

# Public Document Pack



**BARRY KEEL**  
Chief Executive  
Floor 1 - Civic Centre  
Plymouth  
PL1 2AA

[www.plymouth.gov.uk/democracy](http://www.plymouth.gov.uk/democracy)

Date: 01/06/10 Telephone Enquiries 01752 304867 Fax 01752 304819  
Please ask for Nicola Kirby, Senior Democratic Support Officer (Cabinet) e-mail [nicola.kirby@plymouth.gov.uk](mailto:nicola.kirby@plymouth.gov.uk)

## **CABINET – TO FOLLOW DOCUMENT MEDIUM TERM FINANCIAL STRATEGY**

**DATE: TUESDAY 8 JUNE 2010**  
**TIME: 2.00 PM**  
**PLACE: WARSPITE ROOM, COUNCIL HOUSE**

### **Members –**

Councillor Mrs Pengelly, Chair  
Councillor Fry, Vice Chair  
Councillors Bowyer, Brookshaw, Jordan, Michael Leaves, Sam Leaves, Monahan, Mrs Watkins and Wigans

**BARRY KEEL**  
CHIEF EXECUTIVE

## **CABINET**

### **10. MEDIUM TERM FINANCIAL STRATEGY 2010 - 2013**

**(Pages 1 - 32)**

CMT Lead Officer: Director for Corporate Support

**CITY OF PLYMOUTH**

**Subject:** Medium Term Financial Strategy 2010-2014  
**Committee:** Cabinet  
**Date:** 8 June 2010  
**Cabinet Member:** Councillor Bowyer  
**CMT Member:** Director for Corporate Support  
**Author:** Malcolm Coe (Assistant Director Finance Assets and Efficiencies)  
**Contact:** Tel: (01752) (30)4150  
e-mail: Malcolm.Coe@plymouth.gov.uk  
**Ref:** MC  
**Part:** I

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**Executive Summary:**

Following approval of the revenue budget for 2010/11, Officers have now updated the Medium Term Financial Strategy (MTFS) covering the period 2010-14

Indications are that over the next few years Local Government will see a tightening on resources.

The document will be updated on a rolling basis in order to continuously improve our approach to aligning revenue and capital spend to areas of highest importance for our local communities.

The MTFS is closely linked to, and compliments, all of the Council's core documents as contained within our budgetary framework.

The updated MTFS is attached.

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**Corporate Plan 2010-2013:**

The MTFS is a core document that enables the Council to deliver against the 14 Corporate Improvement Priorities as detailed on the Corporate Plan 2010-13 and progress against the 35 Local area Agreement targets in support of the Sustainable Community Strategy.

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**Implications for Medium Term Financial Plan and Resource Implications:  
Including finance, human, IT and land**

The MTFFS identifies the likely costs and pressures that the Council will face and matches these against the anticipated resource allocation over the period 2010-14

**Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc.**

The Strategy outlines the Council's attitude to risk, governance arrangements for effective financial management, opinion regarding financial resources including council tax levels and objectives for retaining adequate reserves.

**Recommendations & Reasons for recommended action:**

The Medium Term Financial Strategy for the period 2010-14 be approved

**Alternative options considered and reasons for recommended action:**

N/A

**Background papers:**

Council's budget report to Cabinet 10 February 2010 and Council 3 March 2010

**Sign off:**

Fin	MCCorp F910004	Leg/ Dem& Gov	TH000 4	HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member: Malcolm Coe											

# Medium Term Financial Strategy 2010 to 2013



**A strategy for making the best use of our financial resources.**

**Plymouth City Council**  
May 2010



## **Medium Term Financial Strategy 2010-13**

### **Contents:**

1. Our Summary Financial Objectives
2. Introduction
3. Our Corporate Planning Framework 2010-13
4. Our General Fund Revenue Position
  - Revenue Resources available
  - Council Tax
  - Budget Pressures and Medium Term Financial Forecast
  - Income collection
  - Revenue spend and income assumptions
  - Significant Reserves and Provisions
5. Our Capital Position
6. Our approach to Treasury Management
7. Efficiencies and Value for Money
8. Our Financial Governance Arrangements

## **1. Our Summary financial objectives:**

- (a) Medium term financial forecasts will be monitored and managed regularly by Corporate Management Team and Cabinet. Future years' revenue funding gaps will be addressed on an on-going basis.
- (b) Council Tax to remain in line with government guidelines with a tax 'freeze' in place for 2011/12. In future years we will strive to maintain Council Tax levels as low as possible;
- (c) Retain a revenue working balance of at least 5% of net revenue budget at the end of each financial year;
- (d) Where practical, (depending on grant conditions), to 'pool' grant funding with all other revenue resources and allocate based on corporate priorities as per the council's corporate plan and partnership's Sustainable Community Strategy;
- (e) Spending departments may carry forward up to 50% of end of year revenue underspend, (subject to overall year end position and approval by CMT), as long as such underspend is declared and reported from September monitoring onwards. Use of carry forwards must link directly to corporate improvement priorities;
- (f) Departments may be required to carry forward any end of year overspend, as directed by CMT, and make good this spend over future financial years;
- (g) To formally review the purpose and adequacy of specific reserves and provisions on an annual basis and to regularly monitor and report on key variations against such reserves through finance and performance reports;
- (h) To continue to drive Value for Money (VFM) throughout the council by undertaking robust benchmarking and encouraging departments to set VFM targets based on high spending and/or poorly performing services;
- (i) Detail how the cumulative 2008/09 to 2010-11 4% cashable efficiency savings, of approx. £27m, will be delivered and continue to report on actual savings achieved through regular monitoring reports;
- (j) Maximise opportunities for generating efficiencies through effective commissioning and joined up spending with key partners;
- (k) Financial Regulations and levels of Delegated Authority to be formally reviewed and approved by the Audit Committee annually;
- (l) To maintain or improve income collection rates and to minimise the amount of debt written off by the council.

**How we will measure our progress:**

- (m) Deliver at least 80% of the Council's budgeted capital programme for 2010/11 and continue to monitor and report on outcomes achieved through capital investment;
- (n) Generate the £30m of capital receipts required to deliver the capital programme by March 2015.
- (o) Deliver a year on year net revenue budget outturn within a tolerance of up to 2% underspend and maximum of 1% overspend;
- (p) Aim to achieve the required year end balances for specific reserves and provisions to meet the costs of known future financial commitments;
- (q) Reduce costs whilst maintaining or improving service quality to achieve the departmental Value for Money targets as set within the 2010/11 revenue budget
- (r) Aim to achieve 2010/11 in year income collection targets of:
  - Council Tax 96.5%
  - NNDR 97.5%
  - Commercial Rents 90.0%
  - General debtors 92.5%
- (s) Strive to achieve an organisational assessed score of **3** under the new Use of Resources framework (as part of Comprehensive Area Assessment);
- (t) Work towards the following Treasury Management targets under our (March 2010) revised policy:
  - Maintain the council's overall investment portfolio at under £160m throughout the financial year;
  - Achieve a return on new investments in the (2010/11) year of 1.25%
  - Maintain an overall level of council borrowing of under £280m throughout the financial year;
  - Generate a revenue saving in excess of £100k per annum through buying back, and rescheduling, debt currently managed by Devon County Council (approx £34m at an average rate of 5.4%)



## 2. Introduction

This summary Medium Term Financial Strategy, (MTFS), covers the period 2010-14. It identifies the likely costs and pressures that the council will face and matches these against the anticipated resource allocation over the period.

