PAPER A

Minutes

Name of meeting	**FULL COUNCIL**
Date and time	**WEDNESDAY, 25 FEBRUARY 2009**
Venue	**COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT**
Present	Cllrs Arthur Taylor (Chairman), Barry Abraham, Henry Adams, Wendy Arnold, Anne Bishop, George Brown, William Burt, George Cameron, Vanessa Churchman, Dawn Cousins, Mike Cunningham, Roger Dixcey, John Effemey, Jonathan Fitzgerald-Bond, Barbara Foster, Deborah Gardiner, Charles Hancock, John Hobart, Peter Humber, Heather Humby, Tim Hunter-Henderson, Patrick Joyce, Gill Kennett, David Knowles, Geoff Lumley, Roger Mazillius, Erica Oulton, Lora Peacey-Wilcox, Lady Pigot, David Pugh, Colin Richards, Susan Scoccia, Ian Stephens, Andy Sutton, Diana Tuson, Ian Ward, Margaret Webster, Alan Wells, David Whittaker, David Williams, Jilly Wood
Officers in attendance	Steve Beynon, Dave Burbage, Davina Fiore, Stuart Love, Chris Mathews, Sarah Mitchell, Amanda Thomas, Keith Woods
Apologies	Cllrs John Bowker, Ivan Bulwer, Charles Chapman, Muriel Miller, Garry Price, Colin West

63. **Minutes**

RESOLVED :

THAT the Minutes of the meeting held on 21 January 2009 be confirmed.

64. **Declarations of Interest**

Cllr David Pugh declared a personal interest in item 5(a) as a musician for a community band.

Cllr Heather Humby declared a personal interest in item 5(a) as a member of the Sandown Youth and Community Management Committee.

Cllr Deborah Gardiner declared a personal interest in item 5(a) as her husband was employed by the Council.

65. **Public Question Time**

Written questions were put to the Chairman as follows:

Name	**Subject**	**Reference Number**
Mr Neil Welch of Shanklin	Proposed cuts to the schools music service.	PQ11/09

Oral questions were put to the Chairman as follows:

Name	**Subject**	**Comment**
Mr Bob Blezzard of Sandown	The future of the Island's Youth Service.	The Cabinet Member responded.
Mr Mike Starke of Chale	The Council's confidence in the PFI funding for Island roads.	The Cabinet Member responded.
Mr John Wortham of Brighstone	The timetable and written confirmation for the PFI project for Island roads.	The Cabinet Member responded.

66. **Suspension of Standing Orders**

A proposal to suspend Council Procedure Rule 14(4) was proposed and seconded, which would remove the time limit on speeches from Group Leaders. Following the vote it was

RESOLVED:

THAT Procedure Rule 14(4) be partially suspended for the duration of agenda item 5(a) to remove the time limit on speeches from Group leaders (or their nominees).

67. **Cabinet**

(a) **Recommendations From The Cabinet**

Council had received a copy of the Cabinet Report for information (Paper B), and the Leader advised of the main changes to the budget strategy and the background to the proposal for the level of Council Tax banding and efficiency savings.

An amended motion was proposed, seconded and circulated to all attendees, which included the addition of the recommendation that Council suspend the upgrading of Members' allowances for the next financial year 2009/10. Also circulated was a revised Appendix 3 detailing proposed budget savings.

The revised recommendation was as follows:

a. The Medium-Term Financial Plan be approved as set out in Appendix 1.

b. The use of £3.9m of balances in 2009/10 be approved.

c. The schedule of savings be as set out in the revised Appendix 3.

d. An increase in the IOW Council element of Council Tax by 3.5% for 2009/10 be approved.

e. The overall Capital Programme set out in Appendix 8 be approved.

f. To agree that a further report be received at the Cabinet meeting on 31st March on the individual capital projects and the outcome of actions set out in Paragraphs 41 and 42.

g. The Prudential Code Indicators, Treasury Management Strategy and Investment Strategy as set out in Appendix 9 be approved.

h. The overall Council tax base of 54,892.50 for 2009/10 is noted.

i. That the uprating of the members' allowance scheme in line with CPI be disapplied for the next financial year, as from 1st April 2009.

An amendment, detailing alternative suggestions for saving money and raising income to produce a below inflation rise in council tax, was proposed by Cllr Lumley and seconded by Cllr Gardiner as follows:

LABOUR GROUP BUDGET PROPOSAL - EXCLUDING DEDICATED SCHOOLS GRANT			
	£000		
Base Budget	127,612		
Pension Fund Increases	450		
Adjustments in 2008/9 Base	638		
Adjusted Base Budget	128,700		
Add:			
Inflation	4,227		
Capital Financing Costs	1,575		
Impact of Credit Crunch/Recession	2,012		
Reduction in Interest Rates on	847		

Advances			
Deduct:			
Efficiency savings equivalent to NIS 179 target (all cashable) - excluding Fire	-3,750		
Identified savings adjustments	-738		
Efficiency savings - car allowances, supplies	-500		
Parking Permit - increase by £25 pa	-150		
Service Changes from 2008/9 Budget:			
Abandon 'Environment & Neighbourhood Officers' scheme	-730		
Further reduce cost of Members Allowances	-50		
Cancel 'One Island' Magazine	-59		
Review and Reduce Communications Budget	-250		
Review Children's Services Mainland Placements Budget - targeted reduction by 10%	-310		
Delete Net Increase in Schools Reorganisation Costs	-250		
Investment in Service Priorities:			
New Community Wardens (10)	300		
Caution over Care Services - Reinstate 25% of Learning Disability Savings	311		
Reinstate Youth Service cutbacks	128		
Reinstate subsidy for school-based Music Service	92		
Net Expenditure	**131,405**		
Financed By:			
Formula Grant	**59,130**		
Withdrawal from Reserves	**3,650**		
Council Tax Yield	**68,625**		
	131,405		
Tax base (band D equivalents)	54,892.5		
Collection Fund balance	-115		
Proposed Band D Council Tax	**1,252.2**		

				7		
Proposed Tax Increase (%)				**3.00**		
1. No compulsory job losses to achieve the budget strategy						
2. Minimal number of voluntary job losses						
3. Proposed withdrawal from reserves of £3.65m as part of the Budget Strategy in recognition of the impact of the recession on local service delivery						

During the debate an amendment to Cllr Lumley's proposal was put forward by Cllr Stephens and Council was advised of the suggested strategy for the proposed changes, which included making use of slippage within the capital programme. The amendment included the following points:

> "Further to the two budget proposals, I would like to amend the proposal from Cllr Lumley to incorporate the sum of £1.2 million from the Capital Programme 2008-09 which is projected forward into 2009-10 budget.
>
> I would like therefore to commend to Council that £1.2 million as stated, be utilised to pump prime projects which will relieve areas of pressure felt by residents and clients of the Isle of Wight.
>
> £1 million capital costs to build accommodation for Adult Mental Health clients, who at present are living in sheltered accommodation, which is supported by permanent care staff. The support will come from maintaining the existing level of investment in care. (Housing related support equals £17 per hour.)
>
> Finally, the remaining £400,000 to support the initialisation of a transport project for the elderly and hard to reach within our community, which would supplement Southern Vectis and Wightbus offerings. This would encourage private entities such as taxi proprietors to establish networks of support using minibuses.
>
> I consider that £15 million of slippage and the Authority's history of the same is worthy of immediate and thorough scrutiny, with the possibility of 'claw-back in future years, should a similar situation exist."

