

**Meeting of the Cabinet - 11<sup>th</sup> February 2009**

**Joint Report of the Interim Chief Executive and Director of Finance**

**Capital Programme Monitoring**

**Purpose of Report**

1. To report progress with the implementation of the Capital Programme.
2. To propose amendments to the Capital Programme.
3. To propose the "Prudential Indicators" as required to be determined by the CIPFA Prudential Code for Capital Finance in Local Authorities and the Local Government Act 2003.
4. To propose the Council's Minimum Revenue Provision (MRP) Policy for 2009/10.

**Background**

5. The table below summarises the current 3 year Capital Programme updated where appropriate to reflect latest scheme spending profiles.

<b>Service</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Public Sector Housing	27,073	25,819	26,081
Other Adult, Community & Housing	5,994	8,540	3,299
Urban Environment	28,107	21,474	17,523
Children's Services	19,274	33,864	27,096
Finance, ICT & Procurement	1,173	643	0
Law & Property	930	368	457
Chief Executive's	910	268	202
<b>TOTAL</b>	<b>83,461</b>	<b>90,976</b>	<b>74,658</b>

6. In accordance with the requirements of the Council's Financial Regulations, details of progress with the 2008/09 Programme are given in Appendix A. It is proposed that the current position be noted.

## **Prudential Borrowing**

7. The Revenue Budget report elsewhere on this agenda contains a number of specific growth proposals which involve utilising the flexibilities now available under the “prudential borrowing” regime to fund the following capital projects:

### Adult, Community and Housing

A new purpose built Archive at an estimated total cost of £7m to replace the existing Archive building which is no longer fit for purpose.

### Urban Environment

Investment of £250,000 per annum in each of the next 3 years to continue with the Councils 25 year Street Lighting Replacement Programme.

### Law & Property

Capital investment of £250,000 per annum in each of the next 3 years to enhance the Council’s Structural Repairs and Maintenance programme in response to increasing health and safety requirements and to improve the overall condition of its property portfolio.

8. It is proposed that subject to these elements of the Revenue Budget Strategy being agreed, the above expenditure be included in the Capital Programme.

## **Other Capital Programme Amendments**

### **Adult, Community and Housing**

#### Oak Lane Improvements

9. Following a successful bid, the Council has been awarded £0.475m by the Department For Communities and Local Government (DCLG) to cover the full cost of the provision of three new permanent residential plots within the Oak Lane Caravan Site at Kingswinford and the installation of a new mains foul drainage system to serve the whole site. These new plots will generate additional rental income of £12,300 per annum.

It is proposed that the funding allocation be noted and included in the Capital Programme.

### **Urban Environment**

#### Gornal Crematorium Memorial Wall

10. The memorial walls at Gornal Wood Crematorium have very little available space to accommodate further memorials. An area has been identified near to the current walls and close to the Gardens of Remembrance where a new wall could be located. The estimated cost of £23,000 will be recouped through memorial sales within five years.

It is proposed that the scheme be approved and included in the Capital Programme.

#### Free Swimming - Capital Reward

11. As part of its involvement in the Government's Free Swimming initiative, the Council has been awarded £93,000 to support preparatory work relating to Swimming Pool modernisation. It is proposed that this be used to undertake facility planning modelling exercises with Sport England building on previous work undertaken in the Black Country, and that this expenditure be included in the Capital Programme. When the results of the exercise are known, further work may be commissioned in order to further develop any proposals identified.

#### **Children's Services**

#### Windsor High School - Playing Fields and Pitch

12. Standards Fund resources of £40,000 have been allocated to the School by the Department for Children, Schools and Families (DCSF) to improve the playing fields and pitch drainage in light of the ongoing problems due to a natural spring on the site.

It is proposed that the funding be noted and the project included in the Capital Programme.

#### Old Park Special School Relocation

13. The Capital Programme currently includes the relocation of the Old Park Special School to the Thorns Learning Village campus site where it will be co-located with the Thorns Community College and Thorns Primary School. The latest estimated total cost of the project of £10.364m can be mainly funded from the Government's Targeted Capital Fund together with contributions from school reserves, Devolved Formula capital allocations, and Access Initiative funding. The shortfall can be funded from the anticipated disposal proceeds from the current site.

