North Tyneside Council
Report to Council
Date: 1 March 2012

Title: 2012-2015 Council Strategic Plan and Budget Setting Process: Alternative Budget Proposal

Report of: **The Labour and Liberal Democrat Groups**

Wards affected: **ALL**

A Strategy for Tough Times

The Labour and Liberal Democrat Groups have submitted this Alternative Budget Proposal to the Mayor's Council Plan and Budget that deals with the current financial position that many local authorities are having to deal with. We present a series of proposals that recognise that we need to be prudent and sensible, as well as spending only what we can afford.

At this time of economic restraint it would be preferable if all political groups could commit to putting forward a budget that would protect and maintain services, and puts the interests of residents first! This budget seeks to do this.

All residents are facing pressures from the current economic climate but poorer families and those more vulnerable are feeling these pressures worse. We believe the Mayor and Cabinet's proposals fail to take this into consideration and don't provide any assurances that service delivery will be maintained.

The Labour and Liberal Democrat Groups feel that the political groups should commence the preparation a lot earlier in the Council calendar, and the work carried out by the Budget and Council Plan Study Group is not of any value, especially when the Conservative Group do not even participate in the work and the reporting to Cabinet. We would suggest that the Budget and Council Plan Study Group should be abolished and the political groups should focus on their own research and preparation of their objections.

The Labour and Liberal Democrat Groups' Alternative Budget Proposal clearly demonstrates a clear difference between our parties' policies and the Conservative's policies.

When Labour was last in power they delivered every budget underspent for four years. This current year the projection is that there will be an overspend of over £1m clearly showing, in our opinion, that the continuing growth in borrowing is a failure of the current administration. We believe that we need to slow down the expenditure of the Council in order to consolidate and make our priority to maintain our current excellent services. It is important that we pause our uncommitted schemes to assess the amount of debt that has risen from £300m in 2009 to a staggering £512m today. It is important that the Council addresses this continuing growth in debt by reviewing the need to borrow and setting a principle of only spending what we can afford.

Our priorities address the need for council housing and affordable homes, the future of our children, the need to establish strong partnerships with the private sector to create jobs and training opportunities.

Council Tax - to set a 0% Council Tax will reduce the spending power of the Council and the one off Government Grant to do this does nothing to address the money not going into the base budget. In future years this fundamental flaw will present the Council with a dilemma in funding gaps that will mean either very large council tax increases, or high numbers of job losses and cuts in services. The fact that the rulings of Government limit the setting of council tax levels to below the figure of the government grant without a referendum do not make it a value for money exercise. However, we now know that the funding gap will continue to widen and that it will not be addressed until sometime in the future. These restrictions prevent us from being politically responsible for the Council's base budget, but we also recognise that the one-off Government Grant is greater than the monies we could raise via the limited council tax rise, and the cost of a referendum is not a value for money process. So reluctantly we have to accept that a 0% increase is the only option for the Council. We believe that the Finance Sub Committee should be requested to undertake an impact assessment on the impact of on-going 0% council tax rises on the Council's base budget and to report on the projected funding gaps and reduction of the Council's spending power, with a special emphasis on what impact it will have on the local economy in North Tyneside.

CEI – the Labour and Liberal Democrat Groups believe that the proposal to establish a Community Based Trust is not required and the business case is weak, and therefore all work on it should cease. The Outsourcing of Business and Technical Services also is going at a pace that is too fast and will lead to fundamental mistakes being drawn up in the contracts and thus place the Council at risk, especially for hidden additional charges. Therefore we are proposing that a politically balanced Board be created to manage the concepts and objectives and to evaluate the viability of such undertakings. The Board should keep Full Council up to date and bring to Full Council at the appropriate time a set of recommendations for discussion and agreement.

The Labour and Liberal Democrat Groups propose that we create a politically balanced Working Group to oversee the work of the three Strategic Directors in reviewing and bringing to Full Council recommendations for a management structure that is designed for the Organisation.

