CAPITAL INVESTMENT STRATEGY AND PRUDENTIAL INDICATORS 2007/08 TO 2009/10

1. Reason for Report
This report presents Members with details of the Council's Capital Programme and the associated Prudential Indicators for the upcoming financial planning period. It is a requirement of the Prudential Code that these indicators are formally approved by the Council.

2. Report Summary
2.1 The details of the Capital Investment Strategy are presented in **Appendix 1.** This essentially allocates between £10M-£11M annual supported borrowing and any agreed special borrowing to the Councils priority projects. **Appendix 1** was presented to the Finance Sub Committee on 2 February 2007.

2.2 The Prudential Indicators are presented in **Appendix 2**. These give some level of assurance that the Council's planned Capital Investment Strategy is prudent, affordable and sustainable. In order for this to be truly assured the investment strategy has to be set within a wide and robust framework of management planning, control and review.

3. Glossary of Terms

Prudential Code	the Code introduced in April 2004 to control Local Authority Capital spending. Local Authorities are required to have regard to this code.
RSG	Revenue Support Grant
Supported Borrowing	Borrowing which will be supported by an amount included in RSG to cover loan charges
Unsupported Borrowing	Borrowing above the level of borrowing supported through RSG

4. Recommendations
Members are asked to agree the updated Prudential Indicators and to agree that these are set as an underlying framework in support of the Council's capital investment strategy.

5. Corporate Plan Links and Contribution
The report contributes to the Corporate Plan principle of strong financial management.

6. Resources/Value for Money Assessment
The financial resources allocated to the 2007/08 to 2009/10 Capital Investment Strategy are detailed in **Appendix 1**.

7. Risk Assessment

One of the main purposes of preparing these indicators and presenting them to members is to provide a level of assurance that the level of resources that we are committing to capital works is a level which is prudent affordable and sustainable.

8. Consultations

The Corporate Management Team, Group Manager Policy and Improvement and the Operations Manager: Property Services have been consulted on, and concur, with the contents of this report.

9. Background

9.1 **Prudential Code** – As Members are aware the Prudential Code has as of 1 April 2004 replaced Section 94 borrowing limits or 'consents' imposed by Central Government. One key objective of the Code is to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.

9.2 In order to demonstrate that the Council has fulfilled these objectives the Code requires that a series of indicators are set. The setting and revising of Prudential Indicators should follow the same route as the setting and revising of the Council's budget and it is therefore appropriate that these indicators should be considered by the Full Council.

9.3 A report on the Council's Capital Investment Strategy was presented to the Finance Sub Committee, at its meeting of 2 February 2007, and is attached as **Appendix 1** to this report. The Prudential Indicators, which are shown at **Appendix 2,** are based on the levels of expenditure and borrowing agreed as part of the framing of that Capital Investment Strategy and also the Council's Capital Monitoring Report to 31 December.

10. Key Issues

10.1 The Prudential Indicators, as defined by the code, are concerned with ensuring that Capital Investment decisions are both affordable and prudent. The issue of sustainability is dealt with by producing indicators for the following three years.

10.2 The key indicators of affordability are:
(2) The estimate of the ratio of financing costs to net revenue stream – this indicator shows the portion of the Council's income that will be used to finance its debt. It is currently anticipated that this ratio will remain fairly stable at between 6.5% and 7%.

(9) The incremental impact of capital investment decisions on the Council Tax – The first and main decision the Council has taken so far that would take the Council's borrowing beyond the notional levels indicated (and supported) by the Scottish Executive is in relation to the Dumfries & Galloway Leisure Complex. The decision of the Council on 12 February 2004 was "to make use of the special projects enhancement provision of the 3 year capital investment strategy to complete the funding package for the Dumfries & Galloway Leisure Complex" and involved borrowing of £9.810M. Subsequent decisions have seen the total amount of approved unsupported borrowing increase to £13.949M. **Appendix 2** shows revised

figures for the incremental impact of unsupported borrowing on the Council Tax, based on the latest cashflow projections. It should be noted that slippage elsewhere within the capital programme means that as yet there has been no overall pressure on Council Tax levels.

10.3 Other indicators of affordability are:
(1) Estimate of Capital Expenditure – this determines the statutory limit under section 35(1) of the Local Government in Scotland Act 2003.
(3) The Capital Financing Requirement (CFR)– this reflects the Council's underlying need to borrow.
(7) Operational boundary of Debt – this represents the maximum debt likely following current expenditure plans. Occasionally breaching this boundary due to unusual cashflows would not automatically be a cause for concern.
(6) Authorised Limit of Debt – similar to the Operational boundary this additionally allows for unusual cashflows and should never be breached.
(8) Actual External Debt – this is taken at the end of the last financial year. It should be noted that actual external debt is not directly comparable to the Authorised Limit or the Operational Boundary, since the actual external debt reflects the position at one point in time.

