

Council Budget 2004 - 2007



“Focusing on our Priorities”

What a difference a year makes!

We have set an ambitious target to become an **Excellent Council**.

In last year's budget we considered 8 priorities: Education; Social Care and Health; Modernisation; Employment and Enterprise; Community Safety; Environment; Inclusion; and Transformation.

So did we make a difference?

Well the simple answer is yes. We can show real success in each priority area, we achieved:

- ! above average exam results;
- ! an improved overall inspection score for Social Care;
- ! improved capacity to deliver better services;
- ! moved out of the unemployment top ten for the first time in 16 years;
- ! a Youth Offending Team place of ninth in the country;
- ! the second highest customer satisfaction scores for recycling in the country;
- ! launched an Equality and Diversity forum;
- ! started to deliver our Transformation Plan for the Borough.

It's not just the Council who thinks we're getting things right – our external inspectors, the Audit Commission, have identified many of the improvements we've made.

But we're not complacent. We know we need to achieve a lot more before we become an Excellent Council. So in this year's process we've adopted a robust, systematic and innovative process to find out what we need to spend our money on in 2021/22. We've adopted a systematic and innovative process to find out what we need to spend our money on in 2021/22.

! We held **seminars with councillors** during October to help us prioritise our priorities.

Cabinet Recommendations to the Borough Council

On the 18th February 2004 Cabinet agreed the following recommendations for the Borough Council to consider and agree on Friday 27th February 2004.

Budget Recommendation 1

That the Council's Medium Term Financial Plan for 2004 to 2007, as described in this document and supported by Directorate budget reports, be approved.

Budget Recommendation 2

That the following Council budgets be approved:-

- a. The Council's

Budget Recommendation 4

That the use of reserves and carry forward policy (as described in the Medium Term Financial Plan) be approved.

Budget Recommendation 5

That the Executive Director Resources is given delegated authority to specify capital receipts from the sale of housing land, before housing land receipts are received, that will be used to fund affordable housing or regeneration projects.

Budget Recommendation 6

That the Council's prudential indicators for capital financing and borrowing limits (as described in the Medium Term Financial Plan) be approved.

Budget Recommendation 7

That it be noted that at its meeting on 29th January 2004 the Council calculated the amount 44,057 as its Council Tax Base for the year 2004/05.

Budget Recommendation 8

That the following amounts be now calculated by the Council for the year 2004/05:-

- a. **£323,330,810** being the Council's total revenue expenditure for 2004/05;
- b. **£130,203,810** being the Council's total revenue income for 2004/05;
- c. **£193,127,000** being the Council's revenue cash limit budget for 2004/05 (a-b);
- d. **£2,905,000** being the amount of Council reserves to be used in 2004/05;
- e. **£190,222,000** being the Council's revenue budget requirement for 2004/05 (c-d);
- f. **£143,751,117** being the sum payable for 2004/05 into the Council's General Fund in respect of redistributed non-domestic rates, revenue support grant and transfer from the collection fund;
- g. **£46,470,883** being the sum to be met from South Tyneside MBC council tax in 2004/05 (e-f);
- h. The South Tyneside MBC council tax for the year 2004/05 for each category of dwelling shown on the next page.

2004/05 BOROUGH COUNCIL TAX South Tyneside Council's Proportion	Band Weighting	South Tyneside Council 2003/04	South Tyneside Council 2004/05
Band A Properties	6/9	£670.04	£703.19
<i>Annual Increase</i>			£33.15
<i>Weekly Increase</i>			£0.64
Band B Properties	7/9	£781.71	£820.39
<i>Annual Increase</i>			£38.68
<i>Weekly Increase</i>			£0.74
Band C Properties	8/9	£893.38	£937.59
<i>Annual Increase</i>			£44.21
<i>Weekly Increase</i>			£0.85
Band D Properties	1	£1,005.05	£1,054.79
<i>Annual Increase</i>			£49.74
<i>Weekly Increase</i>			£0.96
Band E Properties	11/9	£1,228.39	£1,289.19
A			

