

## **Meeting of the Council – 27<sup>th</sup> February 2006**

### **Report of the Cabinet**

### **Capital Programme Monitoring and Capital Programme 2006/07**

#### **Purpose of Report**

1. To propose the allocation of available capital resources for 2006/07, and certain other amendments to the Council's Capital Programme.
2. 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.

#### **Background**

3. On consideration of the issues below, the Cabinet at its meeting held on 8<sup>th</sup> February 2006, resolved to recommend the Council to approve the proposals set out in paragraph 47 below. Other proposals contained in the report and the report submitted to the meeting of the Cabinet held on 14<sup>th</sup> December, 2005 were determined by the Cabinet under the powers delegated to them. Copies of the reports submitted to the Cabinet meetings are available from Richard Sanders in the Directorate of Law and Property (telephone 01384 815236 or e-mail [Richard.sanders@dudley.gov.uk](mailto:Richard.sanders@dudley.gov.uk)) on the Council's Website [www.dudley.gov.uk](http://www.dudley.gov.uk) (Committee Information).

#### **Available Resources for 2006/07**

4. The Local Government Act 2003 introduced a new system of “prudential borrowing” from 1<sup>st</sup> April 2004 which allows councils to set their own borrowing limits subject to criteria of prudence, affordability, and sustainability.
5. The Government continues to support capital expenditure by authorities in the form of direct capital grants and “Supported Capital Expenditure” (SCE) approvals which generate support for the majority of the ensuing debt charges via the Revenue Support Grant (RSG) system. There is no support for any extra borrowing made possible by the “prudential” system.
6. For 2006/07, the majority of SCE approvals have been allocated as part of the Single Capital Pot (SCP) mechanism. The Council's Single Capital Pot SCE for 2006/07 has been calculated as follows.

	<b>£'000</b>
Transport	6633
Education	3675
Social Services (Children & Adults)	210
<b>Total Single Capital Pot SCE</b>	<b>10518</b>

7. As part of the move towards multi-year funding allocations, the Education and Social Services SCEs for 2007/08 have also been calculated as £4.062m and £0.210m respectively.
8. Note that whereas previously the SCP included a Housing element, from 2006/07 onwards, support for work on private sector housing will be in the form of capital grant. Government support for borrowing for public sector housing investment will continue to be made through Housing Revenue Account Subsidy (HRAS).

### **Overall Allocation of Resources**

9. In theory, it would be possible to treat the overall SCE as a corporate resource in the true spirit of the Single Capital Pot, and devise a methodology for prioritising all capital "bids" against the resources available. In reality however, this would pose major problems, not least the difficulty in devising a prioritisation methodology which could fairly compare and score bids for schemes of all magnitudes and degrees of complexity across the whole range of Council services. In addition, it would probably be seen as unacceptable, both internally and from the viewpoint of Government departments, not to spend capital resources for the purposes they were notionally allocated.
10. Therefore, it is proposed that each service SCE be earmarked to the relevant service, but with a particular emphasis on demonstrating appropriate prioritisation *within* service programmes, and *within* spend headings. As stated in the Financial Management Regime, it is the responsibility of the relevant Directors to make sure that such prioritisation is robust and stands up to scrutiny. Prioritisation should include formal scoring mechanisms or other objective methods wherever possible and appropriate.
11. It is also proposed that, as in the past, Housing capital receipts should be earmarked to be spent on Housing capital schemes.

### **Transport**

12. The Transport SCE of £6.633m comprises £2.863m for Structural Maintenance of Roads and Bridges and £3.770m for Integrated Transport schemes.
13. Resources for Integrated Transport will, as in previous years, be pooled on a countywide basis and reallocated by the West Midlands Districts Joint Committee to each Borough on the basis of agreed priorities. The resources for Structural Maintenance of Roads and Bridges will be allocated to the Council's own priority schemes.
14. Proposals for the detailed allocation of the above resources are being reported elsewhere on this agenda.

### **Housing**

15. Proposals for the Public Sector Housing Investment Programme for 2006/07 are set out in a report on issues relating to the management of the HRA in general, elsewhere on this agenda.

