likely to have more long term liabilities as the tests for liabilities such as a finance lease are more likely to result in this lease classification.

	2010/11	2011/12
Borrowing	£203m	£207m
Other Long-term Liabilities	£21m	£21m
Total Authorised limit	£224m	£228m

The proposed limits are calculated having regard to the Council's existing commitments, approved Capital Budget and the proposals for new spending contained in the Capital Budget Report. In addition to the Basic assumptions above, the Limits allow for the following –

- consistency with the Council's Treasury Management & Annual Investment Strategy
- an anticipation of the "worst case scenario" for daily cashflow providing headroom over the Operational Boundary and incorporating risk analysis of slippage in spending and income receipts
- the option to borrow funds to finance the Capital Plan budget in advance of projected spending if market forces indicate this is financially advantageous
- provision to allow Prudential Borrowing for new "spend-to-save" schemes or to consider alternative financing options
- the projected Capital Financing Requirement above

Operational Boundary for External Debt

This is the most likely, but not worst case scenario for day-to-day cash management purposes. This indicator provides an early warning for a potential breach in the Authorised Limit. The CIPFA Prudential Code recognises that this Indicator needs to provide a realistic pointer that treasury operations are within affordable and statutory limits. Occasional breach of this limit is not serious but sustained breach would indicate that prudential boundaries the Council has set may be exceeded, requiring immediate Council action.

	2010/11	2010/11 Revised	2011/12 Estimate
Borrowing	£153m	£174m	£180m
Other Long-term Liabilities	£21m	£21m	£21m
Total Operational Boundary	£174m	£195m	£201m

The Limit is based upon the same assumptions used for the Authorised Limit but assumes a more likely scenario for slippage in spending and income receipts than taken for the Authorised Limit. It does not have the additional headroom for unusual cash movements and is more consistent with the cost of financing estimates used for the purpose of setting the Revenue Budget.

Capital Financing Requirement at 31 March 2011

This indicator measures the Council's underlying need to borrow to fund capital projects and dictates the amount of money the Council has to set aside from its Revenue Budget (Minimum Revenue Provision) as provision for repayment of any

actual debt it incurs. It increases as a result of Capital spending where resources are not set aside immediately from capital receipts, grants, contributions and revenue – i.e funded from borrowing.

The outturn figures are derived from the Balance Sheet by consolidating Fixed Assets, Capital Financing, Revaluation Reserve and the Capital Adjustment Account.

Capital Financing Requirement	2010/11 Revised	Outturn 2010/11
	£m	£m
Opening Balance	129.7	129.7
Capital Expenditure in Year to be funded from Borrowing	13.0	12.3
Minimum Revenue Provision	(4.0)	(4.0)
Repayment of Long Term Liabilities	(0.4)	(0.4)
Capital Financing Requirement at Year End	138.4	137.6

Additional Prudential Indicators in respect of Treasury Management, including the limits for Fixed and Variable interest rate exposure, are presented in the Treasury Management Outturn Report to Audit Committee in June 2011 and Council in July 2011.