The Labour and Liberal Democrat Groups propose that School Meals and Meals on Wheels charges are frozen at the current price, and that all leisure fees and charges be increased by no more than the current Consumer Price Index. In addition we are creating an Adult Social Care Repair Fund to ameliorate the effects of recent changes in Adult Social Care.

The Future – we have set out a number of proposals that will see the Authority work in partnerships, using our assets as a resource, but retaining ownership, to provide Council Housing and affordable homes predominantly on brownfield sites. We propose to use this opportunity to not only provide homes for our growing population, but also as an opportunity to uplift and regenerate our employment sites. We propose to offer our 52 empty business premises to new start up and existing businesses rent free to stimulate the opportunity for businesses. The North Bank of the Tyne will be a flagship development scheme, that will bring in International Global Companies, providing job opportunities, training and apprenticeships. The Multiversity will work closely with those new businesses to provide the training and development of new and traditional skills that these employers seek. The Industry and Learning will bring fresh footfall into our town centres and both Wallsend and North Shields will reap the benefits both for the day time and night time economies.

Council Plan – we have set out in the Council Plan our proposals for the work to be carried out throughout the coming three years, all of our proposals are achievable and have a limited cost on the authority.

2.0 Labour and Liberal Democrat Groups Alternative Budget Proposal: Setting the Council Tax 2012/13

2012/13 Council Tax Requirement Resolution

2.1 The Labour and Liberal Democrat Groups recommend that:

1. The recommended budgets of the Council by Directorate, as set down in Appendices E(i) to I(ii) of 21 February 2012 Council Report, together with the associated Council Strategic Plan set down at Appendix A of the 21 February 2012 Council Report, be approved as noted below subject to the variations listed in paragraphs 2 and 3 below and notes the estimated allocation of £133.423m in Dedicated Schools Grant for 2012/13:

Directorate	£
Children, Young People and Learning	26,434,372
Chief Executive's Office	17,237,198
Community Services	82,097,372
Finance and Resources	13,399,355
Corporate	14,309,621
Total	153,477,918

2. The following levies be included in the net budget requirement:

	£
Tyne & Wear Integrated Transport Authority	12,447,406
Tyne Port Health Authority	58,121
Environment Agency	163,152
Northumberland Inshore Fisheries and Conservation Authority	128,597

	Total	12,797,276

3A. The contingency provision be set as follows:

		£
Contingency Provision		
	Total	3,699,000

4. The following alternative budget proposals are proposed to be incorporated within the Council's Budget:

Growth

Item		£
	Children, Young People and Learning	
1.	Freeze the price of School Meals	178,000
2.	Freeze the price of Meals on Wheels	17,000
3.	Delay 'Business Package - efficiencies from the Council's overhead and support arrangements being delivered through a partner organisation'	3,215
	Total Children, Young People and Learning	**198,215**
	Community Services	
4.	Create a Ward Community Budget	120,000
5.	Remove the proposed above-inflation increase in Fees and Charges for Sports and Leisure	80,000
6.	Remove the proposed above-inflation increase in Arts Services fees and charges	5,000
7.	Remove the proposed above inflation increase in fees and charges for visitors and schools included in the alternative management options for Rising Sun Country Park and review staffing	3,000
8.	Remove the proposed above-inflation increase in Allotments Income	16,000
9.	Remove the proposed subsidy reduction for Sports Pitches and Bowling Greens	14,000
10.	Remove the establishment of a Community Based Trust	250,000
11.	Delay 'Business Package - efficiencies from the Council's overhead and support arrangements being delivered through a partner organisation'	1,310
12.	Create an Adult Social Care Repair Fund	257,539
13.	Retain the Kids Club at Battle Hill	6,000
	Total Community Services	**752,849**
	Chief Executive's Office	