It is therefore proposed that the Capital Programme be amended to reflect the latest estimated cost, and that the disposal proceeds from the current site be earmarked to fund the project. If the site cannot be sold for the required sum, any shortfall will have to be met from within the Directorate's own resources.

#### Targeted Capital Fund - School Kitchens

14. The DCSF has identified £100m nationally Targeted Capital Funding for School Kitchens, to be allocated to authorities on the basis of their plans to increase school lunch take up, by building or refurbishing school kitchens or improving dining areas and facilities. Proposals should meet one or more of the following goals:

- 1) Improving the quality of the food;
- 2) Increasing the seating capacity of dining areas;
- 3) Improving the dining environment;
- 4) Decreasing queuing time.

The Buildings and Estates Team have undertaken an exercise in consultation with schools and have identified approximately 50 potential schemes totalling £3.6m for Dudley. There is a 50% matchfunding requirement, and it is expected that schools will contribute this from their devolved capital allocations if they are successful with their bids. These proposals have been submitted to the DCSF as an Expression of Interest and formal bids need to be submitted by the end of February 2009.

It is proposed that the Interim Director of Children's Services be authorised to submit a formal bid, and that subject to the bid being successful, any related schemes be included in the Capital Programme.

#### Information System for Parents & Providers

15. Funding is being made available to Councils in 2008/09 through the Information System for Parents and Providers (ISPP) Capital and Revenue Grants, to enable them to procure their own information systems, supporting their duty to provide information to parents and prospective parents under the Childcare Act 2006. It is proposed that Dudley's Capital allocation of £25,000 be noted and the associated expenditure included in the Capital Programme.

#### Home Access to ICT

16. Funding is being made available in the current year to provide home access to ICT for specified groups of learners - to target new learners who do not already have access to ICT at 'home', with a focus on those for whom Councils have particular responsibility, such as Looked After Children. It is proposed that Dudley's allocation of £219,000 be noted and the associated expenditure included in the Capital Programme.

### **Finance**

#### ICT Strategy

17. The Council's ICT Strategy for the period 2008/09 - 2010/11 is planned to include the following projects:
- extending the Wide Area Network to cope with more traffic or new locations;
  - updating software/hardware products necessary to ensure the security of the Council's Infrastructure such as Anti-virus software and Firewalls;
  - ensuring that the Council's Internet service remains reliable and offers a positive experience to users by providing such products as forms design software;
  - updating core software to ensure it remains supported;
  - supporting Members' ICT requirements;
  - ensuring that the Council's Corporate Geographic Information System (GIS) remains up-to-date;
  - delivering new corporate ICT Infrastructure projects such as Government Connects.

It is anticipated that the total cost of these projects will be £1.375m which can be funded from current capital budgets and revenue resources allocated for this purpose. It is proposed that the expenditure be approved and the Capital Programme amended accordingly.

### **Chief Executive's**

#### Contingency and Disaster Management Accommodation

18. Revenue resources are available to refurbish an additional Training Room / Strategic Coordination Centre for the Contingency and Disaster Management team, at an estimated cost of £20,000. It is proposed that the project be approved and included in the Capital Programme.

## **Urgent Amendment to the Capital Programme**

### Accommodation for ICT Services at Trident House, Dudley and the Pensnett Estate

19. The desirability of finding a suitable single location for ICT Services Division has been recognised for some time. However the need to vacate Tower Street due to structural problems, as previously reported, made this an urgent requirement. Although no suitable, affordable single location has been identified, the two buildings above will provide the correct mix of office and industrial space to meet the somewhat unusual requirements of the Division. Leasing these two properties will allow the Division to vacate the various temporary locations occupied since the vacation of Tower Street, together with the Claughton Centre and Abberley Street Training Unit.

The capital cost of £940,000, to cover the cost of adapting the properties referred to above to create a Data Centre, a Training Centre and other specialist accommodation, can be met from a combination of contributions from existing tenants of £255,000 and Prudential Borrowing of £685,000. The overall annual revenue cost amounting to £339,000, including lease rentals and debt charges, can be met from existing budgets and increased resources proposed as part of the 2009/10 revenue budget strategy.

To enable the project to progress, an urgent decision (ref. DOF/18/2008) was made by the Leader of the Council in consultation with the Interim Chief Executive and Director of Finance on 8<sup>th</sup> December 2008 to enter into leases for the relevant properties and include the project in the Capital Programme.