The MTFS is a core document that enables the council to deliver against its 14 corporate improvement priorities as detailed in the Corporate Plan 2010-13 and progress against the 35 Local Area Agreement targets in support of the Sustainable Community Strategy.

The Strategy outlines the council's attitude to risk, governance arrangements for effective financial management, opinion regarding council tax levels and objectives for retaining adequate reserves.

Developments and enhancements will be made to this document on a rolling basis in order to continuously improve our approach to aligning revenue and capital spend to areas of highest importance for our local communities.

The MTFS is closely linked to, and complements, all of the council's core documents as contained within our budgetary framework. These documents are available to download from our website ([www.plymouth.gov.uk](http://www.plymouth.gov.uk)).

The future of Local Government funding is uncertain with the expectation of significant spending reductions over several years. This MTFS presents a financial context regarding the scale of this challenge. The council is developing a transformational change programme in response to the financial challenges ahead in order to proactively bridge the funding gap whilst maintaining and improving the services that we provide to our customers.

### **This Strategy covers:**

**General Fund** – expenditure and income relating to the day to day delivery of our core services and functions. For 2010/11 this equates to £612.5m spend and £410.7m income, leaving a net revenue requirement of £201.8m;

**Housing Revenue Account (HRA)** – The council successfully transferred its Housing Stock to Plymouth Community Homes in November 2009. It therefore no longer operates an active HRA, hence this section of the MTFS has been removed in the May 2010 revision;

**Capital** – The council has reviewed and updated its five year capital programme considering the current economic climate, accounting for future risks around government capital allocations and achievability of capital receipts. We still have an ambitious and significant investment programme in physical assets and local infrastructure. Targeted capital investment will help contribute towards achieving corporate priorities and/or generate on-going revenue savings. Our planned capital spend up to the end of March 2015 is £275m

### 3. The Corporate Planning Framework 2010-13

The Plymouth 2020 local strategic partnership has a shared vision of making Plymouth “One of Europe’s finest, most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone” by 2020.

To achieve this shared vision the partners have agreed to focus their priorities around four themed areas aimed at making the city healthy, wealthy, safe and wise. The diagram below shows how the vision for the city is being delivered through theme groups and supported by the partnership.



Partners have their own visions and strategies that ultimately aim to deliver that shared vision for the city. Plymouth City Council’s vision is to deliver excellent local services to Plymouth residents and has set itself the goal of becoming an “excellent” authority by 2012.

#### Priorities for achieving excellence

The Council has identified 14 key priorities to help achieve excellence and the shared vision for the city. These are organised under the three themes of improving our customers’ experience, improving our city and improving our council. The priorities are:

**Improving our customers' experience**

- Improving customer service
- Involving and informing customers

**Improving our city**

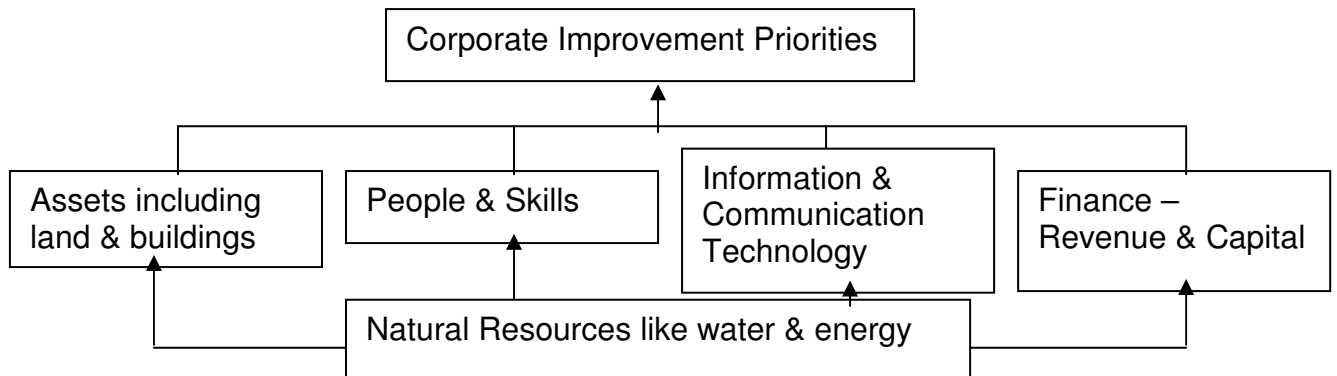
- Helping people to live independently
- Reducing inequalities between communities
- Providing better and more affordable housing
- Providing more and better culture and leisure activities
- Keeping children safe
- Improving skills and educational achievement
- Developing high quality places to learn in
- Disposing of waste and increasing recycling
- Improve access across the city
- Delivering sustainable growth

**Improving our council**

- Supporting Council staff to perform better
- Providing better value for money.

The council's key resources, listed below, underpin the Corporate Plan being effectively deployed to deliver on corporate priorities and take Plymouth City Council towards 'Excellence by 2012.':

**Figure 1: Use of Resources Planning Framework**



Reporting to Corporate Management Team, Cabinet and Scrutiny will continue to combine progress against CIPs with key performance indicator information, revenue budget forecasts and capital programme updates.

## 4. Our General Fund Revenue Budget

### Revenue Resources available

The Comprehensive Spending Review 2007 allowed the council to plan, with reasonably certainty, the revenue resources available up to, and including, the 2010-11 financial year. However, revenue resources from 2011/12 onwards is, at this stage, uncertain. Indications are that, due to the level of national debt, future settlements will be extremely challenging for local government resulting in significantly reduced funding. In this MTFs, we are modelling on two potential scenarios. Figure 2 details a year on year **reduction** in formula grant of minus (2.5%), with a Council Tax freeze in 2011/12:

**Figure 2: Revenue Resources Forecast – scenario 1**

<b>Analysis of Formula Grant</b>	<b>2010/11 £m</b>	<b>2011/12 £m</b>	<b>2012/13 £m</b>	<b>2013/14 £m</b>
Relative Needs Amount	77.484	* CSR 2010 will apply. Estimate reduction of –(2.5%) per annum.		
Relative Resource Amount	-17.485			
Central Allocation	48.597			
Floor Dampening	-2.574			
<b>Formula Grant</b>	<b>106.022</b>	<b>103.371</b>	<b>100.787</b>	<b>98.267</b>
<b>Increase / (decrease) over previous year</b>	<b>2.5%</b>	<b>(2.5%)</b>	<b>(2.5%)</b>	<b>(2.5%)</b>
Council Tax income including collection fund	95.803	95.803	98.745	101.875
<b>Total Resources available</b>	<b>201.825</b>	<b>199.174</b>	<b>199.532</b>	<b>200.142</b>

