

Meeting of the Council – 25th February 2013

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 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 2013/14.

Background

5. At the meeting on 12th February, 2013, the Cabinet considered a report on Capital Programme Monitoring and made recommendations to the Council as contained in this report.
6. The table below summarises the *current* 3 year Capital Programme updated where appropriate to reflect latest scheme spending profiles.

Service	2012/13	2013/14	2014/15
	£'000	£'000	£'000
Public Sector Housing	35,741	29,839	30,861
Other Adult, Community & Housing	8,609	3,662	0
Urban Environment	16,724	23,800	13,350
Children’s Services	12,688	15,452	67
Corporate Resources	2,867	1,755	920
TOTAL	76,629	74,508	45,198

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.

7. In accordance with the requirements of the Council's Financial Regulations, details of progress with the 2012/13 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.

Adult, Community and Housing

Disabled Facilities Grants (DFGs) 2012/13

8. The Council has been allocated further Government grant funding of £263,000 for the above in 2012/13. It is proposed that this be noted and the associated expenditure included in the Capital Programme.

In addition, it is proposed that a further £350,000 of Adult Social Care revenue resources be used to fund DFGs. This will support earlier discharge from hospital and will enable people to remain in their own homes for longer.

Gibbs Road House Redevelopment

9. It is proposed that a one off sum of £100,000 be committed from existing Section 106 (Town and Country Planning Act 1990) monies as a part contribution to the demolition and redevelopment of Gibbs Road House direct access homeless hostel owned by Midland Heart in Lye. The funding contribution recognises Dudley's strategic commitment to this multi-million pound redevelopment programme that is majority funded by Midland Heart. The redevelopment will replace the current 83 unit direct access hostel that is not fit for purpose. It will be replaced by a new 58 unit scheme that will include 24 direct access hostel accommodation units and 34 1 bedroom move-on flats. This accommodation will play a major role in preventing homelessness and rough sleeping in the Borough. On-site facilities will include accommodation, training, education and social enterprise opportunities to help some of Dudley's most socially deprived individuals to gain valuable employability and independent living skills.

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

CHADD House, Dixons Green Road

10. It is proposed that a one off sum of £68,000 be committed from existing Section 106 (Town and Country Planning Act 1990) monies as a part contribution to the improvement works being undertaken to CHADD House, Dixons Green Road, Dudley. The building is used as part of a young person's supported housing scheme (On Route Foyer) that is owned by Churches Housing Association of Dudley and District. The funding contribution recognises Dudley's strategic commitment to the provision of a range of supported housing options for young people. The Foyer provides housing and offers support for young people to access training, education and employment opportunities. During their stay in the scheme they develop a range of independent living skills. The improvement works are designed to reduce the reliance on shared facilities such as kitchens and bathrooms and provide self contained housing units to promote greater independence for young people. This accommodation plays a vital role in preventing homelessness and rough sleeping in the Borough whilst improving the employability prospects of some of Dudley's most socially deprived young people.

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

Housing Assistance

11. In each of the last two years, £550,000 has been allocated from available revenue funding to support private sector housing grants and loans for renovation and major repair work which will contribute to bringing empty and substandard residential properties back into use. It is proposed that this annual allocation be continued on an ongoing basis and included in the Capital Programme.

Adult Personal Social Services Community Capacity Grant

12. The Council has been notified of its Adult Personal Social Services capital funding allocations for 2013/14 and 2014/15 amounting to £840,000 and £857,000 respectively. This is intended to support development in three key areas: personalisation, reform and efficiency.

It is proposed that the allocations be noted and that the associated spend on relevant Adult Personal Social Services projects be included in the Capital Programme.

Fuel Poverty Fund

13. The Council has been awarded capital funding of £90,000 from the Department of Energy and Climate Change Fuel Poverty Fund. This funding will be used for boiler replacements and other small energy efficiency measures for private sector homes, being targeted at vulnerable people living in "fuel poverty". It is proposed that this funding allocation be noted and the associated expenditure included in the Capital Programme.