10.4 The key indicator of Prudence is that net external borrowing does not, except in the short-term, exceed the total of the CFR (capital financing requirement). This is indicator 5 in **Appendix 2.** Looking at indicators 8 and 3 respectively allows us to see that at 31 March 2006 the net external borrowing was £167.459M significantly below the CFR of £204.914M.

10.5 Other indicators of Prudence are:
(4) Compliance with the CIPFA Code of Practice for Treasury management in the Public Services.
(10) Interest Rate Exposure – Much of the Council's borrowing is fixed rate in order to protect the Council from fluctuations in interest rates.
(11) Maturity Structure – this ensures that loans are not all maturing at the same time.
(12) Investments – All Council investments are of less than a year.

Peter McGill Finance Officer Financial Services Date of Report: 2 February 2007 File Ref: PrudIndRep-fullcouncil080207	Robin Bennie Director of Finance Carruthers House English Street Dumfries

APPENDICES
Appendix 1 – 3 Year Capital Investment Strategy
Appendix 2 – Prudential Indicators

BACKGROUND PAPERS
Dumfries and Galloway Council, 23 February 2006, Item 6, Capital Investment Programme and Prudential Indicators 2006/07 to 2008/09
Finance Sub Committee, 2 February 2007, Item 2, 3 Year Capital Investment Strategy (Appendix 1)

Appendix 1

3-YEAR CAPITAL INVESTMENT STRATEGY

1. Reason for Report

To consider a capital investment strategy for the next 3 years consistent with the corporate aims and objectives of the Council as expressed in the Corporate Plan.

2. Report Summary

The report presents a 3-year capital investment strategy including borrowing levels, block allocations and treatment of capital receipts in order to fund feasibility studies and the capital community fund. The proposed strategy is applied to 2007/08 as the first year.

3. Glossary of Terms

RSG	Revenue Support Grant
Supported borrowing	Borrowing which will be supported by an amount to be included in RSG to cover loan charges
Unsupported borrowing	Borrowing above the level of borrowing supported by RSG
AMP	Asset Management Plan
EMP	Estate Management Plan
RAMP	Road Asset Management Plan
CMT	Corporate Management Team
CSS	County Surveyors Society

4. Recommendations

Members are asked to:

4.1 restrict the level of capital expenditure to:

- supported borrowing levels outlined in **para 11.2** plus
- any additional borrowing that the Council determines is affordable sustainable and prudent and that may be required to support key elements of the Corporate Plan and which have already been subjected to detailed option appraisal;

4.2 allocate supported borrowing on the basis of: maintenance 75%; development 20%; corporate infrastructure 5%;

4.3 allocate the first £600k of capital receipts in each year to repay loans fund principal and agree that the revenue provision released from this is used to fund feasibility studies (£100k) and capital community projects (£500k);

4.4 approve the application of the 3-year strategy to 2007/08 as detailed in **Appendix 1**;

4.5 agree to allocate the maintenance block on an interim basis as detailed in **table 4** subject to adjustment when all EMP investment priorities are known; and

4.6 agree to receive further reports which develop application of the strategy for each of the years covered by the strategy.

5. Corporate Plan Links and Contribution

5.1 This report is consistent with Corporate Plan principles:

- Financial management – in particular making sure that we make the best use of available funds, improving corporate financial arrangements and supporting priority projects.
- Local decision-making and delivering services – in particular by maintaining Community Capital funding.

5.2 A number of the Council's fourteen corporate priorities (eg DDA, DG1, Town Centre Regeneration) depend on capital investment.

6. Resources/Value for Money Assessment

The resources available for capital investment are detailed in **section 11** of this report.

7. Risk Assessment

7.1 The main risk is to ensure that capital expenditure is affordable, sustainable and prudent. There is minimal risk if expenditure remains within supported borrowing limits: there is a measurable risk to the extent that expenditure relies upon unsupported borrowing. Prudential indicators highlight the effect of capital expenditure on council tax. Monitoring reports are a means of ensuring that risk is regularly reviewed.

7.2 There is an attraction in creating new assets through development projects but the Council has a duty to properly maintain its existing assets. This needs to be taken into account in the 3-year capital investment strategy.

7.3 To satisfy best value audit the Council must be able to evidence the decision-making process behind investment decisions. This strategy provides the basis for decision-making.