14.	Delay 'Business Package - efficiencies from the Council's overhead and support arrangements being delivered through a partner organisation'	41,839
15.	Research and development of options for renewable energy solutions within the Council and the Borough	25,000
	Total Chief Executive's Office	**66,839**
	Finance and Resources	
16.	Delay 'Business Package - efficiencies from the Council's overhead and support arrangements being delivered through a partner organisation'	104,216
	Total Finance and Resources	**104,216**
	Corporate	
17.	Increase in contingency provision related to CEI Programme changes	684,000
	Total Corporate	**684,000**
	If All Alternative Budget Proposals are accepted the Total Growth will be:	**1,806,119**

Savings

		£
	Children, Young People and Learning	
18.	Reduce Committee Teas	-17,000
19.	Remove Apprenticeships (including Armed Forces return to employment)	-83,719
	Total Children, Young People and Learning	**-100,719**
	Community Services	
20.	Delete the provision of a pool Car	-5,000
21.	Delete Mouth of the Tyne contribution	-92,000
22.	Reduce Cultural Services Events Team	-30,000
23.	Delete Killingworth Lake Area Improvements	-50,000
	Total Community Services	**-177,000**
	Chief Executive's Office	
24.	Terminate contract for Interim Chief Executive from 1 April 2012	-178,000
25.	Review of the Strategic Projects Team	-50,000

26.	Voluntary reduction in the Mayoral Allowance	-10,000
27.	Delete Widening Horizons - Area Forum Budgets	-150,000
	Total Chief Executive's Office	**-388,000**
	<u>Corporate</u>	
28.	Cessation of all advertising in the News Guardian	-32,000
29.	Additional Advertising Income	-65,000
30.	Defer Capital projects funded from borrowing and not yet committed for 12 months	-115,000
31.	Voluntary reduction by 10% of those salaries over £50,000 per annum, with a floor of £50,000	-20,000
32.	Introduction of a 36-hour Working Week	-730,000
33.	Reduce the CEI Reserve due to cessation of Community Based Trust and the delay in the implementation of the Business Package	-150,000
34.	Savings on third party payments through better control of waivers	-10,000
35.	Reduce officer mobile phones by 20%	-14,400
36.	Delete Subscription to Local Government Association (give notice from 1 April 2012)	0
37.	Delete Local Government Association Conference attendance	-4,000
	Total Corporate	**-1,140,400**
	If All Objections are accepted the Total Savings will be:	**-1,806,119**

5. Note that at its meeting held on 26 January 2012 the Council calculated the Council Tax Base for 2012/13 for the whole Council area as 64,219 (Item T in the Formula in Section 31B of the Local Government Finance Act 1992, as amended (the “Act”).

6. Agree that the Council Tax requirement for the Council’s own purposes for 2012/13 is £85,286,685, as set out below.

2012/13 Council Tax Requirement for North Tyneside Council

	£	£
2012/13 Budget Requirement		169,974,194
Financed by:		
Redistributed Business Rates	(83,044,319)	
Revenue Support Grant	(1,609,794)	
Collection Fund Surplus	(33,396)	(84,687,509)
Council Tax Requirement		**85,286,685**

7. Agrees that the following amounts now calculated by the Council for the year 2012/13 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992 as amended (the Act):

(a) £370,563,577 Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2)of the Act.

(b) £285,276,892 Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.

(c) £85,286,685 Being the amount by which the aggregate at 7(a) above exceeds the aggregate at 7(b) above, calculated by the Council in accordance with Section 31(A)(4) of the Act, as its Council Tax requirement for the year (Item R in the formula in Section 31B of the Act).

(d) £1,328.06 Being the amount at 7(c) above (Item R), all divided by Item T (5 above), calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year.

