
CAPITAL PROGRAMME MONITORING & CAPITAL PROGRAMME 2005/06

REPORT OF THE CABINET

1.0. Purpose

- 1.1. To propose the allocation of available capital resources for 2005/06, and certain other amendments to the Council's Capital Programme.
- 1.2. 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.

2.0 Background

- 2.1. On consideration of the issues referred to in paragraph 2.2 to 2.13 (inclusive) below, the Cabinet at its meetings held on 15th December 2004 and 9th February 2005, resolved to recommend the Council to approve the proposals set out in section 3 below.

Other proposals contained in the reports to those meetings were determined by the Cabinet under the powers delegated to them. Copies of the full reports are available from Richard Sanders in the Directorate of Law and Property (tel (01384) 815236 or email steve.griffiths@dudley.gov.uk)

2.2. Available Resources for 2005/06

- 2.2.1 The Local Government Act 2003 introduced a new system of "prudential borrowing" from 1st April 2004 which allows councils to set their own borrowing limits subject to criteria of prudence, affordability, and sustainability.
- 2.2.2 The Government continues to support capital expenditure by authorities in the form of direct capital grants and "Supported Capital Expenditure" (SCE) approvals which generate support for the majority of the ensuing debt charges via the Revenue Support Grant (RSG) system. There is no support for any extra borrowing made possible by the "prudential" system.
- 2.2.3 For 2005/06, the majority of SCE approvals have been allocated as part of the Single Capital Pot (SCP) mechanism. The Council's Single Capital Pot SCE for 2005/06 has been calculated as follows.

	£'000
Transport	5815
Housing	3212
Education	3150
Social Services	212
Total Single Capital Pot SCE	12389

2.3 Overall Allocation of Resources

- 2.3.1 In theory, it would be possible to treat the overall SCE as a corporate resource in the true spirit of the Single Capital Pot, and devise a methodology for prioritising all capital "bids" against the resources available. In reality however, this would pose major problems, not least the difficulty in devising a prioritisation methodology which could fairly compare and score bids for schemes of all magnitudes and degrees of complexity across the whole range of Council services. In addition, it would probably be seen as unacceptable, both internally and from the viewpoint of Government departments, not to spend capital resources for the purposes they were notionally allocated.
- 2.3.2 Therefore, it is proposed that each service SCE be earmarked to the relevant service, but with a particular emphasis on demonstrating appropriate prioritisation *within* service programmes, and *within* spend headings. As stated in the Financial Management Regime, it is the responsibility of the relevant Directors to make sure that such prioritisation is robust and stands up to scrutiny. Prioritisation should include formal scoring mechanisms or other objective methods wherever possible and appropriate.
- 2.3.3 It is also proposed that, as in the past, Housing capital receipts should be earmarked to be spent on Housing capital schemes.

2.4 Transport

- 2.4.1 The Transport SCE of £5.815m comprises £2.215m for Structural Maintenance of Roads and Bridges and £3.600m for Integrated Transport schemes.
- 2.4.2 Resources for Integrated Transport will, as in previous years, be pooled on a countywide basis and reallocated by the West Midlands Districts Joint Committee to each Borough on the basis of agreed priorities. The resources for Structural Maintenance of Roads and Bridges will be allocated to the Council's own priority schemes.
- 2.4.3 Proposals for the detailed allocation of the above resources are being reported elsewhere on this agenda.

2.5 Housing

- 2.5.1 In addition to the Housing SCE, further capital resources will be available to Housing, including the Major Repairs Allowance (MRA), and Disabled Facilities Grant support, together with the usable proportion of any capital receipts generated. Proposals for the Public Sector Housing Investment Programme for 2005/06 are set out in a report on issues relating to the management of the Housing Revenue Account (HRA) in general, elsewhere on this agenda.
- 2.5.2 As far as the Private Sector Housing Investment Programme is concerned, the current Capital Programme already provides for an injection of an extra £3.3 million over the three years 2004/05 -2006/07 (compared to previous budgets) to enable waiting times for Disabled Facilities Grants to be substantially reduced.