7.4 The effects of capital projects on service delivery need to be fully understood before funding is allocated. Risks of unbudgeted operational costs can be mitigated by robust bid preparation including feasibility studies and option appraisals.

7.5 There are inherent risks with all capital projects in realising the brief, at the right cost, within the required timescale, to the required quality and with due regard to health & safety. Slippage remains an issue and needs to be addressed through robust bid preparation which will include an assessment of deliverability. Risks can be mitigated by adherence to PRINCE2 or equivalent project management methodology for individual projects and by applying performance management techniques to project monitoring.

8. Authorities & Legal Implications

The Council's statutory powers and responsibilities include authority to incur capital expenditure in exercising these powers and meeting these responsibilities. The Council has an obligation to fix an annual budget which includes capital expenditure.

9. Consultations

The undernoted have been consulted and are in agreement with the terms of the report:

- Members of the Corporate Management Team
- Members of the Capital Working Group

10. Background

10.1 The following previous decisions are relevant to the framing of a capital investment strategy for 2007-10.

10.2 Budget Development Sub Committee meeting on 14 January 2004 agreed a capital investment strategy for 2004-07 which included the following provisions:

- capital expenditure levels are restricted to Scottish Executive notional borrowing consents plus any additional borrowing that the Council determines is affordable, sustainable and prudent and that may be required to support key elements of the corporate plan and which had already been subjected to detailed option appraisal;
- notional borrowing levels are allocated on the basis of development 20%, maintenance 70%, corporate infrastructure 5% and community 5%;
- the development block is allocated to individual projects on the basis of bids supported by business cases and corporate scoring;
- the need for robust bid preparation is recognised by allocating 2.5% for feasibility studies and option appraisals within the development block;
- the maintenance block is allocated to Services in proportion to demonstrated need;
- the community block is allocated in two parts: block allocations to Area Committees totalling £200k; allocation of the balance to individual projects identified by Area Committees as local priorities; and
- Police and Fire Services are permitted to take advantage of the Prudential Code to increase their capital expenditure so long as they can prove it to be affordable, sustainable and containable within their allocated budgets.

10.3 Finance Sub Committee meeting on 11 January 2007 in considering a report on Asset Sales Strategy dated 4 January 2007 by the Corporate Director of Corporate Services:

- approved a medium term strategy to achieve an average of £2.0M of capital receipts over the three years 2007/08 to 2009/10, giving a total target of £6.0M over the three years;
- agreed that these targets excluded the sale of Combined Services depots up to a value of £1.3M in total, being previous Council decisions that capital receipts of up to £1.1M be used to support the property rationalisation of that service, and a further sum of £200k of the anticipated receipt from the sale of Stapleton Road Depot, Annan was used to fund the additional accommodation at Harthill, Lockerbie and the satellite depot at Annan;
- agreed that, in principle, all other capital receipts would be used in accordance with Schedule 3 of the Local Government (Scotland) Act 1975 to repay debt and restore balances, as agreed by the Finance Sub Committee

on 31 March 2006 subject to decisions yet to be taken on the 3-year Capital Investment Strategy; and

- agreed to explore the potential of a "one off" large scale transfer of the Council's potentially surplus property and, if necessary, report to subsequent meetings of the Asset Management Committee and Finance Sub Committee, as appropriate, should this prove to be a feasible option.

10.4 Full Council meeting on 12 February 2004 agreed prudential indicators for the planning period 2004-07. This has formed the basis for subsequent monitoring.

10.5 Asset Management Committee meeting on 18 January 2007 agreed to:

- recommend to the Finance Sub Committee that the 2007/08 capital plan should, in principle, reflect the need to provide initial investment of an additional £250k to commence addressing the priorities of the Office Estate Management Plan; and
- to defer consideration of the report to the meeting of 20 February 2007 or to a special meeting dependent on the size of the agenda appreciating the importance of the issues being raised.

11. Scottish Executive approach to supporting Capital Expenditure

11.1 The Prudential Code replaced borrowing limits or consents imposed by Central Government with effect from 1 April 2004. It is now up to the Council to ensure that its Capital Plans are affordable, sustainable and prudent.

11.2 An allowance for loan charges is included as part of the Council's annual finance settlement. This is based on actual borrowing consents from previous years and notional borrowing levels for future years. Published borrowing levels for the Council for 2007/08 and the notional levels for future years used to calculate loan charges support are shown in **Table 1**.