Cllr Stephen's amendment was seconded and accepted by Cllr Lumley. The revised proposal was then discussed in further detail. Following the vote the motion was lost.

The discussion returned to the substantive motion, during which a further amendment was proposed by Cllr Knowles to refer the budget back to Cabinet for reconsideration on specific items as follows:

"That the Cabinet be instructed to reconsider its budget recommendations, and to bring new proposals to a special meeting of Council on or before 11th March 2009. The new proposals are to be designed to satisfactorily address the following issues:

1. With the Retail Price Index now at 0.1%, Bank of England forecasts of a fall in the CPI to 0.5% this year, and a generous Formula Grant increase of 4.2%, Island taxpayers should not be expected to bear a 3.5% increase in Council Tax in the current difficult economic climate.
2. The savings are particularly targeted at vulnerable minority groups. More tangible evidence is needed about how these will be "painlessly" achieved than mere expressions of confidence from the Cabinet member.
3. Many of the proposed efficiency savings are attributed to vague generic improvements such as property rationalisation and computerisation. Given experience elsewhere, and even more significantly the current administration's lack of progress so far in these areas, more robust plans need to be in place to avoid a £15m+ shortfall by 2011-12.
4. Vague generic savings relating to property are expected to occur despite a maintenance backlog of £25m that is not addressed.
5. A massive overspend in the current year has been met by undocumented use of one-off grants and service rationing and slippage, the sustainability of which needs to be demonstrated.
6. Surprisingly, given amounts spent on talking about the environment, there are yet again no obvious energy efficiency investments or savings mentioned in the budget.
7. Severance costs this year so far amount to £1.7m, following an average £1.3m over each of the last three years. The budget appears to assume that this suddenly drops to zero, which seems unduly optimistic.
8. Capital slippage has been £23m in 2007-08 and £37m in 2008-09. The budget needs to demonstrate how, given this record, the programme set out in appendix 3 can realistically be delivered, particularly in relation to highways where Government funded allocations have been under-utilised by 66% in 2007-08 and 83% in 2008-09.
9. Despite four years of "preparation" the massive capital cost of school reorganisation, and its funding source, is currently missing from the proposals entirely.
10. Provision for the Highways PFI funding gap (£11m) has surprisingly not been updated despite a two year delay in implementation, during which time capital investment in road maintenance has dropped to insignificant levels, increasing the eventual reinstatement cost exponentially.
11. There is no provision for upgrading an alternative route when the Undercliff Drive closes.
12. The current £161 million deficit on the Pension Fund is not addressed.

13. Appendix 11 shows the General Fund at March 2011 at £5.8m, but also uses the same £5.8m to fund estimated risks. Free reserves are therefore forecast to be zero at this point, which is unacceptable given the uncertainties highlighted above.

14. The general lack of budget transparency and low levels of consultation responses should be remedied by publishing the Medium Term Financial Strategy in draft form before the budget meeting in future, rather than some weeks or months later."

Cllr Knowles's amendment was seconded and Members debated the proposal. Following the vote the motion was lost.

During the debate the Chairman drew Council's attention to the time and received a proposal to extend the meeting for up to one hour. The proposal was seconded and following the vote it was

RESOLVED:

THAT the meeting be extended for up to one hour.

The discussion returned to the substantive motion, during which concerns were raised about the proposed reduction in staffing levels and the proposed cuts in some of the Council's service budgets. Following the vote it was

RESOLVED:

(i) THAT Council approves the revised overall Budget and Council Tax Strategy as recommended by the Cabinet on 10 February 2009 as follows:
   a) The Medium-Term Financial Plan be as set out in Appendix 1.
   b) The use of £3.9m of balances in 2009/10 be approved.
   c) The schedule of savings be as set out in the revised Appendix 2.
   d) An increase in the IOW Council element of Council Tax by 3.5% for 2009/10 be approved.
   e) The overall Capital Programme set out in Appendix 3 be approved.
   f) To agree that a further report be received at the Cabinet meeting on 31st March on the individual capital projects and the outcome of actions set out in Paragraphs 41 and 42.
   g) The Prudential Code Indicators, Treasury Management Strategy and Investment Strategy as set out in Appendix 4 be approved.
   h) The overall Council tax base of 54,892.50 for 2009/10 is noted.
   i) That the uprating of the members' allowance scheme in line with CPI be disapplied for the next financial year, as from 1st April 2009.

(ii) In particular, that the Council agrees an increase of 3.5% in the IOW Council element of the Council Tax for 2009/10 (equivalent to an amount of £1,258.35 per Band D property for the Council element of Council Tax for 2009/10)

(iii) THAT the Budget Requirement for 2009/10 be £128,088,570 and allocated to Service Budgets as set out in Appendix 12 to the report on the Medium Term Revenue and Capital Budget Strategy 2009/10 – 20011/12 and Council Tax 2009/10.

(iv) THAT the Capital Programme for 2009/10 be set up to £60,691,000, as set out in the Table in paragraph 38 of the Cabinet report, financed in accordance with the Council’s Prudential Indicators, Treasury Strategy, Investment Strategy and Borrowing Strategy, and that detailed scheme allocations within this total be approved by the Cabinet.

(v) THAT a Schools Budget, inclusive of the LSC allocation, at the level of Dedicated Schools Grant be set for 2009/10.

(vi) THAT the Schools Budget shares be determined by the Director of Children’s Services, in consultation with the Schools Forum, within the approved Schools Budget.

(vii) THAT it be noted that the Council calculated the amounts for the financial year 2009/10 in accordance with regulations made under Section 33(5) of the Local Government Act 1992 (The Tax Base)

(viii) THAT the amounts now calculated by the Council for the year 2009/10 in accordance with Sections 32 to 36 of the Local Government Act 1992 be as set out in Appendix 1 to this Council Tax Resolution.

(ix) THAT it be noted that for the year 2009/10 the Hampshire Police Authority has stated the following amounts in Precepts issued to this Council, in accordance with Section 40 of the Local Government Act 1992, for each of the categories of dwellings listed below:

Valuation Bands – Precepting Authority	
	£
Band A	94.74
Band B	110.53
Band C	126.32
Band D	142.11
Band E	173.69
Band F	205.27
Band G	236.85
Band H	284.22

(x) There are no Special Expenses in 2009/010 under Section 35(2)(d) of the Local Government Finance Act 1992.

(xi) THAT, having calculated the aggregate in each case of the amounts of paragraph ix) above and paragraph e) columns 1 and 2 of Appendix 1 to this Council Tax Resolution, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the amounts as the amounts of Council Tax for the year 2009/10 for each of the categories of dwelling shown in Appendix 1 (attached).

(Copies of the approved Appendices 1, 2, 3 and 4 are attached to these minutes for clarification.)

The Chairman advised Members that due to the lateness of the hour, all previously circulated Cabinet Reports would be taken as read and asked Members to put any questions they may have.

(b) **Reports Of The Cabinet Members**

(i) **The Leader**

An oral report had been included within the budget speech provided during the item 5(a) on the agenda.

Oral questions were put to the Leader as follows:

Cllr Patrick Joyce	Members' indemnity provided by the Council	The Leader responded.

