



**Meeting: Overview and Scrutiny Board
Council**

**Date: 6 September 2017
13 September 2017**

Wards Affected: All

Report Title: Update to the Capital Plan 2017/2018

Is the decision a key decision? No

When does the decision need to be implemented?

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1. Proposal and Introduction

- 1.1 The Capital Plan budget totals £169 million for the 4 year programme, with £84.2 million currently scheduled to be spent in 2017/18, including £46.1m on two Investment Fund opportunities, £3.9m on the Western Corridor and £15.5m on Regeneration projects (although this is subject to review), but still requires £0.3 million from capital receipts and capital contributions over the life of the Capital Plan.
- 1.2 The Council's Capital Plan is updated on a quarterly basis which includes any new funding announcements and allocations. It provides high-level information on capital expenditure and funding for the year compared with the last Plan update as reported to Council in February 2017.

2. Reason for Proposal

- 2.1 Quarterly reporting to both the Overview and Scrutiny Board and to Council is part of the Council's financial management.
- 2.2 There are a number of Council schemes where Council approval is required for the allocation of funds to a scheme or service including the approval of any prudential borrowing.
- 2.3 As a result of changes in the Council's capital plan since February 2017 in relation to schemes funded from prudential borrowing, it is recommended that both the operational boundary and the authorised limit are increased.

3. Recommendation(s) / Proposed Decision

3.1 That Council note the latest position for the Council's Capital expenditure and funding for 2017/18.

3.2 That Council approve the allocation of the following grants to services:

3.2.1 Dept of Health – Disabled Facilities Grants (DFGs) 2017/18, £1.631million to Disabled Facilities Grants/Adults Social Care. Members are recommended to allocate £1 million to fund DFGs with the remaining £0.631m to be used under the terms of the Better Care Fund.

3.2.2 Dept for Education: 2017/18 Devolved Formula Capital £0.079m to Children's Services (ringfenced grant)

3.2.3 Dept for Education: 2017/18 School Condition grant £0.418m to Children's Services

3.2.4 Dept for Education 2019/20 Basic Need grant £0.559m to Children's Services.

3.2.5 Dept for Education 2018/19 - 2020/21 Special Provision Fund £0.5m (total) to Children's Services.

3.2.6 Dept for Transport – Highways Structural Maintenance Incentive element (2017/18) £0.109m to Highways.

3.3 That Council increase the 2017/18 operational borrowing boundary to £310m, being £290m for external borrowing and £20m other liabilities, from £191m.

3.4 That Council increase the 2017/18 authorised borrowing limit to £330m, being £310m for external borrowing and £20m other liabilities, from £255m.

4 Supporting Information and Impact Assessment

4.1 Members of the Overview and Scrutiny Board and Council receive regular budget monitoring reports on the Council's Capital Plan throughout the year. The Council's four year Capital Plan is updated each quarter through the year. This report is the monitoring report for the first quarter 2017/18 and includes variations arising in this quarter to the end June 2017.

4.2 The overall funding position of the 4 year Capital Plan Budget of £168.3 million, covering the period 2017/18 – 2020/21, is primarily fully funded but still relies upon the generation of £0.7 million of Capital income from capital receipts and capital contributions over the life of the Capital Plan.

4.3 Of this £0.7m funding requirement, Capital Receipts of £0.4 million have been received by the end of June 2017, leaving a balance of £0.3 million still to be realised from both capital receipts and capital contributions. It is only after this target has been reached that any capital receipts should be applied to new schemes.

- 4.4 As the target income for capital receipts and capital contributions are required to meet existing Council commitments, it is important that any capital income raised is allocated to existing commitments and not used to support additional expenditure on new schemes.
- 4.5 The movements in the estimate of expenditure in 2017/18 on the Capital Plan between the last monitoring report at February 2017 of £56.3m and the current approved budget for 2017/18 of £84.2m are shown below. Please note the format of this table shows schemes ordered by Council's Targeted Actions, as is Appendix 1.