Budget Recommendation 10

That, having calculated the council tax for South Tyneside Council, Northumbria Police Authority and Tyne and Wear Fire and Civil Defence Authority, the Council hereby sets the following amounts as the amount of Council Tax for the year 2004/05 for each category of dwelling shown below:-

2004/05 BOROUGH COUNCIL TAX	% of Properties in Each Band	% of Properties Receivng Benefit	Band Weighting	Borough Council Tax 2003/04	Borough Council Tax 2004/05
Band A Properties	68.2%	43.0%	6/9	£751.86	£789.36
<i>Annual Increase</i>					£37.50
<i>Weekly Increase</i>					£0.72
Band B Properties	12.2%	16.0%	7/9	£877.17	£920.92
<i>Annual Increase</i>					£43.75
<i>Weekly Increase</i>					£0.84
Band C Properties	10.2%	7.0%	8/9	£1,002.48	£1,052.48
<i>Annual Increase</i>					£50.00
<i>Weekly Increase</i>					£0.96
Band D Properties	5.5%	5.0%	1	£1,127.79	£1,184.04
<i>Annual Increase</i>					£56.25
<i>Weekly Increase</i>					£1.08
Band E Properties	2.3%	3.0%	11/9	£1,378.41	

1. Introduction

1. The Council's Medium Term Financial Plan is one of three key Council strategic planning documents.

2. What are the Council's spending plans?

5. The tables below summarise our revenue and capital spending plans for 2004/05 and provisional spending plans for 2005/06 and 2006/07.

2003/04	2004/05	2005/06	2006/07

11. We plan to spend £9.0m on planned capital maintenance in 2004/5, £8.7m in 2005/06 and a further £9.7m in 2006/07. The detailed programme is shown below.

Capital Planned Maintenance Programme	2004/5 Budget £m	2005/6 Provisional £m	2006/7 Spending £m	Scheme Status
Council Assets				
Health & Safety works across the whole asset portfolio	0.400	0.250	0.100	Green
Community Centre repairs (following results of current review)	0.100	0.250	0.450	Green
Frontline Buildings/Civic Buildings	0.300	0.200	0.850	Green
Estate shops	-	-	0.100	Green
Industrial Units	-	-	0.200	Green
Social Care & Health Day Care Facilities	0.500	0.450	0.250	Green
Care Standards/upgrade Elderly Persons Homes	0.250	0.250	0.250	Green

a 0* (no star) service with uncertain prospects to 1* (one star) service with promising prospects (SSI report). Moreover, we reduced older people's residential admissions by 16% from the previous year and enabled greater numbers of older people to stay at home. At the other end of the age spectrum, we more than halved the length of time children are looked after before adoption and doubled the number of enquiries for fostering.

22. We recognise that improving health and care in South Tyneside requires a balance between people taking responsibility for their own health, having appropriate health and care packages for those who need them, and tackling the wider factors that affect people's health.
23. So to continue our success, we believe that we need to make progress in each of the priority areas shown in the following table:

Revenue Priority Led Initiatives		2004/05 Increase £m	2005/06 £m	2006/07 £m
Healthy Living and Care				
H1	Improving life chances for children			
	Full year of family support for young children	0.125	-	-
	Sure Start	-	0.183	-
	Children's information packages	0.027	-	-
	Strengthening the Human Resources service	0.024	-	-
	Children with disabilities respite	-	0.150	0.150
H2	Protecting vulnerable children			
	Strengthening legal support to Children's Services	0.048	-	-
	Protecting vulnerable children	0.026	-	-
	Increased allowances for foster carers	0.100	-	-
	Increased number of foster carers - YOU effect campaign	0.228	-	-
	Mainstream funding for 'The Place' project	0.120	-	-
	Improved residential care for looked after children	-	0.100	0.100
	Contracted foster carers	-	0.125	0.200
H3	Creating the right conditions for better health			
	Mainstream exercise referral scheme	0.025	0.025	-
	Develop a range of leisure facilities to engage young people	0.015	0.018	-
H5	Improving access to social care and health services			
	Increased investment in training	0.065	-	-
	Increased training in manual handling	0.029	-	-
	Continuation of promoting independence schemes	0.130	-	-
	Full year funding for assessment and review teams	0.107	-	-
	Day services	0.150	0.050	-
	Commissioned home care	0.080	-	-
	Physical disability	0.065	0.065	-
	Connolly House - dementia care			