The true extent of pressure on public sector funding will be better known following the announcement of the new coalition government's emergency budget in June 2010. Many Councils are forecasting a more severe reduction in revenue resources. In terms of sensitivity analysis, a potential scenario could be to put a 'freeze' on future Council Tax increases for each of the next three years and apply a year on year reduction of minus (5.0%) on formula grant. For illustrative terms, the impact of such a permutation is as follows:

**Figure 3: Revenue Resources Forecast – scenario2**

	<b>2010/11 £m</b>	<b>2011/12 £m</b>	<b>2012/13 £m</b>	<b>2013/14 £m</b>
<b>Formula Grant</b>	<b>106.022</b>	<b>100.721</b>	<b>95.685</b>	<b>90.901</b>
Increase / (decrease) over previous year	2.5%	(5.0%)	(5.0%)	(5.0%)
Council Tax income including collection fund	95.803	95.803	95.803	95.803
<b>Total Resources available</b>	<b>201.825</b>	<b>196.524</b>	<b>191.488</b>	<b>186.704</b>

In summary, the revenue resources forecasted in Figure 2 will be challenging as increased service demand, growth and pay increases all have to be absorbed within a static resource base. Whereas Figure 3 would require the council to actually reduce revenue spend by over £15m between 2010/11 and 2013/14, with no allowance given for growth or known service pressures.

### Treatment of Specific Grant Funding

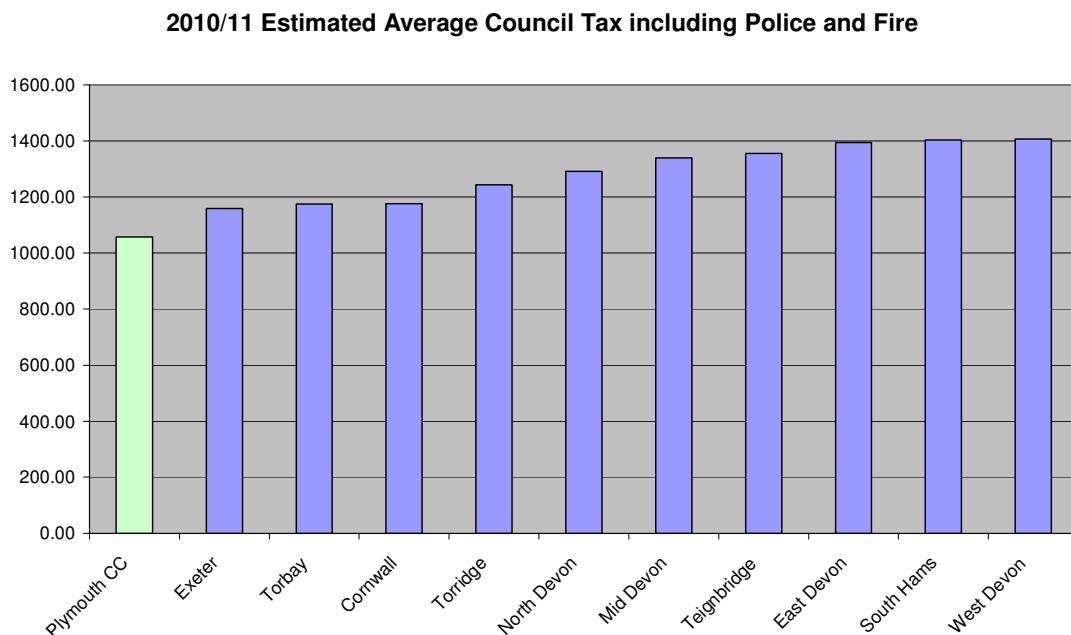
The largest specific grant that the Council receives is the Dedicated Schools Grant (DSG). In excess of £150m, the funding is spent either directly by Schools, (Primary, Secondary and Special), through their formula allocations, or by the authority on their behalf. The Schools Forum, (a representative group of Head Teachers and relevant stakeholders), are consulted on the local authorities formula distribution and the amounts administered centrally. Any over or underspends on the DSG are carried forward to the following financial year with a neutral impact on the council’s general fund.

Where practical, (depending on grant conditions), the Council aims to ‘pool’ all non- ringfenced grant funding received with all other revenue resources. Total resources are allocated based on corporate prioritisation linked to the council’s corporate plan and partnership’s Sustainable Community Strategy.

### Council Tax

The Council Tax increase levied by Plymouth City Council for 2010-11 is 2.89%. This increase retains Plymouth City Council as the lowest average council tax across Devon and the wider South West as detailed in the following graph:

**Figure 4: 2010/11 Devon Average Council Tax**



A number of specific revenue pressures has led to having to increase the council tax, including increased costs in adult social care regarding the growing number of elderly people in the area, increased costs of waste disposal and the national trend of increasing number of children in care. The economy is also placing pressure on revenue and capital budgets for example, through falling income collection rates and reduced ability to generate capital receipts.

The council's aim, as stated in this strategy, is to strive to maintain Council Tax levels as low as possible. We have managed to reduce the percentage increase in Council Tax for each of the last three financial years. For 2011/12 it has been indicated that there will be a national 'freeze' on Council Tax. For financial modelling purposes, figure 2 accounts for a modest increase for 2012/13 and 2013/14, whereas figure 3 continues to 'freeze' Council Tax levels for each of the next three years.

Every 1% increase, (or decrease), in the levy of council tax equates to approximately £950k of revenue funding.

There is a desire to maintain the status of being at, or towards, the lowest average council tax in the region. Therefore, any future council tax rises will give full consideration to this and, as such will:

- (a) Not exceed Government guidelines for any individual year and;
- (b) Will strive to continue to reduce the level of year on year increases levied

## **Budget Pressures and Medium Term Financial Forecast**

The Council set its revenue budget for 2010/11 at the Council meeting on 1 March 2010. Council Directorates have, for some time, identified known and anticipated expenditure pressures on a rolling three year basis. These pressures have been reported within bi-monthly performance and finance reports presented to Cabinet and Scrutiny throughout 2009/10.

Budgeting over the medium term, we have allocated revenue funding to match known revenue pressures for 2010/11 and provided notional allocations for the following two financial years. This allocation has been undertaken on a priority basis linking with corporate improvement priorities, deliberately placing more funds into frontline, key services for the public.

We have identified a number of high risk, and high cost, issues that will have a significant impact on future year's revenue budgets:

### **Waste disposal costs**

Waste disposal costs are rising in every council across the country. We continue to work in partnership with Torbay and Devon County Councils to build an 'Energy to Waste' plant as our solution to long term waste disposal. A waste management reserve has been set up to prepare for the future however, the actual cost of waste collection and disposal over the next ten years and beyond significantly outweigh existing provision.

### **Reduced income through economic downturn**

We continue to strive to improve our income collection rates in all major areas including council tax, NNDR and sundry debtors. Challenging income targets have been set for 2010/11 however there is a risk that the economic climate could continue to impact on our ability to be able to achieve these targets.