### Play Pathfinder Project

20. The opportunity exists to use £59,000 of Section 106 receipts from residential developments in the vicinity of a number play areas proposed for inclusion in the year 1 programme of this project to enhance the level of improvements that may be carried out. The play areas that would benefit from this investment are at Abbey Street (Gornal), Bredon Close (Stourbridge) and Greenfield Gardens (Stourbridge).

To enable the relevant timescales to be met, an urgent decision (ref. DUE/89/2008) was made by the Leader of the Council in consultation with the Director of Finance on 23<sup>rd</sup> December 2008 to include this expenditure in the Capital Programme.

### Neighbourhood Learning in Deprived Communities

21. The Council has been allocated £123,750 from the Learning and Skills Council (LSC) Neighbourhood Learning in Deprived Communities (NLDC) Fund, the purpose of which is to support local voluntary and community sector organisations to develop their capacity to deliver learning opportunities for residents of disadvantaged neighbourhoods.

Organisations will be able to bid for funding for one or more of the following categories:

- Assisting and supporting the direct delivery of learning, for example equipment to support training or teaching;
- Refurbishing and enhancing existing premises;
- Complementing other funds secured by applicant organisations or partnerships;
- Securing ICT provision.

Due to the short timescales involved (spend needs to be completed by 31st March 2009), an urgent decision (ref. DACHS/078/2009) was made by the Leader of the Council in consultation with the Cabinet Member for Housing, the Director of Finance, and the Director of Adult, Community and Housing Services, on 2<sup>nd</sup> January 2009 to accept the funding allocation and that the associated spend be included in the Capital Programme.

#### Saltwells Nature Reserve Footbridge

22. A watercourse within the Reserve comprises the boundary between land in the ownership of the Council and Westfield. A footbridge across the watercourse was damaged by recent flooding leaving two supply mains supported by steel beams, such that a replacement bridge was urgently required. The cost of replacement of £25,000 could be met from Planning Obligation funding.

An urgent decision (ref. DUE/003/2009) was therefore made by the Leader of the Council in consultation with the Director of Finance on 13<sup>th</sup> January 2009 that the replacement of Saltwells Footbridge be approved and included in the Capital Programme, and that the cost of the replacement footbridge attributable to Westfield be factored into any future land exchange.

### **The CIPFA Prudential Code for Capital Finance in Local Authorities**

23. The Local Government Act 2003 introduced a system of “prudential borrowing” which allows councils to set their own borrowing limits subject to criteria of prudence, affordability, and sustainability. The CIPFA Prudential Code sets out the indicators that authorities must use, and the factors they must take into account, to demonstrate that they have fulfilled this objective.
24. Details of the various indicators required, and the proposed figures to be set in relation to each indicator are set out at Appendix B.

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

25. Before the start of each financial year each authority must agree its policy on making Minimum Revenue Provision (MRP) for repayment of borrowing incurred to fund Capital expenditure, in respect of that financial year. This requirement replaces the detailed regulations which were in force prior to 2007/08.
26. In line with the current policy, it is proposed that the Council agrees the following MRP Policy for 2009/10:
- For unsupported borrowing to fund capital expenditure incurred from 1<sup>st</sup> April 2008 onwards, MRP be calculated on the basis of equal instalments or annuity as appropriate over the initial estimated life of the assets - the “Asset Life” method;
  - For all supported borrowing, and unsupported borrowing to fund capital expenditure incurred before 1<sup>st</sup> April 2008, MRP be calculated on the basis of the previous regulations - the “Regulatory Method”.

### **Finance**

27. This report is financial in nature and information about the individual proposals is contained within the body of the report.

## **Law**

28. The Council's budgeting process is governed by the Local Government Act 1972, the Local Government Planning and Land Act 1980, the Local Government Finance Act 1988, the Local Government and Housing Act 1989, and the Local Government Act 2003.

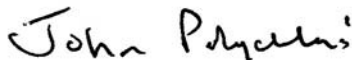
## **Equality Impact**

29. These proposals comply with the Council's policy on Equality and Diversity.
30. With regard to Children and Young People:
- The Capital Programme for Children's Services will be spent wholly on improving services for children and young people. Other elements of the Capital Programme will also have a significant impact on this group.
  - Consultation is undertaken with children and young people, if appropriate, when developing individual capital projects within the Programme.
  - There has been no direct involvement of children and young people in developing the proposals in this report.

