

Meeting of the Council – 28th February, 2011

Report of the Cabinet

Capital Programme Monitoring

Purpose of Report

1. To propose amendments to the Capital Programme.
2. To propose the “Prudential Indicators” as required to be determined by the CIPFA Prudential Code for Capital Finance in Local Authorities and the Local Government Act 2003.
3. To propose the Council’s Minimum Revenue Provision (MRP) Policy for 2010/11.

Background

4. At its meetings on 8th December, 2010 and 9th February, 2011, the Cabinet considered reports on Capital Programme Monitoring and made a series of recommendations to the Council, which are contained in this report. The report to the meeting on 9th February also requested approval to “Prudential Indicators” as required to be determined by the CIPFA Prudential Code for Capital Finance in Local Authorities and the Local Government Act 2003 and to the Council’s MRP Policy for 2010/11. Other recommendations contained in the reports to the Cabinet meetings were determined under delegated powers. Copies of the Cabinet reports are available from Democratic Services in the Directorate of Corporate Resources (Telephone 01384 815236) or by e-mail to richard.sanders@dudley.gov.uk or on the Council’s website www.dudley.gov.uk (follow links to Meetings and Decisions).

Adult, Community and Housing

Housing Assistance

5. Additional funding of £60,000 has been secured from the Kickstart Partnership. It is proposed that the extra funding be noted and added to the Housing Assistance capital budget.

Adult Social Care Grants

6. The Department of Health has recently announced the amalgamation of a number of former capital grants (including Mental Health, IT Infrastructure and Social Care Reform) into one grant for investment in Adult Social Care and Developing Community Capacity. Dudley has been allocated £820,000 for 2011/12 and £834,000 for 2012/13. It is expected that these resources will be used for initiatives such as the promotion of personalisation, alternatives to residential care, and to support service

redesign. Detailed allocations to specific projects will be made through the Directorate's Capital and Property Steering Group.

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

Urban Environment

Local Transport 2011/12 – 2014/15

7. The Government has announced detailed grant allocations for Local Transport capital expenditure for 2011/12 and 2012/13, with indicative allocations for 2013/14 and 2014/15. These allocations are being made to the Integrated Transport Authority (ITA) to be distributed between the ITA and Districts following local agreement. It is currently anticipated that Dudley's allocations will be as set out below.

Maintenance

- Maintenance of local roads, highway structures and street lighting.

2011/12	£2,926,000
2012/13	£2,763,000
2013/14*	£2,595,000
2014/15*	£2,445,000

Integrated Transport

- Minor capital schemes designed to improve the safety and increase the capacity of the highway network and encourage sustainable modes of travel.

2011/12	£1,743,000
2012/13	£1,859,000
2013/14*	£1,859,000
2014/15*	£2,603,000

*Based on indicative national allocations.

It is proposed that, subject to agreement at West Midlands level, the above allocations be noted and the associated expenditure be included in the Capital Programme. Details of how this funding is proposed to be allocated to individual projects will be reported back to the Cabinet in due course.

Gornal Wood Crematorium

8. The Revenue Budget report to the Council on 7th March, 2011, contains a specific new growth proposal which involves utilising the flexibilities now available under the "prudential borrowing" regime to fund the installation of mercury abatement equipment and new cremators at Gornal Wood Crematorium at an estimated cost of £1.25m.

It is proposed that subject to this element of the Revenue Budget Strategy being agreed, the above expenditure be included in the Capital Programme.

Section 106 funding for Urban Environment projects

9. The Council receives "Section 106" funding from developers, towards necessary green space, nature conservation, environmental protection and public realm improvements. It is proposed that any expenditure which can be funded from such resources be included in the Capital Programme as appropriate.

Children's Services

Main Grant Allocations 2011/12

10. The following grant funding has been allocated to the Council for Schools capital investment.

	£m
Devolved Capital. This will be allocated to projects by schools on the basis of their own priorities.	0.965
Capital Maintenance. This will be allocated on the basis of priorities with regard to health and safety issues, building condition surveys and access needs.	5.052
Basic Need - New Pupil Places. This will be allocated to specific projects following appropriate consultation and evaluation of options.	1.208
Total	7.225

The Government has advised that allocations for 2012/13 to 2014/15 will be informed by the outcome of the Capital Review, which will be published in early 2011. While the allocations and management of these programmes may change to reflect the recommendations of the review, it is expected that the funding available for Basic Need and Capital Maintenance of schools will be roughly in line with the funding for 2011/12.

