

**Meeting Of the Cabinet - 13<sup>th</sup> February 2008**

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

**Capital Programme Monitoring and Capital Programme 2008/09 - 2010/11**

**Purpose of Report**

1. To report progress with the implementation of the Capital Programme.
2. To propose the allocation of available capital resources for 2008/09 - 2010/11, and certain other amendments to the Council's 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.

**Background**

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

<b>Service</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Public Sector Housing	27695	23388	22466
Other Adult, Community & Housing	6285	3719	3847
Urban Environment	31028	29943	7533
Children's Services	17774	15181	75
Finance, ICT & Procurement	940	859	0
Law & Property	1288	279	659
Chief Executive's	1012	0	0
<b>TOTAL</b>	<b>86022</b>	<b>73369</b>	<b>34580</b>

5. In accordance with the requirements of the Financial Management Regime (FMR), details of progress with the 2007/08 Programme are given in Appendix A. It is proposed that the current position be noted.

## Available Resources for 2008/09 - 2010/11

6. 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.
7. 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. Details of Government support for mainstream capital spending programmes for the period 2008/09 - 2010/11 have now been announced in parallel with the 3 year RSG settlement.
8. The majority of SCE approvals have been allocated as part of the Single Capital Pot (SCP) mechanism as follows.

	2008/09	2009/10	2010/11
	£m	£m	£m
Transport	2.444	2.687	2.946
Education	4.659	4.966	2.035
Children’s Social Care	0.049	0.049	0.049
<b>Total Single Capital Pot SCE</b>	<b>7.152</b>	<b>7.702</b>	<b>5.030</b>

9. Note that Government support for work on private sector housing will continue to be in the form of capital grant and support for borrowing for public sector housing investment will continue to be made through Housing Revenue Account Subsidy (HRAS). Also from 2008/09 onwards, support for Adult Social Care and Mental Health investment will be through Single Capital Pot grant rather than supported borrowing, as set out in paragraph 22 below.

## Overall Allocation of Resources

10. In theory, it would be possible to treat the overall SCE (and non-ringfenced capital grants) 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.
11. Therefore, it is proposed that each SCE (together with non-ringfenced grants) 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.

12. It is also proposed that, as in the past, Housing capital receipts should be earmarked to be spent on Housing capital schemes.

### Transport

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 based on population after funding of joint initiatives. The resources for Structural Maintenance of Roads and Bridges are identified to individual authorities and 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 2008/09 - 2010/11 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 base budgets for 2008/09 - 2010/11 be agreed:

	2008/09 £m	2009/10 £m	2010/11 £m
Disabled Facilities Grants	1.699	1.882	1.901
Housing Assistance Grants	1.100	0.959	0.983
<b>Total</b>	<b>2.799</b>	<b>2.841</b>	<b>2.884</b>

- The total of £5.5m for Disabled Facilities Grants (DFGs) will fund around 370 grants depending on the nature and cost of the works involved. It is anticipated that this will be supplemented by further one-off funding of £2m (funded from "prudential borrowing") as set out in paragraph 25 below which will fund a further 200 grants, allowing waiting times to be significantly reduced.
  - The total of £3.0m for Housing Assistance Grants will enable further progress to be made in dealing with unfitness in the private sector, funding around 525 grants depending on the nature and cost of the works involved.
17. We have also been notified of a further allocation of Government support for DFGs for 2007/08 of £128,000. It is proposed that the Capital Programme be amended accordingly.

## Children's Services

18. The Education Single Capital Pot SCE totals comprise:

	2008/09 £m	2009/10 £m	2010/11 £m
<b>Modernisation Funding.</b> To be allocated on the basis of Asset Management Plan (AMP) priorities.	2.843	3.246	0.315
<b>Basic Need - New Pupil Places.</b> This will be allocated to specific projects following appropriate consultation and evaluation of options	1.061	1.061	1.061
<b>Schools Access Initiative.</b> This funding will be used to meet the needs of individual pupils as they are identified during the year.	0.659	0.659	0.659
<b>ICT.</b> To supplement the Harnessing Technology Grant (see below) for investment in ICT to enable extension of ICT access and ICT based services.	0.096	-	-
<b>Total</b>	<b>4.659</b>	<b>4.966</b>	<b>2.035</b>

19. The following grant funding will also be available for Schools capital investment:

	2008/09 £m	2009/10 £m	2010/11 £m
<b>Devolved Capital.</b> This will be allocated to projects by schools on the basis of their own priorities. (Provisional allocations based on forecast pupil numbers.)	5.070	5.020	5.020
<b>Modernisation Funding.</b> To complement SCE funding above.			3.028
<b>Extended Schools.</b> To enable all schools to offer extended services by 2010, providing a range of services to children, their parents and the wider community.	0.530	0.561	0.290
<b>ICT Harnessing Technology.</b> For investment in ICT to enable extension of ICT access and ICT based services.	0.927	0.967	1.033

<b>Primary Capital Programme.</b> To rebuild or refurbish the majority of Primary schools ensuring schools are fully equipped for 21 <sup>st</sup> Century learning, at the heart of the community, with children's services in reach of every family. (Indicative figures subject to approval of Primary Strategy; support may be through PFI.)	4.202	6.580
<b>Targeted Capital Fund (14-19 Diplomas &amp; SEN Projects).</b> To provide initial dedicated funding to support the additional costs of delivery of Diplomas at Key Stage 4 which cannot be met from mainstream funding.	2.000	6.000
<b>Total</b>	<b>6.527</b>	<b>12.750</b>
		<b>21.951</b>

In respect of Modernisation Funding, schools will be expected to identify match-funding from their Devolved allocations where appropriate.

