

## **Meeting of the Council – 23<sup>rd</sup> February, 2015**

### **Report of the Cabinet**

### **Capital Programme Monitoring**

#### **Purpose of Report**

1. To report progress with the implementation of the Capital Programme.
2. To propose amendments to the Capital Programme.
3. To propose the “Prudential Indicators” as required to be determined by the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities and the Local Government Act 2003.
4. To propose the Council’s Minimum Revenue Provision (MRP) Policy for 2015/16.

#### **Background**

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

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Public Sector Housing	43,278	47,267	54,275
Other Adult, Community & Housing	5,900	4,901	550
Urban Environment	26,894	21,013	5,873
Children’s Services	14,900	14,443	161
Corporate Resources	2,597	1,414	1,266
<b>Total spend</b>	<b>93,569</b>	<b>89,038</b>	<b>62,125</b>
Revenue	15,321	15,802	13,690
Major Repairs Reserve (Housing)	22,176	22,457	22,744
Capital receipts	17,459	15,766	19,509
Grants and contributions (inc. Lottery)	25,367	12,473	94
Capital Financing Requirement*	13,246	22,540	6,088
<b>Total funding</b>	<b>93,569</b>	<b>89,038</b>	<b>62,125</b>

\*This will be funded internally from the Council’s cash flow resources as far as possible, rather than from external debt.

Note that the capital programme for future years is in particular subject to government grant allocations, some of which have not yet been announced. There is a report on the proposed Public Sector Housing capital programme elsewhere on this agenda.

6. In accordance with the requirements of the Council's Financial Regulations, details of progress with the 2014/15 Programme are given in Appendix A. It is proposed that the current position be noted, and that budgets be amended to reflect the reported variances. An update on progress with the Council's most significant capital schemes is shown in Appendix B.

## **Urban Environment**

### Colley Gate Toucan Crossing

7. The Council has received grant funding of £40,000 from the Department of the Environment, Food and Rural Affairs (DEFRA) Air Quality Fund to provide a toucan crossing in Colley Gate, Halesowen to assist traffic flow along Colley Gate with the intention of reducing congestion and improving air quality in the area. It is proposed that the allocation be noted and the project included in the Capital Programme.

### Wordsley Park Garage

8. In line with current budgeted efficiency savings, it is proposed to consolidate the two existing Brierley Hill Green Care teams into one depot at Wordsley Park. In doing so cost savings can be realised through reduced lease, service, and maintenance costs. The cost to build a new fully secured vehicle garage and storage facilities within Wordsley Park to accommodate the consolidation would be around £195,000. These costs can be funded via prudential borrowing, which can be repaid from the annual revenue savings generated. It is proposed that the project be approved and included in the Capital Programme.

### CCTV

9. Security provision at the Blowers Green and Lister Road depots has recently been reviewed and it is proposed that the current arrangements are changed in order to make annual revenue savings whilst ensuring robust out of hours security monitoring at the site. The proposal is for the installation of a monitored CCTV system linked to a call centre that is allied with the local police. Initial capital costs of the scheme are £41,000. These costs can be funded via prudential borrowing, which can be repaid from the savings generated. It is proposed that the project be approved and included in the Capital Programme.

### Highways Maintenance Block allocations 2015/16 – 2017/18

10. The Department for Transport has recently announced the above. Dudley's allocations are as follows:

2015/16	£3,036,000
2016/17	£2,783,000
2017/18	£2,699,000

The distribution of these allocations between roads, structures and street lighting will be determined in due course in accordance with agreed procedures, in consultation with the Cabinet Member for Transportation. It is proposed that the allocations be included in the Capital Programme.

## **Children's Services**

### Universal Infant Free School Meals - Capital Funding Bid

11. The Council has been successful in its bid to the Department for Education (DfE) for funding to install a new kitchen at Netherton Church of England Primary School to enable the school to successfully deliver the Universal Infant Free School meal requirement. In order that recipient schools are not compromised in their ability to achieve value for money in negotiations with suppliers, the DfE will not be making public the funding amounts per school at this time.

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

## **Corporate Resources**

### Energy Efficiency

12. Following the appointment of the Council's Energy Manager in September 2014, a number of initiatives have been identified that will reduce the amount of gas, electricity and water that the Council uses. Many of these projects will require initial capital investment to deliver long-term savings. Examples of projects that have been identified, for which capital funding is being sought include:

- efficient lighting (e.g. LED);
- roof insulation;
- Bore holes and associated infrastructure (for supplying cheap water);
- Upgraded air handling systems;
- Upgraded heating systems and controls.

In addition to delivering direct financial savings resulting from decreased use of gas, electric and water, additional savings will be achieved as the Council will have fewer carbon emissions on which to pay taxes.