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

Finance, ICT and Procurement

Corporate ICT Strategy

11. The Council has adopted a 5 year Corporate ICT Strategy running from 2008-13 as approved by the Select Committee for Regeneration, Culture and Adult Education to which an annual progress report is made. The aim of the current strategy is to support the Council in delivering its key objectives and to provide the technical infrastructure and ICT support services necessary to underpin the Council's extensive business operations and to enable the transformation of Council services. The Corporate ICT Strategy will be reviewed and updated in 2011/12 to embrace new technology, to set

new strategic direction and to respond to the changing business requirements of the Council.

Implementing the strategy involves Capital expenditure, e.g. network enhancements; infrastructure upgrades; Internet developments; desktop strategy; Geographical Management Information Solutions (GMIS); Corporate Electronic Data Management (EDM). This expenditure is funded from annual revenue budget contributions.

It is proposed that the Treasurer be authorised, in consultation with the Cabinet Member for Finance, to approve any Capital expenditure in furtherance of the current and future Corporate ICT Strategies, and amend the Capital Programme as appropriate.

Urgent Amendments to the Capital Programme

Corporate Electronic Document Management (EDM) Site Licence

- 12 The Council has a 10-year foundation of successful, broad deployment and exploitation of the Northgate Information Solutions Electronic Document Management (EDM) system delivering efficiency savings in accommodation / staffing, and transforming a number of key services. Further investment in EDM would have significant benefits, which amongst other things would enable Business Transformation through review, streamlining and automation of current business processes. The investment also releases the potential for delivery of significant efficiency savings.

The total cost of £180,000 can be funded from the ICT Strategy budget, potentially supplemented by Regional Improvement and Efficiency Partnership (RIEP) funding which continues to be explored.

In order to take advantage of available discounts, a decision (ref. TRE/2/2010) was made by the Leader of the Council in consultation with the Treasurer on 24th November 2010:

- To contract with Northgate for a Corporate EDM Site Licence;
- To invest in the existing technical infrastructure supporting EDM;
- To include the above expenditure in the Capital Programme.

Gig Mill Primary School – Redevelopment of Swimming Pool

- 13 Although the existing swimming pool has proven to be a successful and a popular school feature, it is an under-utilised resource, open for only 3 months per year and currently used only by pupils at the school. A redeveloped swimming pool will be an excellent resource to the school, other local schools, the local community and local groups.

The total cost of £188,000 can be met from:

- Sport England - Community Investment Fund £70,000;
- Ibstock Cory Environmental Trust £70,000;
- Extended Schools funding £35,000;
- School Devolved Capital funding £13,000.

In order to comply with funding deadlines, a decision (ref. DCS/39/2010) was made by the Leader of the Council in consultation with the Treasurer, Cabinet Member for Integrated Children's Services, and the Acting Director of Children's Services on 23rd November, 2010 to include the project in the Capital Programme.

Emergency stabilisation works at Castle Mill Basin, Dudley Canal

14. On the 21st October, 2010 (Decision Sheet DUE/53/2010) approval was given to include the above project in the Capital Programme at an estimated cost of £300,000.

Although the final detailed design and the outcome of financial cost negotiations are yet to be completed, the estimated cost has increased to £350,000 as a result of:

- Development of a design solution which meets both the complex technical and environmental constraints;
- The need to comply with stringent health and safety working procedures which meet both the Health and Safety Executive (HSE) Mines Inspectorate and the Mine Managers requirements.

The additional costs can be met from the Council's anticipated future annual contributions to the Dudley Canal Tunnel Maintenance Fund. It was planned that onsite works would commence mid to late January, 2011.

A decision (ref. DUE/01/2011) was therefore made by the Leader of the Council in consultation with the Treasurer on 12th January, 2011 that the budget for the project be increased to £350,000.

Brierley Hill Library - Shared Facilities (Housing Office and Citizen's Advice Bureau)

15. In an approach broadly similar to that currently provided for in Stourbridge Library it was proposed to undertake alterations to allow a housing service and the Citizens Advice Bureau to operate from within Brierley Hill Library. This High Street location will provide an improved service to customers who will be able to access a range of services either face to face or through the use of public access computers.