Urban Environment

Saltwells Wardens' Base

14. The Council disposed of a small development site set within the Saltwells Reserve to PSP Dudley LLP, the Council's 50/50 joint venture, in March 2010. The buildings on the site, Saltwells House and the existing wardens' base, were demolished soon afterwards. As a condition of the sale the buyer was to re-provide the wardens' base to the same specification as that demolished. Upon completion the new base and the land it occupies will be transferred back to the Council. In order to provide a base which meets current functional requirements and is sympathetic to the site it sits within, a Council contribution of £120,000 will be required towards the estimated total cost of £300,000. This contribution can be met from Directorate reserves. It is proposed that the Council's contribution be approved and that the project be included in the Capital Programme.

Recycling

15. The Council has recently been awarded £1,808,000 from the Government's Weekly Collection Support Scheme for the retention of weekly residual waste collections (committed for five years), and the enhancement of the recycling collection service to include the collection of plastic bottles and cardboard. Within this there is a capital allocation of £1,073,000 (£1,021,000 for the recycling service and £52,000 for schools) for 2013/14 for the provision of vehicles, equipment and containers etc. It is proposed that the funding allocation be noted, and that the project be approved and included in the Capital Programme.

Wheeled Bins

16. In conjunction with the recycling of plastic bottles and cardboard it is proposed to develop the weekly household waste collection service through the introduction of wheeled bins, to replace the current plastic sack service. This will assist in delivering the directorate savings set out in the revenue budget report to be considered by the Council on 4th March, and should achieve a commensurate service enhancement that will support the recycling service improvement identified above. The service change is proposed to commence from 2013/14 and will require the acquisition of approximately 125,000 wheeled bins at an estimated capital cost of £2.5m. This will be funded initially through prudential borrowing, the repayment of which can be met from the annual revenue budget of £250,000 currently used to pay for plastic waste collection sacks. It is proposed that the project be approved and included in the Capital Programme.

Recycling Bunker

17. In advance of the recycling collection scheme expansion, and as a consequence of recent changes in waste paper storage arrangements it is necessary to modify the bunkers at Blowers Green Recycling Depot to facilitate and control the storage of waste paper and cardboard. This includes an increase in bunker capacity, and a roof extension to keep the material dry. Planning approval has already been obtained for these works. The cost of £25,000 can be funded from revenue efficiencies generated from within Waste Care in the current financial year. It is proposed that the project be approved and included in the Capital Programme.

Depot Improvements

18. It has become necessary to refurbish and upgrade the welfare facilities for Environmental Management operational staff along with essential enhancements to depot infrastructure and buildings at both Lister Road and Blowers Green in order to meet the requirements and comply with the Workplace (Health, Safety and Welfare) Regulations 1992. In addition, it is necessary to enhance accommodation to facilitate service moves to Lister Road depot. The cost of £257,000 can be funded from one off revenue efficiencies generated from within Environmental Management in the current financial year. It is proposed that the project be approved and included in the Capital Programme.

Stourbridge Crematorium Improvement Works

19. A number of improvements are proposed for Stourbridge Crematorium to ensure that the facility complies with legislative and technical requirement and meets customer expectations. Improvement works are proposed to the cremators and the catafalque to bring them up to industry standards as well as other improvements to the Chapel which will increase standards of comfort and appearance for visitors. The cost of this work is estimated to be £68,000 and can be met from Capital resources available within Urban Environment arising from an underspend on the improvement works at Gornalwood Crematorium. It is proposed the project be approved and included in the Capital Programme.

Highways Maintenance

20. The Council has received funding allocations of £473,000 in 2013/14 and £253,000 in 2014/15 as it's share of £215m announced in the Autumn Statement for essential highway maintenance work. It is proposed that the allocation be noted and the associated expenditure included in the Capital Programme.

Local Pinch Point Fund

21. It is proposed to submit a bid in partnership with Wolverhampton City Council to the Government's recently announced Local Pinch Point Fund to improve the A4123 Birmingham New Road / Shaw Road junction. This is one of only two remaining junctions on the A4123 strategic route that has not been upgraded in recent years. The other junction, at Sedgley Road, has been identified for improvements via the Bean Road development.

The scheme cost is estimated at £1,350,000 and bidding authorities are required to provide a 30% local contribution to the overall capital costs. Given the scheme sits on the boundary of the two local authorities the local contribution would be split 50/50 resulting in a contribution from Dudley of £202,500. This could be met from the 2013/14 and 2014/15 Integrated Transport Block of the Local Transport Plan funding.