### **Reduced return from council investments**

Prior to 2009/10, the council has been very successful in generating significant returns on investments through its treasury management activity. In a financially unstable market, we will not be able to achieve such rates of return for the foreseeable future. For 2010/11 we have assumed a rate of 1.25% return on all new investments made. With the Bank of England base rate currently standing at 0.50% (as at March 2010), this target is challenging and represents a risk.

### **Demographic growth in elderly residents**

The impact on adult social care budgets of the increasing number of younger adults with complex personal care needs combined with increasing life expectancy of both younger adults and the elderly population is recognised throughout the country. Plymouth has a higher than average elderly population and, as such, is anticipating significant cost pressures in the medium to long term. Funding has been allocated for this for each of the three years in the MTFs. However, there is a strong risk that this allocation will be insufficient to meet with actual demand.

### **Increasing number of children in care**

Recognising that we have had a higher than average number of children in care, we have actively been reducing the number in care throughout 2007/08 and 2008/09. Our revenue budget is now in line with unitary average council spend. However, high profile media cases has resulted in a national trend of increasing numbers of children in care and there is a risk that actual (financial) demand could exceed the resources available.

### **Pensions**

The council's next three year review of its pension fund assets and liabilities will be undertaken in 2011/12. Our current employer superannuation contribution rate is 19.4%. There is a strong risk that the next valuation could identify a significant funding gap on the Pension fund and require a higher employer contribution rate. In addition, additional pressure on pension liability is attributable to the transfer of staff to Plymouth Community Homes and the new CityBus operators (where full pension liability has to be met by Plymouth City Council)

### **Building Schools for the Future (BSF)**

The City Council has successfully progressed its BSF bid and stands to receive approx £70m under phase 1 to reinvigorate five secondary Schools. This is a tremendous investment opportunity in the City. However, there will be some revenue and capital cost implications that will have to be found by the Council. These costs need to be incorporated within future year forecasts.

### Housing Stock Transfer (residual costs)

The council transferred its housing stock to Plymouth Community Homes (PCH) in November 2009. Although this will bring, much needed, major investment in improving living standards for many Plymouth residents, there is a residual cost of the transfer that has to be born by the council. For example, the council needs to fund the pension shortfall for staff who TUPE'd to PCH. Future capital monies through either 'right to buy' receipts. Or the 'VAT shelter', are available to assist in addressing these revenue pressures.

### Summary of revenue pressures and future years budget gap

Clearly we are not able to fund all of these budget pressures without introducing management action to reduce costs. As a starting point, we have allocated provisional figures to each pressure area to better understand the challenge that is facing the council in future years. This can be seen as **Appendix A**, and summarised as follows:

*Figure4: Revenue Forecast –resources vs spending plans*

Revenue Resources:	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
<b>Formula Grant</b> (based on 2.5% reduction)	<b>106.022</b>	<b>103.371</b>	<b>100.787</b>	<b>98.267</b>
Council Tax income (based on 2.5% increase per annum)	95.803	95.803	98.745	101.875
<b>Total Resources available</b>	<b>201.825</b>	<b>199.174</b>	<b>199.532</b>	<b>200.142</b>
<b>Known Spending Plans</b>	<b>* 202.325</b>	<b>208.335</b>	<b>212.045</b>	<b>216.505</b>
<b>Forecasted Funding Shortfall</b>	<b>0.500</b>	<b>9.161</b>	<b>12.513</b>	<b>16.363</b>

<b>Formula Grant</b> (based on 5.0% reduction)	<b>106.022</b>	<b>100.721</b>	<b>95.685</b>	<b>90.901</b>
Council Tax income (based on a Council Tax freeze)	95.803	95.803	95.803	95.803
<b>Total Resources available</b>	<b>201.825</b>	<b>196.524</b>	<b>191.488</b>	<b>186.704</b>
<b>Known Spending Plans</b>	<b>* 202.325</b>	<b>208.335</b>	<b>212.045</b>	<b>216.505</b>
<b>Forecasted Funding Shortfall</b>	<b>0.500</b>	<b>11.811</b>	<b>20.557</b>	<b>29.801</b>

In summary, a possible scenario of reduced revenue resources combined with a 'no change' approach on current spend plans could result in a revenue funding gap of **£11.8m in 2011/12 rising to £29.8m in 2013/14**



In response to this, the Corporate Management Team is working with the Cabinet (June 2010) to develop a transformational change programme that fundamentally challenges the organisation's culture, structure and approach to service delivery. This change programme, which will include proposals for 'invest to save' will be finalised, progressed and reported on throughout 2010/11.

## Income Collection

In-year collection targets have been set for Council Tax, Business Rates, Commercial Rent, and Sundry Debt Income. The Council's major sources of income will continue to be monitored and reported on a regular basis.

In 2009/10 we have continued to increase our collection rates in all of our core income streams other than NNDR. However, due to the difficult economic conditions, we have fallen slightly short of the ambitious targets that we set.

For future years, we continue to set year on year improvement targets to generate as much 'in year' income as possible. Robust action plans are being delivered to ensure that future year targets are achieved.

**Figure 6: Income Collection Targets**

Type of debt	Target % 09/10	Actual % 09/10	Target % 10/11	Target % 11/12	Target % 12/13
Council Tax	96.00%	95.20%	96.50%	97.00%	97.00%
NNDR	97.50%	96.00%	97.50%	98.00%	98.00%
Commercial Rents	N/A	85.00%	90.00%	92.00%	94.00%
Sundry Debt	92.50%	88.00%	92.50%	93.00%	93.50%

### Council Tax and Non-Domestic Rates

Collection targets for the medium term period are based on achieving top quartile performance, based on current quartile projections for our family group. For Council Tax, we have continued to make significant progress, improving from collecting 92.5% in year for 2007/08, raising to 94.5% in 2008/09 and 95.20% for 2009/10. We continue to promote Direct Debit as our preferred method of collection and will continue to explore further options to maximise the level of income collected.

### Commercial Rents

We have separated out the collection of Commercial Rents income from 'Sundry Debtors' in order to target specific improvement activity on collecting this income from the relatively low baseline of 85% as identified in 2009/10. We believe that a year on year target of achieving an additional 2% is achievable over the medium term.

### Sundry Debt

Although we have not managed to achieve our target of 92.5%, by focusing our efforts on risk, materiality and our key customers we have continued to improve in year collection during 2009/10. Our 3 year targets will enable us to compare favourably with the Unitary average (as part of the annual CIPFA Benchmarking).