The estimated cost of the initial projects of £140,000 can be met from available directorate revenue resources. It is proposed that these be approved and included in the Capital Programme, and that the Strategic Director (Resources and Transformation) be authorised to include further projects subject to establishing value for money and the availability of funding.

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

### Autism Innovation Grant

13. The Council has been allocated £18,500 to support work on implementing Think Autism, the recent update to the 2010 Adult Autism Strategy for England. The funding is intended to be used to purchase new electrical equipment or IT developments, or for making environments used by people with autism such as public buildings more autism friendly.

In order to enable the funding to be spent in accordance with the allocation letter, a decision (ref. DCR/21/2014) was made by the Leader of the Council in consultation with the Chief Officer (Finance and Legal Services) on 18<sup>th</sup> December, 2014 that the allocation be noted and the related spend be included in the Capital Programme.

## Homer Hill Park

14. As part of the Homer Hill Park Master Plan, the construction of five new paths in or around the perimeter of Homer Hill Park are considered essential enhancements that will extend the existing footpath network to enable the majority of the park to be easily accessed via a surfaced pedestrian route. This is primarily for the benefit of the local community and elderly residents of The Limes, the new Extracare facility, which is due to open in March 2015.

The cost to construct five new pathways is estimated to be £70,000, of which the construction of the first four pathways would cost £34,000. This can be funded by proceeds from the sale of 5 Chase Road, Lower Gornal (the former Crematorium Lodge) and will allow this key project to be implemented. If further funding opportunities become available in the future, then the final fifth perimeter path could be added at a later date.

In order to enable the works to be undertaken as soon as practically possible whilst weather conditions allow, a decision (ref. DUE/02/2015) was made by the Leader of the Council in consultation with the Chief Officer (Finance and Legal Services) on 5<sup>th</sup> January, 2015 that the construction of five pathways in Homer Hill Park be included in the Capital Programme.

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

15. 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.
16. 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**

17. Before the start of each financial year each authority must agree its policy on making Minimum Revenue Provision (MRP) for repayment of non-Housing Revenue Account (HRA) borrowing incurred to fund Capital expenditure, in respect of that financial year. (There is no requirement to make MRP in respect of HRA borrowing.)
18. In line with the current policy, it is proposed that the Council agrees the following MRP Policy for 2015/16 as follows. This is unchanged from the 2014/15 Policy.
- For unsupported borrowing to fund capital expenditure incurred from 1<sup>st</sup> April 2008 onwards, MRP be calculated on the basis of equal instalments or annuity as appropriate over the initial estimated life of the assets - the “Asset Life” method. And in respect of “PFI” schemes and other Finance Leases etc., MRP be calculated on a basis equivalent to the principal element of the unitary/lease payments. This would also apply to such expenditure incurred before 1<sup>st</sup> April 2008 but only subsequently included on the Balance Sheet as a result of changes to accounting arrangements. *(This means that such borrowing and other credit arrangements will be repaid over the life of the assets for which it was incurred, matching the costs with the benefits received.)*

- For all supported borrowing, and unsupported borrowing to fund capital expenditure incurred before 1<sup>st</sup> April 2008, MRP be calculated on the basis of the previous regulations - the "Regulatory Method". *(This means that supported borrowing will mainly be repaid to match the support received from the Government, and that unsupported borrowing will be repaid as was anticipated when it was incurred, avoiding any change to the net impact on annual revenue budgets.)*

19. The Cabinet, at its meeting held on 11<sup>th</sup> February, 2015, resolved to recommend the Council to approve the recommendations set out below.

### **Finance**

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

### **Law**

21. 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**

22. These proposals comply with the Council's policy on Equality and Diversity.
23. 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**

24. That the Council be recommended:
  - That current progress with the 2014/15 Capital Programme, as set out in Appendix A be noted, and that budgets be amended to reflect the reported variances.
  - That the grant funding for a toucan crossing in Colley Gate, Halesowen be noted and the project included in the Capital Programme, as set out in paragraph 7.
  - That the Wordsley Park Garage project be approved and included in the Capital Programme, as set out in paragraph 8.
  - That the CCTV project at Blowers Green and Lister Road depots be approved and included in the Capital Programme, as set out in paragraph 9.