It is proposed that the following budgets for 2005/06 be confirmed:

- £2.066m for Disabled Facilities Grants (DFGs), funding around 170 grants depending on the nature and cost of the works involved.
- £1.1m for Renovation Grants in line with previous years' budgets, enabling further progress to be made in dealing with unfitness in the private sector, funding around 140 grants depending on the nature and cost of the works involved.

2.6 Education

2.6.1 The Education Single Capital Pot SCE of £3.150m provisionally announced last year has been confirmed, and comprises:

- £2.113m as a "Basic Need" allocation for new pupil places. This will be allocated to specific projects following appropriate consultation and evaluation of options.
- £0.446m to fund commitments arising from previous Basic Need allocations.
- £0.591m for Schools Access Initiative schemes. This funding will be used to meet the needs of individual pupils as they are identified during the year.

2.6.2 The following grant funding will also be available for Education capital investment in 2005/06.

	£000
Devolved Capital	3966
Modernisation Funding - All Schools	1474
Modernisation Funding - Primary Schools	1132
Total	6572

In addition, £1.693m has been provided over the three years 2004/05-2006/07 in the form of "Targeted Capital Funding" for a new Science and Music Block at Ridgewood High School.

2.6.3 It is anticipated that subject to provision to the Department of Education and Skills (DfES) of satisfactory Suitability data by the end of March, a further £2m of Modernisation Funding will also be available (as reported to the July meeting of the Executive). The Modernisation allocations will be allocated to specific projects on the basis of Asset Management Plan (AMP) priorities; Schools will be expected to identify match-funding from their Devolved allocations where appropriate

2.6.4 Provisional indications of support in 2006/07 and 2007/08 have also been announced as follows.

	2006/07	2007/08
	£000	£000
Devolved Capital	4973	5229

Modernisation Funding - Secondary Schools	1271	1311
Modernisation Funding - Primary Schools	1374	1374
Basic Need - New Pupil Places	1078	1095
Access Initiative	585	585
Total	9281	9594

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

2.7 Social Services

2.7.1 Proposals for the allocation of the available SCE of £212,000 as part of a prioritised three-year Capital Programme will be reported in due course.

2.8 Other Services

2.8.1 As in the current year, the only resources available for capital investment in Other Services - other than specific grants or specific SCE approvals - will be those generated from disposal of surplus assets.

2.8.2 Proposals for the allocation of available resources will be reported in due course.

2.9 Prudential Borrowing

2.9.1 In the context of the medium term position, a review has been undertaken of the opportunity to maximise the flexibilities now available under the “prudential borrowing” regime. Historically the Council has funded approximately £5m of structural improvements to roads and buildings, directly from revenue. In order to free-up revenue resources to fund priorities and increased legislative demands, it is being proposed that £2.5m of that spend should now be financed by borrowing.

2.9.2 Also, one of the specific growth proposals within the Revenue Budget strategy (to be determined at the meeting of the Council to be held on 7th March, 2005) is to provide £0.140m to meet the annual debt charges on borrowing to fund capital expenditure of £1.4m on the replacement of dangerous Street Lighting Columns. Necessary work consists of complete replacement of the lighting column or, in the case of most concrete street lights, removal of the element that gives rise to the most concern (the bracket and top of shaft) and its replacement with a steel unit that will greatly extend its life. This is the first stage of the overall programme of work that will be required to eliminate the problem, installing new units that will have a design life of more than forty years and will also greatly improve the light output of the installation by using up-to-date equipment. This will also have benefits in reducing crime and anti-social behaviour as has been demonstrated in previous smaller replacement schemes.

2.9.3 It is proposed that subject to this element of the Revenue Budget Strategy being agreed, the expenditure on Street Lighting Columns be included in the Capital Programme.