Scheme	Variation in 2016/17	Change £m	Reason
Estimate as at Q3 2016/17		56.3	Capital Plan Update – 2016/17 Quarter 3 (Report 25 Feb 2017)
Budget changes since last report (Q3 2016/17)			
		56.3	
Scheme budgets brought forward from 2016/17 and year end adjustmts.	Re profiled to 2017/18	4.9	For details see 2016/17 Capital Outturn report (Council 22 June 2017)
		61.2	
Protecting Children			
Capital repairs & maintenance 17/18	Additional resources	0.4	New Govt grant allocation
Devolved Formula Capital	New Govt grant allocation	0.1	2017/18 ringfenced grant allocation
New Paignton Primary School	Additional funding	0.5	Transfer budget from Torbay School Relocation
Torbay School Relocation	Rephased part of budget	(1.0)	Project on hold pending identification of alternative site
	Reduced budget to fund other scheme	(0.5)	Budget reallocated to New Paignton Primary School
Torquay Secondary School places	Rephased part of budget	(0.8)	Classroom extensions likely completion in 2018/19
		(1.3)	
More Prosperous Torbay			
Claylands Redevelopment	Rephased budget	(8.0)	Project slipped pending further report to Council
Edginswell Business Park	New scheme budget	6.6	Scheme approved by Council 22/06/17
		(3.6)	Part moved to 2017/18
Employment Space, Torbay Business Park	Rephase part budget	(1.0)	Expected completion in 2018 so part budget moved
Innovation Centre	Additional resources	1.2	ERDF grant funding

Phase 3 (EPIC)	Rephased budget	(5.5)	confirmed Reviewed cashflow plans
Investment Fund	Increase budget	17.1	Potential investment opportunity – Council 13/06/17
	Budget rephased for new acquisitions	18.6	Rephased from future years
South Devon College	New scheme	4.0	Council 23/02/17 approved loan for Hi-tech facilities
Upton Place Student Accommod.	New scheme	0.2	Council 10/05/17 approved £14.2m scheme
Transport – Edginswell Station	Rephase budget	(2.2)	Delayed pending funding bid and Council report
Transport – Highway Structural Maintenance	Additional budget	0.1	Indicative 17/18 Incentive element allocation
Transport – Torquay Gateway	Budget moved	(2.8)	Scheme temporarily on hold
		24.7	
Attractive and Safe place			
Parkwood Leisure loan re TLC	New scheme	1.7	Council 22/06/17 approved loan
Pgn Harbour Lights Redevelopment	New scheme	0.6	Scheme approved by Council 22/06/17
Princess Pier – Structural repair	Rephase budget	(1.2)	Review expenditure profile
		1.1	
Protect and Support Vulnerable Adults			
Adult Social Care	Budget allocation	0.6	Part of DFG 2017/18 grant allocation
Affordable Housing	Increase budget	0.3	Budget increased by Right To Buy receipts 2016/17
	Budget moved	(1.2)	Transfer to future years
Disabled Facilities Grants	Budget allocation	1.0	Part of DFG 2017/18 grant allocation
Empty Homes Scheme	Rephased budget	(0.5)	Transfer to 2018/19
Private Sector Renewal	Rephased budget	(0.1)	Moved to 2018/19
		0.1	
Corporate Support			
Essential capital repairs	Budget transferred to future years	(1.0)	Review of likely expenditure needs
General Contingency	Budget moved to 2018/19	(0.6)	Contingency unlikely to be required this year
		(1.6)	
Estimate – Quarter One 2017/18		84.2	

4.6 Expenditure

- 4.7 The Capital Plan Budget has been updated for any further revision to both projects and timing, resulting in the latest revision attached to Annex 1. The Plan now totals £169 million over the 4 year period of which £84.2 million relates to 2017/18 and £45.8 million relates to 2018/19.
- 4.8 The purpose of this report and the Monitoring statement attached is to highlight any existing or potential issues which may affect the delivery of the major projects included in the Plan and to consider any potential effect on corporate resources.
- 4.9 Expenditure to the end of this first quarter was £3 million with a further £9.4 million of commitments on the Council's finance system. The expenditure of £3 million is only 4% of the latest budget for 2017/18. This compares with £1 million (or 3% of outturn) for the first quarter last year. Since quarter one a further £43m has been spent on two investment properties.
- 4.10 The Chief Finance Officer has challenged service managers on a number of spending profiles and it is expected further re profiling will occur on a number of schemes.