(e) North Tyneside Council Valuation Bands

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
885.37	1,032.94	1,180.50	1,328.06	1,623.18	1,918.31	2,213.43	2,656.12

being the amounts given by multiplying the amount at 7(e) above by the number which, in the proportion set out in Section 5(1) of the Act 1992, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

(f) Northumbria Police Authority Valuation Bands

. Note that for the year 2012/13 the Northumbria Police Authority have issued the following amounts in precepts to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings in the Council's area as indicated below:

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
55.79	65.08	74.38	83.68	102.28	120.87	139.47	167.36

(g) Tyne & Wear Fire and Rescue Authority Valuation Bands

Note that for the year 2012/13 the Tyne and Wear Fire and Rescue Authority have issued the following amounts in precepts to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings in the Council's area as indicated below:

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
48.77	56.90	65.03	73.16	89.42	105.68	121.93	146.32

(h) Total Valuation Bands

That, having calculated the aggregate in each case of the amounts at 7(e), 7(f) and 7(g) above, the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2012/13 for each part of its area and for each of the categories of dwellings shown below:

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
989.93	1,154.92	1,319.91	1,484.90	1,814.88	2,144.86	2,474.83	2,969.80

8. Note that the Council's basic amount of council tax for 2012/13 is not excessive in accordance with the principles approved under Section 52ZB of the Local Government Finance Act 1992, as amended.

9. The Council's Financial Regulations will apply to the financial management of this budget, except for the following: Any virements above £50,000, revenue or capital, to be approved by full Council with effect from 1 April 2012, pending a full review of the Financial Regulations, to be reported to Council by October 2012.

10. That the appointment of consultants be approved by Full Council, including the renewal of consultant call-off contracts.

11. A sum of £2.785m continues to be set aside in the budget to accommodate a number of events that may arise during 2012/13 but that cannot be quantified to such an exact degree as to be allocated directly into the Council's main budget headings, and to reflect the high level of efficiency savings built into the 2012/13 Budget. It is proposed that the £2.785m General Contingency is set aside in 2012/13 for the following items:

    (a) general inflation;

    (b) demand-led pressures; and,

    (c) CEI Programme.

    This contingency provision may be needed to cover any material change in inflation.

    Demand-led pressures will include adult social care services and children's services where the Council has a statutory responsibility to respond.

    The Contingency will also be available to cover the CEI Programme and the savings required in 2012/13. This is to reflect the possibility that some savings, for unforeseen or external factors, may not be deliverable in the original planned timescale. Where original proposals become unachievable, alternative proposals must be substituted as soon as practical after the issues are raised through the performance monitoring process of the Council and be reported through to Cabinet.

    An additional £0.230m is proposed to be added to contingencies in respect of the grant awarded to support the roll out of free education places for disadvantaged 0-2 year olds. This is included as a specific contingency as detailed plans for the use of this funding are still to be developed.

    A further net increase to the Contingency Provision of £0.684m is proposed to allow for changes to the CEI Programme.

12. The Reserves and Balances Policy attached as Appendix C of 21 February 2012 Council Report is adopted as set down and is subject to review at least annually.

13. The Strategic Director of Finance and Resources, in consultation with the Elected Mayor, Cabinet Member for Finance and the Senior Leadership Team is delegated to manage the overall Change, Efficiency and Improvement Programme and note that decisions made under this delegated authority will be reported to

Cabinet as part of the regular budget monitoring information provided;

14. The Local Prudential Code for unsupported borrowing for 2012-2022 as Appendix K of 21 February 2012 Council Report is adopted as set down and is reviewed annually as part of the Council Strategic Plan and Budget Setting Process.

15. That any Reserve List Capital Schemes will be presented to Full Council for approval before moving from the Reserve List.

16. The Strategic Director of Finance and Resources, in consultation with the Elected Mayor, Cabinet Member for Finance and the Head of Legal, Governance and Commercial Services are authorised to deal with all matters arising in relation to the treatment of pensions and any associated matters relating to the potential transfers of Council employees to the Business Package and the Technical Package projects of the Change, Efficiency and Improvement Programme.

17. The chief finance officer be authorised to serve notices, enter into agreements, give receipts, make adjustments, institute proceedings and take any action available to the Council to collect or enforce the collection of non-domestic rate and Council Tax from those persons liable.

18. The chief finance officer be authorised to disburse monies from funds and accounts of the Council as required for the lawful discharge of the Council's functions.