Capital Priority Schemes	2004/5 Budget £m	2005/6 £m	2006/7 £m	Scheme Status
Healthy Living and Care				

29. The table below shows the key Safer Communities Capital Priorities over the next three years.

Capital Priority Schemes	2004/5 Budget £m	2005/6 £m	2006/7 £m	Scheme Status
Safer Communities				

Capital Priority Schemes		2004/5 Budget £m	2005/6 Provisional Budget £m	2006/7 Budget £m	Scheme Status
Stronger Communities					
S3	Promoting equality & diversity & strengthening community cohesion				
	Community Area Forums Capital Grant	0.080	0.080	0.080	Green
		0.080	0.080	0.080	

Learning, Creativity and Culture

35. Learning and culture are key factors in improving people's employment prospects and indeed their health. So we aim to make South Tyneside **a great place for everyone to learn and enjoy life**.
36. Last year we invested over £2m in Education priority led initiatives. Today our Key Stage 1, 2 and 3 scores are improving faster than the country as a whole. GCSE rises have outstripped the national improvement rates over the past two years. Our schools are receiving substantially better inspection grades than in comparative Councils. The quality of education and the management and efficiency of our schools is judged to be improving faster than the national average and attendance figures are moving from below the national average to compatibility with the national average.
37. Building upon these achievements, the following table shows the priority areas, which we believe we need to spend money on in the next year:

Revenue Priority Led Initiatives		2004/05 Increase £m	2005/06 Provisional Increase £m	2006/07 Increase £m
Learning, Creativity and Culture				
	Passport increased funding into the Schools Block	1.779	2.107	0.332
L1	Giving young children the best start in life			
	Promoting excellence in early years education and childcare	-	0.180	-
	Improve the promotion of childcare provision	0.028	-	-
L2	Securing the entitlement of every child and young person to a high quality learning experience in school			
	Contribution to PFI scheme at Boldon school	-	0.100	0.500
L3	Securing inclusion in education provision for vulnerable and disadvantaged children and young people			
	Partnership development and promotion of council image	0.014	-	-
L4	Providing the opportunity for progression in education beyond 16			
	Work more closely with Tyne and Wear museum service	0.004	-	-
L8	Giving people a choice of opportunities for lifelong learning			
	Implement the recommendations of the best value review of culture and libraries	0.050	-	-
	Increase the number of library assistants	0.032	-	-
	Implement the vision of the government's 21st Century youth work agenda	0.042	-	-
	Implement the government's transforming youth work agenda	-	0.050	-
	Detached Youth Worker Project	0.058	0.010	-
	Youth Initiatives centres	-	0.028	-
		2.007	2.475	0.832

38. To help fund Learning, Creativity and Culture standstill pressures and priority led initiatives, we have identified plans to redirect current spending. These plans are shown in the table on the next page.

Revenue Priority Led Initiatives		2004/05 Increase £m	2005/06 Provisional Increase £m	2006/07 Increase £m
Housing and Environment				
A1 Ensuring people have a good choice of quality homes	Promote energy efficient housing	0.180	0.020 -	0.200
A2 Improving transport	Improve street lighting through PFI	- 0.100	0.240	-
	Improve road safety for children	0.030	-	-
A3 Improving South Tyneside's reputation as a place to live, work and visit	Promote greater customer awareness in parks	-	0.026	0.020
	Roll out Blitz-it	0.615	-	0.015
A4 Improving planning and urban design	Implement a local development framework	-	0.177 -	0.177
A5 Making South Tyneside a world leader for sustainability	Extend kerb it green scheme	0.093	-	-
	Extend kerbside collection service	0.104	-	-
A6 Protecting and improving the countryside and natural environment	Develop and deliver a woodland and countryside strategy	-	0.030	-
		0.922	0.493 -	0.342

43. To help fund Housing and Environment standstill pressures and priority led initiatives, we have

Transformation

45. Over the past year, we have put the building blocks in place to deliver real transformation of South Tyneside.
46. In 2004/05, with these building blocks in place, we will start to deliver our vision. Our residents will notice a real difference as approximately £1/4 billion inward investment in the Borough will begin over the coming year.
47. The table below shows the key Transformation Capital Priorities over the next three years.