	2012/13 £m (%)	2013/14 £m (%)	2014/15 £m (%)	2015/16 £m (%)	2016/17 £m (%)	2017/18 £m (%)
Quarter One	2 (11%)	4 (23%)	2 (10%)	1 (4%)	1 (3%)	3 (4%)
Quarter Two	4 (21%)	4 (23%)	4 (20%)	4 (17%)	3 (8%)	
Quarter Three	5 (26%)	3 (18%)	4 (20%)	8 (35%)	2 (5%)	
Quarter Four	8 (42%)	6 (35%)	10 (50%)	10 (44%)	32 (84%)	
Total In Year	19	17	20	23	38	84

4.11 Updates to Capital Plan

4.12 Protecting and Supporting Vulnerable Adults.

- 4.13 Adult Social Care – £0.631m of the Government's grant allocation for Disabled Facilities Grants is expected to be used to support Adult Social Care under the terms of the Better Care Fund so is shown against this item in the Appendix pending confirmation of these allocations by Members.
- 4.14 Affordable Housing – in line with the Council's approved Capital Strategy, the budget to support affordable housing schemes has been increased by £0.251 m to reflect the 2016/17 Right to Buy Clawback receipt received from Sanctuary Housing Association under the terms of the Council's original housing stock transfer agreement with (the then) Riviera Housing Trust. In addition a further £0.22 m Section 106 funds earmarked for Affordable Housing have been secured and have been added to the available budget in future years.
- 4.15 The affordable housing budget now totals £2.4m and at present this has not been allocated to specific schemes. Council in July approved the Housing Policy Framework. Linked to that framework it is expected that a report will be presented to Council in September 2017 to identify projects which could be supported from these resources.

- 4.16 The Council meeting on 20 July approved a £25m capital loan (funded from Prudential Borrowing) to facilitate the work of a proposed Housing Rental Company. This loan facility will be drawn down as required but has been included in the Capital Plan spread over the next three years (2018/19 - 2020/21), but is noted here for information.
- 4.17 Disabled Facilities Grants – £1.0 million of the £1.631 million Government grant allocation has been added to the figures in the Appendix on the basis of this Report's recommendation. The balance is shown against Adult Social Care.
- 4.18 **Protecting Children:**
- 4.19 There are a number of variations to budgets on various schemes as detailed below.
- 4.20 Capital Repairs and Maintenance (Condition funding) – the 2017/18 allocation of School Condition grant of £0.418m has been shown here pending confirmation by Council.
- 4.21 Devolved Formula Capital grant allocation for 2017/18 of £0.079m is a ring fenced grant and has been added to the Capital Plan.
- 4.22 New Paignton Primary School – It is anticipated that the new school will be a Free School with funding from the Education Funding Agency however progress is delayed awaiting instructions on revised site options. The EFA funding is dependent on the authority providing the site as a matter of urgency – at present the Council does not have a suitable site but has identified a site option which will cost approx £0.5 m. It is proposed to transfer funds from the Torbay School relocation budget, (since this project is currently on hold and will need to be reviewed when an alternative relocation site is identified), in order to enable the rapid site acquisition. A report was presented to Council in August 2017 to identify a site for the new school.
- 4.23 Secondary School places - This project was delayed following a reduction in Government funding however work is again progressing with Science Laboratories likely to complete in September 2017 but completion of the classroom extension is now not expected until September 2018. Consequently £0.8m of the budget has been moved to 2018/19.
- 4.24 Torbay School Relocation - Project is on hold awaiting a decision on alternative sites for relocation following refusal of planning application for Parkfield. £1m of budget has therefore been re-phased to 2018/19. Further, since this project will have to be reviewed when an alternative location is identified as per paragraph 4.22 above, £0.5m of the budget is being reallocated to urgently provide funds to acquire a potential site for a new Paignton Primary (Free) School.
- 4.25 **Attractive and Safe Place**
- 4.26 Paignton 'Harbour Lights' Restaurant redevelopment – Council on 22 June 2017 approved the redevelopment of the Harbour Lights restaurant at Paignton Harbour. The redevelopment is estimated to cost £0.6m funded from Harbour Reserve £0.1m and Prudential Borrowing £0.5m.