Supported borrowing levels £k					
	2006/07 Actual	2007/08 Actual	2008/09 *Notional**	2009/10 *Notional**	2010/11 *Notional**
Dumfries & Galloway	9,865	10,112	*10,365*	*10,624*	*10,890*

* +2.5%

Table 1

11.3 Whilst the Council is no longer bound by its borrowing 'consent' it is still constrained by funding levels. Supported borrowing provides a starting point for capital planning. The Council can choose to spend in excess of this on the basis that it will raise additional revenue funding to meet loan charges or find equivalent revenue savings. In all probability this would mean an increase in the Council Tax as has been agreed with the Dumfries & Galloway Leisure Complex (DG1).

11.4 One of the key prudential indicators requires the calculation of the incremental change in the Council Tax arising from changes to the existing capital programme. The effect of capital investment in excess of supported borrowing levels on the Council Tax is therefore overt and needs to be taken into account in setting the Council's budget.

11.5 Investment priorities are one of the most significant outputs of asset management planning which in turn is driven by service planning. Given the limited funds for capital investment external auditors will be looking to asset management planning to evidence the process which lies behind investment choices. It follows that asset management plans are required to support detailed allocation of capital funds.

11.6 Land and property EMPs are now available for the Schools Estate and the Office Estate with the Community Estate and Industrial Estate EMPs due to be finalised by the end of February.

11.7 The Road Asset Management Plan (RAMP) sets out an approach for the management of transport assets. It is based upon the CSS framework document for Highway Asset Management Plans and pulls together all the relevant strategies, goals, objectives, plans and methods in use within the Council and within the Planning and Environment Services and Combined Services directorates for managing the (non-Trunk) road network asset in Dumfries and Galloway. The first edition is due to be published in Spring 2007. Plans for harbours and coastal protection and core path networks are planned to follow on.

11.8 Until the Council has considered the Land and Property AMP and the RAMP and developed a robust link between planning and resource allocation it is recommended that the level of capital expenditure is restricted to:

- the supported borrowing levels outlined in para 11.2; plus
- any additional borrowing that the Council determines is affordable sustainable and prudent, is required to support key elements of the corporate plan, and has already been subjected to detailed option appraisal.

11.9 In addition to Prudential Borrowing the Scottish Executive makes capital grants which are ring-fenced, to further specific national policy initiatives.

11.10 In December the Scottish Executive announced a one-off capital grant of £61M to be provided to Scottish Councils in 2007/08. The purpose of this grant is to generate an increase in efficiency savings and there is particular emphasis on improving asset management planning. The use of this funding to support Spend-to-Save schemes is encouraged and the need for such an approach has already been recognised by this Council. Further details, including allocations to individual councils, are expected to be announced in the upcoming weeks. At that stage a further report will be brought forward outlining the associated requirements and proposing an approach for allocating the available funding to Council projects.

12. 3-Year Investment Strategy 2007-10

12.1 The 3-year investment strategy formerly considered the allocation of supported borrowing to 4 blocks viz development, maintenance, corporate infrastructure & community. The new definition prevents allocation of capital to the community block since it represents investment in assets which do not belong to the Council.

Maintenance Block

12.2 The principal driver in deciding the allocation to the 4 blocks in the 3-year investment strategy 2004-07 was the recognition of the need to preserve existing assets by maximizing the funding for maintenance for which there is no or reduced revenue provision. A corporate maintenance backlog in excess of £100M was identified at the time. Despite the investment of the last 3 years the backlog has not significantly reduced: new needs are identified almost as fast as existing ones are satisfied. Investment in preserving existing assets is still seen as the priority.

12.3 It is recommended that the allocation to maintenance is increased to 75% in the investment strategy 2007-10.

Development Block

12.4 The attractions of development of new assets are always a strong counterbalance to the need for maintenance of existing ones. There are occasions when maintaining existing assets does not present Best Value, fails to take account of changing service delivery and stifles bold projects which can deliver step changes in services and facilities available to the people of Dumfries & Galloway. Previous capital investment strategies have allocated approximately £2M p.a. The list of bids has always exceeded available funding and this is likely to be the case whatever funding levels are decided. Preparation of bids represents a major effort in terms of bid preparation and expectations raised most of which are unlikely to be satisfied. Members have recognised the need for Corporate Realism which focuses attention on what can be delivered and focuses effort on thorough project preparation in recent years. The key to this is the Corporate Plan and in particular the SMART targets which provide the basis for measuring the Council's achievements against its objectives.

12.5 An important aspect of any investment strategy is the ability to attract external funding to enhance spending power. It is a characteristic of most development projects that they depend upon cocktail funding. External funding in whole or in part for prioritised development projects should be actively pursued not as the sole reason for advancing a project but as part of the option appraisal process which should routinely consider procurement options.

12.6 It is recommended that the allocation to the development block remains at 20% in the capital investment strategy 2070-10.