Capital Priority Schemes		2004/5 Budget £m	2005/6 Provisional Budget £m	2006/7 Budget £m	Scheme Status
Transformation					
T4/5 Regenerate the Riverside and our Town Centres					
	Regeneration Fund for Land Purchases	0.600	0.600	0.600	Green
	Regeneration and Transformation Fund	1.225	1.475	0.875	Amber
	Lottery Development Fund	0.150	-	-	Green
	External Single Programme Grants	1.339	-	-	Green
	Cleadon Park Community Campus	-	0.200	3.500	Amber
		3.314	2.275	4.975	

Modernisation

48. Modernisation is fundamental to transforming the Borough. Accordingly, South Tyneside Council is committed to becoming a **modern, fully effective local authority**. We will have achieved this when we are universally recognised as being an excellent council.
49. Last year, capacity across the Council to deliver our vision was a key CPA challenge. The 2003/04 budget was structured to address this and funded a number of initiatives, which are now delivering real improvements. In 2002, we scored 2 out of 4 for Corporate Governance and had our Best Value Performance Plan qualified. A year later, our Corporate Governance has improved; we have an 'unqualified Best Value Performance Plan'; we have re-focused our eight priorities and have the capacity to deliver them.
50. To continue this progress we need to prioritise our actions and concentrate effort on some key challenges for the forthcoming year. We believe that spending money on the actions set out in the following table is crucial to reaching our goal of becoming an excellent council.

Revenue Priority Led Initiatives		2004/05 Increase £m	2005/06 Provisional Increase £m	2006/07 Increase £m
Modernisation				
M2 Focusing on what matters				
	Increase in Monitoring Officer responsibilities	0.053	-	-
	Improved employee satisfaction levels	-	0.018	0.018
M3 Ensuring capacity to deliver the vision and priorities				
	Revenue implications of capital ICT projects	0.174	0.100	-
	Improve long-term sickness management	0.058	-	-
	Strengthened human resources & diversity employment practices	0.065	-	-
	Establish a strategic procurement function	0.099	-	-
	Support and develop staff to deliver high quality services to schools	0.115	0.019	-
	Ensure that all children have a safe, healthy and accessible environment in which to work	0.010	-	-
M5 Revitalising local democracy				
	Deliver successful elections	0.045	-	-
		0.619	0.101	0.018

51. To help fund Modernisation standstill pressures and priority led initiatives, we have identified plans to redirect current spending and increase income. These plans are shown in the tables below.

Redirection of Current Spending	Total		
	2004/05 £'m	2005/06 £'m	2006/07 £'m
Modernisation			
Improved sickness absence management	- 0.250	- 0.250	- 0.250
Review of civic buildings and facilities management	- 0.180	-	-
Improve Council-wide procurement of services	- 0.220	- 0.200	- 0.200
Improve Council-wide management of Council assets	- 0.123	- 0.100	-
Efficiency savings within the Corporate Governance service	- 0.025	- 0.006	-
Review of council wide payroll operations	-	- 0.075	-
Limit price inflation to 2%	-	- 0.046	-
Future efficiency savings - absorb impact of pension increase	- 0.080	- 0.084	-
Absorb 0.5% increase in price inflation within existing budgets	- 0.040	-	-
Reduce corporate training programme where low demand is found	- 0.026	-	-
Reduce travel costs for Members and Officers	- 0.030	-	-
Reduce Member and Officer conference attendance costs	- 0.040	-	-
Review of lowTw[(i)-7.7(e2)-5.396o-n-0.0-0.02.1(mupp7(e2)-ort se96o-n.3()8.1(o)-8c)1.7(ew)-5163 TD0 Tc0 Tw(-)Tj-2.5943 0 TD-0.0008 Tc0.0003 T			