- 4.27 Parkwood loan re Torbay Leisure Centre – as part of the proposed new lease agreement with Parkwood Leisure at Torbay Leisure Centre and Velopark, at its meeting on 22 June 2017, the Council approved a £1.7m loan to Parkwood to enable improvements at the Centre to help generate additional revenue. Subsequent to Council approval the Chief Executive took an emergency Council decision to vary the contract length to be 12 years rather than 10 years to ensure the term of the contract and loan are co-terminus.
- 4.28 **More Prosperous Torbay**
- 4.29 Claylands Redevelopment – preliminary ground investigation works are in progress with a further report to Council scheduled for September 2017. Consequently the project has slipped and £8m budget has been moved to later years.
- 4.30 Edginswell Business Park – a new £6.6m regeneration scheme was supported by Council on 22 June 2017 funded by Prudential Borrowing. The scheme will involve acquisition of the site and subsequent construction and development costs. The budget for the project is split between this and the next financial years.
- 4.31 Employment Site (Graphics Control) – This project is now underway with the site acquired and development works in progress. The scheme should complete in May 2018 and £1m budget has been re-phased to next year.
- 4.32 Innovation Centre Phase 3 - Electronics & Photonics Innovation Centre – ERDF funding of £1.2 million has been confirmed for this project, and now forms part of the scheme budget. Start on site is expected to be in October 2017 and the likely expenditure profile for this project has been reviewed, with £5.5 m of the budget moved to future years to reflect this.
- 4.33 South Devon College – Loan. This £4.0m loan funded from Prudential Borrowing to part finance the construction of a purpose-built high tech and digital centre for South Devon College has now been added to the Capital Plan following scheme approval by Council on 23 February 2017. The loan was transacted in July 2017.
- 4.34 Transport – Edginswell Station. A report on the project will be presented to Council shortly following the outcome of the New Stations Fund.
- 4.35 Transport Integrated Transport Schemes – the expenditure proposals for this budget will be submitted to Council for approval in a separate report. At this stage the budget remains unchanged.
- 4.36 Transport Structural Maintenance – The Government have given indicative grant allocations from their Incentive Fund (£0.109m) for 2017/18. If agreed by Members this amount will be added to the Highways Structural Maintenance budget to improve the condition of roads in Torbay. For convenience, the grant has been added to the budget shown in the Appendix.
- 4.37 Transport – Western Corridor and Tweenaway Cross. There are increasing demands on these budgets both from ongoing construction costs and related compensation claims. These cannot easily be delivered within existing budgets and commitments so officers are considering options, but additional resources are required and discussions are being held with the LEP to explore the possibility of

diverting funds from other schemes (e.g. Torquay Gateway).