## **Recommendations**

31. That current progress with the 2007/08 Capital Programme, as set out in Appendix A be noted.
32. That the Interim Director of Children's Services be authorised to submit a bid for Targeted Capital Fund - School Kitchens funding, as set out in paragraph 14.
33. That the Council be recommended:
- That subject to the relevant element of the Revenue Budget Strategy being agreed, the expenditure to be funded from prudential borrowing be approved, as set out in paragraphs 7-8.
  - That the funding allocation for new plots within the Oak Lane Caravan Site and the installation of a new mains foul drainage system be noted, and the expenditure be included in the Capital Programme, as set out in paragraph 9.
  - That the installation of a new Memorial Wall at Gornal Wood Crematorium be approved and included in the Capital Programme, as set out in paragraph 10.
  - That the Capital Reward funding associated with the Free Swimming initiative be used to undertake facility planning modeling, and that this expenditure be included in the Capital Programme, as set out in paragraph 11.
  - That the funding for improvements to the Playing Fields and Pitch at Windsor High School be noted, and the project included in the Capital Programme, as set out in paragraph 12.

- That the Capital Programme be amended to reflect the latest estimated cost of the Old Park Special School relocation project, and the disposal proceeds from the current site be earmarked to fund the project, as set out in paragraph 13.
- That subject to a targeted Capital Fund - School Kitchens bid being successful, any related schemes be included in the Capital Programme, as set out in paragraph 14.
- That the Information System for Parents and Providers allocation be noted, and the associated expenditure included in the Capital Programme, as set out in paragraph 15.
- That the Home Access to ICT allocation be noted, and the associated expenditure included in the Capital Programme, as set out in paragraph 16.
- That the ICT Strategy expenditure be approved and the Capital Programme amended accordingly, as set out in paragraph 17.
- That the refurbishment of an additional Training Room / Strategic Coordination Centre for the Contingency and Disaster Management team be approved and included in the Capital Programme, as set out in paragraph 18.
- That the Urgent Amendments to the Capital Programme, as set out in paragraphs 19-22 be noted.
- That the Prudential Indicators as required to be determined by the CIPFA Prudential Code for Capital Finance in Local Authorities and the Local Government Act 2003, as set out in Appendix C, be agreed.
- That the Minimum Revenue Provision (MRP) Policy for 2009/10 be as set out in paragraph 26.



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**John Polychronakis**  
**Interim Chief Executive**



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**Mike Williams**  
**Director of Finance**

Contact Officer: John Everson  
 Telephone: 01384 814806  
 Email: [john.everson@dudley.gov.uk](mailto:john.everson@dudley.gov.uk)

### **List of Background Papers**

Relevant resource allocation notifications.  
 CIPFA Prudential Code for Capital Finance in Local Authorities.



**Appendix A****2008/09 Capital Programme Progress to Date**

<b>Service</b>	<b>Budget £'000</b>	<b>Spend to 31st December £'000</b>	<b>Forecast £'000</b>	<b>Variance £'000</b>	<b>Reasons for Variance</b>
Public Sector Housing	27,073	17,023	27,073		
Other Adult, Community & Housing	5,994	3,448	5,995	+1	
Urban Environment	28,107	17,616	28,100	-7	Minor saving
Children's Services	19,274	13,285	19,274		
Finance, ICT & Procurement	1,173	391	1,173		
Law & Property	930	720	930		
Chief Executive's	910	347	930	+20	As previously reported
<b>TOTAL</b>	<b>83,461</b>	<b>52,830</b>	<b>83,475</b>	<b>+14</b>	

### CIPFA Prudential Indicators

The indicators set out below are specified in the CIPFA *Prudential Code for Capital Finance in Local Authorities* ("the Code"), which is required to be complied with as "proper practice" by Regulations issued consequent to the Local Government Act 2003. They are required to be set and revised through the process established for the setting and revising of the budget, i.e. by full Council following recommendation by the Cabinet. Indicators for the forthcoming and following years must be set before the beginning of the forthcoming year, but may be revised at any time following due process.

The first group of indicators (1-5) are essentially concerned with the prudence and affordability of the Council's capital expenditure and borrowing plans in the light of resource constraints.