- ! **Pension Deficit Payments;**
- ! **Insurance premiums and liabilities.**

55. Our external auditors currently score the **Council's financial standing** as 4 out of 4. This is an important and independent assessment of the Council's financial health and budget position.
56. To maintain the Council's financial standing, ensure our spending plans remain

60. From 1st April 2004, a new prudential code for capital financing will apply to all Councils. This replaces the current system of credit approvals and credit ceilings.
61. The prudential code will allow the Council to determine what it needs to borrow each year to finance capital spending plans providing we can demonstrate we can afford to repay the debt and interest charges. The council's prudential indicators and supported borrowing requirem

65. Previously, 75% of right to buy receipt

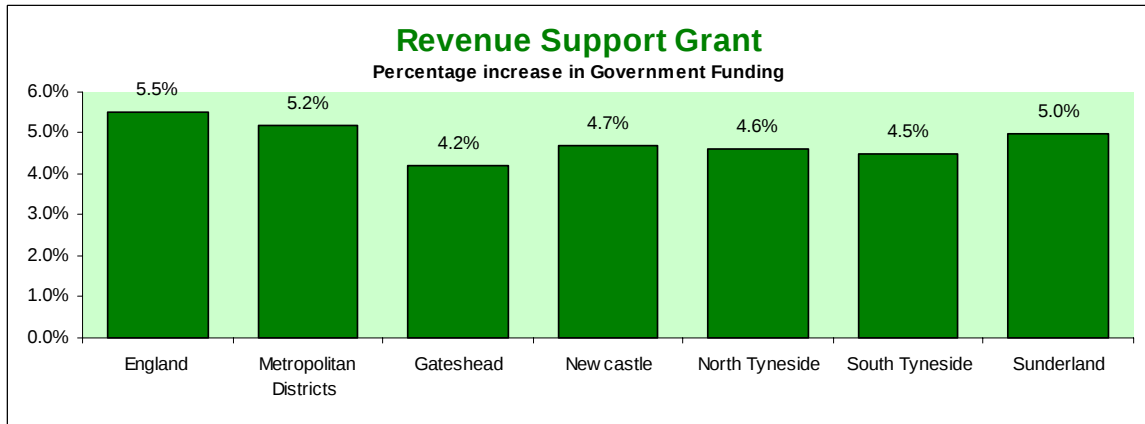
72. In 2004/05, we will receive **74% of our revenue income from central government**, and **24% from council tax**. We will fund the remaining **2% from council reserves**.

Revenue Funding Plans - government grant

73. The government provides revenue support grant to each Council to help meet the costs of providing services. The amount of revenue support grant is determined by what the government thinks we should be spending (**the formula spending share**).
74. The graph below identifies the Council's actual percentage increase in formula spending share for 2004/05 and our estimates of what the increases will be in 2005/06 and 2006/07.

us **£143.749m revenue support grant** in 2004/05, an increase of £6.237m (4.5%). This includes £0.8m one-off funding provided by government for 2004/05.

79. The final revenue support grant figure is £0.14m less than the provisional settlement announced in December 2003.
80. The graph below compares our grant increase to that received by other councils.



81. Our increase in government funding is the second lowest in the Tyne and Wear region and significantly lower than the metropolitan and English average increase.
82. The Council will continue to press government to change the way the Formula Spending Share is calculated and revenue support grant

Council Reserves Forecast		£m
Actual Council General Reserves as at 1st April 2003		8.672
Planned use of reserves in 2003/04	-	2.469
Agreed use of 2002/03 underspend - commitments	-	0.209
Agreed use of 2002/03 underspend - carry forward	-	0.360
Business Rate Refunds received		0.255
Business Rate Refunds expected		0.823
Estimated 2003/04 underspend		0.408
Estimated Council General Reserves 408.7920 0 10 Tw[37465413 0 TD9.9999 798.08f[Actu1 iunc63 m488.9		

89. This reserves policy creates a forward planning earmarked reserve to help off-set medium term financial risks facing the Council and will help the Council ensure that spending plans over the medium term remain affordable and that the financial risks facing the Council are recognised and managed. The table below identifies the planned use of general reserves in light of this policy.