Cllr Deborah Gardiner	Clarity around a press release regarding concessionary bus fare funding.	The Leader responded.

(ii) **The Deputy Leader and Cabinet Member for Economy, Leisure, Planning and Property**

A written report had been circulated for information.

An oral question was put to the Cabinet Member as follows:

Cllr Charles Hancock	A breakdown of costs for the advertising campaign for tourism, as requested at the January meeting.	The Cabinet Member would provide a written response.

(iii) **Cabinet Member for Environment and Transport**

A written report had been circulated for information.

Oral questions were put to the Cabinet Member as follows:

Cllr Patrick Joyce	The resurfacing roadworks for Carpenters Road.	The Cabinet Member responded.
Cllr Patrick Joyce	The quality of road repairs and inspection regime on the Island.	The Cabinet Member responded.
Cllr Charles Hancock	The effects of removing free car parking on Ryde Esplanade.	The Cabinet Member responded.

(iv) **Chair of Scrutiny**

A written report had been circulated for information.

(v) **Cabinet Member for Health, Housing and Community Wellbeing**

A written report had been circulated for information.

(vi) **Cabinet Member for Residents, Resources and the Fire Service**

A written report had been circulated for information.

(vii) **Cabinet Member for Safer Communities**

A written report had been circulated for information. The Cabinet Member also reminded Council of the forthcoming Question Crime event and the Under 21 Scheme. Further details would be circulated for information.

An oral question was put to the Cabinet Member as follows:

Cllr Henry Adams	An extension of the Under 21 Scheme to incorporate the whole Island.	The Cabinet Member responded.

(viii) **Cabinet Member for Children and Young People**

A written report had been circulated for information.

Oral questions were put to the Cabinet Member as follows:

Cllr Patrick Joyce	The quality and cost of the Youth Service on the Island.	The Cabinet Member responded.
Cllr Patrick Joyce	The process for consultation on the Youth Service.	The Cabinet Member responded.
Cllr Patrick Joyce	The independent report for St Helen’s School.	The Cabinet Member responded.
Cllr Ian Stephens	The inclusion of Pell Lane Recreation Ground within the proposed new secondary school in Ryde.	The Cabinet Member responded.

CHAIRMAN

APPENDIX 1

APPENDIX 1

Budget Forecast Summary Draft
Base Option - Calculation Based on Three Year Formula Grant Settlement
Council Tax Increase Based on 3.5% in 2009/10 and 2.5% Thereafter

Budget Forecast 03/03/2009	Working Paper Reference	2008-09 Schools £000	2008-09 Other £000	2009-10 Schools £000	2009-10 Other £000	2010-11 Schools £000	2010-11 Other £000	2011-12 Schools £000	2011-12 Other £000	Notes
Base Budget 2007-08/2008-09	R1	0	113,992	0	127,612	0	127,612	0	127,612	
Star Chamber 2009/10										
Base Budget Adjustments	R2				638		667		667	
Credit Crunch/Economic Downturn	R2				2,012		2,012		2,012	
Identified Savings Adjustments	R2				-738		-278		-414	
Car Allowances, Supplies etc	R3				-500		-500		-500	
Base Budget Adjustments										
Growth			2,948		0		0		0	
Savings			-1,138		0		0		0	
2008/9			2,440		0		0		0	
2008/9			-1,883		0		0		0	
Base Budget Changes from 2007/8	R4		288		0		0		0	
Redirection/New Growth			1,000		0		0		0	
Service Volume Pressures					0		1,346		1,928	
Contingency for Income Loss					0		250		500	
Inflation - Schools	R5	1,828		1,520		3,092		4,488		Current projection of the likely impact of inflation
Inflation (net) - Pay - 2.0, 2.0, 2.0; Prices - 2.5, 2.5, 2.5: Adjusted for Specifics e.g. Fuel; Income 0.0%	R5		2,805		4,227		7,466		10,754	
Award			350		0		0		0	
pay			285		0		0		0	
pay			0		116		232		348	
Inflation - Cash Limiting			-500		0		0		0	
Capital financing costs - MRP	R6		1,300		673		1,322		1,843	Impact of capital financing costs of capital programme
Prudential Borrowing/SCE Interest	R6		358		903		1,491		2,011	
Revenue Implications of Capital			0		0		120		240	
Reduction in Interest Rates on Advances	R7				847		847		847	Interest on advances
Change in Dedicated Schools Grant	R8	-2,693		-1,475		-3,969		-6,269		Final DSG figures to be confirmed
Contractual pay increments		29	0	29	0	58	0	87	0	
Non-teaching staff pensions		0	0	60	0	120	0	180	0	
Spend to match Dedicated Schools Grant		836	0	-134	0	699	0	1,536	0	
Specific Grants										
LABGI grant			552		0		0		0	
Impact of grants into RSG			2,790		0		0		0	
Pension Fund Increases - 1.0, 2.0, 3.0	R9		0		450		900		1,350	Current projection of likely increases
Special expenses			350		0		0		0	
Demographic Changes - Adults			930		0		0		0	
Demographic Changes - Children			1,270		0		0		0	
Concessionary Fares Scheme			810		0		0		0	
Landfill Tax - £8 per tonne			330		0		320		640	
Highways PFI Revenue Costs	R10		0		0		0		565	
Management	R10								500	
Earmarked reserves/carryover			667		0		0		0	
Savings target (-) 2008/9			-2,000							Ongoing saving in base budget
Further savings/growth (-) 2009/10			0		-4,250		-5,000		-5,000	
Further savings/growth (-) 2010/11			0		0		-5,000		-5,000	
Further savings/growth (-) 2011/12			0		0		0		-5,000	
Sub-totals		0	127,612	0	131,989	0	133,851	0	135,923	
Formula Grant			-58,747		-59,130		-61,397		-62,625	
Council Tax Yield	R11		-65,865		-68,959		-71,154		-73,298	
Withdrawal from balances			-5,000		-3,900		-1,300		0	
Net expenditure		0	0	0	0	0	0	0	0	

	2008-09	2009-10	2010-11	2011-12	Notes
Formula Grant	58,747	59,130	61,397	62,625	Three Year Grant Settlement to 2010/11 only - 2% increase thereafter
Withdrawal from reserves	5,000	3,900	1,300	0	
Council Tax yield	65,865	68,959	71,154	73,298	
Tax base (band D equivalents)	54,484.2	54,892.5	55,167	55,443	Tax Base in future years increased by 0.5% per annum
Basic	53,623	54,108	54,377	54,648	
Second homes	3,263	3,353	3,370	3,387	
Special expenses	0	0	0	0	
Collection Fund surplus	-377	-115	0	0	
Band D Council Tax	1,215.80	1,258.35	1,289.80	1,322.05	Currently based on 2009/10 projections
Tax increase (%)	3.900	3.500	2.500	2.500	