### Revenue Spend and Income Assumptions

In forecasting our future year expenditure commitments, a number of assumptions are made on increased costs such as inflation, income levels, grants, superannuation etc. The key assumptions made within our medium term forecast are as follows:

**Figure 7: Key spending / inflation assumptions**

Description	2010/11	2011/12	2012/13	Sensitivity
Pay, NI, Price	1.00%	1.00%	1.00%	+/- 0.50% = £0.500m
Superannuation increased employer contribution	0.00%	5.00%	5.00%	+/- 1.0% = £0.162m
Energy – increases	10%	10%	10%	+/- 5.0% = £0.149m
Income – fees and charges	3.00%	3.00%	3.00%	+/- 0.50% = £0.182m
Return on council investments	1.25%	1.50%	2.50%	+/- 0.50% = £0.181m
<b>Specific Departmental Assumptions</b>				
Social Care Commissioning	0%	2.00%	2.00%	+/- 0.50% = £0.349m
Supporting people	up to 3.5%	up to 3.5%	up to 3.5%	+/- 0.50% = £0.041m
Children's services placements	0%	2.50%	2.50%	+/- 0.50% = £0.032m
<b>Total Sensitivity / Risk re: changes to the above Expenditure assumptions:</b>				<b>+/- £1.596m</b>
<b>Resources</b>				
Council Tax (scenario 1)	2.89%	0.00%	2.50%	+/- 0.50% = £0.475m
Formula grant variation (scenario 1)	2.80%	-(2.50)%	-(2.50)%	+/- 0.50% = £0.530m
Council Tax total collected	98.50%	98.50%	98.50%	+/- 0.10% = £0.100m
<b>Total Sensitivity / Risk re: changes to the above Resource assumptions:</b>				<b>+/- £1.105m</b>

CMT and Cabinet will continue to monitor, review and challenge the above assumptions to ensure any increases are kept to an absolute minimum.

## **Revenue Delivery Plans**

As part of the 2010/11 budget setting, Directors, Assistant Directors and Cabinet have signed up to Revenue Delivery Plans. These plans detail the key actions that will have to be put in place in order to deliver a balanced budget.

Delivery Plans will promote accountability and ownership of the budget whilst focussing senior manager and member attention on the key strategic issues and risks. They will be monitored throughout 2010/11 as part of standard performance and finance reporting.

## **Significant Reserves and Provisions**

The council has created a number of specific reserves and provisions in order to plan in advance for known and anticipated future revenue costs. We will regularly review the appropriateness and use of these reserves throughout each financial year. Where relevant, recommendations for changes will be reported to Cabinet on an on-going basis. As a minimum, **all** specific reserves will be reviewed on an annual basis in March as part of the end of year accounting closedown arrangements.

A brief description of the purpose of each of our significant specific reserves and provisions is as follows:

### **Waste Management Reserve**

The cost of disposing the City's waste is due to rise sharply over the coming years. Since closing our landfill site, Chelson Meadow, (due to it being full), we have entered into a contractual arrangement to dispose our waste in Cornwall for the immediate future. Longer term, we are entering into a Private Finance Initiative, (PFI), with Devon County and Torbay Councils to build a new 'waste into energy' plant. We are putting aside regular contributions to meet the anticipated increased cost of waste collection.

### **Corporate Improvement Reserve**

The council has successfully used transformational change budgets to drive major initiatives, efficiency savings and cultural change in a number of key service areas. We will continue to drive change throughout the council, linked to corporate improvement priorities, by supporting a future programme of change projects.

### **Job Evaluation / Equal Pay**

The council successfully implemented Job Evaluation and Equal Pay during 2008/09. The on-going revenue costs associated with this has been built into budgets and medium term forecasts. However, there is potential for increased revenue costs if the total salary bill, including successful appeals, outweighs the additional funding that has been allocated to departments.

### **Redundancy Costs**

To achieve a balanced revenue budget for 2010/11, and beyond, a number of revenue budget delivery plans will result in reduced staffing. The council will continue to work towards minimising redundancies where possible and practical to do so. However, bearing in mind the likely future local government finance settlements, it is prudent to establish a redundancy reserve.

### **Capital Financing Reserve**

A capital financing reserve has been established to fund risks around future achievement of our five year capital programme. Since the economic downturn, pressure has intensified on capital budgets through not being able to generate the required level of capital receipts. The primary purpose of this reserve is to meet the revenue costs associated with having to take out short term borrowing to match the cashflow gap of when capital spend is required linked to when actual receipts are anticipated.

### **Provision for Icelandic Bank Losses**

The council had £13m of investments with failed Icelandic banking organisations, Glitnir, Heritable and Landsbanki which collapsed in October 2008. We continue to work towards retrieving as much of this investment as possible however, at present, it is unclear how much we are likely to recoup. In 2009/10 the council successfully applied for a capitalisation direction for £5.7m to meet the worst case scenario of our losses, which has been added to our five year capital programme. This reserve will help fund the revenue cost of any required borrowing to meet this direction.

### **Accommodation Reserve - preparing for new Civic Centre**

The council's existing Civic Centre is not 'fit for purpose'. It is expensive to maintain and, in the long term, is not structurally secure. Funding needs to be set aside to progress with alternative office accommodation whilst meeting the costs of essential, unplanned maintenance of the Civic Centre. This is detailed within our accommodation strategy and forms part of the council's strategic asset management plan.

### **Insurance Fund Reserve**

A provision that has been set up to meet the cost of anticipated future insurance claims based on existing known liabilities and estimated future liabilities. It enables the council to reduce its payments to external insurance providers by transferring some of the risks of small claims to the authority.

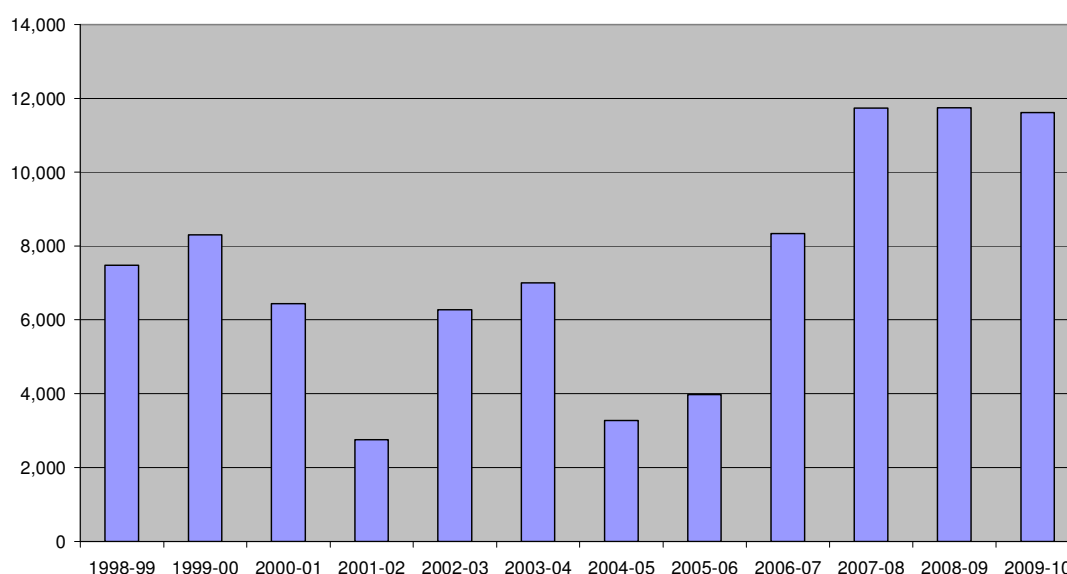
Figure 8 represents what we are planning will be in these reserves and provisions at the end of each of the next three financial years:

**Figure 8: Targeted significant reserves and provisions**

	Estimate 31 Mar '10 £000	Target for 31 Mar '11 £000	Target for 31 Mar '12 £000	Target for 31 Mar '13 £000
Waste Management Reserve	1,500	1,750	2,000	2,250
Corporate Improvement Reserve	2,298	570	0	0
Job Evaluation / Equal Pay	1,345	0	0	0
Redundancy Costs	582	500	0	0
Capital Financing Reserve	975	975	650	450
Provision for Icelandic Bank Losses	134	134	75	0
Accommodation provision - Civic Centre	1,812	1,562	1,300	1,000
Insurance – General Fund Reserve	1,179	1,129	1,000	1,000

### Working Balance

The Council's 'Working Balance' is the revenue reserve that is put aside to cover any significant business risks that might arise outside of the set budget. This reserve has significantly improved over recent years and, as at March 2010, stood at £11.5 million. This equates to approximately 5.7% of net revenue budget for the year which in line with the average for Unitary Councils. We continue with our policy of maintaining adequate reserves giving consideration to the significant constraints that will be placed on public sector spending for the foreseeable future.