- 4.38 Transport – Torquay Gateway. Works on the transport improvements around the Torquay Gateway sites are largely on hold whilst funding reviews and options for Western Corridor are considered. Consequently the bulk of the remaining budget has been moved to 2018/19 and 2019/20.
- 4.39 Upton Place, Lymington Road Student Accommodation – This £14.2m scheme to support a ‘design and build’ Town Centre regeneration project on part of the Town Hall car park site was approved by Council on 10 May 2017. The majority of the budget will be spent in future years but some initial preparatory work is budgeted in the current year.
- 4.40 Essential Capital Repairs – this budget is provided to enable urgent works to Council assets including Infrastructure. Part of the budget (£0.375m) was allocated to Freshwater Cliff stabilisation and there is a current urgent demand for sea wall repairs near The Boat House, Paignton and other potential flood alleviation works (see para 4.41 below). Officers will carefully consider and consult on how much and where this budget is to be allocated. £1.0m of the available budget has been moved to future years since it is unlikely to be used in the current year.
- 4.41 Flood Defence schemes – the Capital Plan currently includes a provision of £0.055m to support future Environment Agency schemes. The latest flood alleviation and coastal defence schemes within Torbay which have Environment Agency grant allocations require Torbay partnership funding of approximately £0.615 million from 2017/18 to 2020/21. It is possible that this funding could be allocated from the Essential Capital repair works budget. Officers will need to consider this option in the light of other potential demands on this budget.
- 4.42 Hollicombe Cliffs Rock Armour – Works progressing on site and all works should be completed by end of July 2017.
- 4.43 Haldon/Princess Piers Structural repair – Works are being undertaken to support an application of a business case for Environment Agency ‘grant in aid’ funding towards the next phase of the repair works. Again a large portion (£1.2m) of the budget allocation has been rephased to 2018/19 to reflect the likely expenditure profile.
- 4.44 Investment Fund – An increased budget of £17.0 m was agreed by Council on 13/06/17 for the potential acquisition of a further investment opportunity. In July 2017 that investment property was purchased. Resulting in a total spend to end of July of £67m from the Investment Fund.

Council at its June meeting approved a bid on another property, the purchase is expected to be completed by the end of August 2017 so at this stage this has not been included in the Capital Plan.

A revised investment fund strategy was approved by Council in August 2017 which increased the potential prudential borrowing on this fund to £200m. This increase has not been reflected in this quarter one report.

- 4.45 CCTV System – Council at its July meeting reapproved the decision of Council in

February 2016 for prudential borrowing of £0.350m to upgrade the council's CCTV equipment.

- 4.46 Office Rationalisation Project - There is a proposal for essential investment in office accommodation to be paid for from a combination of earmarked funds and a short term use of a reserve to be repaid from future rent income/accommodation savings from the top two floors of Torhill House. The works are estimated to cost £700k with funds of £340k already identified specifically for this purpose. It is intended to use the CSR reserve to fund the balance of £360k, to be repaid to that reserve by 2020/21. TDA have estimated that the "gain" from both rent and council premises savings for each floor is £80k per annum so the repayment period should be short term provided the space is let.

The works are necessary in terms of the Councils ongoing repairs and maintenance liability and include electrical works, repairs to windows, replacement of faulty and broken air conditioning units. The remainder of the works to be done are updating the existing accommodation in Electric House including the creation of larger open plan offices on the ground and first two floors to meet operational needs, (including a reception and meeting space for Children's Services, which is a requirement of their Improvement Plan), and some general refurbishment in terms of decoration and carpets which have not been done for a long period. The betterment will enable agile working and a higher density of usage of desks enabling the space to be freed in Torhill House.

- 4.47 General Contingency - The Council has approved a capital contingency of £0.6 million. This contingency is still in place to provide for unforeseen emergencies or shortfall in projected income over the 4-year Plan period but represents only 0.4% of the total Capital Plan budget. Currently it is not anticipated that the contingency will be required in this financial year so the budget has been moved to next year.

- 4.48 Council 23 February 2017 - Capital Plan decision update:

The Capital Plan for 2017/18 was approved by Council in February 2017 with the following amendment:

that the Capital Plan Budget proposals for 2017/2018..... be recommended to Council for approval, subject to the following conditions and for presentation to Council at its meeting in July 2017, if not before:

(a) that the Elected Mayor and the Chief Executive be requested to review the projects listed below and make recommendations to Council on:

(i) Claylands Redevelopment

(ii) Edginswell Station

(iii) Princess Pier Structural Repair

With no further significant work (as determined by the Chief Executive) to be undertaken until the schemes have been re-presented to Council for detailed consideration and determination as appropriate;

(b) that the Elected Mayor and the Chief Executive review and make recommendations to Council on the specific proposals for expenditure on the capital budget for Integrated Transport;

(c) that, on the basis that the procurement process for replacement of a Torbay wide CCTV system has been paused pending the budget being approved, that the Elected Mayor and Chief Executive review and make recommendations to Council. With no further significant work (as determined by the Chief Executive) be undertaken, until the plan for capital expenditure on CCTV has been represented to Council for detailed consideration and determination;

(d) that the Elected Mayor and Chief Executive be requested to set out to Council how the capital budgets for: (i) affordable housing, (ii) empty homes schemes and (iii) private sector renewals will be used to meet the Council's Housing strategy.