APPENDIX 2

Revised & Final Budget Savings Proposals 2009/10

	2008/9 Base £,000	£000	APPENDIX 3 Reduction C&YP £000	Total with C&YP £000
EFFICIENCIES				
Central support, restructurings		771	410	1,181
Rental income and property related	275	160		160
Review communications with public and staff	*59*	*59*		*59*
Achieve further savings from homelessness budget	1,212	200		200
Review waste and cleansing to drive down costs	9,065	100		100
Reduce member support	111	24		24
Reduce spend on Supporting People staff	190	18		18
Review snack bar provision	14	14		14
Reduce Adult SC training budget	146	87		87
Reduce spending on A&F learning	267	25		25
better targeting of IT training budget	12	2		2
Reduce children's contract costs	3,035		249	249
Reduce staffing in contact centre	225		23	23
Reduce members' costs	*683*	*95*		*95*
SUB TOTAL		1,555	682	2,237
REDIRECTING COSTS MORE APPROPRIATELY				
Reduce events sponsorship	280	70		70
Stop Parish Award scheme	35	35		35
Reduce Civic Affairs budget	65	10		10
Reduce discount on Chain ferry travel vouchers	554	80		80
Reduce LA subsidy for school - based music service	*105*		*20*	*20*
Transfer some EWO costs to schools	366		36	36
Transfer some LACES costs to schools	178		21	21
Remove community hall funding	2	2		2
Reduce central support to parishes	26	26		26
Remove free parking Ryde Esplanade	684	15		15
Explore trust status for VBG	262	50		50
Subsidy to Police re. CSOs	70	70		70
SUB TOTAL		358	77	435
TARGETING NEED AND VFM				
Review and reassess LD residential budget	(	764		764
Reduce costs of LD packages	(	220		220
Remove revenue costs for LD capital	8,544 (	160		160
Delete LD transformation budget	(	100		100
Review Youth Service expenditure	976		128	128
Review costs of contribution to Island Games	(	150		150
Reduce sports development grants	920 (	85		85
Relocate toy library provision	26		26	26
Cease new schemes for one million blooms	180	160		160
Reduce increased spending on Public Realm	800	300		300
Streamline SEN services	198		15	15
Make theatres more financially viable	171	50		50
Review opening hours for libraries	1,833	30		30
SUB TOTAL		2,019	169	2,188
TOTAL		3,932	928	4,860

APPENDIX 3

APPENDIX

CAPITAL PROGRAMME

	2008-09			2009-10				2010-11
	2008-09 Approved	Slippage to 2009-10	Net 2008-09	Slippage from 2008-09	Committe d2009-10	new/unc proposed 2009/10	Total 2009-10	
Environment & Neighbourhoods								
Highways								
Bridges	973		973		2,677		2,677	2,898
Sructural m	0		0		515		515	300
Road Cros:	40		40				0	
Safer route	164		164				0	
Safety Sch	675		675		346		346	270
Safety Surf	120	120	0	120	150		270	150
Cycleways	271	180	91	180	93		273	83
Bus Infrast	211	100	111	100	250		350	212
Minor Traffi	465		465		390		390	330
Newport Cr	9		9		54		54	-
Footways/v	570	25	545	25	528		553	274
Improveme	4859	4041	818	4041		1,500	5,541	2,500
Advance H	100	50	50	50	340		390	318
General Provision						1,000	1,000	1,000
Sub total	**8457**	**4516**	**3941**	**4,616**	**6,343**	**2,500**	**12,359**	**8,335**
Other Environment & N'Hoods								
Fire Servic	206	35	171	35			35	3,000
Safer Com	191	90	101	90		427	517	
20 miles pe	115		115		0		0	
Public Con	598	8	590	8	0		8	
Public Con	1300	989	311	989	0		989	
Cowes Floating Bridge						596	596	
Ryde Gate	1000	650	350	650	5,053		5,703	2,200
Parks & Ga	433	8	425	8		400	408	400
WWLP Proj	2		2		266		266	415
Other Envi	2584	609	1975	609	726	680	2,015	2290
Sub total	**6,429**	**2,389**	**4,040**	**2,389**	**6,045**	**2,103**	**10,537**	**8,305**
Total Envi	**14,886**	**6,906**	**7,981**	**6,906**	**11,388**	**4,603**	**22,896**	**16,640**
Community								
Adult PSS	361	0	361	0	346		346	215
Housing	2997	1065	1932	1065	1315	2,600	4,980	3480
Culture & L	350	40	310	40		1,700	1,740	3,000
Total	**3708**	**1105**	**2603**	**1105**	**1661**	**4300**	**7066**	**6695**
Chief Executive								
Regenerati	307	275	32	275			275	
Other Chiel	60		60		60		60	
Total C	**367**	**275**	**92**	**275**	**60**		**335**	**0**
Children S	**16766**	**6430**	**10336**	**6430**	**20988**		**27418**	**38824**
Resources								
BSIP	2478		2478		1,745	200	1,945	700
Other ICT/	1561	440	1121	440	255	1,840	2535	0
Property - (	1908		1908			1,250	1250	1,250
- Accommodation rationalisation						0	0	1,000
-Provision ess& emergency works						250	250	250
- provision improvement theatres						250	250	
Total Re	**5947**	**440**	**5507**	**440**	**2000**	**3,790**	**6,230**	**3,200**
Corporate	**287**		**287**					
TOTAL	**41,840**	**15,155**	**26,786**	**15,155**	**38,097**	**12,693**	**63,945**	**66,459**

APPENDIX 4

PRUDENTIAL INDICATORS

2009/10 – 2011/12

The prudential framework for self-regulation of capital finance focuses upon the following elements:

- Capital expenditure plans
- External debt
- Treasury management

The framework requires that the Council sets and monitors its performance against a set of prudential indicators which are designed to support and record local decision making in these three areas.

The indicators are intended to ensure that decisions concerning capital expenditure, debt and treasury management are both affordable and prudent The indicators are listed below:

- **Prudential indicators for affordability**

  - Estimate of the incremental impact of capital investment decisions upon Council Tax.

  - Ratio of financing costs to net revenue stream

- **Prudential indicators for Prudence**

  - Net borrowing and the capital financing requirement

  - Confirmation that treasury management is carried out in accordance with good professional practice

  - External debt within prudential and sustainable limits

- **Prudential indicators for capital expenditure, external debt and treasury management**

  Capital Expenditure
  - Estimates of capital expenditure
  - Capital financing requirement

  External Debt
  - Authorised limit
  - Operational boundary

  Treasury Management
  - Interest rate exposures
  - Maturity structure of borrowing
  - Total principal sums invested for periods in excess of 364 days

The prudential indicators are not designed to be comparative performance indicators, and to use them in this way would be misleading. It is only intended that they be used to measure performance within the authority over time. It also needs to be borne in mind that the indicators need to be considered collectively, rather than individually.

Definitions

1. Ratio of financing costs to net revenue stream is the total of capital financing costs divided by the Council's total income from Council Taxpayers and Government Grants as contained in its Consolidated Revenue account

2. The Capital Financing Requirement (CFR) was introduced by the Prudential Code, and represents the amount of capital spending which has yet to be financed.

3. The operational boundary for external debt represents the maximum level of borrowing that the Council is planning to incur as a result of its spending plans. The authorised limit on borrowing is set at a higher level in order to cover any unavoidable and unforeseen borrowing that may become necessary due to adverse cash flow movements.

4. New regulations have been issued which require the Full Council to approve a statement setting out its policy for calculating the Minimum Revenue Provision (MRP). This needs to be approved in advance of each financial year. The Council's proposed policy on MRP is set out as an appendix to this strategy.

The following pages set out, for approval, the current mandatory indicators recommended by the Prudential Code.