**Figure 8: Working Balance Levels****Plymouth City Council Working Balance since Unitary Status**

The Audit Commission does not provide specific guidance on what the level of council reserves should be other than that they should be adequate to cover potential risks. Plymouth has significantly improved the approach to risk management over recent years. Our strategic and operational risk registers are comprehensive and are regularly reported to, discussed and challenged by senior officers and members.

## 5. Our Capital Position

Our financial strategy for capital has been to fully utilise the supported capital borrowing allocation available to us in tandem with maximising the availability of grant and third party payments.

We maintain the principle that capital schemes are only approved into the programme where specific funding has been clearly identified and supported by business cases. Thereby, the capital investment programme, at any set point in time, will evidence 100% funding allocation against approved schemes. Capital investment is prioritised to ensure that outcomes are maximised against the council's 14 Corporate Improvement Priorities.

Due to the current economic climate, the council continues to challenge the affordability of its five year capital programme for the period 2010/11 to 2014/15. There remains significant volatility around future capital grant funding and income generation through capital receipts. Criteria that the council applies in prioritising the programme is detailed in **Appendix B**

The revised programme for the period 2009/10 to 2014/15 of **£275m** was approved by Full Council on 1 March 2010 as follows:

**Figure 9: Five year Departmental Capital Programme**

	2009/10 £000s	2010/11 £000s	2011/12 £000s	2012/13 £000s	2013/14 £000s	2014/15 £000s	Total £000s
Children's Services	53,770	34,641	17,391	15,052	-	-	<b>120,854</b>
Community & Neighbourhood	6,630	29,237	13,242	271	-	-	<b>49,380</b>
Development & Regeneration	21,189	28,939	13,549	6,221	6,535	7,656	<b>84,089</b>
Corporate Support/items	10,241	500	1,000	500	500	-	<b>12,741</b>
Housing Rev Account	7,991	0	0	0	0	0	<b>7,991</b>
	<b>#99,821</b>	<b>93,317</b>	<b>45,182</b>	<b>22,044</b>	<b>7,035</b>	<b>7,656</b>	<b>275,055</b>

*# The programme and spend profile will be updated for the 2009/10 out-turn position in June 2010*

This spend will be funded by:

	<u>£000</u>
* Capital Grants	132,896
* Supported Borrowing	52,767
* Unsupported Borrowing	38,844
* Capital Receipts	30,359
* Section 106	8,991
* Revenue & Funds	6,758
* Contributions	4,440

We remain committed to a significant capital investment programme despite the current economic climate. The Council, engaging with partners in major regeneration of the City, will not only contribute towards delivering improvement priorities, but will also help to sustain much needed work opportunities in the local area (for example, the construction industry).

Significant schemes that will be delivered by 2014 include:

- £37.5m on a state of the art new college at Estover;
- £14.2m on improving Schools in the Southern Way Federation;
- £8.6m for a new School at Efford;
- £6m on the modernisation of Mill Ford special School;
- £22m on improving transportation Plymouth (Local Transport Plan);
- £60m on improving transport access in Eastern side of the City Centre;
- £3.2m on regenerating the West End;
- £3.88m on bringing Devonport People's Park 'back to life';
- £46.5m on the Life Centre.

In addition to the approved capital programme, we continue to develop our Building Schools for the Future submission which will generate additional investment of approximately £70m into five secondary Schools. We are also developing our long term waste disposal solution with Torbay and Devon County Councils, building a multi million pound waste to energy plant.

### Capital Receipts

We will regularly review the assets that we own to ensure that they are fit for purpose and optimise the use of capital receipts, where deemed beneficial, in order to support our overall capital investment programme. However, our ability to generate capital receipts has been severely impacted in recent months due to rapidly falling land and property prices.

In reviewing the capital programme as part of 2010/11 budget setting we have significantly **reduced our reliance on capital receipt funding to £30m over the five year period**. This funding is based on a schedule of specific assets, with current estimated valuations and proposed timing for disposals. Our view is that we will only dispose of very few assets over the next three years, with disposals increasing towards the end of the five year programme on the assumption that market conditions will improve.

The council has built in the requirement for **additional temporary borrowing** to cover the shortfall in capital receipt income for the 2010/11 and 2011/12 financial years. It is planned that this borrowing will be repaid in future years to

coincide with our forecasted capital receipt income. Capital receipt generation will be kept under constant review by the Capital Programme Board as part of regular monitoring. Any variations to the forecasted position will be reported to Corporate Management Team and Cabinet at the earliest possible opportunity.

### **Invest to save**

A vital element of effective financial management for future years is our ability to commission, and deliver, invest to save projects that improve services provided to our customers and efficiencies in the way in which we work. As part of 2010/11 budget setting, we were open with our intent to develop relevant schemes, through capital funding, that will drive transformational change and generate revenue savings. Further, details will be developed throughout 2010/11.

## **6. Our Approach to Treasury Management**

The council's approach to Treasury Management has been significantly revised since the collapse of the Icelandic banking institutions in October '08. Plymouth has £13m invested with failed Landsbanki, Glitnir and Heritable Banks. As at May '10, we have received back approx £1m, however, it is still not known as to how much, in total, the council is likely to receive. We have therefore applied for, and successfully been granted, capitalisation directions of £5.7m to cover the worse case scenario of these investment losses which has been added to our five year capital programme.

The council's published Treasury Management Strategy details our borrowing limits and specifies approved institutes for investment, (with maximum limits), based on credit ratings and other pertinent factors. We maintain regular engagement with our Treasury Management advisors, ArlingClose, and constantly seek their advice on our strategic direction and key operational decisions.

Inevitably, our approach to Treasury Management activity is now much more risk adverse and entails only investing with a very small number of financial institutions with the highest possible credit rating backed by added security.

With significantly lower interest rates from investments, we have adopted an approach of proactively reducing our overall borrowing and investment portfolio and associated revenue costs. Throughout 2009/10 we have reduced our investments by over £60m, making a corresponding reduction in council borrowing of over £100m (includes the transfer of council housing stock).

### **Borrowing Limits**

The Council is required to set out its annual Borrowing and Investment Strategy recognising its implications on the Council's revenue budget.