Corporate Infrastructure Block

12.7 The allocation for corporate infrastructure is principally intended to provide for investment in ICT infrastructure upon which all Council services depend to an increasing degree. Capacity and continuing support for existing systems are of prime concern in a fast changing environment. The Corporate Infrastructure Block shares with the Maintenance Block the same characteristics including lack of investment to maintain assets.

12.8 It is recommended that the allocation to corporate infrastructure remains at 5% in the capital investment strategy 2070-10.

12.9 The recommendations are summarized and compared with previous capital investment strategies in **Table 2**.

3-year Capital Investment Strategy	2001-04	2004-07	2007-10
Maintenance	70%	70%	75%
Development	20%	23%	20%
Corporate infrastructure	5%	5%	5%
Community	5%	3%	0%

Table 2

Feasibility Studies

12.10 Feasibility Studies are recognised by officers and members as a necessary part of robust bid preparation providing confidence that limited resources are allocated to the high priority projects which are sufficiently well developed that they can be quickly progressed if funding is allocated.

12.11 Funding of Feasibility Studies should only be for those projects considered a Corporate Priority and which can realistically be tackled within the resources available to the Council. Feasibility Studies for other projects which service departments feel are a priority but which are not considered a sufficiently high Corporate priority should either not proceed or be funded from within service revenue budgets.

12.12 Bids for feasibility funding should the recommendations of this report be approved will need to be supported by specific inclusion in the Corporate Plan and/or service plans and will be subject to assessment and scoring by the Capital Working Group prior to presentation to members for a decision.

12.13 Full Council meeting on 12 February 2004 in agreeing the Capital Investment Strategy 2004-07 recognised the need for feasibility studies and option appraisals by allocating 2.5% of annual capital funding for this purpose. The ability to fund this from capital was unfortunately short-lived.

12.14 Since the introduction of the Prudential Code on 1 April 2004, feasibility studies cannot be funded from the Capital Programme. Only items which fit clearly within the standard accounting definition of capital can be included. Accounting guidelines state "costs will be ineligible to the extent that they relate to activity that takes place before the intention to acquire or construct a particular fixed asset has been confirmed". The guidelines cite feasibility studies and option appraisals as examples of this. In the absence of a revenue budget the Council is no longer funding feasibility studies.

12.15 It is recommended that £100k pa is made available from revenue for feasibility studies as part of the 2007-10 capital investment strategy.

Community Capital Fund

12.16 Prior to 1 April 2005 there were provisions in accounting guidelines to allow the capitalisation of any expenses of a capital nature including grants to the Private Sector. Such payments were termed 'deferred charges' and most of the Community Block awards would fit into this category. From the 1 April 2005 in keeping with the

Prudential Code's insistence on a strict definition of capital, a stricter definition of 'expenses of a capital nature' has been applied whereby expenditure can only be capitalised where the Council controls the asset concerned. As the Council will not control the assets where a grant is paid to an external body such awards through the Community Capital Fund need to be charged to revenue.

12.17 Corporate Policy Committee meeting on 3 October 2006 confirmed their commitment to continuing the Capital Community Fund recognising that it could not continue to be funded from capital. Provision in 2006/07 is £478k: £200k of which is allocated on a lump sum basis to Area Committees and the balance of £278k is open to bids for larger projects. The full fund in the future will be allocated to Area Committees but the split will still be recognised in trying to progress larger capital projects through the funding over £200K.

12.18 It is recommended that £500k pa is made available from revenue for Community Capital Fund as part of the 2007-10 capital investment strategy.

Capital Receipts

12.19 Previous capital investment strategies have included an allowance of £600kpa from capital receipts as part of the funding available to the development block. Finance Sub Committee meeting on 11 January 2007 agreed to set a target for capital receipts of £6M over the 3-year period covered by this capital investment strategy and to apply them to:

- repay debt and restore balances, as agreed by the Finance Sub Committee on 31 March 2006 subject to decisions yet to be taken on the 3-year Capital Investment Strategy.

12.20 A report to Finance Sub Committee on 25 January 2007 will recommend that the target for capital receipts is raised to £7.5M over the 3-year period. The outcome is not known at the time of writing.

12.21 Funding of feasibility studies and the Capital Community Fund could be addressed by using the first £600k of capital receipts from asset sales to repay loans fund principal - effectively switching funding from capital to revenue. (Capital receipts are currently included in the Capital Investment Strategy as an enhancement to the capital funding for the development block: Loans fund principal repayments are currently included within the revenue budget.)

12.22 If the £600k of freed up revenue funding is used to fund items which have had to be removed from the Capital Programme because of the strict accounting rules which apply under the Prudential Code then the status quo has been maintained and the Council will have retained the ability to fund both Feasibility Studies and Community Capital Awards.