20. The following resources will be available for other Children's Services capital initiatives:

	2008/09 £m	2009/10 £m	2010/11 £m
<b>Children's Social Care (SCE as above).</b> Proposed to be used to maintain and refurbish children's residential homes to keep them in line with regulatory standards.	0.049	0.049	0.049
<b>Surestart, Early Years &amp; Childcare (grant).</b> To 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 Extended Schools Prospectus. This will be allocated to specific projects in due course following consideration of how the funding can be best used to meet these objectives.	1.468	1.872	1.567
<b>ICT Mobile Technology To Support Children's Social Workers (grant).</b> To invest in improved mobile ICT for children's social workers, which will help to improve business processes, and so bring benefits such as improved workload management and better use of time for children's social workers.	0.040	-	-

<b>Youth Capital (grant).</b> To provide a capital budget to be spent on what young people want - which will be allocated to specific projects following appropriate consultation with young people.	0.164	0.164	0.164
<b>Total</b>	<b>1.721</b>	<b>2.085</b>	<b>1.780</b>

21. It is proposed that the above resources, and related schemes be included in the Capital Programme as appropriate.

### Adult Social Care & Mental Health

22. The following support has been made available as Single Capital Pot grant.

	2008/09 £m	2009/10 £m	2010/11 £m
Adult Social Care	0.159	0.159	0.159
Mental Health	0.142	0.141	0.141
<b>Total</b>	<b>0.301</b>	<b>0.300</b>	<b>0.300</b>

23. It is proposed that these resources be allocated as follows:

- Adult Social Care - to address minor works schemes identified as asset management priorities by the Directorate Property and Capital Steering Group and approved by Directorate Management Team;
- Mental Health - to be allocated in partnership with the PCT and other interested partners to projects which help meet national targets as laid down in the National Service Framework for Mental Health, and the Suicide Prevention Strategy.

### Other Services

24. The Council has been allocated the following grant under the Waste Infrastructure initiative.

	2008/09 £m	2009/10 £m	2010/11 £m
Waste Infrastructure	0.537	0.537	0.196

It is proposed that this be allocated to waste infrastructure related projects, driven by the Black Country 30 Year Waste Study and that detailed projects be agreed by the Director of the Urban Environment in consultation with the Cabinet Member for the Environment. This will include the development of a recycling storage and handling facility followed by improvements to the existing waste infrastructure, which will aid waste minimisation and improve the Borough's recycling performance.

## **Prudential Borrowing**

25. 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, as follows:

### Adult, Community and Housing

- £2m one-off funding to reduce waiting times for Disabled Facilities Grants;

### Urban Environment

- £1.2m for priority Street Lighting replacement;
- £0.3m over 3 years for Regeneration feasibility work;
- £1.0m of works to the Waste to Energy plant to comply with anti-pollution legislation.

26. It is proposed that subject to these elements of the Revenue Budget Strategy being agreed, the above expenditure be included in the Capital Programme.
27. The Council has received a capitalisation direction for £16.7m in respect of Equal Pay Back Pay in 2007/08, and may receive further directions in 2008/09 and future years. This will enable costs up to the amount of the directions received to be treated as capital expenditure and funded from “prudential borrowing”. Provision has been made in revenue budgets for the anticipated costs of repayment. It is proposed that the Capital Programme be amended accordingly.
28. There are no proposals to use further Prudential Borrowing within the Public Sector Housing Investment Programme.

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

29. 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**

#### HIV / Aids Grant 2007/08

30. The Council has made a successful bid to the Department of Health for £29,000 of HIV/AIDS capital grant funding. It is proposed that this be used for adaptations, installation of a lift, double entry doors and soundproofing of counselling rooms at Summit House.

## Urban Environment

### Liveability

31. The following amendments to the Liveability programme are proposed.

- As a result of a successful bid to the Cory Environmental Fund, up to £25,000 has been secured to provide fences and gates, and to surface an existing major path across the Turls Hill and Swanbrook open space. This will improve access to this site and build on the work being carried out through the Liveability project. A condition of the Grant is that a third party funder reimburses Cory 10% of the total project cost. This funding is being applied for from the North Dudley Area Committee.
- The Dudley Federation of Tenants and Residents Associations (DFTRA) has, with help from Groundwork Black Country, also made a successful bid to Cory for funding of £38,900 to improve a major footpath route and entrances through the Fens Pool Nature Reserve. DFTRA and Groundwork have requested that the Council enter into the agreement with Cory Environmental, as land owners, and manage the implementation of the works in partnership with Groundwork. The necessary 10% third party funding has been secured by the DFTRA from the Central Dudley Area Committee.
- The Friends of Buffery Park have made a successful grant application to Waste Recycling Environmental Limited (WREN) for £25,000 towards the construction of a Multi Use Games Area at Buffery Park, one of the priorities set out in the masterplan for the park. The total estimated cost of this project is £48,000, of which the balance of £23,000 can be funded as follows: £8,000 from existing Liveability funds; £15,000 from available Section 106 funding.
- £1,800 of funding from the Grounds Maintenance improvements budget has been made available to support the development of cricket facilities at Grange Park.