It is a statutory duty under the Local Government Act 2003 for the council to determine and keep under review how much it can afford to borrow. The Council must have regard to the Prudential Code when setting its Authorised



Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council Tax and Council rent levels is 'acceptable'.

The council approved its revised Treasury Management and Investment Strategy in March 2010. In this Strategy with have approved the following borrowing limits:

- The Authorised Borrowing limits of 2010/11 = £312m, 2011/12 = £302m and 2012/13 = £289m;
- The Operational Boundary limit of 2010/11 = £260m, 2011/12 = £260m and 2012/13 = £258m

### **Devon Debt Rescheduling**

The council still has a proportion of its debt managed by Devon County Council. This debt relates to the dis-aggregation of assets and liabilities upon the formation of Plymouth City Council at the last Local Government Re-organisation in 1997.

As at 31 March 2010, the value of debt managed Devon was approximately £34m. The associated revenue costs that we pay Devon for managing this debt is based on an average percentage rate of the County Council's entire borrowing portfolio. In 2009/10, PCC paid a rate of 5.4% on the £34m debt.

Over the last two years borrowing costs, nationally, have significantly reduced. We are therefore looking at the opportunity to 'buy back' the £34m debt from Devon County Council and rescheduling this debt at a reduced percentage rate in order to generate revenue savings.

The timing of 'buying back' Devon debt will depend on the amount of penalty payments, or 'premiums', that we will have to pay in order to break the terms of the existing loans that Devon County holds.

PCC Treasury Management Board is constantly monitoring this situation and plan to undertake the Devon debt rescheduling at an appropriate point in time. In this MTFs, we have budgeted to generate revenue savings of £100k in 2010/11 through this transaction.

### **Treasury Management Targets**

Our Treasury Management Board maintains weekly meetings making strategic decisions on managing risk whilst optimising our investment rate of return and minimising our borrowing costs.

In terms of our strategy moving forward, we will aim to maintain a modest investment and borrowing portfolio throughout this period of financial uncertainty. As a guide, we will aim to keep our overall investments below £160m and our borrowing below £280m.

Despite low interest rates, the council will still require to undertake a number of investments in each financial year which is linked to the timing of core income being received and payments being made. The Treasury Management Board has set itself clear targets for financial returns for **new investments** which have been built into the MTFF. Targets have also been set for, not only reducing our financial level of borrowing, but also the average rate of interest that we pay for our remaining borrowing portfolio.

**Figure 10: Targets for Investment & borrowing Percentage Rates**

Financial year	Rate of return for <b>new</b> investments	Average borrowing as @ 31 March
2010/11	1.25%	4.10%
2011/12	1.50%	4.50%
2012/13	2.50%	4.50%

### **Minimum Revenue Provision (MRP) Policy**

The Council is required to make a revenue charge each year to provide for the repayment of loans taken out to finance capitalised expenditure.

Government's Capital Financing Regulations places the duty for an authority each year to make an amount of Minimum Revenue Provision which it considers to be "prudent". The prudent provision is to ensure that debt is repaid over a period reasonably in line with that over which the capital expenditure provides benefits.

Under the regulations, the authority is required before the start of each financial year to prepare a statement of its policy on making MRP and submit it to the full Council. The approved policy for 2010/11 is as follows:

#### **Supported Borrowing**

For borrowing supported by Revenue Support Grant the Council will continue to use the current method of 4% of the adjusted Non-HRA capital financing requirement.

#### **Unsupported Borrowing**

For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, MRP will be made in equal annual installments over the life of the asset.

#### **Capitalisation Directions**

For capitalisation directions on expenditure incurred since 1 April 2008 MRP will be made in equal annual installments over 20 years in line with DCLG guidance.

In all cases MRP will commence in the financial year following the one in which the expenditure is incurred.

## 7. Efficiencies and Value for Money

The 2007 Comprehensive Spending Review requires councils to generate 'cashable' efficiency savings of 4% per year for each of the three financial years up to and including 2010-2011, a cumulative figure of £27m.

Our overall approach to Value for Money is improving which has been recognised by our year on year improvement in the external Use of Resources assessment (undertaken by Grant Thornton). We can demonstrate that we undertake a robust challenge on the costs and performance of our core services compared to other Unitary, and top performing, Councils.

The Value for Money reviews that the council has undertaken to date provide evidence that we have reduced costs whilst either maintaining, or improving, service quality in areas such as planning, waste collection, learning disabilities and children's social care.

We have incorporated the following three year VFM targets within our MTFS and are actively making progress in each of these areas. In 2010/11 budget preparation we changed our approach to setting VFM targets. Benchmarking information was provided to all Assistant Directors and DMTs which identified fluctuations of +/- 10% on all of the Councils core services compared to top performing and all Unitary Councils. This information was used by Departmental Management Teams in developing their Budget Delivery Plans that underpin the 2010/11 revenue budget.

**Figure 11: Three Year Value for Money Efficiency Targets**

Service Area	2009/10 Target £000s	2010/11 Target £000s	2011/12 Target £000s	Total 3 year target £000s
Planning Service	360	180	180	720
Concessionary Fares	250	125	125	500
Transport policy, planning & strategy	300	150	150	600
Structural Maintenance	200	100	100	400
Integrate functions of Corp Resources & CEX	500	250	250	1,000
Over 65 with a Physical / Sensory disability	500	250	250	1,000
Over 65 with a Learning disability	400	200	200	800
Supported Employment	200	100	100	400
<b>Totals</b>	<b>2,710</b>	<b>1,355</b>	<b>1,355</b>	<b>5,420</b>

In addition to formal VFM reviews and targets, the council will continue to progress with a number of initiatives that will improve efficiencies such as cascading out the 'lean systems' approach (following a successful pilot in Housing Benefits) and developing further partnership working such as the Waste Management PFI

The Council will continue to improve the alignment between Value for Money reviews and required efficiency returns through developing a council-wide VFM delivery plan. This plan will be co-ordinated by our new Head of Value for Money, Paul Chapman, and monitored through CMT.

Value for Money remains one of the corporate improvement priorities, (CIP), within the council's corporate plan. Our improvement activity under this CIP is closely aligned to the audit commission's Use of Resources framework and will focus on achieving outcomes under the following headings:

- Driving value for money through more effective support services;
- Driving value for money from our core services to customers;
- Ensuring that our key resources of finance, capital, ICT, assets and people are better aligned to our priorities;
- Developing a consistent approach, with our partners in tackling climate change issues.

We will also continue to develop our approach to driving VFM from capital investment, ensuring that 'invest to save' projects are carefully considered and evaluated to deliver tangible outcomes and maximum return from our investment.

## 8. Our Financial Governance Arrangements

The council has been working on improving its financial and governance arrangements for a number of years. Financial Management has improved, performance management has improved, scrutiny has developed and an independent audit committee is operating well. A comprehensive Budgetary Control Project has promoted ownership and effective financial management amongst budget managers in service directorates.