- That the Highways Maintenance Block allocations 2015/16 – 2017/18 be included in the Capital Programme, as set out in paragraph 10.
- That the funding to install a new kitchen at Netherton Church of England Primary School be noted and the project included in the Capital Programme, as set out in paragraph 11.
- That the initial Energy Efficiency projects be approved and included in the Capital Programme, and that the Strategic Director (Resources and Transformation) be authorised to include further projects subject to establishing value for money and the availability of funding, as set out in paragraph 12.
- That the urgent amendments to the Capital Programme, as set out in paragraphs 13 to 14, be noted.
- That the Prudential Indicators as required to be determined by the CIPFA Prudential Code for Capital Finance in Local Authorities and the Local Government Act 2003, as set out in Appendix C, be agreed.
- That the Minimum Revenue Provision (MRP) Policy for 2014/15 be approved as set out in paragraph 18.



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**Leader of the Council**

## 2014/15 Capital Programme Progress to Date

Service	Budget £'000	Spend to 31 <sup>st</sup> Dec £'000	Forecast £'000	Variance £'000	Comments
Public Sector Housing	43,278	31,449	43,278		
Other Adult, Community & Housing	5,900	4,050	5,900		
Urban Environment	26,894	15,540	26,544	-350	See note 1
Children's Services	14,900	6,974	14,900		
Corporate Resources	2,597	1,468	2,677	+80	See note 2
<b>TOTAL</b>	<b>93,569</b>	<b>59,481</b>	<b>93,299</b>	<b>-270</b>	

**Note 1:** Scope of works on Better Bus Area project reduced, and significant savings achieved through value engineering.

**Note 2:** Favourable price obtained for purchase of new franking machines, saving £10,000; extra capital costs of £90,000 on Transforming our Workplace, offset by savings on revenue element of project.

## **Progress with Major Capital Schemes**

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

#### New Council Housing

A contract has been awarded and work has now commenced on site at Norfolk Road in Wollaston, The Walk in Sedgley, the conversion of the former Wren's Nest Estate Office and two apartments at Holloway Chambers in Dudley.

The conversion of the former care home at Arcal Lodge, Sedgley is out to tender. Conversion of the former Archives building at Roseville is due to be submitted to planning late January / early February, and a local consultation event is planned for early February with works planned to commence summer 2015.

A number of smaller housing infill and garage sites across the borough are also being progressed through feasibility stage and site investigations; ecological and topographical reports are being prepared for the schemes currently in design stage.

### **Urban Environment**

#### Street Lighting

The Street Lighting Central Management System (CMS) was fully commissioned and operational in April 2013 and conversion of the street lighting stock continues. As at 14<sup>th</sup> January 2015 20,200 of the Council's 32,000 street lights can now be controlled via the CMS system remotely to help save energy; 13,100 of these can be dimmed. Spend is forecast to be within budget and completion of the scheme is expected during financial year 2015/16.

#### Better Bus Area

The scheme which involves the construction of a new signal controlled pedestrian crossing on the A4036 Pedmore Road, and the creation of additional road space and signal controls to facilitate bus priority measures at the junction of the Boulevard with Mill St, Brierley Hill was granted planning permission in March 2014. The Pedmore Road pedestrian crossing was completed in December 2014 and the Boulevard bus priority element is programmed for completion in January 2015. Spend is forecast to be within budget.

#### Mary Stevens Park

The design team have finished detailed designs for the first two contracts for the Gates and bandstand restoration and the cafe building; tenders are to be awarded mid February. The Heritage Ranger has worked with the Friends group to develop a web site and promotion through social networking. A new 6 monthly events programme for the summer months is being developed. Volunteer recruitment is underway. Spend is forecast to be within budget.

#### Castle Hill

New Access Road: Phase 1a was completed during October 2012. Phase 1b (link road and roundabout) was completed April 2013.

Phase 2 onwards: This comprises the secondary route, recreational route, car parking and Visitor Hub.

Planning permission was granted on 12<sup>th</sup> March 2013. Work commenced onsite for the initial phase of the secondary route on 23<sup>rd</sup> September 2013 and was completed February 2014.



Work commenced on the lower level car parks on 4th December 2013, and completed March 2014. Work to upper level car park commenced April 2014, and was completed July 2014.

Three phases of landscape works have been completed to construct footpath links, planting to the car parks and the creation of the overflow car park. The contract for the Recreational route linking the Black Country Living Museum and the Dudley Canal Trust started in October 2014 and completed in March 2015. The work to create the new entrance into the Zoo is commenced in November 2014 for completion in April 2015. The new visitor hub building also commenced in November for completion in April 2015

Spend is forecast to be within budget.

#### Dudley Marketplace and Town Centre

The first phase of the overall Dudley Market Place Public Realm scheme, which is Castle Street/New Street, is substantially complete and was opened to full access on 10<sup>th</sup> August. The Earl of Dudley Statue work is still outstanding and will be progressed when we have reviewed the detailed costs shortly to be returned from the contractor. The Market Place (second phase) has now started and the market stalls are planned to be occupied by the market traders at the beginning of March. The project is due to complete on programme. Spend is forecast to be within budget.