### Priory Park & Ruin - Heritage Lottery Fund Application

32. Following a successful bid to the Heritage lottery Fund (HLF) in 2005 for a project development grant, the Council in partnership with the Friends of Priory Park and the Green have been developing proposals for improvements to the Park and Priory remains.

A Stage 1 bid to the HLF's 'Parks for People' programme is in the final stages of preparation and is planned for submission in time to meet the HLF's deadline of 31st March 2008. The total project cost is estimated to be £3.5m comprising capital works and eligible revenue costs associated with the planned enhancements as they impact on the management and maintenance of the site.

The Council and partners will be required to provide a *minimum* of 25% of the project costs, i.e. £875,000 to be sourced, of which 5% of the total costs (£175,000) must be in cash. If the Stage 1 bid to HLF is successful, one of the principal challenges in moving through to a Stage 2 application will be to identify this partnership funding, although the fact that revenue elements and 'in kind' support are eligible to count towards this does provide a range of options to be explored.

It is proposed that the Director of the Urban Environment be authorised to submit a HLF Stage 1 application for Priory Park and Ruin. A further report will be made to Cabinet when the outcome is known, and prior to any Stage 2 bid.



### Saltwells Nature Reserve Improvements

33. The Capital Programme currently includes a £30,000 package of improvements at Saltwells Nature Reserve. It is proposed that this budget be increased by £7,000 (to be funded from Risk management resources) to undertake safety works including resurfacing and fencing to one of the footpaths within the Reserve.

## **Children's Services**

### Relocation of Home and Hospital Service

34. The Home and Hospital Education service is currently located in mobile accommodation, which is not fit for purpose and impedes full curriculum delivery for vulnerable children. It is proposed that subject to a satisfactory feasibility study, the unit be relocated to the current Rosewood School site once that school has been relocated. The site, once adapted, will improve the quality of accommodation, providing a stimulating learning environment for pupils, staff and the wider community - and will reduce the need for out-of-Borough placements, and thereby pressure on revenue budgets.

Adaptation will involve internal remodelling and alteration, including essential electrical work, provision of new pupil toilets and a science laboratory, and some window replacement. The estimated cost of £170,000 can be met from: Devolved Capital Grant £60,000; School Development Grant £36,000; Directorate revenue budgets £74,000.

### Short Break Pathfinder Project

35. As a result of a successful joint bid by the Council and PCT to be a pathfinder for short breaks for children with disabilities, funding of £2.561m has been received (of which £0.469m is Capital) for the project over the next 3 years.

This funding will enable us to provide the "Full Service Offer" (FSO), but as pathfinders will be in a position to propose amendments to this and to propose alternative developments. Subject to Government consultation, the FSO currently comprises:

- sufficient short break provision that meets the needs of severely disabled children and their families, including those with complex health needs;
- age appropriate provision that ensures no groups are disadvantaged in accessing short breaks;
- a wide range of short breaks, tailored to families' needs;
- culturally appropriate provision that is sympathetic to the racial, cultural and religious background of disabled children and their families;
- provision that is available at the times when families and young people, need breaks - this should include evenings, weekends and holiday provision, and be capable of responding to urgent care requirements;
- well promoted information regarding the short break provision available in the area.

The pathfinder programme is expected to generate significant learning for national benefit.

The Capital element of the funding might be spent on new building resources, adaptation to existing resources and specialised equipment, etc. There are no match funding requirements.

It is proposed that the Council's Pathfinder status and funding allocation be noted, and that the related Capital spend be included in the Capital Programme.

#### Flood Recovery Grant

36. The Council has been awarded a Government grant of £50,000 specifically for recovery works relating to Schools, following last Summer's floods. It is proposed that this grant be used to improve the drainage of the school field at Crestwood High School where flood water breached drainage ditches around the field, flowed into adjacent residents' back gardens, and into some homes.

### **Chief Executive's**

#### Himley Hall Standby Generator

37. The Contingency and Disaster Management Unit at Himley Hall does not have a back-up power supply, and to this end it is the intention to install a diesel fuelled standby generator in the out-buildings of the Hall.

The generator will have a capacity to run both the Contingency and Disaster Management Unit and the Hall. This will allow for the use of additional facilities within the Hall in the event of an emergency, as well as allowing bookings within the Hall to be maintained during the eventuality of a power failure. The connection of the Hall will be undertaken as part of the North Wing project.

The cost of the project is £29,000 which can be met from the revenue budget of the Contingency and Disaster Management Unit.