12.23 It is recommended that the first £600k of capital receipts in each year is used to repay loans fund principal and that the revenue provision released from this is used to fund the recommended provisions for feasibility studies and capital community fund (paras 12.15 & 12.18).

Police and Fire & Rescue Services

12.24 Police and the Fire & Rescue Services have separate funding and differing needs are outwith the scope of this strategy.

13. Application of 3-Year Investment Strategy to 2007/08

13.1 **Appendix 1** illustrates how the recommended 3-year capital investment strategy might be applied. It assumes funding levels as recommended in para 11.8 limiting special projects to those which already have approval with the addition of £250k for immediate priorities identified in the Offices EMP (para 10.5 above).

13.2 The implications of an additional £250k borrowing over 20 years assuming 5.5% interest are annual loan charges of £22k. The Director of Finance has confirmed that this amount can be accommodated within existing loan charges forecasts.

13.3 Existing commitments to development block projects are detailed and show that there is no scope to commence new projects until 2010/11. No attempt has been made to carry forward failed bids from previous years but Services have been asked to make known service pressures (revenue & capital) as part of the budget building exercise for 2007/08. A report to CMT on 6 December 2006 presented a list of pressures identified by services: the capital pressures were

- P&E: £80k Southern Upland Way - replacement of bridges
- E&CS: £500k Review of residential/agency placements
- Combined Services: £250k replacement and maintenance of play park equipment
- Corporate Services: £1M planned preventative maintenance of buildings

Due to the lack of funds available these pressures are not reflected in the existing investment strategy.

13.4 The previous practice has been to allocate the maintenance block in proportion to the demonstrated needs of service committees: infrastructure (P&E), schools and community services (E&CS) and corporate services (AMC). Whilst allocations will continue to be to service committees they need to be based upon investment priorities established through asset management planning so as to provide a robust audit trail for decision making. The plans to be produced are shown in **Table 3**.

Infrastructure AMP			**Corporate land & property AMP**			
Roads & bridges EMP	Coastal & harbour protection EMP	Core paths network EMP	School EMP	Community EMP	Office EMP	Industrial EMP

Table 3

13.5 Each plan will identify investment priorities from which programmes will be developed depending upon the allocation. This gives the committee the opportunity to decide the relative merits of priorities identified across the various plans. In practice maintenance block allocations will be to service committees who will be responsible for delivering projects in accordance with the relevant EMP. Allocations to service committees will depend upon completion of all plans and will be the subject of a future report.

13.6 Investment priorities identified in AMPs/EMPs will include some projects which are development block bids and which are unlikely to succeed given the forward commitments illustrated in **Appendix 1**. Where these projects are of vital importance to support service delivery it is open to service committees to make a case to Finance Sub Committee to use part of their maintenance block for this purpose. Effectively this means the service committee is giving up maintenance block funding to secure a development project which would otherwise not proceed. Previous examples of this are Portpatrick Flood Prevention Scheme and site acquisition for PPP schools.

13.7 Investment priorities are not currently available for all EMPs so it is not possible to allocate the maintenance block on that basis at this stage. However a basic allocation is required so that projects can be progressed to take full advantage of available funding and to avoid slippage.

13.8 It is recommended as an interim measure that £7M is allocated on the same basis as for 2006/07 subject to adjustment when all EMP investment priorities are known as set out in Table 4.

Maintenance Block Allocation £k						
Committee	**Service**	**Share**	**2006/07 gross allocation**	**2007/08 gross available**	**2007/08 interim allocation**	**2007/08 unallocated**
		Total	6,906	7,584	7,000	584
AMC	Admin premises	8%	552		560	
E&CS	Community Services	10%	691		700	
	Schools Services	40%	2,762		2,800	
P&E	Strategic Planning & Transportation	42%	2,901		2,940	

Table 4

13.9 Police and Fire receive capital grants under the new prudential framework. This effectively allows both Services to develop capital expenditure plans based on their current level of borrowing consent. Approval was given for both services to take advantage of the prudential borrowing regime to increase their capital expenditure so long as they could prove it was affordable, sustainable and prudent. The Council's Spend-to-Save scheme provides this flexibility to other services provided that the loan charges associated with the additional capital can be accommodated within existing revenue budgets and subject to agreement of Finance Sub Committee.