96. As the billing authority we are required to keep this fund in balance. By 31st March 2004 we expect the Collection Fund to be in balance. Both the Fire and Police authorities have been notified of this.

ified of this.

2004/05 BOROUGH COUNCIL TAX Fire and Police Proportion	Band Weighting	Fire Authority 2003/04	Fire Authority 2004/05	Police Authority 2003/04	Police Authority 2004/05
Band A Properties	6/9	£39.29	£41.55	£42.53	£44.62
<i>Annual Increase</i>			£2.26		£2.09
<i>Weekly Increase</i>			£0.04		£0.04
Band B Properties	7/9	£45.84	£48.47	£49.62	£52.06
<i>Annual Increase</i>			£2.63		£2.44
<i>Weekly Increase</i>			£0.95	£ 3 9 . 6 2	£0.052

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101. The table below identifies the Borough's Council Tax for each property band for 2004/05.

2004/05 BOROUGH COUNCIL TAX	% of Properties in Each Band	% of Properties Receiving Benefit	Band Weighting	Borough Council Tax 2003/04	Borough Council Tax 2004/05
Band A Properties	68.2%	43.0%	6/9	£751.86	£789.36
Annual Increase				£37.50	
Weekly Increase				£0.72	
Band B Properties	12.2%	16.0%	7/9	£877.17	£920.92
Annual Increase				£43.75	
Weekly Increase				£0.84	
Band C Properties	10.2%	7.0%	8/9	£1,002.48	£1,052.48
Annual Increase				£50.00	
Weekly Increase				£0.96	
Band D Properties	5.5%	5.0%	1	£1,127.79	£1,184.04
Annual Increase				£56.25	
Weekly Increase				£1.08	
Band E Properties	2.3%	3.0%	11/9	£1,378.41	£1,447.16
Annual Increase				£68.75	
Weekly Increase				£1.32	
Band F Properties	1.0%	1.0%	13/9	£1,629.03	£1,710.28
Annual Increase				£81.25	
Weekly Increase				£1.56	
Band G Properties	0.5%	1.0%	15/9	£1,879.65	£1,973.40
Annual Increase				£93.75	
Weekly Increase				£1.80	
Band H Properties	0.1%	-	18/9	£2,255.58	£2,368.08
Annual Increase				£112.50	
Weekly Increase				£2.16	

5. What are the Council's housing spending plans?

102. The Council's housing spending plans comprise the housing revenue budget and the capital investment programme.

Housing revenue spending and funding plans

103. The table below summarises the housing budget for the next three years.

2003/04 Revised £m	Housing Revenue Account	2004/05 Budget £m	2005/06 Provisional £m	2006/07 Provisional £m
69.236	Expenditure	42.784	42.710	42.692
- 69.220	Income	- 41.575	- 42.626	- 42.927
0.016	TOTAL Surplus (-) / Deficit (+)	1.209	0.084	0.235
2.484	Year End HRA Reserves Forecast	1.275	1.191	1.426

104. The significant reduction in income and expenditure in 2004/05 reflects changes to rent allowances. From 1st April 2004, rent allowance payments and income will no longer be accounted for in the Housing Revenue Account. Rent Allowance income and expenditure will be accounted for in the Council's main revenue spending account.

105. In 2004/05, a **deficit of £1.209m** is planned reducing to **£0.084m** in 2005/06. A small **surplus of £0.235m** is projected for 2006/07. The 2004/05 and 2005/06 planned deficits will be funded from housing reserves.
106. The HRA reserves forecast identifies what reserves will be available to Housing Revenue Account at the end of each year. Included within these reserve totals is a £1m strategic reserve that is regarded as the minimum balance necessary to give stability to the financial position on the account.