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

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

#### Council House, Mary Stevens Park - Security

38. Seven separate incidents of theft of office equipment and over twenty attempted break-ins have taken place at the Council House since January 2007. In addition to previously agreed security improvements - including a perimeter fence at the rear of the building and upgraded alarm - the installation of internal lockable security grilles was considered necessary to secure vulnerable areas..

An urgent decision (ref. DUE/99/2007) was therefore made by the Leader of the Council in consultation with the Director of Finance on 4<sup>th</sup> December 2007 to approve further security works to the value of £23,000 at the Council House and their inclusion in the Capital Programme. This can be funded from resources set aside for urgent priorities.

#### Saltwells Flood Works

39. The high volumes of water in Black Brook during the Summer 2007 floods caused damage to public rights of way and structures within Saltwells Nature Reserve. It was considered that if left without remediation and improvement, any further rainfall would cause excessive damage and possible loss of minor structures, culverts and footbridges within the Reserve.

In order to prevent such damage, an urgent decision (ref. DUE/105/2007) was therefore made by the Leader of the Council in consultation with the Director of Finance on 21<sup>st</sup> December 2007 to approve works to structures within Saltwells Nature Reserve to the value of £12,000 and their inclusion in the Capital Programme. This can be funded from a combination of Government Flood Damage Grant and existing Capital and Revenue budgets.

#### 79 & 81 Stourbridge Rd. Dudley

40. Numbers 79 and 81 Stourbridge Road, Dudley are part of a terraced row of 5 properties. Both have been left unoccupied for over 20 years and a risk assessment has indicated that their condition has deteriorated to such an extent that if remedial measures are not undertaken in the near future they will present a danger to the general public. Both houses have been the subject of vandalism and extensive fire damage which has destroyed most of their roofs. The Council has at various times over the last few years had to carry out emergency repairs to secure the safety of the structure.

The ownership of no. 79 is not registered but the owner of no.81 has been known for some time. Despite numerous enquiries over a considerable period it is only in recent months that one of three part-owners of 79 has been able to be contacted; it appears that the original owner died and left the property to descendants.

Due to their construction it is impractical to treat properties individually and this has always been the reason given by the owners of 81 for not carrying out remedial work to their property.

The Council could carry out work to demolish both properties under section 78 of the Building Act 1984 and register a charge on the properties. However, because of the difficulty in establishing title to no.79 it is considered that there would be a high risk that the Council would not be able to recover costs and be able to redevelop this site in a satisfactory manner in order to recover expenditure incurred.

Purchase of these properties under Compulsory Purchase Order (CPO) would therefore appear to be the most satisfactory solution to ensure that the area is suitably redeveloped and that any liabilities to the Council are reimbursed. Once acquired, the Council can consider whether restoring the existing properties to beneficial use or demolition and sale of the vacant site offers the most financially advantageous solution.

The total cost of the acquisition of the two properties by CPO is estimated at £100,000 and it is anticipated that the proceeds from the ultimate site disposal will cover the initial acquisition and related costs.

Due to the current state of the properties, an urgent decision (ref. DUE/106/2007) was therefore made by the Leader of the Council in consultation with the Director of Finance on 21<sup>st</sup> December 2007 to agree the Compulsory Purchase of the properties and inclusion of the acquisition in the Capital Programme.

#### Broadfield House Museum Security

41. An urgent decision (ref. DUE/4/2008) was made by the Leader of the Council in consultation with the Director of Finance on 18<sup>th</sup> January 2008 to include £49,000 in the Capital Programme for security works at Broadfield House Glass Museum.

The detailed decision which was considered in private, is available to Members on request to Richard Sanders, Democratic Services, Directorate of Law and Property on (01384) 815236 or email [richard.sanders@dudley.gov.uk](mailto:richard.sanders@dudley.gov.uk).

#### Adult and Community Learning Capital Support Programme

42. A successful first stage bid has been made to the Adult Safeguarded Learning (ASL) Capital Fund of the Learning and Skills Council (LSC) on 31st October for funding to support the costs associated with the Kingswinford Library Hub project, and improvements to Halesowen Library, and the Pensnett, Brierley Hill, and Castle and Priory Neighbourhood Learning Centres.

The Kingswinford Hub project will enable the extension and refurbishment of the existing well-used building to encompass more space for stock, ICT and community activities, and to develop community partnership activity with the Brierley Hill Community Partnership. This will provide drop-in facilities at their community building along with self-issue facilities, public access computers, rotating stock and training within the premises.

The three Neighbourhood Learning Centres of Pensnett, Brierley Hill and Castle and Priory deliver high quality adult and community learning. However, building capacity and health and safety issues are preventing the further development and extension of services on offer. The capital funding sought will enable these issues to be addressed.

The funding would also enable necessary upgrades to the electrical installations at Halesowen Library.

Total project cost is £853,000. The bid to the LSC is for £768,000. A matchfunding contribution of 10% of total project costs (£85,000) will be required from the Council, and this can be met from Directorate revenue budgets.