16. As far as the Private Sector Housing Investment Programme is concerned, taking into account the anticipated level of Disabled facilities Grant (DFG) support, and the availability of other Housing capital resources, it is proposed that the following budgets for 2006/07 be agreed:

- £1.980m for Disabled Facilities Grants (DFGs), funding around 170 grants depending on the nature and cost of the works involved, enabling waiting times to be reduced.
- £0.946m for Housing Assistance Grants in line with previous years' budgets, enabling further progress to be made in dealing with unfitness in the private sector, funding around 90 grants depending on the nature and cost of the works involved.

## Education

17. The Education Single Capital Pot SCE of £3.675m for 2006/07 and £4.062m for 2007/08 comprise:

	<b>2006/07</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>
<b>Basic Need - New Pupil Places.</b> This will be allocated to specific projects following appropriate consultation and evaluation of options	1078	1095
<b>Schools Access Initiative.</b> This funding will be used to meet the needs of individual pupils as they are identified during the year.	585	585
<b>Modernisation Funding - Secondary Schools.</b> To be allocated on the basis of Asset Management Plan (AMP) priorities.	971	1168
<b>Modernisation Funding - Primary Schools.</b> To be allocated on the basis of AMP priorities.	1041	1214
<b>Total</b>	<b>3675</b>	<b>4062</b>

18. The following grant funding will also be available for Education capital investment in 2006/07.

	<b>2006/07</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>
<b>Devolved Capital.</b> This will be allocated to projects by schools on the basis of their own priorities.	5069	5331
<b>Modernisation Funding - Secondary Schools.</b> To complement SCE funding.	647	501
<b>Modernisation Funding - Primary Schools.</b> To complement SCE funding.	694	520
<b>Sure Start.</b> Includes previously announced Extended Schools allocations. Can be used for Extended Schools, Children's Centres, and Sustainable Early Years & Childcare projects, in delivering the Government's Ten Year Strategy for Childcare " <i>Choice for parents: the best start for Children</i> " and the Extended Schools Prospectus. This will be	2574	2405

allocated to specific projects in due course following consideration of how the funding can best be used to meet these objectives.

<b>Youth Capital Fund.</b> To be used to provide more choice for young people in terms of places to go and things to do - including the upgrading of existing facilities and building new facilities where appropriate. This will be allocated to specific projects in due course following consideration of how the funding can best be used to meet these objectives - including appropriate consultation with young people.	120	120
--	-----	-----

<b>Total</b>	<b>9104</b>	<b>8877</b>
--------------	-------------	-------------

19. In respect of Modernisation Funding, schools will be expected to identify match-funding from their Devolved allocations where appropriate
20. It is proposed that the above resources, and related schemes be included in the Capital Programme as appropriate.

### **Social Services**

21. Cabinet agreed at its meeting on 21<sup>st</sup> September 2005 that Social Services SCP allocations for the period up to 2008/09 be used to fund a small annual minor works programme and works required to modernise property and other assets as part of the modernisation of Day Opportunity Services.
22. In addition, the Council has been allocated:
  - £408,000 of ring-fenced SCE for Mental Health projects over the period 2005/06 - 2007/08;
  - £180,000 of grant funding for Integrated Children's IT Systems over the period 2006/07 - 2007/08.
  - £314,000 of grant funding for Improving Information Management over the period 2006/07 - 2007/08.
23. The Mental Health resources can be used for Projects that will enable adults with mental health problems to enter and retain work and to access opportunities for Social participation. The Integrated Children's IT resources can be used for IT software and hardware which will enable the recording of work with Children in need and their families to meet the expectations laid down by the DfES. The Improving Management Information resources can be used for IT equipment to support information management.
24. It is proposed that this expenditure be approved and included in the Capital Programme.

### **Other Services**

25. The only resources available for capital investment in Other Services - other than specific grants - will be those generated from disposal of surplus assets. (Specific SCEs are being replaced by grant funding from 2006/07 onwards.)

26. Proposals for the allocation of available resources will be reported in due course.

### **Prudential Borrowing**

27. The Revenue Budget report to be submitted to the Council on the 6<sup>th</sup> March, 2006 will contain a number of specific growth proposals for the Directorate of the Urban Environment which involve utilising the flexibilities now available under the “prudential borrowing” regime, as follows:
- £0.1m expenditure in 2006/07, and a further £0.4m in 2007/08, on the replacement of dangerous, time expired and missing street signage;
  - £0.1m expenditure in 2006/07, and a further £0.15m in 2007/08, on the structural replacement of bridges and dangerous structures which are local priorities but do not meet the Local Transport Plan criteria;
  - £0.5m investment in 2007/08 to improve access to Council leisure facilities and other buildings used by the Culture and Community Division.
28. It is proposed that subject to these elements of the Revenue Budget Strategy being agreed, the above expenditure be included in the Capital Programme.
29. Proposals to use Prudential Borrowing within the Public Sector Housing Investment Programme are set out in the report, elsewhere on this agenda.