The £80,000 cost of the necessary alterations will be funded £60,000 from the Housing Revenue Account (HRA), with a contribution of £20,000 from the Citizen's Advice Bureau.

To minimise disruption to Library services, urgent inclusion in the Capital Programme was required to allow this work to be scheduled along with already planned improvements to disabled facilities and access.

A decision (ref. DACHS/01/2011) was therefore made by the Leader of the Council and the Cabinet Member for Housing, Libraries and Adult Learning, in consultation with the Treasurer, and Assistant Director (Building Services) on 4th January, 2011 that the project be added to the Capital Programme.

Development of New Recycling Facility at Blowers Green, Dudley

16. A decision (ref. DUE/54/2010) was made by the Leader of the Council in consultation with the Treasurer on 2nd November, 2010 to utilise existing capital underspend to support the development of the Blowers Green Recycling facility.

The detailed decision which was considered in private, is available to Members on request to Richard Sanders, Democratic Services, Directorate of Corporate Resources on (01384) 815236 or email richard.sanders@dudley.gov.uk.

Additional Health and Fitness Equipment at Crystal Leisure Centre

17. Opportunities to increase capacity in the fitness suite have been identified by relocating certain low use items and replacing with the type of equipment that is in high demand at peak times to grow both membership and income accordingly. There is also a commercial opportunity to acquire the required equipment at a substantial discount due to favourable market conditions that is financially advantageous to the Council.

The cost of the additional equipment is £100,000, which can be funded over 2 years by income generated from increased membership numbers, plus £10,000 for electrical works in relation to its installation which can be funded through the existing Repairs and Maintenance budget.

In order to take advantage of the discounts available, a decision (ref. DUE/60/2010) was made by the Leader of the Council in consultation with the Treasurer on 15th November, 2010 to approve the purchase of the equipment and include the necessary capital expenditure within the Capital Programme.

Department for Environment, Food and Rural Affairs (DEFRA) Air Quality Grant

18. A grant of £5,000 has been received from DEFRA towards the provision of a small air quality monitoring station in High Street, Wordsley which has been identified as an air quality problem area in the Air Quality Action Plan. Further installation costs of around £1,000, together with running costs can be met from within the existing air quality monitoring revenue budget.

In order that monitoring could begin as soon as possible, a decision (ref. DUE/59/2010) was made by the Leader of the Council in consultation with the Treasurer on 11th November, 2010 to approve the provision of the station.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities

19. 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.
20. Details of the various indicators required, and the proposed figures to be set in relation to each indicator are set out at Appendix A.

Minimum Revenue Provision (MRP) Policy Statement

21. Before the start of each financial year each authority must agree its policy on making Minimum Revenue Provision (MRP) for repayment of borrowing incurred to fund Capital expenditure, in respect of that financial year.
22. In line with the current policy, it is proposed that the Council agrees the following MRP Policy for 2011/12:
- 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 Private Finance Initiative 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 as part of the Formula Grant calculation, 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

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

Law

24. 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

25. These proposals comply with the Council's policy on Equality and Diversity.
26. 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

27. That the Council be recommended:
- That the extra Kickstart funding be noted and added to the Housing Assistance capital budget, as set out in paragraph 5.
 - That the Adult Social Care grant allocations be noted, and the associated spend included in the Capital Programme, as set out in paragraph 6.
 - That, subject to agreement at West Midlands level, the Local Transport capital allocations be noted and the associated expenditure included in the Capital Programme, as set out in paragraph 7.

- That subject to the relevant element of the Revenue Budget Strategy being agreed, the capital expenditure to be funded from prudential borrowing in relation to Gornal Wood Crematorium be included in the Capital Programme, as set out in paragraph 8.
- That any expenditure funding from developers' "Section 106", towards green space, nature conservation, environmental protection and public realm improvements be included in the Capital Programme as appropriate, as set out in paragraph 9.
- That the 2011/12 grant allocations for schools' capital projects be noted and the associated spend included in the Capital Programme, as set out in paragraph 10.
- That the Treasurer be authorised, in consultation with the Cabinet Member for Finance, to approve any Capital expenditure in furtherance of the current and future Corporate ICT Strategies, and amend the Capital Programme as appropriate, as set out in paragraph 11.
- That the Urgent Amendments to the Capital Programme, as set out in paragraphs 12 -18 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 A, be approved.
- That the Minimum Revenue Provision (MRP) Policy for 2011/12, and updated Policy for 2009/10, be as set out in paragraph 22.