An updated position statement is provided for information for each of the above schemes:

Scheme	Progress update
Claylands Redevelopment	Further report expected for Council in September 2017. Initial ground investigation works now progressing
Edginswell Station	Further report expected for Council in September
Princess Pier structural repair	Report in preparation for Council 13 September 17
CCTV upgrade equipment	Further report to Council 20 July 17
Integrated Transport proposals	Report for Council is being prepared including proposals and business cases.
Affordable Housing	Report to Council expected for Council in September 2017 outlining proposals to use available funds to meet Housing Strategy.

5 Receipts & Funding

5.1 The funding identified for the latest Capital Plan budget is shown in Annex 1. This is based on the latest prediction of capital resources available to fund the budgeted expenditure over the next 4 years. A summary of the funding of the Capital Plan is shown in the Table below:

	2017/18	2018/19	2019/20	2020/21	Totals @ Q1 17/18
	A	B	C	D	E
Funding	£m	£m	£m	£m	£m
Unsupported Borrowing	65	27	20	10	122
Grants	16	16	6	2	40
Contributions	1	0	0	0	1
Reserves	0	2	0	0	2
Revenue	1	0	0	0	1
Capital Receipts	1	1	1	0	3
Total	84	46	27	12	169

5.2 Grants

5.3 Capital Grants continue to be a major, but reducing, funding stream (over 45% in last 4 years) for the Council to progress its investment plans. An element of these

grants result from “bid” processes from other public sector bodies. The Council used £11 million of grants in 2016/17 and is currently estimating to use £16m of grants in 2017/18.

- 5.4 As reported in the last Capital Plan update (Outturn 2016/17) reported to Council in June 2017, the Council has been notified of the following capital grant allocations:

Department for Education –

Basic Need (2019/20)	£0.559m
Condition Funding (2017/18)	£0.417m
Special Provision Fund (2018/19-2020/21)	£0.500m

The 2017/18 Devolved Formula Capital grant allocation of £0.079m is ring fenced for schools and has been added to the Capital Plan.

The £0.417m 2016/17 Condition funding will need to be allocated by Council as this is an un-ringfenced grant.

The 2019/20 Basic Need also represents new funding resources and needs to be allocated to Childrens Services to support school expansion programmes.

A total £0.5 m grant, spread over 3 years 2018/19 to 2020/21, from the Special Provision Fund has been allocated to make capital investments in provision for pupils with special educational needs and disabilities. Whilst the grant is not ring fenced there are strict criteria and conditions over its use and it is recommended that the allocation is assigned to Childrens Services.

Department for Transport –

2017/18 Highways Maintenance Incentive Fund £0.109m (indicative amount), following an efficiency and performance self-assessment submission from the Council, needs to be formally allocated to Highways.

Department of Health –

2017/18 Disabled Facilities Grants allocation £1.631m, this is higher than last year’s allocation (£1.524m) and includes the value of Adult Social Care capital grant. The Council will need to determine how this funding is to be used, but are recommended to allocate £1.0m to DFGs with the remaining £0.631m to be held for allocation under the terms of the Better Care Fund.

5.5 Capital Receipts

- 5.6 The approved Plan relies upon the generation of a total of £0.7 million capital receipts from asset sales by the end of 2018/19 of which £0.4m has now been received by the end of June 2017, leaving a target of £0.3m to be achieved. Any use of capital receipts to fund transformation costs (see para 5.8 below) will increase the target. This target is expected to be achieved provided that -

- approved disposals currently “in the pipeline” are completed
- the Council continues with its disposal policy for surplus and underused

- assets and,
- no more new (or amended) schemes are brought forward that rely on the use of capital receipts for funding.