The remaining indicators (6-10) are primarily concerned with day-to-day borrowing and treasury management activity. These also form part of the council's Treasury Strategy Statement for 2008/09 being considered by the Audit Committee on 14th February.

The proposed figures for each indicator have been developed in the light of the Council's overall resource position and medium term financial strategy and have regard to the following matters as required by the Code:

- Affordability;
- Prudence and Sustainability;
- Value for Money;
- Stewardship of Assets;
- Service Objectives;
- Practicality.

Affordability and prudence are specifically addressed by the indicators set out below. The other matters listed form a fundamental part of the Council's budget setting, management and monitoring procedures - as summarised in the Financial Management Regime (FMR) which forms part of the Constitution - and with particular relevance to capital expenditure, set out in more detail in the Council's Capital Strategy and Asset Management Plan.

Appropriate procedures have been established for proper management, monitoring and reporting in respect of all the indicators, and the risks associated therewith.

Indicators set for 2007/08, 2008/09 and 2009/10 this time last year have been reviewed and where necessary are proposed to be updated to reflect latest forecasts.

#### **1. Estimated and Actual Capital Expenditure**

This indicator forms the background to all the other indicators, given that the overall rationale of the prudential system is to provide flexibility for borrowing to fund capital investment. Estimated capital expenditure is required to be calculated for the next 3 financial years, and actual expenditure stated for the previous financial year, with totals split between HRA and non-HRA capital expenditure.

Subject to the other proposals in this report being agreed (together with those relating to public sector housing capital expenditure contained in the relevant report elsewhere on the agenda) the proposed indicators are as follows.

	<b>2007/08</b> <b>£m</b> <b>Actual</b>	<b>2008/09</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2009/10</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2010/11</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2011/12</b> <b>£m</b> <b>Estimate</b>
Non - HRA	67.2	101.4	73.6	53.9	12.3
HRA	28.2	27.4	31.0	28.0	23.1
<b>Total</b>	<b>95.4</b>	<b>128.8</b>	<b>104.6</b>	<b>81.9</b>	<b>35.4</b>

Note that the above figures include anticipated capitalisation of Equal Pay Back Pay costs in addition to conventional capital programme expenditure.

## **2. Estimated and Actual Capital Financing Requirement (CFR)**

The Capital Financing Requirement is a measure of the Council's underlying need to borrow to fund its capital expenditure once other sources of funding - grants, capital receipts and revenue - have been taken into account. The CFR increases when expenditure is incurred, and reduces when provision is made to repay debt.

The proposed indicators consistent with the level of capital expenditure set out above are as follows.

	<b>2007/08</b> <b>£m</b> <b>Actual</b>	<b>2008/09</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2009/10</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2010/11</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2011/12</b> <b>£m</b> <b>Estimate</b>
Non - HRA	264.4	317.3	327.2	326.3	318.3
HRA	62.0	72.8	88.9	102.6	111.0
<b>Total</b>	<b>326.4</b>	<b>390.1</b>	<b>416.1</b>	<b>428.9</b>	<b>429.3</b>

## **3. Net Borrowing and the Capital Financing Requirement.**

In order to ensure that in the medium term, borrowing can be undertaken only for capital purposes, this indicator requires that net external borrowing does not (except in the short term) exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

It is anticipated that this requirement will be met for the years 2008/09 to 2011/12.

## **4. Estimate of the Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents**

This indicator is intended to demonstrate the affordability of capital investment decisions in terms of their impact on levels of Council Tax and Housing Rents.

The current proposals to undertake new unsupported “prudential borrowing” to fund capital investment are set out in paragraph 7 of this report, and in the Public Sector Housing report elsewhere on this Agenda. The forecast debt charges resulting from anticipated borrowing are fully reflected in the figures set out in the Budget Strategy report elsewhere on this agenda, and in the aforementioned Public Sector Housing report. The impact on Council Tax and Rents of these proposals is as follows.

	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Increase in Annual Band D Council Tax	0.59	3.35	6.68
Increase in Weekly Housing Rent	0.32	0.87	1.31

Note that to the extent that General Fund revenue budgets are limited by (the threat of) capping and that the Council continues to comply with rent restructuring guidance, the effective impact of increased borrowing is to require other expenditure to be constrained, rather than to directly increase Council Tax or rents.