The council's medium term strategy focuses on joining up the individual elements to ensure effective, integrated monitoring and management of:

- Corporate Plan / corporate improvement priorities;
- Benchmarking spend and key performance indicator information;
- Revenue budget and spending linked to priorities;
- Delivery against revenue delivery plans;
- Delivery of Value for Money and overall efficiency targets;
- Delivery of the capital programme linked to corporate priorities

We will continue to build upon the existing reporting template which joins up these core elements. However, in 2010/11 we intend to move towards quarterly integrated reports which will continue to be presented and challenged by:

- Corporate Management Team;
- Cabinet;
- Scrutiny Management Board

The **audit committee** will continue to provide an essential role in ensuring that we provide effective governance. In particular, their quarterly meetings will challenge progress made against the annual governance statement, internal and external audit plan, reports and recommendations. In addition, the audit committee has now assumed the lead member role in challenging and placing assurance on the council's Treasury Management arrangements. The committee has received relevant training and has had significant input in revising our Treasury Management Strategy for 2010/11.

Our internal audit service continues to be provided through the Devon Audit Partnership, a shared service arrangement with Devon County and Torbay Councils. The core objective of this arrangement is to improve the quality and efficiency of audit services.

To ensure that our financial procedures and practices are reviewed, up to date and reflect the operational business requirements and risks that the council faces, Financial Regulations and levels of Delegated Authority will be submitted to, and approved by our audit committee on an annual basis.

## Consultation

The Council continues to keep its partners and the community fully informed of its financial position and plans through the Local Strategic Partnership, meetings with the Chamber of Commerce, awareness sessions at Area Committees, promoting summarised statement of accounts and specific meetings held with partners and community groups. A special two day Scrutiny Panel robustly challenges the council's alignment of resources to corporate priorities as part of the annual budget setting process. Consultation continues to evolve and improve through our Corporate Improvement Priority 'Improving community involvement and engagement'.

## Measuring our progress

Quarterly reporting of progress made against specific corporate plan measures and targets will continue to be presented to senior officers and members. The key targets as detailed in this medium term financial strategy will be incorporated within the finance and performance reports with any key changes recommended to, and approved through, Cabinet.

## External Assessment

The Audit Commission's annual Use of Resources assessment is the main measure that will demonstrate progress regarding improving our financial monitoring and management.

The council exceeded the Use of Resources improvement targets that it set for 2008 and were successful in achieving an **overall rating of 3** as follows:

**Figure 12: Use of Resources Targets and Scores**

UoR Category	2007 Score	2008 target	2008 Actual
Financial Reporting	1	3	3
Financial Management	2	2/3	3
Financial Standing	2	2/3	3
Internal Control	2	3	3
Value for Money	2	2/3	2

The revised UoR framework under Comprehensive Area Assessment measures how the council, and its partners, successfully delivers tangible outcomes to the local area. We scored well in this new framework in 2009 (inaugural year) and continue to set targets and plans for future improvement.

**Figure 13: New Use of Resources framework Targets and Scores**

UoR Category	2009 Score	2010 target	2010 Actual
Managing Finances	3	3	TBC
Governing the Business	2	3	
Managing Other Resources	2	2	

## Appendix A

## Notional 3 Year Revenue Forecast vs Spend Commitments

Revenue Resources:	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
<b>Formula Grant</b> (based on 2.5% reduction)	<b>106.022</b>	<b>103.371</b>	<b>100.787</b>	<b>98.267</b>
Council Tax income (@ 2.5% increase per annum)	95.803	95.803	98.745	101.875
<b>Total Resources available</b>	<b>201.825</b>	<b>199.174</b>	<b>199.532</b>	<b>200.142</b>

<b>Budgeted Spending plans for 2010/11</b>	<b>201.825</b>	<b>201.825</b>	<b>201.825</b>	<b>201.825</b>
Pay award (based on 1% per annum)	-	1.000	2.000	3.000
Pension - increased contribution based @ 5%	-	0.800	0.800	0.800
Redundancy costs - transformational change	0.500	0.750	-	-
Inflation - utilities (5% increase per annum)	-	0.150	0.300	0.450
Adult Social Care -Inflation (2% per annum)	-	1.400	2.800	4.200
Adult Social Care – demographics (assume '10/11 plans complete)	-	1.000	2.000	3.000
Children's Services placements inflation (2.5% per annum)	-	0.160	0.320	0.480
Children in Care - increase in number looked after	-	0.750	1.500	2.250
Building Schools for Future – Revenue costs of project	-	0.500	0.500	0.500
Increased Waste Disposal costs – Partnership PFI	-	-	-	-
<b>Known Spending Plans</b>	<b>* 202.325</b>	<b>208.335</b>	<b>212.045</b>	<b>216.505</b>

<b>Forecasted Funding Shortfall</b>	<b>0.500</b>	<b>9.161</b>	<b>12.513</b>	<b>16.363</b>
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\* Assumes that **all** 2010/11 Budget Delivery Plans are achieved on time.

## Notional 3 Year Revenue Forecast – Scenario 2

### Forecast if Plymouth City Council:

- (a) Receive a year on year decrease of 5% on formula grant
- (b) Decide to freeze council tax for the next 3 years
- (c) Take no management action such as invest to save

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
<b>Formula Grant</b> (based on 5% reduction)	106.022	100.721	95.685	90.901
Council Tax income (based on <b>tax freeze</b> )	95.803	95.803	95.803	95.803
<b>Total Resources available</b>	<b>201.825</b>	<b>196.524</b>	<b>191.488</b>	<b>186.704</b>
Known Spending Plans	* 202.325	208.335	212.045	216.505
<b>Scenario 2 Shortfall:</b>	<b>0.500</b>	<b>11.811</b>	<b>20.557</b>	<b>29.801</b>

\* Assumes that **all** 2010/11 Budget Delivery Plans are achieved on time.



## Criteria applied to revise the 5 year Capital Programme

The following criteria was applied to the revision of the council's five year capital programme as part of the 2010/11 budget setting process:

- We will retain the principle of a 5 year fully funded capital programme. No schemes will be placed in the programme without clarity on how the specific scheme will be funded;
- Capital schemes must contribute towards delivering the council's corporate improvement priorities;
- Added priority will be given to schemes that contribute towards cross-cutting issues i.e. deliver improvements against more than one CIP;
- All significant capital schemes will be challenged by the Capital Delivery Board in a consistent and fair manner;
- We will continue to maximise the amount of external grant that the council is able to attract in support of the capital programme;
- New schemes requiring funding will need to deliver against invest to save principles whereby revenue savings will be required as a result of the capital investment;
- Approval of capital schemes will consider the context of the credit crunch and likely timing of related future developments (in particular housing)
- We will actively manage areas of high financial risk through ensuring that a maximum threshold is set for the reliance on unsupported borrowing and capital receipt generation (based on known disposals);
- The council's overall borrowing portfolio, compared to other unitary councils, will be considered in setting thresholds for any additional borrowing requirements;
- Any revenue costs associated with additional borrowing will be factored into the council's revenue budget for 2010/11 and three year Medium Term Financial Forecast;
- All schemes that have significant funding through capital receipts and /or unsupported borrowing will be robustly challenged;
- Political priorities need to be considered in finalising the revised five year capital programme.

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