19. Agree that the Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority receive payment from the Collection Fund in 12 equal instalments on the last working day of each month.

20. Payments from the Collection Fund to be made to the Council's General Fund in 12 equal instalments on the last working day of each month.

3.0 CAPITAL PLAN 2012/13 – 2021/22

3.1 The Labour and Liberal Democrat Groups recommend that the following amendments be incorporated within the 2012/13 – 2021/22 Capital Plan:

Growth:	£
Create a Ward Community Budget	80,000
Total Additional Growth	**80,000**

Savings:	
Delete Widening Horizons	-80,000
Defer expenditure on the following projects for 12 months:	
Coastal Developments	-1,000,000
North Shields Customer First	-3,100,000
Youth Facilities	-1,000,000
ICT Strategy	-600,000
Total Additional Savings	**-5,780,000**

3.2 Draft Prudential Indicators

The following indicators have been revised to reflect the changes to the 2012-22 Capital Plan and the revenue impact of the changes.

The Local Government Act 2003 requires Councils to comply with the 'CIPFA Prudential Code for Capital Finance in Local Authorities.' The Prudential Code requires authorities to develop a set of Prudential Indicators for capital as laid out in the Code. In addition to the indicators laid down in the Code, local authorities are free to set up their own local indicators, as they consider appropriate.

The following part of the report sets down the draft Prudential Indicators as calculated and proposed for North Tyneside Council for 2012–2015.

Indicators of Affordability

Prudential Indicators (PIs) 1 to 4 are key indicators of affordability.

Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)

This indicator shows the estimate of the ratio of financing costs to net revenue stream for the current and future years, that is the proportion of the budget (for both General Fund and Housing) that is spent on the financing of capital spend. The estimates of financing costs include the base Capital Plan.

The actual figures for 2010/11 are also set out in Table 1 below:

Table 1: Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)

	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
	Actual	**Est.**	**Est.**	**Est.**	**Est.**
General Fund	14.20%	14.33%	15.93%	16.17%	16.23%
HRA	14.43%	17.26%	30.57%	31.12%	24.17%

The above indicator shows costs for all borrowing, both supported and unsupported. It also includes the financing costs of PFI schemes and leases that have been brought "on balance sheet" under International Financial Reporting Standards (IFRS). To enhance the information available for decision-making we have also provided a local indicator to show the proportion of the budget that is spent on unsupported borrowing. This is shown in Table 2 below:

Table 2: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream (PIs 1 and 2)

	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
	Actual	**Est.**	**Est.**	**Est.**	**Est.**
General Fund	5.23%	6.32%	7.44%	7.80%	8.20%
HRA	4.51%	4.57%	4.17%	3.93%	3.91%

Impact on Council Tax and Housing Rents (PIs 3 and 4)

This prudential indicator reflects the estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken. These figures reflect the amount of unsupported borrowing that is built into the proposed Capital Plan in terms of both unsupported borrowing costs and any changes to revenue running costs arising from the proposed Capital Plan.

Table 3: Impact on Council Tax and Housing Rents (PIs 3 and 4)

For the Band D Council Tax	2012/13 £ 2.20	2013/14 £ 11.98	2014/15 £ 18.30
For average weekly housing rents	2012/13 £ 0	2013/14 £ 0	2014/15 £ 0

Net Borrowing and the Capital Financing Requirement (PI 5)

This is a key indicator for prudence and is designed to ensure that over the medium term net borrowing will only be for a capital purpose. Net borrowing should not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

The Council's estimated net borrowing (borrowing less investments) is set out below together with the estimated Capital financing requirement (i.e. the Council's underlying need to borrow for Capital purposes) projected to 31 March 2015:

- Estimated net borrowing as at 31 March 2012 - £462.598m

- Capital Financing Requirement as at 31 March 2015 - £623.382m

Capital Expenditure (PIs 6 and 7)

The actual capital expenditure that was incurred in 2010/11 and the estimates of capital expenditure to be incurred for the current and future years are set out in Table 4 below:

Table 4: Capital Expenditure (PIs 6 and 7)

	2010/11 Actual £000's	**2011/12 Est. £000's**	**2012/13 Est. £000's**	**2013/14 Est. £000's**	**2014/15 Est. £000's**
Chief Executive's Office	17,734	18,600	7,870	10,317	7,768
Children, Young People and Learning	9,970	15,470	11,673	3,750	1,000
Community Services	2,076	7,469	3,894	1,957	0
Finance and Resources	2,732	3,432	2,150	3,600	3,000
Corporate items	14,385	3,428	1,500	1,500	500
Total General Fund	**46,897**	**48,399**	**27,087**	**21,124**	**12,268**
HRA	**35,699**	**17,700**	**16,297**	**14,368**	**20,133**
Total	**82,596**	**66,099**	**43,384**	**35,492**	**32,401**

These estimates mirror those shown in the Appendix to this report.

Capital Financing Requirement (CFR) (PIs 8 and 9)

The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. It reflects the cumulative amount of borrowing required for capital purposes less the annual Minimum Revenue Provision (MRP). In accordance with best professional practice North Tyneside Council does not associate borrowing with particular items or types of expenditure.

The actual external debt of the Council may be lower than the CFR as the Council may choose to use its own external funds (reserves, balances, provisions etc) to finance borrowing. The difference between the CFR and actual external debt is the unfunded element (or internal borrowing) of the CFR. As at 31 March 2011, the Council's overall CFR (excluding PFI and leases) was £398.737m. Actual external debt was £330.901m giving an unfunded element (or internal borrowing) of £67.836m.

Estimates of the end of year Capital Financing Requirement for the authority for the current and future years and the actual Capital Financing Requirement at 31 March 2011 are set out in Table 5 below:

Table 5: Capital Financing Requirement (PIs 8 and 9)

	2010/11 Actual **£000's**	**2011/12** Est. **£000's**	**2012/13** Est. **£000's**	**2013/14** Est. **£000's**	**2014/15** Est. **£000's**
General Fund	290,284	295,973	296,470	292,840	285,327
HRA	162,159	292,465	301,899	319,240	338,921
Total	**452,443**	**588,438**	**598,369**	**612,080**	**624,248**

The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 6 below:

Table 6: Capital Financing Requirement for Unsupported Borrowing (PIs 8 and 9)

	2010/11 Actual **£000's**	**2011/12** Est. **£000's**	**2012/13** Est. **£000's**	**2013/14** Est. **£000's**	**2014/15** Est. **£000's**
General Fund	115,858	128,520	138,633	141,663	138,531
HRA	47,294	47,766	45,266	41,366	40,616
Total	**163,152**	**176,286**	**183,899**	**183,029**	**179,147**

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes

The Council has an integrated Treasury Management Strategy and has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. North Tyneside Council has, at any point in time, a number of cash flows, both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved Treasury Management Strategy and Practices.

In addition to the Prudential Indicators set out above, there are a set of Treasury Management Indicators which cover the following:

(a) Authorised limit for external debt;

(b) Operational boundary for external debt;

(c) Upper limits for exposure to fixed and variable interest rates; and,

(d) Maturity structure of borrowing.

These indicators are an integral part of the Council's Treasury Management Strategy which is included at Section 7.0 of this report. However, to some extent, the strategy is informed by decisions on the Council's budget setting process and can only be presented in an informed way once the budget is set. With this in mind, the Treasury Management Indicators are presented here based upon approval of the budget proposals set down in this report.

External Debt

In respect of its external debt, it is recommended that the Council approves the following Authorised Limits for its total external debt gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary.

These limits separately identify borrowing from other long-term liabilities such as PFI and finance leases.

Council is requested to approve these limits and to delegate authority to the chief finance officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities, in accordance with option appraisal and best value for money for the Council.

Any such changes made will be reported to the Cabinet at its next meeting following the change.