### **Asset Management Plan (AMP)**

30. The allocations proposed above do not directly address issues arising from the Corporate AMP. However, the allocation of Structural Repair and Maintenance resources within the Capital Programme (funded from Law & Property revenue budgets and previously approved Prudential Borrowing) will reflect the AMP priorities.

### **Other Capital Programme Amendments**

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

##### Affordable Housing - Stocking Street, Lye

31. Stocking Street is a development of affordable housing in partnership with a local Registered Social Landlord which will be sold under shared ownership arrangements. This will keep the initial outlay down in an area of the borough where there is currently a limited level of affordable housing.

It is proposed that the Council contributes £94,000 to the project from Section 106 resources set aside for affordable housing, and that this expenditure be included in the Capital Programme.

#### **Urban Environment**

##### Lye Local Centre

32. A masterplan for the development of open space adjacent to Christ Church has been developed in consultation with the Lye & Wollescote Partnership, setting out improvements that can be carried out in a phased manner subject to resource availability. At the moment £14,000 of Section 106 funding is available and it is proposed that this expenditure be approved and included in the Capital Programme to support the current phase 1 improvements.

#### Liveability - Mary Stevens Park

33. Following the completion of a masterplan for the park, officers have been working with the Friends group to implement the prioritised list of improvements including an extension to the existing children's play area. In order to deliver the scheme preferred by the Friends group an additional £8,000 is required, which can be funded from available Section 106 resources. It is proposed that this expenditure be approved and included in the Capital Programme.

#### Liveability - Buffery Park

34. Following the completion of a masterplan for the park, officers have been working with the Friends group to implement the prioritised list of improvements including a new children's play area and park seating. An additional £8,000 of Section 106 funding has become available which can be used to support the implementation of the park seating. It is proposed that this expenditure be approved and included in the Capital Programme.

#### Lister Road Garage Doors

35. Inspection of the vehicle access doors as part of the planned refurbishment/upgrade of the Transport Maintenance Workshops has revealed that they are in urgent need of replacement due to corrosion and wear. The estimated replacement cost of £80,000 can be met from Fleet Management resources. It is proposed that this expenditure be approved and included in the Capital Programme.

#### Car Park Improvements

36. The following priority improvements can be funded from the Car Park Improvement Reserve:
- Pool Road Multi Storey, Halesowen - refurbishment of the vandalised lift cars to include improved lighting and security, replacement of the lift car doors and landing doors, replacement of controls to comply with requirements of the disability discrimination act, provision of sill guards to cover gap to lift shaft, and other sundry mechanical refurbishment work. Estimated cost £90,000.
  - Pool Road Multi Storey, Halesowen - provision of shutter doors to enable the out of hours closure of the upper levels of the car park to reduce criminal damage, vandalism and anti social behaviour. Estimated cost £15,000.
  - Bank Street, Brierley Hill - microasphalting and relining of Zones 2 and 3 to preserve the integrity of the structure of the car park and bring surface up to "safer car park" standard. Estimated cost £16,000.

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

#### Pedestrian Crossing - Stourbridge Ring Road

37. Following extensive public demand for a surface level pedestrian crossing to the Ring Road, and having undertaken a detailed feasibility exercise, it is now proposed that such a crossing is provided to the Ring Road utilising the large 'splitter island' at the Hagley Road junction. The scheme would commence this financial year with an anticipated completion in June 2006.

The estimated cost of £175,000 can be met from slippage within the Highways Capital Programme.

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

### **Children's Services**

#### Big Lottery Fund - Children's Play Initiative

38. The Big Lottery Fund (BLF) has made indicative allocations of funding to each local authority area to improve play provision across England. Dudley has been allocated £690,000.

To access the funding local authorities must produce a Play Strategy which will set out the local priorities, procedures and intended outcomes for the programme. Following the development of the Play Strategy a portfolio of projects must be submitted to the BLF for assessment and approval. Projects can be of a capital or revenue nature and can run up to 2011.