In order to comply with timescales for submission of a Stage 2 bid, an urgent decision (ref. DACHS/009/2008) was made by the Leader of the Council in consultation with the Cabinet Member for Housing, Director of Adult, Community and Housing, and Director of Finance on 1<sup>st</sup> February 2008 to:

- Approve submission of a Stage 2 application for Major Capital Project Grant Support through the Adult Safeguarded Learning (ASL) Capital Fund of the Learning and Skills Council for grant funding for the Adult and Community Learning Capital Support Programme;
- Include the Adult and Community Learning, Capital Support Programme in the Council's Capital Programme, subject to funding through the Adult Safeguarded Learning Challenge Fund of the Learning and Skills Council;
- Approve the Council's budgeted contribution of £85,000.

#### **Post Completion Review of Capital Projects**

43. The Post Completion Review required by Contract standing orders has now been undertaken for the following schemes, with a copy of the proforma summarising the review attached at Appendix B.

## **Children's Services**

Christ Church Primary School- Extension  
Church of the Ascension Primary School - Extension  
Olive Hill Primary School - New Classroom & Toilet Block  
Queen Victoria Primary School - New Classrooms  
Thorns Community College - Roof Replacement  
Wallbrook Primary School - Extension & Alterations  
Children's Centres at Wrens Nest and Priory Primary Schools

It is proposed that these be noted.

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

44. 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.
45. Details of the various indicators required, and the proposed figures to be set in relation to each indicator are set out at Appendix C.

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

46. Current legislation requires Minimum Revenue Provision (MRP) to be made for any borrowing incurred for non-HRA related capital expenditure at a rate of 4% (of reducing balance) per year. The Government is proposing to abolish this legislation in favour of statutory guidance to which authorities must have regard when determining the appropriate revenue charge.
47. The main impact of the current proposed guidance will be that any unsupported "prudential borrowing" from 2008/09 onwards will need to be charged to revenue over a period no longer than the useful life of the assets on which the capital expenditure has been incurred. (Supported borrowing will continue to be charged at a minimum 4% as at present, to match the corresponding support notionally included within RSG). Also, no MRP will need to be charged until assets are operational. Although in some circumstances - i.e. for short life assets - the proposed changes will increase revenue costs in the short term, it is anticipated that the overall impact should be favourable.
48. Within this overall framework, authorities will be able to decide:
  - For unsupported borrowing, whether to charge to revenue on the basis of equal instalments over the initial estimated life of the assets or on the basis of depreciation calculated in accordance with normal accounting practice. The former will be simpler and give more predictable costs.
  - For supported borrowing, whether to charge on the basis of a simple 4%, or to retain certain adjustments to the 4% allowed by the existing regulations to reflect various historical issues. The former would be simpler but have a considerable revenue impact on Dudley.

49. The proposed guidance also recommends that before the start of each financial year each authority should prepare a statement of its policy on making MRP in respect of that financial year and submits it to the full council. The statement should indicate which of the options listed in the preceding paragraph are to be followed in the financial year.
50. In anticipation of the proposed changes being implemented, it is proposed that the Council agrees the following MRP Policy:
- For unsupported borrowing, MRP be calculated on the basis of equal instalments over the initial estimated life of the assets - the "Asset Life" method;
  - For supported borrowing, MRP be calculated on the basis of the existing regulations - the "Regulatory Method".

### **Finance**

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

### **Law**

52. 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**

53. These proposals comply with the Council's policy on Equality and Diversity.
54. 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.

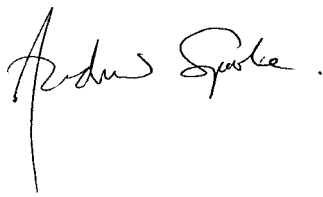
### **Recommendations**

55. That current progress with the 2007/08 Capital Programme, as set out in Appendix A be noted.
56. That the results of the Post Completion Review of capital projects, as set out in Appendix B be noted.
57. That the Director of the Urban Environment be authorised to submit a HLF Stage 1 application for Priory Park and Ruin, as set out in paragraph 32.

58. That the Council be recommended:

- 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 11.
- That Housing capital receipts be earmarked to be spent on Housing capital schemes as set out in paragraph 12.
- That the Private Sector Housing Investment Programme for 2008/09 - 2010/11 be approved, and amended in respect of the extra £128,000 for DFGs in 2007/08 as set out in paragraphs 16-17.
- That the Children's Services capital resources and related schemes be included in the Capital Programme as appropriate, and that the grants identified as non-ringfenced be earmarked to the relevant initiatives, as set out in paragraphs 18-21.
- That the allocation of Adult Social Care capital resources be approved and included in the Capital Programme, as set out in paragraph 23.
- That the Waste Infrastructure grant allocation be allocated as set out in paragraph 24.
- 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 25-26.
- That the Capital Programme be amended in respect of any capitalisation directions received, as set out in paragraph 27.
- That the HIV/AIDS Grant 2007/08 be used for improvements at Summit House as set out in paragraph 30.
- That the additions to the Liveability project be approved and included in the Capital Programme, and the Director of the Urban Environment be authorised to accept the relevant grants, as set out in paragraph 31.
- That the budget for improvements to Saltwells Nature Reserve be increased by £7,000, as set out in paragraph 33.
- That subject to a satisfactory feasibility study, the relocation of the Home and Hospital Education service to the current Rosewood School site be approved, and the project to adapt the site be approved and included in the Capital Programme, as set out in paragraph 34.
- That the Council's Short Break Pathfinder status and funding allocation be noted, and the related Capital spend be included in the Capital Programme, as set out in paragraph 35.
- That the Schools Flood Recovery grant be used to improve the drainage of the school field at Crestwood High School, as set out in paragraph 36.