2.9.4 Proposals to use Prudential Borrowing within the Public Sector Housing Investment Programme for 2005/06 are set out in the aforementioned report, elsewhere on the agenda.

2.10 Asset Management Plan (AMP)

2.10.1 The allocations proposed above do not directly address issues arising from the Corporate AMP, and Condition Survey. However, the allocation of Structural Repair and Maintenance resources within the Capital Programme (funded from Law & Property revenue budgets) will reflect the priorities arising from the Survey.

2.11 Other Capital Programme Amendments

Urban Environment

2.11.1 Seven Sisters Mine Infilling

The current phase of works at Seven Sisters is substantially complete. However, this project has proved to be particularly difficult to manage especially when considering the need to carry out essential public safety works whilst protecting a nationally unique environmental and heritage site.

Outturn costs are estimated to be £4.265m. This is £255,000 in excess of the current funding approval (£4.01m) from English Partnerships and represents a 6% increase in costs. Of the additional cost, £179,000 relates to additional time needed to complete various phases of the works. The remaining £76,000 relates to consultants fees and officers costs incurred in preparing essential reports and surveys to support future funding opportunities for the Wrens Nest and Castle Hill area.

Discussions are ongoing with English Partnerships to recover the additional costs. At this stage it is unclear whether the £76,000 covering consultants / officers costs will be eligible for English Partnership funding. However, efforts are continuing to investigate other external funding opportunities for the next phase, i.e. full stabilisation of the Seven Sisters Upper Gallery as part of a much wider tourism / regeneration scheme for the Wrens Nest / Castle Hill area. The £76,000 could then be recovered from the design fee element of such funding; otherwise it will need to be funded from the Directorate's own resources.

It is proposed that the Capital Programme be amended accordingly.

2.11.2 Ryemarket Car Park Cladding

The Ryemarket multi-storey car park was originally clad with rectangular and hexagonal glass reinforced cement (GRC) panels. A problem with the failure of the hexagonal panels led to them being removed in 1999.

Recent inspections have identified continued deterioration of the remaining rectangular panels such that it is now considered prudent to remove them all at an estimated cost of £95,000. This can be funded from resources earmarked for Car Park Improvements.

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

2.11.3 Tipton Road Bridge

Tipton Road Rail Bridge, constructed in the 1930s, carries the two lane dual carriageway A4037 at an angle over a disused twin track railway line that is programmed to be reopened for freight.

A structural assessment indicates that the bridge is incapable of carrying the traffic loads imposed upon it, so to protect the structural integrity of the bridge the highway is currently restricted to one lane in each direction. An options study has been carried out which highlighted the need to replace the bridge decking; the Capital Programme includes a sum of £100,000 for design work in the current year.

The programme for the proposed Wednesbury to Brierley Hill Metro line includes a crossing of Tipton Road adjacent to the bridge, with works commencing around 2006/7. Reconstruction of the bridge is necessary prior to the work on the Metro crossing, as reconstruction post-Metro would cause considerable operational difficulties.

Against this background a bid was made to the Government Office for the West Midlands (GOWM) for re-allocation of Supplementary Credit Approvals (SCAs) returned by other Councils to fund reconstruction of the bridge, and support in the sum of £1.2m has now been confirmed. This will fully cover the estimated costs, including fees.

Bridge reconstruction will be undertaken by Network Rail and there will be a need to agree design details and programming, and for a Works Agreement to be entered into in line with national conditions. Work would be anticipated to start in the 2005/6 financial year.

It is proposed that the above scheme be approved and included in the Capital Programme, and that an agreement with Network Rail for the reconstruction work be entered into.

2.11.4 Incinerator Equipment

The Waste to Energy Incinerator at Lister Road has been fitted with analysing equipment for ammonia and volatile organic compounds, in order to comply with Environment Agency requirements. As this is a legislative requirement, the terms of the contract require the capital cost of £220,000 to be met by the Council. This can be funded by contributions from Waste Management revenue budgets over the next five years.