#### Coronation Gardens

Detailed design is complete and tenders are being sought for the work, which is due to be on site between April and September. Spend is forecast to be within budget

### **Children's Services**

#### DGfL3

Dudley Grid for Learning (DGfL3) includes a programme of ICT equipment upgrade and renewal across financial years 2013/14 & 2014/15. The Refresh of ICT infrastructure and classroom equipment has now been completed across the school estate with the exception of two schools; these schools have chosen to take their refresh at a later stage. The programme of associated expenditure is on schedule to be completed in 2014/15 with the exception of the two schools.

#### Post 16 Facility for Pens Meadow School

The programme for design and procurement of the project is on track and the projected capital spend is in line with Education Funding Agency requirements.

#### Schools Basic Need projects

The first phase of projects funded from Basic Need capital grant are progressing well. Projects at the Brook and Woodside Primary Schools were completed during the summer with both schools now being able to admit up to 60 children in each year group. Projects at Kates Hill and Gig Mill are on site and are due to be completed by Easter 2015. The project at Sledmere Primary is on site and is on target to be completed during August 2015.

## 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 (6-7) are primarily concerned with day-to-day borrowing and treasury management activity.

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:

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

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 2014/15, 2015/16 and 2016/17 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 contained in reports elsewhere on the agenda, the proposed indicators are as follows.

	<b>2013/14</b> <b>£m</b> <b>Actual</b>	<b>2014/15</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2015/16</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2016/17</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2017/18</b> <b>£m</b> <b>Estimate</b>
Non - HRA	45.5	50.0	45.5	10.6	9.8
HRA	40.8	43.3	46.4	48.8	39.4
<b>Total</b>	<b>86.3</b>	<b>93.3</b>	<b>91.9</b>	<b>59.4</b>	<b>49.2</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>2013/14</b> <b>£m</b> <b>Actual</b>	<b>2014/15</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2015/16</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2016/17</b> <b>£m</b> <b>Revised</b> <b>Estimate</b>	<b>2017/18</b> <b>£m</b> <b>Estimate</b>
Non - HRA	288.3	286.9	292.5	277.3	262.4
HRA	464.1	464.1	465.6	470.3	470.3
<b>Total</b>	<b>752.4</b>	<b>751.0</b>	<b>758.1</b>	<b>747.6</b>	<b>732.7</b>

The limit on the HRA CFR imposed on implementation of self-financing, plus subsequent approved increases is £470.3m.

## **3. Gross Debt and the Capital Financing Requirement.**

In order to ensure that in the medium term, debt can be incurred only for capital purposes, this indicator requires that gross external debt 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 2014/15 to 2017/18.

## **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 forecast debt charges resulting from anticipated overall borrowing are fully reflected in the figures set out in the Budget Strategy report being considered by Cabinet on 25<sup>th</sup> February and the Public Sector Housing report elsewhere on this agenda. There are no proposals to undertake new borrowing for General Fund capital expenditure. The debt charges resulting from new borrowing for Public Sector Housing capital expenditure will be funded by the rental stream from the resulting additional homes. The impact on Council Tax and Rents is therefore as follows.

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Increase in Annual Band D Council Tax	0	0	0
Increase in Weekly Housing Rent	0	0	0

## **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>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
	<b>Actual</b>	<b>Revised Estimate</b>	<b>Revised Estimate</b>	<b>Revised Estimate</b>	<b>Estimate</b>
Non - HRA	10.3	9.2	10.7	11.6	11.7
HRA	44.6	43.8	44.4	44.2	43.9

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

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

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

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

	2013/14	2014/15	2015/16	2016/17	2017/18
		Revised	Revised	Revised	
	£m	£m	£m	£m	£m
<b>Authorised limit for external debt:</b>					
Borrowing	n/a	904	893	882	860
Other long term liabilities	n/a	37	43	36	30
<b>Total</b>	<b>n/a</b>	<b>941</b>	<b>936</b>	<b>918</b>	<b>890</b>
<b>Operational boundary:</b>					
Borrowing	n/a	775	796	800	801
other long term liabilities	n/a	37	43	36	30
<b>Total</b>	<b>n/a</b>	<b>812</b>	<b>839</b>	<b>836</b>	<b>831</b>
<b>Actual External Debt:</b>					
Borrowing	735.9	n/a	n/a	n/a	n/a
Other long term liabilities	32.1	n/a	n/a	n/a	n/a
<b>Total</b>	<b>768.0</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 system in so far as it relates to treasury management activity. The Council has adopted the Code of Practice.