Indicator	Basis	Period	Definition	SCC Methodology	Unit	2009/10	2010/11	20011/12
Affordability								
Estimates of ratio of financing costs to net revenue stream	Estimate	Years 1, 2 and 3	Estimate of financing costs / estimate of net revenue stream x 100%	Interest payable on. borrowing + MRP divided by net revenue budget	%	13.37	14.14	14.73
Estimates of the incremental impact of capital investment decisions on Council Tax	Estimate	Years 1, 2 and 3 (and longer as necessary)	(i) forecast the total budgetary requirements for the authority based on proposed capital programme	(i) Increased Council Tax requirement	£ per Band D Equivalent	4.59	26.65	44.01
			(ii) Percentage increase in Council Tax	(ii) Implied percentage increase in Council Tax of Prudential Borrowing. The costs of Supported Borrowing are reflected in Revenue Support Grant (RSG).	%	0.36	2.08	3.36
Capital Expenditure								
Estimates of capital expenditure	Estimate	Years 1, 2 and 3 (and longer as necessary)	Estimate of total capital expenditure to be incurred	Capital budgets	£000	60,691	57,991	40,000
Estimates of capital financing requirement (CFR)	Estimate	Years 1, 2 and 3	Estimate of underlying need for credit as at the end of years 1, 2, 3	Fixed assets minus Revaluation Reserve minus Capital Adjustment Account minus Government Grants Deferred	£000	204,087	215,109	235,199
External Debt								

Indicator	Basis	Period	Definition	SCC Methodology	Unit	2009/10	2010/11	20011/12
Authorised limit (for borrowing)	Estimate	Years 1, 2 and 3	Authorised limit for borrowing.	Estimates of borrowing + other long term liabilities (3rd party balances, provisions, amounts outstanding on leases, government grants deferred and other contributions deferred)	£000	195,000	207,000	218,000
Authorised limit (for other long term liabilities)	Estimate	Years 1, 2 and 3	Authorised limit for other long term liabilities	Estimates of borrowing + other long term liabilities (3rd party balances, provisions, amounts outstanding on leases, government grants deferred and other contributions deferred)	£000	1,670	4,400	5,500
Authorised limi(for total external debt)	Estimate	Years 1, 2 and 3	Authorised limit for borrowing + authorised limit for other long term liabilities	Estimates of borrowing + other long term liabilities (3rd party balances, provisions, amounts outstanding on leases, government grants deferred and other contributions deferred)	£000	196,670	211,400	223,500
Operational boundary (for borrowing)	Estimate	Years 1, 2 and 3	Operational boundary for external debt	As above less contingency provision.	£000	178,000	188,000	199,000
Operational boundary (for other long term liabilities)	Estimate	Years 1, 2 and 3	Operational boundary for other long term liabilities	As above	£000	1,520	4,020	5,020
Operational boundary (for total external debt)	Estimate	Years 1, 2 and 3	Operational boundary for external debt + operational boundary for other long term	As above	£000	179,520	192,020	204,020

Indicator	Basis	Period	Definition	SCC Methodology	Unit	2009/10	2010/11	20011/12
			liabilities					
Treasury Management								
Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services			The Local Authority has adopted CIPFA's Code of Practice		ADOPTED FEBRUARY 2003	✓	✓	✓
Fixed interest rate exposure - upper limit	Estimate	Years 1, 2 and 3	Interest payable on borrowing at fixed rates - interest receivable on fixed rate investments ***or*** principal sums outstanding in respect of borrowing at fixed rates - principal sums outstanding in respect of investments at fixed rates	Upper limit	%	100%	100%	100%
Variable interest rate exposure - upper limit	Estimate	Years 1, 2 and 3	Interest payable on borrowing at variable rates - interest receivable on variable rate investments or principal sums outstanding in respect of borrowing at variable rates - principal sums outstanding in respect of investments at variable rates	Upper limit	%	20%	20%	20%
Maturity structure of borrowing (upper and lower limits)	Estimate	All years	Amount of projected borrowing that is fixed rate maturing in each period / total projected borrowing that is fixed rate x 100%	Ranges for each period		See below	See below	See below

Indicator	Basis	Period	Definition	SCC Methodology	Unit	2009/10	2010/11	20011/12
Total principal sums invested for periods longer than 364 days	Estimate	All years	Total principal sum invested to final maturities beyond the period end		£000	10,000	10,000	10,000

Maturity Structure of Borrowing	2008-09		Future Years	
Period	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	10%	0%	10%	0%
12 months and within 24 months	10%	0%	10%	0%
24 months and within 5 years	20%	0%	20%	10%
5 years and within 10 years	50%	25%	50%	25%
10 years and above	95%	50%	95%	50%

TREASURY MANAGEMENT STRATEGY 2009-10

1. TREASURY POLICY

This Strategy is pursuant to the Treasury Policy and in accordance with CIPFA's revised Code of Practice for Treasury Management in Local Authorities, and Treasury Management Practices (TMP) as adopted by the Council in February 2003.

2. TREASURY MANAGEMENT

The Council's Treasury Management activities include the following:-

- Cash Flow (daily balances and longer term forecasting)
- Investing surplus funds
- Borrowing to finance day to day cash fluctuations
- Funding of capital investment through borrowing, capital receipts, grants or leasing
- Management of debt (including restructuring and monitoring an even maturity profile)
- Interest rate exposure management
- Managing exposure to risk
- Procedures for dealing with brokers, banks and the Public Works Loan Board (PWLB).

3. ANNUAL INVESTMENT STRATEGY

3.1 Under the powers of the Local Government Act 2003 the Secretary of State has issued guidance on local authority investments. Local Authorities are required under the Act to have regard to this guidance, which recommends that an Annual Investment Strategy should be approved each year by Full Council. The guidance does not apply to pension and trust funds, which are covered by a completely separate regulatory regime. A copy of the guidance is attached to this Strategy.

3.2. The general policy objective of the guidance is that local authorities should invest prudently the surplus funds held on behalf of their communities. Priority is given to the security and liquidity of funds, but this should not mean that yield is ignored. It is necessary as under previous regulations to seek the highest rate of return consistent with proper levels of risk and security. Clearly, the Council's exposure to risk in the current economic climate is paramount in its consideration of its investment strategy. The strategy is the over-arching framework by which risk is to be managed, and provides the governance framework for implementing procedures and controls over lending.

3.3. The guidance provides for a concept of specified and non-specified investments. A **Specified Investment** is one with a term no longer than 364 days which is made with a body or scheme which has been awarded a high credit rating by an approved credit rating agency. The two such agencies used by the Isle of Wight Council are included in those recommended by the Secretary of State. It is proposed that as part of this Council's Investment Strategy that the approved organizations for specified investments are as set out in Schedule One to this strategy and that the associated credit ratings are monitored on an ongoing basis (and at least weekly). Only those organizations with a rating of A2 or better will be included as specified investments.

3.4. With regard to **Non Specified Investments** for 2009/10, these could be used to add wider flexibility and improved returns on the current investment portfolio, without the addition of any significant risk. In order to determine approved bodies for unspecified investments, this could be achieved by limiting it to those bodies approved for specified investments who also satisfy the top credit ratings for longer term investments (those classified Aa or above). It is proposed that such investments should be limited to a maximum of £5 million with any one organisation for a period of up to three years. In addition specified investments should not exceed 25% of the investment portfolio at the time of the investment.