5.7 Assets proposed for disposal were last reported to Policy Development and Decision Group (Joint Operations Team) in February 2017.

5.8 Under recent Government legislation ('Flexible Use of Capital Receipts'), Councils are now able to use Capital Receipts generated in a year to support the revenue costs in that year of transformation-type projects which will result in ongoing savings to the authority. As approved in its 2017/18 revenue budget £0.3m would be used in 2017/18 in this way.

5.9 Obviously using capital receipts to fund such eligible revenue costs reduces the resources available to fund capital expenditure and will increase the capital receipt target needed to fund the existing Capital Plan.

5.10 Capital Contributions – S106 & Community Infrastructure Levy

5.9 The Council's Capital Strategy states that capital contributions are applied to support schemes already approved as part of Capital Plan and are not allocated to new schemes unless the agreement with the developer is specific to a particular scheme outside the Capital plan.

5.10 Only a very small amount of Section106 capital contributions have so far been received in 2017/18.

5.11 The Council's Community Infrastructure Levy (CIL) scheme came into effect from 1 June 2017. The main capital project identified for funding from CIL receipts is the South Devon Highway.

5.12 Borrowing and Prudential Indicators

5.13 During the first quarter of 2017/18 the Council has taken out borrowing of £15 m, primarily to fund investment property acquisitions. Subsequently the Council has borrowed a further £19m resulting as at 2nd August 2017 total debt of £187m.

5.14 Council in February 2017 approved an operational boundary of £191m being £171m for external borrowing and £20m for other liabilities. This is the limit beyond which external borrowing is not normally expected to exceed during the year but this is a working limit which can be varied depending on schemes and approvals. This limit has now been exceeded as a direct result of additional schemes approved by the Council since February including investment fund purchases.

5.15 It is recommended to Council that the 2017/18 operational borrowing boundary is increased to £310m, being £290m for external borrowing and £20m other liabilities, from £191m.

5.16 Council in February 2017 approved an authorised borrowing limit of £255m. This is the limit beyond which external borrowing is prohibited, this limit can only be revised by full Council.

- 5.17 The council's current borrowing position of £187m could increase based on approved capital schemes funded from borrowing. The council's capital plan as at quarter 1 identified a further borrowing requirement of £122m, of which £65m relates to 2017/18. Of this £70m, £39m has already been borrowed in 2017/18. If the balance of £26m is required then the Council's total borrowing at year end would be £213m which is within the authorised limit. However, any changes in the profile of existing schemes or any new approvals or purchase of any new investment property would increase the estimated borrowing level which could exceed the authorised limit.
- 5.18 A revised investment fund strategy was approved by Council in August 2017 which increased the potential prudential borrowing on this fund to £200m. This increase has not been reflected in this quarter one report but an allowance for some expenditure has been included in the recommendation for the increase the operational and authorised limits below.
- 5.18 2017/18 authorised limit is increased to £330m, being £310m for external borrowing and £20m other liabilities, from £255m.
- 5.19 Members need to be fully aware of the financial risks and ongoing revenue impact of significantly increased levels of borrowing. A balanced view needs to be taken between the increased ongoing revenue borrowing cost, the ongoing value of the underlying asset and the robustness of any income stream associated with that asset. The key criteria is not so much the level of quantum of debt but the ability of the council to afford the higher levels of interest and principal repayments. The Council borrows at fixed rates so the risk is with fluctuations in both revenue income streams and asset values. Therefore due diligence, diversification and robust business cases supported by external advice as required is vital.
- 5.20 The Council's mid year treasury management update report to Audit Committee and Council will contain more detail of the impact on the Council's treasury management function and prudential indicators from this increased level of borrowing on both 2017/18 and future years.

Appendices:

Appendix 1 - Capital Plan summary – Quarter One 2017/18