It is proposed that the above expenditure be included in the Capital Programme.

2.11.5 Summer Lane Retaining Wall

The old stone/slag retaining wall that supports the highway adjacent to Summer Lane, Lower Gornal, is in a poor structural condition. It had been intended that work of a maintenance nature be undertaken. However detailed investigation has shown that the wall is too deteriorated for this to be an economic option, and requires reconstruction at a cost of £55,000. Such works can be funded from the highway structures revenue budget.

It is proposed that the scheme to reconstruct the wall be approved and included in the current year's Capital Programme.

2.11.6 Lister Road Garage Lighting & Heating

Replacement of the Lister Road Garage lighting and heating system has been a priority for a number of years, due to its age and reliability. Unfortunately, both systems are no longer sustainable and a recent fault has rendered certain parts of the installation inoperative.

It is estimated that the total cost of a new heating and electrical installation will be in the region of £130,000 which can be funded from reserves earmarked for depot maintenance and current trading income.

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

2.11.7 Halesowen Leisure Centre - Improvements to Health and Fitness Facilities

In accordance with the Council's strategy for future Leisure Centre provision it is intended to further develop the health and fitness facilities at Halesowen Leisure Centre. This will involve an enlargement of the existing health and fitness room to increase the number of items of equipment therein. The associated building works are estimated to cost £55,000 which can be financed from reserves held by the Directorate of the Urban Environment.

The project will also involve the replacement of the ageing fitness equipment with new hi-tech facilities, the cost of which will be funded through an operational lease with a private sector partner, and met within existing budgets.

It is proposed that the scheme be approved, and the capital works element be included in the Capital Programme.

Law & Property

2.11.8 Priory Hall Security

The Hall has been subjected to repeated and escalating acts of vandalism, criminal damage, theft and arson over the years - leading to the Council's insurers now stipulating that unless security measures are implemented by August 2005 they will not be able to continue cover, or will be imposing onerous terms.

It is therefore necessary to erect acceptable fencing, in keeping with the architectural design of the building, together with tasteful complementary security lighting to establish a secure and defensible zone around the hall to address these security issues which are currently threatening its existence.

There has been considerable expenditure over the last 3 years - amounting to £455,000 - in reaction to episodes of vandalism and arson. By erecting a secure and defensible zone around the Hall it is hoped that this will decrease or hopefully stop the attacks and subsequently reduce or eliminate the need for additional revenue or capital expenditure on an annual basis.

Estimated costs are in the region of £210,000, of which £50,000 can be found from the Council's Risk Management resources. It is proposed that the balance of

£160,000 be made a first call on resources generated by the disposal of surplus assets in 2005/06, and that the scheme be included in the Capital Programme.

Education & Lifelong Learning

2.11.9 Redhill School - All Weather Football Pitch & Changing Rooms

The school is currently developing a project to create an all weather football pitch and changing rooms facility. As well as being utilised for school sport and PE, the project will in particular help create better sports opportunities for ethnic minority communities and girls'/women's football teams, and will enhance links with local and professional clubs.

The estimated cost of the project is £1,129,000 of which £330,000 can be found from Delegated Capital and Asset Management Plan (AMP) allocations. Discussions are under way with the Football Association (FA) with a view to making a bid to the Football Foundation for a grant for the balance of £799,000.

It is proposed that the making of such a bid be authorised, and that subject to the bid being successful, the project be approved and included in the Capital Programme.

2.11.10 The Coseley School - All Weather Football Pitch

The school is currently developing a project to create an all weather football pitch at an estimated cost of £700,000. The pitch will be suitable for football and rugby. It will in particular create new opportunities for girls'/women's football as well as being a centre for education in football, and an inclusive sports and football facility for the benefit of the whole community.