John Piggins Operations Manager Property Services Property Services County House 2 Great King Street Dumfries DG1 1AE Date of Report: 25 January 2007 File Ref: 3-YearCapInvestStrat-finsub020207	Leslie Jardine Corporate Director of Corporate Services Council Offices English Street Dumfries

APPENDIX 1: Application of the 3-year capital investment strategy 2007-10

Background Papers:

<u>Budget Development Sub Committee</u>
8 January 2004 - Capital Investment Strategy 2004 - 2007

<u>Dumfries and Galloway Council</u>
9 February 2006 - Capital Investment Programme and Prudential Indicators 2006/07 to 2008/09
12 February 2004 - Capital Planning Process 2004-2007: Setting of Prudential Indicators
15 February 2001 - Composite Capital Programme 2001/02

<u>Finance Sub Committee</u>
11/01/07 - Asset Sales Strategy 2007-10
11/01/07 - Financing the School Estate
11/01/07 - Implementing the Financial Efficiency Strategy
15/12/06 - Community Capital Fund 2005/06 - Creetown Football Club - Replacement of Pavilion
15/12/06 - Funding Repairs to the Midsteeple
15/12/06 - Implementing the Financial Efficiency Strategy
16/11/06 - Implementing the Financial Efficiency Strategy
16/11/06 - Council Capital Monitoring Report 2006/07 Period to 30/0-9/06
19/10/06 - Implementing the Financial Efficiency Strategy
14/09/06 - Implementing the Financial Efficiency Strategy
17/08/06 - Council Capital Monitoring Report 2006/07 Year to 30 June 2006
17/08/06 - Financial Efficiency Strategy 2006-09 Developments
29/06/06 - Council Capital Outturn Report 2005/06 Year to 31 March 2006
29/06/06 - The Financial Efficiency Strategy - Progress Overview
29/06/06 - Financial Efficiency Strategy - More with Less
29/06/06 - Financial Efficiency Strategy - Budget Strategy 2006-09 Developments
29/06/06 - Carlingwark Outdoor Activity Centre, Castle Douglas
18/05/06 - Implementing the Financial Efficiency Strategy
31/03/06 - Developing the Council's Financial Efficiency Strategy
31/03/06 - Council Capital Monitoring Period Report 2005/06 for the period ended 31 January 2006
06/03/06 - Financial Efficiency Strategy 2006-09
26/01/06 - Community Capital Fund 2002/03 to 2005/06
12/01/06 - Cargenbridge Dept - Spend to Save Proposals

Executive Committee, Finance Sub Committee
18 December 2002 - Capital Programme 2002/03: Beyond the Moratorium
12 December 2002 - Corporate Capital Budget Monitoring Report – Period to 31 October 2002
21 November 2002 - North West [Dumfries] Resource Centre
21 November 2002 - Capital Programme 2003/04 – Addressing Pressures
21 November 2002 - Corporate Capital Budget Monitoring Report – Period to 30 September 2002
17 October 2002 - Wigtown Restoration Project: Public Realm Work
17 October 2002 - Composite Capital Budget 2002/03: Monitoring
30 July 2002 - Composite Capital Budget 2002/03: Monitoring
21 June 2002 - Capital Programme 2002/03: Reallocation of Public Transport Consent
1 February 2002 - Access to European Funding: South of Scotland Objective 2 Programme (2000 – 2006)
1 February 2002 - Composite Capital Budget 2002/03
16 November 2001- Capital Bid Assessment
26 April 2000 - Budget Allocation 2000/01
23 March 2000 - Capital Planning Process – 2000/01 Budget
13 January 2000 - Capital Planning Process

APPENDIX 1: Application of the proposed 3-year Capital Investment Strategy

Prudential Regime (£k)			Project totals	Previous years	2006/07	2007/08	2008/09	2009/10	2010/11
Borrowing requirement									
Basic supported borrowing				9,865	9,865	10,112	*10,365*	*10,624*	*10,890*
Special Projects				1,652	6,988	5,461	-430	200	78
Supported Borrowing									
Development	20%	20%			1,973	2,022	2,073	2,125	2,178
Maintenance	70%	75%			6,906	7,584	7,774	7,968	8,168
Corporate Infrastructure	5%	5%			493	506	518	531	545
Community	5%				493	0	0	0	0
					9,865	**10,112**	**10,365**	**10,624**	**10,890**
Special Projects									
Leisure Complex (DG1)			9,810	721	4,938	4,151			
Cargenbridge depot			1,730		1,500	860	-630		
Burial Grounds			1,000	122	200	200	200	200	78
Office Estate Management Plan (per AMC 18 January 2007)			250			250			
Additions to replace proposed use of receipts			1,159	809	350				
			13,949	**1,652**	**6,988**	**5,461**	**-430**	**200**	**78**
Development Block									
Basic Allocation					1,973	2,022	2,073	2,125	2,178
Brought forward									
funding from previous years					814	1,095			
-over/under commitment						2,415	-408	-1,950	-1,545
-over/under commitment					-2,415	408	1,950	1,545	
Anticipated Receipts					600	0	0	0	0
Covenant repayments					-138				
Forward commitments:									
DDA			6,500	-460	-240	-2,100	-2,500	-1,200	
Broadband - small works			2,000		-500	-500	-500	-500	
Dumfries Town Centre Regeneration			1,100	-26	-74	-900	-100		
Stranraer Waterfront Regeneration			1,050	-55	0	-500	-495		
Leisure Complex (DG1) change in funding package to support Midsteeple			1,920			-1,920			
Contingency			100		-20	-20	-20	-20	-20
-Over/Under commitment			**613**		**0**	**0**	**0**	**-0**	**613**
Revenue Items of a capital nature									
Community Block: Area Committees						200	200	200	200
Community Block: Community Capital Fund						300	300	300	300
Feasibility Studies						100	100	100	100
Amount to be funded from anticipated receipts from asset sales						**600**	**600**	**600**	**600**