It is proposed that submission of the bid be approved and that subject to the bid being successful the project be included in the Capital Programme.

Improvement works to Car Park Infrastructure

22. It is necessary to undertake improvement works on existing Council car parks, including new and replacement pay and display machines, relining of parking areas and surfacing works to hard standing areas. This will improve the overall condition of the car park infrastructure to meet future parking requirements and the needs of users of the facilities. The estimated cost of works of £150,000 can be funded from one-off revenue efficiencies generated within Environmental Management in the current financial year. It is proposed that the project be approved and included in the Capital Programme.

Children's Services

Capital Funding for New 2 Year Old Places

23. Free early education will become a statutory entitlement for eligible two year olds from 1 September 2013, with local authorities having a duty to secure provision. Some 130,000 children in England, around 20% of 2 year olds, are expected to receive free early education from September 2013. The Council has been notified of an allocation of £517,000 for 2012/13 to support implementation and ensure there are enough high quality places available. The grant is not ring-fenced and has no spend deadline.

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

Corporate Resources

Transforming Our Workplace

24. In March 2012, it was agreed to include the above project in the Capital Programme. Following a review of the project, whilst there is no change in overall cost, the capital element needs to be increased by £472,000, matched by a corresponding reduction in the revenue budget. It is proposed that the Capital Programme be amended accordingly.

The CIPFA Prudential Code for Capital Finance in Local Authorities

25. 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.
26. Details of the various indicators required, and the proposed figures to be set in relation to each indicator are set out at Appendix B.

Minimum Revenue Provision (MRP) Policy Statement

27. Before the start of each financial year each authority must agree its policy on making Minimum Revenue Provision (MRP) for repayment of non-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.)
28. In line with the current policy, it is proposed that the Council agrees the following MRP Policy for 2013/14 as follows. This is unchanged from the 2012/13 Policy.
 - For unsupported borrowing to fund capital expenditure incurred from 1st 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 1st 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 1st 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.)*

Finance

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

Law

30. 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

31. These proposals comply with the Council's policy on Equality and Diversity.
32. 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

33. That current progress with the 2012/13 Capital Programme, as set out in Appendix A be noted, and that budgets be amended to reflect the reported variances.
34. That the further allocation of Disabled Facilities Grant (DFG) funding of £263,000 be noted and the associated expenditure included in the Capital Programme, and that a further £350,000 of Adult Social Care revenue resources be used to fund DFGs, as set out in paragraph 8.
35. That the contribution of £100,000 to the redevelopment of Gibbs Road House be approved and included in the Capital Programme, as set out in paragraph 9.
36. That the contribution of £68,000 to the improvement works being undertaken to CHADD House be approved and included in the Capital Programme, as set out in paragraph 10.
37. That the £550,000 allocation for Housing Assistance Grants be continued on an ongoing basis and included in the Capital Programme, as set out in paragraph 11.
38. That the Community Capacity Grant allocations be noted, and the associated spend on relevant Adult Personal Social Services projects be included in the Capital Programme, as set out in paragraph 12.
39. That the award from the Fuel Poverty fund be noted, and the associated expenditure included in the Capital Programme, as set out in paragraph 13.
40. That the Council's contribution of £120,000 to the re-provision of the Saltwells Wardens' Base be approved and the project be included in the Capital Programme, as set out in paragraph 14.
41. That the Weekly Collection Support Scheme funding allocation for Recycling be noted, and that the related project be approved and included in the Capital Programme, as set out in paragraph 15.
42. That the Wheeled Bins project be approved and included in the Capital Programme, as set out in paragraph 16.

43. That the Recycling Bunker project be approved and included in the Capital Programme, as set out in paragraph 17.
44. That the Depot Improvements project be approved and included in the Capital Programme, as set out in paragraph 18.
45. That the Stourbridge Crematorium Improvement project be approved and included in the Capital Programme, as set out in paragraph 19.
46. That the funding allocation for Highway Maintenance be noted and the associated expenditure included in the Capital Programme, as set out in paragraph 20.
47. That submission of the bid in partnership with Wolverhampton City Council for Local pinch point funding to improve the A4123 Birmingham New Road junction with Shaw Road be approved and that subject to the bid being successful the project be included in the Capital Programme, as set out in paragraph 21.
48. That the improvement works to Car Park Infrastructure be approved and included in the Capital Programme, as set out in paragraph 22.
49. That the allocation of capital funding for New 2 Year Old Places be noted and the associated spend included in the Capital Programme, as set out in paragraph 23.
50. That the Capital Programme be amended to include an increase in the capital budget of £472,000 for the Transforming Our Workplace project, as set out in paragraph 24.
51. 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 B, be agreed.
52. That the Minimum Revenue Provision (MRP) Policy for 2013/14 be approved as set out in paragraph 28.