- That the project to install a standby generator at Himley Hall be approved and included in the Capital Programme, as set out in paragraph 37.
- That the Urgent Amendments to the Capital Programme, as set out in paragraphs 38-42 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 subject to the anticipated legislative changes being enacted, the Minimum Revenue Provision (MRP) Policy for 2008/09 be as set out in paragraph 50.



.....  
**Andrew Sparke**  
**Chief Executive**

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

Contact Officer: John Everson  
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**List of Background Papers**

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



## Appendix A

### 2007/08 Capital Programme Progress to Date

Service	Budget £'000	Spend to 31st December £'000	Forecast £'000	Variance £'000	Reasons for Variance
Public Sector Housing	27695	21530	27736	+41	See note 1
Other Adult, Community & Housing	6285	4064	6285		
Urban Environment	31028	18782	31031	+3	See note 2
Children's Services	17774	10517	17807	+33	See note 3
Finance, ICT & Procurement	940	495	940		
Law & Property	1288	1211	1288		
Chief Executive's	1012	357	1031	+19	See note 4
<b>TOTAL</b>	<b>86022</b>	<b>56956</b>	<b>86118</b>	<b>+96</b>	

1. Accelerated spend on delivery of Decent Homes standard.

2. Includes:

- a. further unavoidable costs of £75,000 as a result of delays on the A491 Brierley Hill Road Improvements scheme;
- b. £30,000 extra spend on Traffic Regulation Orders as a result of catch-up on the previous backlog, and advance preparation for Decriminalised Parking Enforcement.

Both will be met from savings elsewhere in the Transport programme.

3. As previously reported.

4. As previously reported.

## Post Completion Review of Capital Schemes

<b>Title of Scheme: Christ Church Primary - Extension</b>	
<b>Date of Executive / Cabinet approval: 08/06/2006</b> (i.e. inclusion in Capital Programme)	
<b>Original Budget (as first reported to Executive / Cabinet):..... £ 940,000</b>  Planned Completion date:                      February 2007	
<b>Outturn Cost (please indicate if still provisional):.....£ 1,191,000(p)</b> Actual completion date:    May 2007	
<b>Variation from Original Budget:</b> Delay: 3 months	<b>£251,000 (p)</b>
<b>Reason for Cost Variation and / or Delay in Completion (please indicate if any variation has previously been reported to Executive / Cabinet):</b>  The project was delayed due to works being undertaken out of sequence to allow children to move onto the site, the contractor requested additional costs for additional time spent on site. The contractor has requested additional costs for other items during the contract. Additional costs were incurred to remove a mobile from the site.	
<b>Original Objectives of Scheme (please indicate when and to whom these were reported):</b>  The project was initiated through primary review with a requirement to provide an increased school capacity by building a four classroom extension with additional toilet and administration facilities.	
<b>Have these Objectives been met? (If "No" please provide explanation):</b>  Yes	

Signed by: Ray Watson..... (Assistant Director)

Date: 17<sup>th</sup> December 2007 ...

**Title of Scheme: Church of The Ascension Primary – New Extension**

**Date of Executive / Cabinet approval: August 2004**

(i.e. inclusion in Capital Programme)

**Original Budget (as first reported to Executive / Cabinet):..... £ 200,000**

Planned Completion date: March 2007

**Outturn Cost (please indicate if still provisional):.....£ 354,000 (p)**

Actual completion date: April 2007

**Variation from Original Budget: £ 154,000 (p)**

Delay: 1 month

**Reason for Cost Variation and / or Delay in Completion (please indicate if any variation has previously been reported to Executive / Cabinet):**

Project was delayed due to unforeseen ground conditions and problems with the water main. The School also requested additional works as the job progressed.

The final account is still under discussion with the Contractor, but the latest estimate has been taken into account for the purpose of this report.

**Original Objectives of Scheme (please indicate when and to whom these were reported):**

The project was prioritised by the Directorate's AMP Scoring Matrix ranking highly in terms of the Directorate's Asset Management Plan priorities for the reduction of condition backlog in schools. The objective of the project was to replace temporary mobile classrooms with permanent fit for purpose buildings. The DfES are informed of and approve of all AMP projects.

**Have these Objectives been met? (If "No" please provide explanation):**

Yes

Signed by: Ray Watson..... (Assistant Director)

Date: 17<sup>th</sup> December 2007 ...