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Leader of the Council

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 and Corporate Property Policy, and in Directorate Asset Management Plans.

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 2010/11, 2011/12 and 2012/13 this time last year have been reviewed and where necessary are proposed to be updated to reflect latest forecasts.

We are still evaluating the impact of the new “International Financial Reporting Standards” (IFRS), which will bring Finance Leases and similar arrangements onto the Balance Sheet from 2010/11. The indicators below reflect initial estimates of the impact of these changes; they may therefore need to be amended as necessary in due course once the impact of the changes is finalised.

1. Estimated and Actual Capital Expenditure

This indicator forms the background to all the other indicators, given that the overall rationale of the prudential system is to provide flexibility for borrowing to fund capital investment. Estimated capital expenditure is required to be calculated for the next 3 financial years, and actual expenditure stated for the previous financial year, with totals split between HRA and non-HRA capital expenditure.

Subject to the other proposals in this report being agreed (together with those relating to public sector housing capital expenditure contained in the relevant report elsewhere on the agenda) the proposed indicators are as follows.

	2009/10 £m Actual	2010/11 £m Revised Estimate	2011/12 £m Revised Estimate	2012/13 £m Revised Estimate	2013/14 £m Estimate
Non - HRA	55.3	63.4	53.9	18.0	16.6
HRA	35.8	34.9	38.4	-	-
Total	91.1	98.3	92.3	18.0	16.6

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.

	2009/10 £m Actual	2010/11 £m Revised Estimate	2011/12 £m Revised Estimate	2012/13 £m Revised Estimate	2013/14 £m Estimate
Non - HRA	342.3	362.3	363.1	354.1	340.8
HRA	83.5	107.4	125.6	125.6	125.6
Total	425.8	469.7	488.7	479.9	466.4

3. Net Borrowing and the Capital Financing Requirement.

In order to ensure that in the medium term, borrowing can be undertaken only for capital purposes, this indicator requires that net external borrowing does not (except in the short term) exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

It is anticipated that this requirement will be met for the years 2010/11 to 2013/14.

4. Estimate of the Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents

This indicator is intended to demonstrate the affordability of capital investment decisions in terms of their impact on levels of Council Tax and Housing Rents.

The current proposals to undertake new unsupported “prudential borrowing” to fund capital investment are set out in paragraph 10 of this report, and in the Public Sector Housing report elsewhere on this Agenda. The forecast debt charges resulting from anticipated borrowing are fully reflected in the figures set out in the Budget Strategy report elsewhere on this agenda, and in the aforementioned Public Sector Housing report. The impact on Council Tax and Rents of these proposals is as follows.

	2011/12	2012/13	2013/14
	£	£	£
Increase in Annual Band D Council Tax	-	-	1.22
Increase in Weekly Housing Rent	0.25	0.30	0.30

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 increased borrowing is 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.

	2009/10	2010/11	2011/12	2012/13	2013/14
	%	%	%	%	%
	Actual	Revised Estimate	Revised Estimate	Revised Estimate	Estimate
Non - HRA	9.3	9.9	12.5	13.1	12.9
HRA	6.2	7.5	8.2	8.3	8.1

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.

	2009/10	2010/11	2011/12	2012/13	2013/14
		Revised	Revised	Revised	
	£m	£m	£m	£m	£m
Authorised limit for external debt:					
Borrowing	n/a	666	689	675	656
Other long term liabilities	n/a	44	47	50	52
Total	n/a	710	736	725	708
Operational boundary:					
Borrowing	n/a	476	587	590	583
other long term liabilities	n/a	44	47	50	52
Total	n/a	520	634	640	635
Actual External Debt:					
Borrowing	427.3	n/a	n/a	n/a	n/a
Other long term liabilities	31.1	n/a	n/a	n/a	n/a
Total	458.4	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 adopted the latest version of the Code of Practice in February 2010.