The majority of funding is anticipated to be forthcoming from a bid to the Football Foundation, with the balance to be found from the School's own resources, and if necessary a contribution from AMP allocations.

It is proposed that the making of such a bid be authorised, and that subject to the bid being successful and resources being available to meet the total cost, the project be approved and included in the Capital Programme.

2.11.11 Dudley Wood Primary - enhancement of Basic Need Project

A sum of £20,000 has been identified from Directorate reserves (Catering kitchen equipment fund) which could be used towards the funding of the new kitchen facilities being provided as part of the major Basic Need capital project currently being undertaken at Dudley Wood Primary School. The project also comprises the replacement of mobile classrooms with purpose built accommodation, provision of new classrooms and dining room facilities.

It is proposed that this contribution be approved, and the Capital Programme amended accordingly.

Finance, ICT and Procurement

2.11.12 Integrated Services Digital Network (ISDN)

The existing ISDN data network which provides a service to Council offices has become obsolete and needs to be replaced with a new system based on Broadband

technology. The expected cost of replacement is £164,000 which will be funded from ICT Strategy reserves and revenue budgets over the next two years.

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

2.11.13 Benefits & Customer Access to Services (CATS) Telephony

The installation of a new telephony system would provide specific Call Centre technology, initially for use within Revenue Services, the Benefits Division and CATS. In the future there would be opportunities to roll out this facility to other Council Services. The expected cost of the system is around £260,000, of which £100,000 has been secured from Government grant funding; the balance of £160,000 will be found from Benefits Division and CATS resources.

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

2.11.14 ICT Strategy

The overall ICT Strategy Capital budget for the current year amounts to £749,000. Within this total, the following specific projects have been agreed by the e-dudley Steering Group:

- expenditure of £30,000 on members' broadband set-up costs and £50,000 enhanced spending on membernet;
- an additional £120,000 to be spent on network enhancements including ISDN replacements and town centre core network extensions (this being expected to generate future revenue savings);
- improving the Council's anti-virus software at a cost of £25,000 per annum for the next 3 years;
- e-mail archiving at a cost of approximately £70,000 (from within the existing office system implementation plan element of the overall budget).

It is proposed that these amendments be noted.

Housing

2.11.15 Lye Homelessness Centre

In the recent Audit Commission Inspection reports on the Housing Service, one area that prevented the granting of a two star rating to the Directorate was the condition of the facilities at the Lye Homelessness Centre. A subsequent review concluded that the best way of meeting the concerns of the Audit Commission is to undertake a package of improvements at the Centre, in particular ensuring that a range of private facilities are provided, and a package of remedial work is carried out.

The estimated cost of this work including fees is £160,000 which could be funded as follows: £85,000 from reserves earmarked specifically to respond to homelessness issues identified in Audit Commission inspections; £75,000 from the resources set aside within the Capital Programme for emerging priorities.

The running costs of the upgraded Centre will be wholly funded from rental income and Supporting People grant.

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

2.12 Urgent Amendments to the Capital Programme

2.12.1 Air Quality Management – Purchase of Particulate Monitor

Dudley Council has a duty under the provisions of the Environment Act 1995 to monitor air quality in the Dudley Borough and to declare Air Quality Management Areas (AQMA) where air quality does not achieve objectives specified in government guidance.

Currently the Council has declared an AQMA and has had an Air Quality Action Plan approved by the Department for the Environment, Food & Rural Affairs (DEFRA) for Brierley Hill. It is proposed to declare an AQMA for the centre of Sedgley early in 2005, and further areas may be declared over the next 12-18 months.

Each year in February DEFRA invites bids from Councils to support capital expenditure during the following financial year in relation to their statutory duties in relation to air quality management - including the purchase of air quality monitoring equipment. Preference is given to those Councils that have designated or will be designating AQMAs and undertaking further assessments and implementing air quality action plans.