**Title of Scheme: New Classroom and Toilet Block at Olive Hill Primary School**

**Date of Executive / Cabinet approval: August 2004**

(i.e. inclusion in Capital Programme)

**Original Budget (as first reported to Executive / Cabinet):..... £ 861,000**

Planned Completion date: July 2006

**Outturn Cost (please indicate if still provisional):.....£ 940,000(p)**

Actual completion date: September 2006 – Classrooms & Corridor  
October 2006 – Toilets and External Works

**Variation from Original Budget**

**£ 79,000**

Delay: 15 weeks

**Reason for Cost Variation and / or Delay in Completion (please indicate if any variation has previously been reported to Executive / Cabinet):**

The Classrooms were delayed by 7 weeks and the Toilets by 15 weeks due to the Contractors poor management of the programme of works. Additional funding £79,000 was included from devolved budget and AMP to cover the additional works.

**Original Objectives of Scheme (please indicate when and to whom these were reported):**

The project was prioritised by the Directorate's AMP Scoring matrix, ranking highly in terms of the Directorate's Asset Management Plan priorities for the reduction of condition backlog in schools. The objective of the project was to replace temporary mobile classrooms with permanent fit for purpose buildings.

The DfES are informed of and approve all AMP projects.

**Have these Objectives been met? (If "No" please provide explanation):**

The project objectives have been met. The new building is of the appropriate size and fit for purpose. The classrooms are watertight and weatherproof and the school has seen a great improvement in the internal environment since the project has been completed. The AMP condition backlog has been reduced though undertaking this project therefore ensuring the Directorate meets one of its main AMP criteria – the reduction of condition backlog.

Signed by: Ray Watson..... (Assistant Director)

Date: 17<sup>th</sup> December 2007 ...

**Title of Scheme: New Classrooms, replacement of Mobiles at Queen Victoria Primary School**

**Date of Executive / Cabinet approval: 16<sup>th</sup> March 2004**

(i.e. inclusion in Capital Programme)

**Original Budget (as first reported to Executive / Cabinet):..... £ 1,700,000**

Planned Completion date: October 2006

**Outturn Cost (please indicate if still provisional): £ 1,762,000 (Provisional)**

Actual completion date: October 2006

**Variation from Original Budget: £ 62,000**

Delay: n/a

**Reason for Cost Variation and / or Delay in Completion (please indicate if any variation has previously been reported to Executive / Cabinet):**

Additional external works, floor coverings to Nursery and School gates to be funded by School. Major issue with adoptable Severn Trent manhole. Additional works to foundations.

**Original Objectives of Scheme (please indicate when and to whom these were reported):**

The project was prioritised by the Directorate's AMP Scoring Matrix ranking highly in terms of the Directorate's Asset Management Plan priorities for the reduction of condition backlog in schools. The objective of the project was to replace temporary mobile classrooms with permanent fit for purpose buildings. The DfES are informed of and approve of all AMP projects.

**Have these Objectives been met? (If "No" please provide explanation):**

The project objectives have been met. The new building is of the appropriate size and fit for purpose. The classrooms are now watertight and weather-proofed and the School has seen a vast improvement in the internal environment since the project has been completed. The AMP condition backlog has been reduced through this project, therefore ensuring that the Directorate meets one of its main AMP criteria – the reduction of condition backlog.

Signed by: Ray Watson..... (Assistant Director)

Date: 17<sup>th</sup> December 2007 ...

<b>Title of Scheme: Thorns Community College - Roof Replacement</b>	
<b>Date of Executive / Cabinet approval: Feb 2005</b> (i.e. inclusion in Capital Programme)	
<b>Original Budget (as first reported to Executive / Cabinet):..... £ 101,000</b>  Planned Completion date:            Feb 07	
<b>Outturn Cost (please indicate if still provisional):.....£ 214,000 (p)</b> Actual completion date:    Feb 07	
<b>Variation from Original Budget:</b>	<b>£-113,000 (p)</b>
Delay: ____ months	
<b>Reason for Cost Variation and / or Delay in Completion (please indicate if any variation has previously been reported to Executive / Cabinet):</b>  Budget first reported in Feb 2005. Budget increased by £124,000 in April 2006 to cover work predicted in pre-tender report from DPC.	
<b>Original Objectives of Scheme (please indicate when and to whom these were reported):</b>  The project was prioritised by the Directorate's AMP Scoring Matrix ranking highly in terms of the Directorate's Asset Management Plan priorities for the reduction of condition backlog in schools. The objective of the project was to replace existing roof coverings to provide a fit for purpose watertight and weather-proofed environment.	
<b>Have these Objectives been met? (If "No" please provide explanation):</b>  Yes	

Signed by: Ray Watson..... (Assistant Director)

Date: 17<sup>th</sup> December 2007 ...

**Title of Scheme: Three Classroom Extension and Internal Alterations at Wallbrook Primary School**

**Date of Executive / Cabinet approval: 8<sup>TH</sup> Feb 2006**

(i.e. inclusion in Capital Programme)

**Original Budget (as first reported to Executive / Cabinet):..... £ 650,000**

Planned Completion date: December 2006

**Outturn Cost (please indicate if still provisional): £ 670,000(Provisional)**

Actual completion date: December 2006

**Variation from Original Budget: £ 20,000 (Provisional)**

Delay: n/a

**Reason for Cost Variation and / or Delay in Completion (please indicate if any variation has previously been reported to Executive / Cabinet):**

Additional Funding of £ 23,000 was added to cover the cost reported at tender stage.