3.5. Credit ratings are monitored on an ongoing basis with any changes reported to the Director of Resources. The Director of Resources is responsible for the implementation of the Investment Strategy and it is proposed that the Council's authority to enact any changes, consistent with approved credit ratings be delegated to the Director of Resources.

3.6. The current policy is that the investment of surplus funds is limited to:

Major British Clearing Banks and Subsidiaries
Larger Merchant Banks
Top Building Societies
Other Local Authorities
Approved Money Market Funds
UK Debt Management Office (part of HM Government)

3.7. The Council will also use pooled money resources that may become available through the auspices of approved organisations for Investment, as contained above and to include H M Treasury. The limit of such investment to be placed at £8 million per each approved source and varied at the discretion of the Director of Resources. The exercise of such discretion to be reported to the Cabinet as part of the Annual Reporting requirement as contained under TMP6.

4. BORROWING STRATEGY

4.1. The objectives of the strategy will be:

a) To minimise the revenue costs of debt

b) To manage the Council's debt maturity profile

c) To affect funding in any one year at the cheapest cost commensurate with future risk

d) To forecast average future interest rates and borrow accordingly

e) To monitor and review the level of variable interest rate loans in order to take advantage of interest rate movements.

f) To restructure debt in order to take advantage of potential savings as interest rates change.

4.2. EXPOSURE TO VARIABLE INTEREST RATES

The Prudential Code requires the Council to fix each year the maximum proportion of interest on borrowing which is subject to variable rate interest.

In order to take advantage where appropriate of low short-term interest rates it is proposed that for the financial year 2009-2010, **the limit on the proportion of interest payable by the Council which is at a rate or rates which can be varied by the person to whom it is payable or by reference to any external factors be 20%.**

4.3. STRATEGY

The strategy will in general be:

- to borrow long term when interest rates are relatively low and to borrow short term when interest rates are judged to be high.

- to keep a reasonable balance between short term and long term loans so that there is not an unreasonable exposure to short term loans with corresponding risk of increased interest charges or over reliance on long term loans which could restrict flexibility in renewing debt at advantageous interest rates.

- to aim generally to be in a net day to day borrowing position so that the need for investment of temporary excess funds is avoided as far as possible.

This will be subject to variation in order to take advantage where appropriate of prevailing market conditions.

For 2009-2010 the strategy will be to continue to borrow medium to long term at fixed interest rates, having regard to the reduced interest rates that are likely to be available.

4.4. DEBT RESTRUCTURING

The strategy in respect of debt restructuring will be to use available PWLB quota to take advantage of opportunities to redeem PWLB debt or convert from fixed to variable rates or vice versa and replace debt so as to smooth the pattern of debt repayment and/or minimise overall long term capital financing costs. Consideration will be given to the availability and attractiveness of loans other than PWLB for debt restructuring purposes.

4.5. APPROVED BORROWING INSTRUMENTS

The following list specifies which borrowing instruments, on and off-balance sheet can be adopted. Only those marked ✓ are currently used by the Council.

Type of Instrument	Fixed	Variable
PWLB	✓	✓
Market Long-term	✓	✓
Market Pooled Funds	✓	✓
Market Temporary	✓	✓
Local Bonds		
Overdraft		✓
Negotiable Bonds		
Stock Issues		
Internal (capital receipts and revenue balances)	✓	✓
Leasing	✓	✓
Bills		

5. SOURCES OF FINANCING

The following specifies which borrowing instruments the Council may adopt.

5.1 PUBLIC WORKS LOAN BOARD (PWLB)

The main source of longer term borrowing for the Council for many years has been from the Government through the Public Works Loan Board. During 2008-09 the Council has continuously reviewed the risk associated with its short-term lending, and has taken the opportunity to repay around £15m of its long-term debt, rather than to leave it at risk in the current economic climate. This is one measure which has been taken to counter the risk of exposure to the Icelandic banks situation to which the Council was not exposed.

It is still likely that the PWLB will remain the major source of the Council's long term borrowing requirements. The 2009-10 quota for the Council is estimated to be £70 million (which represents the difference between the Council's authorised borrowing limit and its existing external debt). The capital programme requirement for financing in 2009-10 provides for a total of £7.4 million of supported borrowing and £12 million of prudential borrowing (but borrowing in total could be as high as £49 million if the need to borrow in 2008-09 proves unnecessary because of slippage in the capital programme). It is clear therefore that the available quota of PWLB borrowing is far in excess of the Council's borrowing needs.

5.2. MONEY MARKET LOANS - LONG TERM AND POOLED FUNDS

The availability of PWLB loans has become easier and their rates of interest are expected to remain competitive. Loans are also available through the London money market in particular longer term loans (40 years) which carry a low initial period of interest, but where the lender has the option to raise the rate after this period. If that option is taken, the Council is free to repay if it so chooses without penalty. These Lenders Option: Borrowers Option (LOBO) loans can be an effective complement to PWLB borrowing in structuring the loan portfolio and debt rescheduling.

5.3. OVERDRAFT & TEMPORARY LOANS

An overdraft limit of £3m is available with the Council's bankers. This facility will be used on occasions when temporary borrowing is difficult, or for amounts of under £250,000 wherever the transaction costs outweigh any benefits from using the money market.

6. MINIMUM REVENUE PROVISION

Internal funds include Minimum Revenue Provision (MRP) which is a statutory provision in respect of capital borrowing .There is no provision in legislation to compel authorities to use MRP to repay external debt, and those funds could be externalised as investments if conditions merit such an approach.

7. POLICY ON EXTERNAL ADVISERS

7.1. Treasury Advisers have been previously employed by the Council to:

- forecast movements in long term and short term interest rates
- advise on long term borrowing and debt maturity profiles
- advise on leasing and capital finance legislation
- restructuring of PWLB debt
- advise on future interest rate movements (including PWLB) and other market developments

The Director of Resources has responsibility for the review of future provision of such advice, and to amend the conditions or appoint different advisers as appropriate.

SCHEDULE ONE –APPROVED LENDING LIST FOR SPECIFIED INVESTMENTS

	Notes	Limit £000s		Period
Commercial Banks				
Abbey National B.R. Account	1	8000	)	
Alliance & Leicester	1	0	)	
Bank of Scotland Corp Deposit Account	2	8000	)	
Barclays		8000	)	
Clydesdale Bank		6000	)	Up to
Bank of Scotland Treasury Services	2	0	)	364
HSBC		8000	)	days
Lloyds TSB	2	0	)	
National Westminster	3	7000	)	
Royal Bank of Scotland	3	0	)	
Standard Chartered		6000	)	
Merchant Banks				
JP Morgan & Chase Co		4000	)	No loans
Rothschild (Nm)		4000	)	over one
Schroder & Co		4000	)	month
Building Societies				
Coventry Bs		6000	)	No loans
Leeds Bs		6000	)	over six
Skipton Bs		6000	)	months
Local Authorities £3m. Maximum				364 days
UK Debt Management Office		No limit		N/A
Money Market Funds				
Royal Bank of Scotland Global Treasury Funds	3	1000		N/A

Notes :

1 Part of the Banco Santander Group , in total maximum £8 million

2 Part of Lloyds bank Group, in total maximum £8m

3 Part of Royal Bank of Scotland , in total maximum £8m

GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS

Issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003

DEFINITIONS

1. In this guidance, 2003 Act means the Local Government Act 2003

2. Local authority (except in paragraph 12(d) below) has the meaning given in section 23 of the 2003 Act (and in regulations made under that section). To the extent that this guidance applies to parish councils and charter trustees (see paragraph 6 below), a reference to a "local authority" includes those councils and trustees.