Increase in Council House Rents in 2004/05

107. Our budget proposals **follow government guidelines** on rent increases and restructuring. Council house dwelling rents for 2004/05 will **increase by an average of £2.12 per week or 4.95%**. No tenant's individual rent increase for 2004/05 will exceed 3.3% plus £2 per week
108. Service charges for 2004/05 will increase by an average 2.8% in accordance with government guidelines. Further details are included in the Neighbourhood Services budget report attached to this plan.

Housing capital spending plans

109. The table below summarises the Housing Capital Investment Programme for the next three years.

Housing Capital Programme	2004/5 Budget £m	2005/6 Provisional Budget £m	2006/7 Budget £m	Scheme Status
Housing and Environment				
Contractual commitments from 2003/04 programme				
Housing programme commitments	1.455	1.000	1.000	Green
Ensuring people have a good choice of quality homes				
Health and Safety programme	0.335	0.265	0.265	Green
High priority essential works	5.485	5.235	5.235	Green
Home loss and disturbance	0.310	0.310	0.310	Green
Supporting the programme	0.410	0.410	0.410	Green
Delivering decent homes - windows	2.100	1.000	-	Green
Community Area Forums - Investment Programme	1.200	1.200	1.200	Green
Community Area Forums - Delivering Decent Homes	2.910	4.490	5.938	Green
TOTAL Housing Capital Programme	14.205	13.910	14.358	

110. The table below summarises how we plan to fund the Housing Capital Investment Programme for the next three years. Our funding plans assume housing capital receipts for the new ALMO to use from April 2006.

Capital Funding Forecast	2004/05 Funding £m	2005/06 Provisional Funding £m	2006/07 Funding £m
Funding for Housing Capital Schemes			
Housing Supported Borrowing	2.326	2.326	-
Housing Major Repairs Allowance	10.879	10.584	10.208
Housing Capital Receipts	-	-	3.150
External Funding (secured)	-	-	-
Housing Revenue Contribution	1.000	1.000	1.000
TOTAL Housing Capital Schemes	14.205	13.910	14.358

6. What are the Council's prudential indicators?

Prudential Code – introduction to the new code

111. Section 3 of the Local Government Act 2003 requires the Council to determine its own affordable borrowing requirement necessary to fund capital expenditure. This new requirement replaces previous regulations relating to basic credit and supplementary credit approvals set by central government as the maximum amount the Council could borrow in any one year.
112. The Prudential Code is a professional code of practice, backed by legislation, to support Councils when taking investment decisions on their programme programmes.
113. The key objectives of the Code are to ensure, within a clear framework, that capital investment plans of local authorities are **affordable, prudent and sustainable** and that **treasury management decisions are taken in accordance with good professional practice**.
114. The new system of capital finance allows the Council to have much greater flexibility and freedom over its borrowing. The new regulations however, do not provide any additional revenue support for the increased costs of borrowing beyond the level supported by government. As a result, the cost of any additional borrowing the Council would want to undertake would have to be met from revenue expenditure and would need to be affordable and sustainable in the long term.
115. To demonstrate that the Council has fulfilled these objectives, the following sections set out the prudential code indicators that must be set and agreed by full Council. Full Council must also agree any future changes to these indicators.

Prudential Code – compliance with the new code

116. The Council has already put plans in place to establish procedures to monitor all forward looking prudential indicators and develop a measurement and reporting process that highlights significant deviations from expectations.
117. In considering the capital programme, the new code requires the Council to have regard to:-
 - ! **Affordability** – the implications of capital investment decisions on future Council Tax and Council housing rents;
 - ! **Prudence and sustainability** – the implications for external borrowing;
 - ! **Value for money** and **options appraisal**;
 - ! **Stewardship** of Council assets - asset management planning;
 - ! **Service objectives** - strategic planning;
 - ! **Practicality** – the achievability of the forward plan.
118. We are currently reviewing our compliance with the new prudential code. We plan to review our capital investment strategy and develop a more effective option appraisal mechanism later this year to demonstrate that our investment plans represent the most cost effective option for the Council and that the investment actually delivers the service improvements expected. This will ensure that the Council fully complies with the code. Up until that point, no unsupported borrowing is being proposed within the Council's capital programme.