Prudential Indicators (Based on Revised Capital Plan at 2 February 2007)

1 Capital (Gross) Expenditure:

	2005/06 Actual £000	2006/07 Estimate £000	2007/08 Estimate £000	2008/09 Estimate £000	2009/10 Estimate £001
Education and Community Services	9,843	12,841	11,748	4,856	4,273
Combined Services	1,898	2,325	1,965	70	700
Planning and Environment	6,067	4,109	7,617	4,982	3,471
Corporate Services	1,524	2,964	4,436	4,112	2,871
	19,332	22,239	25,766	14,020	11,315
Police	981	926	750	750	750
Fire	1,091	1,460	775	775	775
Total	**21,404**	**24,625**	**27,291**	**15,545**	**12,840**

The estimate of capital expenditure determined for 2007/08 will be the statutory limit determined under Section 35(1) of the Local Governmnet in Scotland Act 2003.

Local Government in Scotland Act 2003 Section 35(1) "It is the duty of a Local Authority to determine and keep under review the maximum amount which it can afford to allocate to Capital Expenditure."

2 Ratio of Financing Costs to Net Revenue Stream:

	2005/06 Actual	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
Ratio (%)	**6.1%**	**5.9%**	**6.6%**	**6.8%**	**6.5%**

3 Capital Financing Requirement:

	31/03/2006 Actual £000	31/03/2007 Estimate £000	31/03/2008 Estimate £000	31/03/2009 Estimate £000	31/03/2010 Estimate £000
Capital F. Requirement	**204,914**	**209,949**	**213,768**	**216,573**	**216,095**

4 Adoption of CIPFA Code of Practice for Treasury Management in the Public Services:
Code has been adopted.

5 Comparison of Net External Borrowing and Capital Financing Requirement:
(Net External borrowing should not exceed the Capital Financing Requirement)
There are no concerns that External Borrowing might exceed the Capital Financing Requirement

6 Authorised Limit for External Debt

	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000
Borrowing	209,000	215,000	219,000	222,000	221,000
Other Long-Term Liabilities	1,000	1,000	1,000	1,000	1,000
Total	**210,000**	**216,000**	**220,000**	**223,000**	**222,000**

7 Operational Boundary for External Debt:

	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000
Borrowing	190,000	195,000	199,000	202,000	201,000
Other Long-Term Liabilities	1,000	1,000	1,000	1,000	1,000
Total	**191,000**	**196,000**	**200,000**	**203,000**	**202,000**

8 Actual External Debt:

	2005/06 £000
Borrowing	167,313
Other L-T Liabilities	146
Total	**167,459**

9 Incremental Impact of Capital Investment Decisions on the Council Tax

The estimated impact required for the investment decision on the Dumfries Leisure Complex as amended for the latest cashflow estimates is as follows:

2005/06	2006/07	2007/08	2008/09	2009/10
£ 0.63	£ 4.40	£ 11.06	£ 14.35	£ 14.13

10 Interest Rate Exposure

It is recommended that the following parameters are set for 2007/08 to 2009/10:-

	Lower Limit	Upper Limit
Fixed interest rate exposure	70%	100%
Variable interest rate exposure	0%	30%

11 Maturity Structure:

	Lower Limit	Upper Limit
Under 12 months	0%	20%
12 months - within 24 months	0%	20%
24 months - within 5 years	0%	25%
5 years - within 10 years	0%	25%
10 years and above	50%	100%

12 Investments

There are no proposals for the Council to invest sums for more than 364 days.