3. An investment is a transaction which relies upon the power in section 12 of the 2003 Act and is recorded in the balance sheet under the heading of investments within current assets or long-term investments. The term does not include pension fund and trust fund investments, which are subject to separate regulatory regimes and are therefore not covered by this guidance.

4. A long-term investment is any investment other than (a) one which is due to be repaid within 12 months of the date on which the investment was made or (b) one which the local authority may require to be repaid within that period.

5. A credit rating agency is one of the following three companies: Standard and Poor's; Moody's Investors Service Ltd, Fitch Ratings Ltd.

APPLICATION

6. This guidance applies in relation to the financial year 2004-05 and subsequent financial years. It applies only in England. It applies to all local authorities. It also applies to parish councils and charter trustees, subject to the following conditions:

   (a) Where the parish council or charter trustee expects its investments at any time during a financial year to exceed £500,000, the guidance should apply in relation to that year.

   (b) Where the parish council or charter trustee expects its investments at any time during a financial year to exceed £10,000 but not £500,000, it should decide on the extent, if any, to which it would be reasonable to have regard to the guidance in relation to that year.

   (c) Where the parish council or charter trustee expects its investments at any time during a financial year not to exceed £10,000, no part of this guidance need be treated as applying in relation to that year.

ANNUAL INVESTMENT STRATEGY

7. The Secretary of State recommends that a local authority produces an Annual Investment Strategy, approved by the full council that sets out the local authority's policies for managing its investments and for giving priority to the security and liquidity of those investments, as indicated in this guidance.

8. The Secretary of State considers that where the local authority is operating executive arrangements, it would be preferable for the local authority (ie the full council), rather than its executive, to approve the Strategy. Under Schedule 4 to the *Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (S.I. 2000/2853, as amended),* the authority has discretion to determine that the decision should be taken by them on whether the Strategy should be approved. The Secretary of State therefore recommends that they make such a determination.

9. For *authorities* without a full council, approval of the Strategy should be at the closest equivalent level.

10. Variations to the Strategy may be made at any time, subject to the same process of approval.

11. The Secretary of State recommends that the Strategy for any financial year should normally be approved before the start of that year. For the year 2004-05 only, it should be approved either before the start of the year or as soon as possible after the start. The Strategy and any variations should be made available to the public.

SECURITY OF INVESTMENTS

Specified Investments

12. An investment is a specified investment if:

    (a) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;

    (b) the investment is not a long-term investment (as defined in paragraph 4);

    (c) the making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 BSI 3146 as amended];* and

    (d) the investment is made with a body or in an investment scheme which has been awarded a high credit rating (see paragraph 13) by a credit rating agency (as defined in paragraph 5) or is made with any of the following:

        (i) the United Kingdom Government

        (ii) a local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland

        (iii) a parish council or community council.

13. For the purposes of paragraph 12(d) above, the Secretary of State recommends that the Annual Investment Strategy states:

    (a) how *high* credit rating is to be defined for the categories of investments which the local authority intends to use in the financial year

    (b) how and how frequently credit ratings are to be monitored and what action is to be taken when ratings change.

Non-specified Investments

14. With regard to non-specified investments (ie those not meeting the definition in paragraph 12), the Secretary of State recommends that the Annual Investment Strategy:

    (a) sets out procedures for determining which categories of such investments may prudently be used;

    (b) identifies which categories of such investments have so far been identified as prudent for use during the financial year; and

(c) states the upper limits for the amounts which, at any time during the financial year, may be held in each identified category and for the overall amount which may be held in non-specified investments (the limits being defined by reference to a sum of money or a percentage of the local authority's overall investments).

LIQUIDITY OF INVESTMENTS

15. The Secretary of State recommends that the Annual Investment Strategy sets out procedures for determining the maximum periods for which funds may prudently be committed.

ANNUAL MINIMUM REVENUE PROVISION (MRP) POLICYSTATEMENT 2008/09 AND 2009/10

1. INTRODUCTION AND BACKGROUND

This is Policy statement is required by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, which came into force on 31 March 2008. The Regulations require Full Council to approve an Annual Statement of Minimum Revenue Provision, which is the amount set aside from revenue for the repayment of debt principal relating to the General Fund. For the 2009/10 financial year Full Council will be asked to approve the Annual Statement as part of the Annual Investment and Treasury Management Strategy.

Local authorities are required (annually) by statute to set aside some of their revenues as provision for debt repayment. This is commonly termed the minimum revenue provision (MRP). The effect of this is to slow down the rate at which the Council's outstanding debt position increases. MRP has to be calculated based on capital expenditure (financed by borrowing) and incurred to the previous 31 March.

Communities and Local Government have issued SI 414 which came into operation on the 31 March 2008 and thus applies with effect from 2007-08 financial year. It offers more flexibility to the previous statutory guidance. It also requires local authorities to approve an annual MRP Statement.

This report sets out:

- Current Isle of Wight Council (IWC) practice
- The new options.
- A recommended annual MRP Statement for the Council for 2008/09 and 2009/10 as required by the regulations.

2. CURRENT PRACTICE

At present local authorities are required to set aside 4% of their opening Capital Financing Requirement (CFR). The CFR represents the Council's requirement to borrow to finance its capital investment.

In addition the Council can opt to set aside additional revenue contributions for debt repayment.

IWC practice has been to:

- Comply with the statutory requirement regarding the 4% set aside.

The 2008/09 Budget figures are set out below:

	£'000
Opening 2008/09 Capital Financing Requirement (CFR)	168,630
Gross MRP (at 4%)	6,745
Less Commutation Adjustment	(167)
Net MRP	**6,578**

3. THE NEW PROPOSALS

The new regulations do not define prudent provision, but MRP guidance has been issued by DCLG which makes recommendations to authorities on the interpretation of the term 'prudent provision'. The Council is therefore obliged to have regard to the MRP guidance. The new 'statutory guidance' requires authorities to prepare an Annual Statement of their policy on making MRP for submission to full Council. This mirrors the existing requirements to report to full Council on the Prudential Borrowing Limit and Investment Strategy. The aim is to give members the opportunity to scrutinise the proposed use of additional freedoms granted under the new MRP arrangements.

The guidance notes suggests that Councils can choose from (or combine) 4 options which constitute 'prudent provision' regarding the MRP calculation. The Council can also devise its MRP approach, but will have to take legal advice and consult external auditors if their approach departs significantly from the guidance.

Option 1 "Regulatory method"

This provides for local authorities to continue to calculate MRP in line with the minimum existing statutory charge of 4% for supported borrowing only. However as a transitional measure, this option will also be available for all capital expenditure incurred prior to 1 April 2008. This means that the MRP as budgeted for 2008/09 can remain as budgeted for and based on the 4% charge. This charge relates to the opening CFR plus expenditure incurred (and financed by borrowing) in 2007/08.

Option 2 "Capital Financing Requirement method"

This provides for authorities to calculate MRP but without taking the benefit of the Adjustment A figure which was the main device for achieving neutrality between the old and the new MRP systems in 2004.