Affordability - council capital financing requirement

119. The Council's Capital Financing Requirement measures the Council's underlying need to borrow money to fund its capital programme.

120. The table below summarises the Council's capital programme for 2004/05 to 2006/07.

2003/04 Revised £m	Capital Spending Plans	2004/05 Budget £m	2005/06 Provisional £m	2006/07 Spending £m
27.359	Council Capital Programme	35.823	96.111	86.921
14.274	Housing Capital Programme	14.205	13.910	14.358
41.633	TOTAL - Council Capital Programme	50.028	110.021	101.279

121. The table below identifies the Council's Capital Financing Requirement for this capital programme (after taking account of debt we need to repay each year).

2003/04 Revised £m	Capital Financing Requirement (CFR)	2004/05 Budget £m	2005/06 Estimate £m	2006/07 Estimate £m
88.116	Council Capital Programme	91.452	93.787	95.853
83.305	Housing Capital Programme	85.631	88.018	88.018
171.421	TOTAL - Council Capital Financing Requirement	177.083	181.805	183.871

125. In practice, the Council's capital investment decisions will not translate into the above council tax and rent increases because the Council will receive increased revenue support grant and housing subsidy to fund planned supported borrowing.

Prudence – council treasury management practices

126. The Council has an integrated treasury management strategy and has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services*.
127. The Council has at any point in time, a number of cashflows 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.
128. The Council's treasury management strategy and annual plan for 2004/05 will be presented to Cabinet for approval on Wednesday 17th March 2004.

Prudence Indicator - net borrowing and capital finance requirement

129. The Prudential Code includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirements." (Prudential Code of Practice for Treasury Management in the Public Services)

134. These authorised limits are consistent with the Council's current commitments, existing plans and proposals in this budget report for capital expenditure and financing, and with its proposed treasury management policy statement and practices. They are based on the **estimate of the most likely, prudent but not worst case scenario, with sufficient headroom over and above to allow for operational management** (e.g. 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 cashflow requirements for all purposes.
135. The table below identifies the **Council's operational boundary for external debt** for 2004/05 to 2006/07.

Council External Debt	2004/05 Budget £m	2005/06 Estimate £m	2006/07 Estimate £m
External Debt Operational Boundary			
Council Borrowing	209.7	210.5	214.4
Other Council Long Term Liabilities	2.0	2.0	2.0
TOTAL - Council External Debt Operational Boundary	211.7	212.5	216.4

136. The operational boundary is calculated in the same way as the authorised limit but without the additional headroom and equates to the maximum of external debt projected by this estimate. These limits represent the highest expected level of debt, which incorporates the actual external debt and allows for the risk of being unable to finance capital expenditure from internal sources.
137. The Council is asked to delegate authority to the Executive Director Resources to effect movement between the separately agreed authorised and operational boundary limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for the authority, within the total limit for any individual year. Any use made of this delegation will be reported to the Council at its next meeting.

Prudence – council fixed and variable interest rate exposure

138. The table below sets upper limits on the Council's fixed and variable interest rate exposures for net outstanding principal sums for the next three years.

Fixed and Variable Interest Rate Exposure	2004/05 Budget %	2005/06 Estimate %	2006/07 Estimate %
Fixed rate interest - upper limit	100%	100%	100%
Variable rate interest - upper limit	40%	40%	40%

Prudence - maturity structure of council borrowing

139. The table on the next page sets upper and lower limits for the maturity structure of the Council's borrowing during 2004/05. The limits represent the amount of projected fixed rate borrowing maturing in each period, as a percentage of total projected fixed rate borrowing.



8. What happens next?

145. On 27th February 2004, the Council will formally consider the Cabinet's budget and council tax recommendations before setting the council tax for 2004/05.
146. During the year, each directorate will monitor their budgets on a monthly basis and report key variances at the monthly finance monitoring meeting (as described in the Council's master plan - Performing Together). Quarterly budget monitoring reports will be presented to both Resources Scrutiny Committee and Cabinet for consideration.