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Leader of the Council

2012/13 Capital Programme Progress to Date

Service	Budget £'000	Spend to 31st December £'000	Forecast £'000	Variance £'000	Reasons for Variance
Public Sector Housing	35,741	17,739	35,741		
Other Adult, Community & Housing	8,609	4,946	8,609		
Urban Environment	16,724	7,579	16,656	-68	See note 1
Children's Services	12,688	8,545	12,688		
Corporate Resources	2,867	1,389	2,867		
TOTAL	76,629	40,198	76,561	-68	

1. Underspend on Gornalwood Crematorium Improvement project.

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 2012/13, 2013/14 and 2014/15 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.

	2011/12 £m Actual	2012/13 £m Revised Estimate	2013/14 £m Revised Estimate	2014/15 £m Revised Estimate	2015/16 £m Estimate
Non - HRA	31.6	41.3	52.1	16.0	7.4
HRA	377.2*	35.5	36.8	31.6	31.5
Total	408.8	76.8	88.9	47.6	38.9

*Includes £338.1m payment to DCLG in respect of HRA self-financing settlement.

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.

	2011/12 £m Actual	2012/13 £m Revised Estimate	2013/14 £m Revised Estimate	2014/15 £m Revised Estimate	2015/16 £m Estimate
Non - HRA	305.2	290.4	307.2	296.0	283.1
HRA	464.1	464.1	464.1	464.1	464.1
Total	769.3	754.5	771.3	760.1	747.2

The limit on the HRA CFR imposed on implementation of self-financing is £467.1m.

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 2012/13 to 2015/16.

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 and Public Sector Housing reports elsewhere on this agenda. There are currently no proposals to undertake new borrowing for Public Sector Housing capital expenditure; this would not be possible within the limits imposed on the HRA CFR as part of self-financing. The only proposal to undertake other new borrowing to fund capital investment is set out in paragraph 15 of this report (Wheeled Bins) and is part of a project that will reduce overall costs. The impact on Council Tax and Rents is therefore as follows.

	2013/14	2014/15	2015/16
	£	£	£
Increase in Annual Band D Council Tax	0	0	0
Increase in Weekly Housing Rent	0	0	0

Note that to the extent that General Fund revenue budgets are limited by overall resource availability and that the Council continues to comply with rent restructuring guidance, the effective impact of any increased borrowing would be to require other expenditure to be constrained, rather than to directly increase Council Tax or rents.

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

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

	2011/12	2012/13	2013/14	2014/15	2015/16
	%	%	%	%	%
	Actual	Revised Estimate	Revised Estimate	Revised Estimate	Estimate
Non - HRA	17.6	13.1	9.7	10.1	10.4
HRA	8.5	21.6	21.2	20.2	19.3

The increase in the HRA indicator from 2012/13 onwards reflects the extra debt taken on as part of HRA self-financing. The relatively high figures for the Non-HRA indicator for 2011/12 and 2012/13 reflects voluntary early repayment of borrowing thereby freeing up future revenue resources.

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.

	2011/12	2012/13	2013/14	2014/15	2015/16
		Revised	Revised	Revised	
	£m	£m	£m	£m	£m
Authorised limit for external debt:					
Borrowing	n/a	946	951	935	914
Other long term liabilities	n/a	37	45	48	51
Total	n/a	983	996	983	965
Operational boundary:					
Borrowing	n/a	839	842	830	822
other long term liabilities	n/a	37	45	48	51
Total	n/a	876	887	878	873
Actual External Debt:					
Borrowing	749.6	n/a	n/a	n/a	n/a
Other long term liabilities	36.5	n/a	n/a	n/a	n/a
Total	786.1	n/a	n/a	n/a	n/a

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.