Option 3 "Asset life method"

This provides for separate treatment for supported and unsupported (prudential) borrowing.

For supported borrowing MRP can be calculated as at present (4% on the CFR).

For unsupported borrowing the debt would be written down over the estimated asset life for which the borrowing has been undertaken.

This is a simpler alternative to option 4.

- For new build, the debt write off would start the year after an asset comes into use. This would provide transitional relief (in effect a payment holiday) as schemes are brought on stream and is to be welcomed.
- The level of unsupported borrowing can be excluded from the 4% CFR calculation. This is logical because you are otherwise, in the short-term, writing down debt 'twice' (at both 4% and over the asset life).

There are two methods identified for doing this which both have essentially similar outcomes. The Council can also make voluntary extra provision.

Under this option authorities may wish to carefully consider the type of assets they fund through prudential borrowing. For example, in the short-term, it could be financially advantageous to fund schemes that have a long asset life, rather than a short-life, through prudential borrowing. This would reduce the MRP charge. This Council only undertakes prudential borrowing when it is considered affordable and is supported by a business case. For example if IT equipment is purchased through prudential borrowing it is more sustainable for the debt to be repaid over the asset life. This ensures that revenue capacity is retained for its replacement.

For option 3 to work clear accounting records will need to be maintained of the use of supported and unsupported borrowing. However the Council can opt to provide for MRP on the same basis for supported and unsupported borrowing.

<u>Option 4 "Depreciation method"</u>

This is similar to Option 3. It provides for separate treatment for supported and unsupported (prudential borrowing).

The difference is that it provides for schemes that have been financed from unsupported borrowing to be written down by an amount equivalent to the amount of depreciation provision arrived at under standard accounting rules.
This would be technically more difficult for the Council to introduce and would require a change in existing practice. There could also be future complications regarding asset revaluations that could result in significant increases in debt repayment levels.

Option 4 is not considered as attractive as option 3.

4. RISK ASSESSMENT OF RECOMMENDATIONS AND OPTIONS

Risk	Risk Assessment	Risk Level	Risk Management
Insufficient MRP provided for in the Council's budget	Any new borrowing that the Council takes out will incur a MRP charge in the revenue budget which will specifically relate to the asset acquired or enhanced. This 'charge' will need to be built into the revenue budget to ensure the Council has sufficient resources available to meet the liability.	Medium	All new capital schemes require a report being submitted to Council for approval. By including an assessment of MRP there will be an early indication as to any future MPR liability which can be built into the budget accordingly.

5. BUDGET/RESOURCE IMPLICATIONS

There would be no financial implications to the Council of applying Option 1 ("Regulatory Method") to 2007-08 borrowing against capital expenditure, as there is no departure from the current method of calculation. Sufficient resources therefore exist within the current years budget to meet the current revenue commitment.

The original capital receipt estimate in the Capital programme would have been sufficient to finance capital investment that is written off in year. The reduced level of receipts will have to be met from increased borrowing above investment strategy or reducing the capital programme to levels of financing currently available. This will impact on the affordability of the capital programme within the revenue budget.

6. CONCLUSIONS

Under transitional arrangements any of the four options may be used for supported expenditure or self-financed expenditure (prudential borrowing) in 2007/08 and 2008/09. When full adoption is required in 2009/10 options 1 and 2 can only be used for supported expenditure whilst options 3 and 4 can be used for both supported expenditure and self-financed expenditure

MRP 2008-09
This takes account of new capital expenditure incurred in 2007-08. All options may be used and it is recommended that IWC proceed with Option 1. MRP for 2008/09 has been budgeted for on the basis of Option 1. In 2008/09 it is therefore proposed to continue with the regulatory method.

MRP 2009-10
The Council is being asked to approve the policy for calculating a prudent MRP for 2009/10 .

The MRP policy must be submitted to the council before the start of 2009-10 financial year and takes account of capital expenditure incurred in 2008-09. Options 1&2 may be used only for expenditure financed by supported borrowing. Only Options 3 or 4 constitute ‘prudent provision’ for unsupported borrowing, but may also be used for supported expenditure if the Council chooses.

The recommended policy (and that which is implicit in the provision made in the 2009/10 budget for MRP) is that option 3 will be used for both supported and unsupported borrowing to be implemented from 1 April 2009 (ie that it will be applied to capital financing incurred during 2008/09).

MRP would be calculated based on equal annual instalments over the estimated life of the asset for which the borrowing is undertaken. The estimated life of each asset will be assessed each year based on types of capital expenditure being incurred. This option allows an authority to defer the introduction of an MRP charge for new capital projects /land purchase until the year after the asset comes into operation.

7. RECOMMENDATION

To comply with The Local Authorities (Capital Finance and Accounting)

(England) (Amendment) Regulations 2008, it is recommended that Full Council approve the following:

- **For the 2008/09 financial year (and thereafter until this policy is reviewed) the Council makes Minimum Revenue Provision in accordance with the Regulatory Method 1 in respect of the Capital Financing Requirement outstanding at 1 April 2008.**

- **For 2009/10 financial year (and thereafter until this policy is reviewed) the Council makes Minimum Revenue Provision in respect of both new supported and new unsupported borrowing in accordance with the Regulatory Method 3 (asset life).**

MINIMUM REVENUE PROVISION STATEMENT 2007/08, 2008/09 & 2009/10

	2007/08 £
Supported Borrowing	
Closing CFR 2005/06	156,949,365
Add: SCE	12,730,000
Less: MRP 2006/07	(6,262,000)
Closing CFR (Supported) 31.03.07	163,417,365
Unsupported Borrowing	
Unsupported Borrowing B/Fwd	0
Add: In year Borrowing	(0)
Less: MRP Previous year	0
Closing CFR (unsupported)	0
Total Closing CFR	163,417,365
Summary MRP	
MRP Supported	6,536,695
MRP Unsupported	0
Total MRP 2007/08	6,536,695

	2008/09 £
Supported Borrowing	
Closing CFR 2006/07	163,417,365
Add: SCE	11,749,573
Less: MRP 2007/08	(6,536,695)
Closing CFR (Supported) 31.03.07	168,630,243
Unsupported Borrowing	
Unsupported Borrowing B/Fwd	0
Add: In year Borrowing	0
Less: MRP Previous year	(0)
Closing CFR (unsupported) 31.3.08	0
Total Closing CFR	168,630,243
Summary MRP	
MRP B/Fwd Supported @ 4%	6,745,210
MRP New Supported – asset life	0
	0
MRP Unsupported – asset life	
Total MRP 2008/09	6,745,210

	2009/10 £
Forecast Supported Borrowing	
Closing CFR 2007/08	168,630,243
Add: SCE	
	16,079,000
Less : MRP 2008/09	
Brought forward	(6,745,210)
New SCE	(0)
Closing CFR (Supported)	177,964,033
Unsupported Borrowing	
Unsupported Borrowing B/Fwd	0
Add: In year Borrowing	13,529,000
Less: MRP Previous year	(0)
Closing CFR (unsupported) 31.3.09	13,529,000
Total Closing CFR	191,493,033
Summary MRP	
MRP B/Fwd @ 4%	6,482,000
MRP New Supported – asset life	434,000
MRP Unsupported – asset life	
	852,000
Total MRP 2009/10	7,740,000