It is proposed that any projects of a capital nature funded from the above initiative be included in the Capital Programme.

#### Environment Zone Wind Turbine

39. A project has been developed to install a wind turbine at the Robert Street School Environment Zone. As well as providing energy for the school, the project will facilitate hands on education relating to renewable energy generation as well as climate change and energy efficiency - inspiring local people into taking action to reduce their energy demand and environmental impact.

The estimated cost is just over £25,000, of which half has been promised by the Clear Skies Renewable Energy Grant fund (DTI funding managed by the Building Research Establishment), with £4,500 agreed by the North Dudley Area Committee, and £175 raised by the Friends of the Environment Zone. This leaves just under £8,000 for which a bid has been made to Scottish Power's Green Energy Trust fund - the outcome of which should be known by mid April 2006.

It is proposed that subject to funding being available, the project be approved and included in the Capital Programme.

### **Finance, ICT & Procurement**

40. Corporate Booking System - Dudley Council Plus  
In order to meet the need for Dudley Council Plus (DCP) to take electronic bookings for Registrars the Zipporah system has been selected as the most appropriate. This system also has the capacity to handle a wide range of bookings of resources such as rooms, or staff for any service in the authority. On the basis that its facilities will be made widely available outside DCP, the cost of £16,000 can be met from corporate ICT Strategy resources.

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

## **Urgent Amendments to the Capital Programme**

### 41. Lye Children's Centre

The Early Years and Childcare Team based within the Directorate of Children's Services have been working in partnership with National Children's Homes (NCH) for the past two years on the development of a Children's Centre (formerly a Family Centre) in the Lye area.

During September 2005 the Council took over the role of lead agency in delivering this initiative from NCH. As the lead agency the capital funding will be provided to the Council to deliver the project developed under the project management of NCH.

The project comprises the Construction of a Children's Centre to include day care and nursery facilities for children from the ages of 0 – 5 years, family rooms, a multi purpose room, health facilities, staff and administration areas and external works.

The total cost of £1,050,000 can be funded as follows: £938,000 – Sure Start capital grant; £70,000 – Sure Start Revenue funding; £42,000 – Sustainability budget already included in the Capital Programme funding.

As the final funding package was not confirmed until 19<sup>th</sup> December, 2005 and the majority of funding must be expended by 31<sup>st</sup> March, 2006 the Leader of the Council in consultation with the Director of Finance made an Urgent Decision on 13<sup>th</sup> January (Ref. DCS/1/2006) that the Capital Programme be amended to include this project.

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

42. As outlined above, the Local Government Act 2003 introduced a new system of "prudential borrowing" from 1<sup>st</sup> April 2004 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.

43. Details of the various indicators required, and the proposed figures to be set in relation to each indicator are set out at Appendix A.

## **Finance**

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

## **Law**

45. 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**

46. These proposals comply with the Council's policy on Equality and Diversity.



## **Recommendations**

47. That the Council be recommended:
- (a) That each SCE be earmarked to the relevant service, but with a particular emphasis on demonstrating appropriate prioritisation *within* service programmes, and *within* spend headings, as set out in paragraph 10.
  - (b) That Housing capital receipts be earmarked to be spent on Housing capital schemes as set out in paragraph 11.
  - (c) That the Private Sector Housing Investment Programme for 2006/07 be approved as set out in paragraph 16.
  - (d) That the Education capital resources and related schemes be included in the Capital Programme as appropriate, as set out in paragraphs 17 and 18.
  - (e) That the items of Social Services capital expenditure be approved and included in the Capital Programme, as set out in paragraphs 22 and 23.
  - (f) 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 paragraph 27.
  - (g) That the grant towards affordable housing at Stocking Street be approved and included in the Capital Programme, as set out in paragraph 31.
  - (h) That the Section 106 funded expenditure on Lye Local Centre be included in the Capital Programme, as set out in paragraph 32.
  - (i) That the expenditure to extend the children's play area at Mary Stevens Park be approved and included in the Capital Programme, as set out in paragraph 33.
  - (j) That the expenditure on seating at Buffery Park be approved and included in the Capital Programme, as set out in paragraph 34.
  - (k) That the replacement of doors at the Lister Road Transport Maintenance Workshops be approved and included in the Capital Programme, as set out in paragraph 35.
  - (l) That the Car Park Improvements be approved and included in the Capital Programme, as set out in paragraph 36.
  - (m) That the project to install a Pedestrian Crossing on Stourbridge Ring Road be approved and included in the Capital Programme, as set out in paragraph 37.
  - (n) That any Children's Play Initiative projects of a capital nature be included in the Capital Programme, as set out in paragraph 38.
  - (o) That subject to funding being available, the project for a Wind Turbine at the Robert Street School Environment Zone be approved and included in the Capital Programme, as set out in paragraph 39.