## **5. Estimated and Actual Ratio of Capital Financing Costs to Net Revenue Stream**

This indicator is intended to demonstrate the affordability of capital investment decisions in terms of the ratio of capital financing costs to overall resources, expressed as a percentage. The proposed indicators consistent with the level of capital expenditure set out above are as follows.

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
	<b>Actual</b>	<b>Revised Estimate</b>	<b>Revised Estimate</b>	<b>Revised Estimate</b>	<b>Estimate</b>
Non - HRA	7.6	8.0	10.4	11.1	10.5
HRA	4.5	5.1	6.1	6.6	6.9

## **6. The Authorised Limit, Operational Boundary, and Actual External Debt**

These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The Authorised Limit for external debt is a statutory limit (as per section 3 of the Local Government Act 2003) that should not be breached under any circumstances. The proposed limits set out below have been calculated to take account of the Council's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. If this limit is likely to be breached, it will be necessary for the Council to determine if it is prudent to raise the limit, or to instigate procedures to ensure that such a breach does not occur.

The Operational Boundary for external debt is a management tool for day-to day monitoring, and has also been calculated with regard to the Council's capital expenditure and financing plans allowing for the most likely, prudent, but not worst case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant.

Both the Authorised Limit and the Operational Boundary are split between conventional borrowing and "other long term liabilities" such as leases and other capital financing arrangements which would result in the related assets appearing on the Council's Balance Sheet. Such arrangements would include for example finance leases for the procurement of vehicles. Provided that the total Authorised Limit and Operational Boundary are not exceeded, the Director of Finance may authorise movement between the constituent elements within each total so long as such changes are reported to the next appropriate meeting of the Cabinet and Council.

It is not considered necessary to amend the Authorised Limit and Operational Boundary for 2008/09 set this time last year.

	2007/08	2008/09	2009/10 Revised	2010/11 Revised	2011/12
	£m	£m	£m	£m	£m
<b>Authorised limit for external debt:</b>					
Borrowing	n/a	590	651	656	657
Other long term liabilities	n/a	6	4	5	6
<b>Total</b>	<b>n/a</b>	<b>596</b>	<b>655</b>	<b>661</b>	<b>663</b>
<b>Operational boundary:</b>					
Borrowing	n/a	518	589	597	597
other long term liabilities	n/a	6	4	5	6
<b>Total</b>	<b>n/a</b>	<b>524</b>	<b>593</b>	<b>602</b>	<b>603</b>
<b>Actual External Debt:</b>					
Borrowing	434.8	n/a	n/a	n/a	n/a
Other long term liabilities	1.5	n/a	n/a	n/a	n/a
<b>Total</b>	<b>436.3</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

## **7. Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services**

This indicator is a fundamental requirement of the new system in so far as it relates to treasury management activity. The Council adopted the CIPFA *Code of Practice for Treasury Management in the Public Services* in March 2002.

## 8. Upper Limits on Fixed Interest Rate and Variable Interest Rate Exposures

These indicators relate to the percentage of net borrowing (gross borrowing less investments) held at fixed or variable interest rates, and allow the Council to manage the extent to which it is exposed to changes in interest rates. The proposed upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt. The proposed upper limit for variable rate exposure allows for the use of variable rate debt to offset our exposure to changes in short-term rates on our portfolio of investments. This limit reduces over time as our strategy is to gradually reduce our level of investments. It is not considered necessary to amend the limits for 2008/09 and 2009/10 set this time last year.

	2008/09	2009/10	2010/11	2011/12
	%	%	%	%
			Revised	
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	15	15	10	10

## 9. Upper and Lower Limits for the Maturity Structure of Borrowing

The indicator for the maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years. On the basis of prudent treasury management, the following limits are proposed:

Maturity structure of fixed rate borrowing	Upper limit	Lower limit
	%	%
under 12 months	10	0
12 months and within 24 months	10	0
24 months and within 5 years	15	0
5 years and within 10 years	25	0
10 years and above	100	40

## 10. Limits for Principal Sums Invested for Periods Longer than 364 Days

The purpose of the prudential limits for principal sums invested for periods longer than 364 days is to contain the Council's exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. On the basis of prudent treasury management the proposed upper limit on principal maturing in any one year for sums invested for over 364 days is (as last year) £15m.