**Original Objectives of Scheme (please indicate when and to whom these were reported):**

The project was initiated through primary review with a requirement to provide an increased school capacity by building a three classroom extension with additional toilet and administration facilities.

**Have these Objectives been met? (If "No" please provide explanation):**

The project objectives have been met. The new building is of the appropriate size and fit for purpose and has provided the School with a suitably increased capacity.

Signed by: Ray Watson..... (Assistant Director)

Date: 17<sup>th</sup> December 2007 ...

**Title of Scheme: New Children's Centres at Wrens Nest Primary and Priory Primary Schools**

**Date of Executive / Cabinet approval: March 2004**

(i.e. inclusion in Capital Programme)

**Original Budget (as first reported to Executive / Cabinet): £ 1,701,000**

Planned Completion date: March 2006

**Outturn Cost (please indicate if still provisional):.....£ 3,375,000 (p)**

Actual completion date: September 2006

**Variation from Original Budget: .....£ 1,674,000 (p)**

Delay: 6 months (approved by Sure Start)

**Reason for Cost Variation and / or Delay in Completion (please indicate if any variation has previously been reported to Executive / Cabinet):**

An Audit report commented on the following factors:- Sure Start constraints on timescales for registration and funding profile requirements, together with delays in procurement, led to construction work commencing before design work was complete, and subsequent design changes also contributed to cost overruns. Unforeseen groundwork (including drainage and landscaping) problems, security issues and working methods on site all led to expensive delays.

**Original Objectives of Scheme (please indicate when and to whom these were reported):**

This project was implemented to deliver two children's centres as part of DMBC's inclusion in the Government's Sure Start programme to deliver the best start in life for every child, aiming to deliver accessible affordable child care along with health and family support, in all areas of the borough.

**Have these Objectives been met? (If "No" please provide explanation):**

Yes.

The learning process from these schemes has enabled the phase 2 schemes to run within budget and allocated timescales.

Signed by: Ray Watson ..... (Assistant Director)

Date: 15<sup>th</sup> January 2008 .....



### 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>2006/07</b> £m <b>Actual</b>	<b>2007/08</b> £m <b>Revised Estimate</b>	<b>2008/09</b> £m <b>Revised Estimate</b>	<b>2009/10</b> £m <b>Revised Estimate</b>	<b>2010/11</b> £m <b>Estimate</b>
Non - HRA	79.6	74.3	76.7	44.0	44.1
HRA	21.9	27.8	27.0	25.6	25.9
<b>Total</b>	<b>101.5</b>	<b>102.1</b>	<b>103.7</b>	<b>69.6</b>	<b>70.0</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>2006/07</b> £m <b>Actual</b>	<b>2007/08</b> £m <b>Revised Estimate</b>	<b>2008/09</b> £m <b>Revised Estimate</b>	<b>2009/10</b> £m <b>Revised Estimate</b>	<b>2010/11</b> £m <b>Estimate</b>
Non - HRA	245.7	269.1	280.2	282.0	280.0
HRA	53.5	59.1	62.6	68.2	73.8
<b>Total</b>	<b>299.2</b>	<b>328.2</b>	<b>342.8</b>	<b>350.2</b>	<b>353.8</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 2007/08 to 2010/11.

## **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 25 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>2008/09</b> £	<b>2009/10</b> £	<b>2010/11</b> £
Increase in Band D Council Tax	4.42	4.51	4.60

The anticipated prudential borrowing to fund the capitalised costs of Single Status back-pay will reduce pressure on Council Tax and free up resources required to meet spending priorities.

There are no proposals to use further Prudential Borrowing within the Public Sector Housing Investment Programme. In any case, 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>2006/07</b> %	<b>2007/08</b> %	<b>2008/09</b> %	<b>2009/10</b> %	<b>2010/11</b> %
	<b>Actual</b>	<b>Revised Estimate</b>	<b>Revised Estimate</b>	<b>Revised Estimate</b>	<b>Estimate</b>
Non - HRA	6.5	8.2	9.2	9.8	9.6
HRA	3.9	4.4	5.0	5.3	5.7

## **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 2007/08 set this time last year.

	2006/07	2007/08	2008/09	2009/10	2010/11
			Revised	Revised	
	£m	£m	£m	£m	£m
<b>Authorised limit for external debt:</b>					
Borrowing	n/a	538	590	592	591
Other long term liabilities	n/a	5	6	7	7
<b>Total</b>	<b>n/a</b>	<b>543</b>	<b>596</b>	<b>599</b>	<b>598</b>
<b>Operational boundary:</b>					
Borrowing	n/a	473	518	518	510
other long term liabilities	n/a	5	6	7	7
<b>Total</b>	<b>n/a</b>	<b>478</b>	<b>524</b>	<b>525</b>	<b>517</b>
<b>Actual External Debt:</b>					
Borrowing	407.3	n/a	n/a	n/a	n/a
Other long term liabilities	1.9	n/a	n/a	n/a	n/a
<b>Total</b>	<b>409.3</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 2007/08 set this time last year.

	2007/08	2008/09	2009/10	2010/11
	%	%	%	%
	Revised		Revised	
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	30	15	15	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.