- (p) That the expenditure on a Corporate Booking System and its inclusion in the Capital Programme, as set out in paragraph 40, be approved.
- (q) That the Urgent Amendment to the Capital Programme, as set out in paragraph 41, be approved.
- (r) 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, and as set out in Appendix A, be approved.

*David Caunt*

.....

**LEADER OF THE COUNCIL**

## Appendix A

### 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 Management Strategy for 2006/07 being considered by the Audit Committee on 8<sup>th</sup> 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 2005/06, 2006/07 and 2007/08 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>2004/05</b> <b>£m</b> <b>Actual</b>	<b>2005/06</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2006/07</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2007/08</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2008/09</b> <b>£m</b> <b>Estimate</b>
Non - HRA	41.0	60.1	63.9	46.6	15.3
HRA	24.8	23.6	24.4	24.1	25.2
<b>Total</b>	<b>65.8</b>	<b>83.7</b>	<b>88.3</b>	<b>70.7</b>	<b>40.5</b>

## **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>2004/05</b> <b>£m</b> <b>Actual</b>	<b>2005/06</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2006/07</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2007/08</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2008/09</b> <b>£m</b> <b>Estimate</b>
Non - HRA	199.6	211.7	219.5	225.9	226.2
HRA	45.2	48.4	53.5	58.4	63.3
<b>Total</b>	<b>244.8</b>	<b>260.1</b>	<b>273.0</b>	<b>284.3</b>	<b>289.5</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 2005/06 to 2008/09.

## **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 unsupported “prudential borrowing” to fund capital investment are set out in paragraph 30-32 of the report. 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. The impact on Council Tax of these proposals is as follows.

	<b>2006/07</b> £	<b>2007/08</b> £	<b>2008/09</b> £
Increase in Band D Council Tax	0.21	1.29	1.29

The estimated incremental impact of Housing capital investment proposals (set out in the relevant report elsewhere on this agenda) on Housing Rents is zero. This is based on the fact that rents are determined by government rent restructuring guidance and assumes that the Council will continue to comply with this guidance. Borrowing forecasts have been set at levels which will not necessitate a rent increase above guidelines.

## **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>2004/05</b> % <b>Actual</b>	<b>2005/06</b> % <b>Revised Estimate</b>	<b>2006/07</b> % <b>Revised Estimate</b>	<b>2007/08</b> % <b>Revised Estimate</b>	<b>2008/09</b> % <b>Estimate</b>
Non - HRA	4.3	4.8	9.2	9.3	9.4
HRA	3.7	4.4	4.2	4.3	4.4

The increase in the Non-HRA ratio between 2005/06 and 2006/07 is almost wholly the result of the transfer of Schools funding to direct grant support via the Dedicated Schools Grant (DSG) thereby reducing the level of overall resources in the calculation. This is a purely technical adjustment and does not affect the underlying affordability of the Council's capital investment.

## **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 2005/06 set this time last year.

	2004/05	2005/06	2006/07	2007/08	2008/09
			Revised	Revised	
	£m	£m	£m	£m	£m
<b>Authorised limit for external debt:</b>					
Borrowing	n/a	529	535	538	538
Other long term liabilities	n/a	5	7	8	8
<b>Total</b>	<b>n/a</b>	<b>534</b>	<b>542</b>	<b>546</b>	<b>546</b>
<b>Operational boundary:</b>					
Borrowing	n/a	480	469	459	448
other long term liabilities	n/a	5	7	8	8
<b>Total</b>	<b>n/a</b>	<b>485</b>	<b>476</b>	<b>467</b>	<b>456</b>
<b>Actual External Debt:</b>					
Borrowing	415.0	n/a	n/a	n/a	n/a
Other long term liabilities	0.6	n/a	n/a	n/a	n/a
<b>Total</b>	<b>415.6</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.

	2005/06	2006/07	2007/08	2008/09
	%	%	%	%
	Revised	Revised	Revised	
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	45	30	20	15

## 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.