Table 7: Authorised Limit for External Debt

	2012/13 £000's Est.	2013/14 £000's Est.	2014/15 £000's Est.
Borrowing	938,352	1,078,812	1,140,987
Other Long Term Liabilities	90,000	90,000	90,000
Total	**1,028,352**	**1,168,812**	**1,230,987**

The chief finance officer reports that these Authorised Limits are consistent with the authority's current commitments, existing plans and the proposals in this 2012/13 budget report for capital expenditure and financing, and in accordance with its approved Treasury Management Policy Statement and Practices.

The chief finance officer confirms that they are based on the estimate of most likely, prudent, but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements.

Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements for all purposes.

Council will be requested to approve the following Operational Boundary for external debt for the same time period.

The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly the chief finance officer's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the Authorised Limit, to allow, for example, for unusual cash movements, and equates to the maximum of external debt projected by this estimate.

The Operational Boundary represents a key management tool for in-year monitoring by the chief finance officer. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified. Council is requested to delegate authority to the chief finance officer, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the Authorised Limit.

Any such changes will be reported to the Cabinet at its next meeting following the change.

Table 8: Operational Boundary for External Debt

	2012/13	**2013/14**	**2014/15**
	£000's	**£000's**	**£000's**
	Est.	Est.	Est.
Borrowing	523,602	555,210	585,777
Other Long Term Liabilities	90,000	90,000	90,000
Total	**613,602**	**645,210**	**675,777**

Actual External Debt at 31 March 2011

The Council's actual external debt at 31 March 2011 was £386.866m, comprising £330.900m borrowing and £55.966m other long-term liabilities.

It should be noted that actual external debt is not directly comparable to the Authorised Limit and Operational Boundary, since the actual external debt reflects the position at one point in time.

In taking its decisions on this budget report, Council should note that the Authorised Limit determined for 2012/13 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

Upper limit for fixed interest rate exposure

Council will be requested to set an upper limit on its fixed interest rate exposures for 2012/13, 2013/14 and 2014/15 of 100% of its net outstanding principal sums.

Council will be requested to set an upper limit on its variable interest rate exposures for 2012/13, 2013/14 and 2014/15 of 50% of its net outstanding principal sums.

The proposals to set upper and lower limits for the maturity structure of the Council's borrowings are as follows:

Table 9: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Upper Limit	Lower Limit
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	25%

Table 10: Upper limit for total principal sums invested for over 364 days

	2012/13	2013/14	2014/15
% of Investments with Maturity over 364 days	25%	25%	25%

The above indicator sets the exposure of investments in excess of 364 days at no more than 25% of the portfolio.

Annual Minimum Revenue Provision (MRP) Statement

The Capital Finance Regulations require the Council to agree an annual policy for the Minimum Revenue Provision.

The Minimum Revenue Provision is the amount that is set aside to provide for the prepayment of debt (principal repayment). This is the amount required to make a prudent provision and ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the support provided through the RSG.

It is proposed that the Council adopts a policy for Annual Minimum Revenue Provision in line with the following principles:

(a) Assets existing at 31 March 2007 – MRP will continue to be charged at 4% per annum;

(b) Supported Borrowing – MRP will continue to be charged at 4%, which matches the level of Government support provided for this borrowing through the RSG;

(c) Unsupported Borrowing – for all assets financed by unsupported borrowing, MRP will be charged over the estimated life of the assets. This will include assets financed through current PFI schemes and finance leases; and

(d) The conversion to International Financial Reporting Standards (IFRS) may also result in some lease transactions being treated as "on balance sheet" for the Council. Where this is the case an element of the annual charge to the Council for the lease will be treated as repayment of capital (ie repayment of principal and interest). The principal element is effectively the MRP charge for the year. This MRP charge will be equal to the element of the rent/service charge that goes to write down the balance sheet liability.

The effects of the MRP policy have been built into the current revenue budget projections.

Council Strategic Plan Changes:

Alternative Budget Proposals Council Plan attached as Appendix A