Whilst available resources are normally allocated early in the bidding round, DEFRA has recently informed the Council that there are resources still available in 2004/05. It was therefore proposed to submit an application to DEFRA for £25,000 to purchase a PM10 particulate monitor. The cost of maintenance of the equipment can be met from existing budgets. A condition of the funding would be that it must be fully spent by 31st March 2005.

In order to comply with the necessary timescales an urgent decision (ref. DUE/11/2005) was made by the Leader of the Council in consultation with the Director of Finance on 24th January:

- to approve the submission of an application to DEFRA for supported borrowing of £25,000 to purchase a particulate monitor to support the air quality monitoring programme in Dudley;
- to authorise the Director of the Urban Environment to accept any approval for supported borrowing and to include the approval in the Capital Programme.

2.12.2 Reinforcement of Himley Road Embankment

Following subsidence of a section of footpath that runs along the northern side of Himley Road, investigations revealed that the earth embankment at this location had failed and required reinforcement at an estimated cost of £100,000. For this work to be undertaken there was a need to close this section of the Himley Road.

Given that Staffordshire County Council were due to close the Himley Road on the 8th November for a period of three weeks and reduce to single way traffic thereafter for a

further 10 weeks to enable replacement of a bridge, it was considered prudent to undertake the footpath reinforcement work at the same time.

It was proposed that the work be undertaken by Wrekin Construction - the Council's partnership contractor for Principal Road maintenance work, Wrekin also being the contractor undertaking work on the bridge for Staffordshire.

The road at this location is also crossed by a brick culvert that is thought to be in poor condition and, as the reinforcement work will necessitate construction of a headwall to the culvert, opportunity could be taken to investigate the culvert and if necessary replace any defective sections. The estimated cost of replacing the culvert was £50,000.

The work can be funded from existing resources within the Transport Capital Programme, being accommodated by slippage of expenditure on other schemes.

In order to comply with the necessary timescales, an urgent decision (ref. DUE/74/2004) was made by the Leader of the Council in consultation with the Senior Assistant Director of Finance on 27th October that the scheme to reinforce the embankment supporting Himley Road and associated work be approved and included in the Capital Programme, and that the work be undertaken by Wrekin Construction.

2.12.3 Dudley Town Centre – Priory Street Acquisitions

Advantage West Midlands are currently funding the cost of producing the Area Development Framework for Dudley Town Centre. This Framework presents a vision for the town centre which focuses on serving the needs of local people and seeks to ensure it remains a centre for civic life, shopping, working and education. It also anticipates that the area will change to become a place with a much richer mix of shops, cafes, restaurants, small businesses and creative enterprises.

The draft Area Development Framework has been the subject of wide consultation and is currently being finalised with a view to it becoming Supplementary Planning Guidance in 2005.

The Area Development Framework identifies nine Opportunity Areas. Some of these areas are already the subject of development pressure or are deemed to be a priority for action. One of these Opportunity Areas is Priory Street which is a valuable asset within the Civic Quarter conservation area of the town centre.

An opportunity arose for the Council to submit an application through the Arc of Opportunity Regeneration Zone to Advantage West Midlands for resources for land acquisitions.

Priory Street has been identified as the highest priority for land and property assembly in Dudley Town Centre in the current financial year. It is regarded as the key to “kick start” the regeneration of the town centre and is seen as the second phase of the Stone Street Square development. This proposal would enable the Council, which currently owns around a third of the site, to assemble enough of the Opportunity Area in order to make redevelopment attractive and economically viable for potential developers. New uses are likely to include a mix of specialist retailers, bars, cafes and residential conversions on upper floors. This will result in a new evening economy with a much richer mix of shops, restaurants and small businesses which will benefit the

town as a whole and generate increased demand for development of the other Opportunity Areas.

The funding for the project will be met from Advantage West Midlands. A small amount of Council match funding will be included in the outline bid. This comprises primarily contributions in kind through officers' time spent on the project.

In order to comply with the necessary timescales an urgent decision (ref. DUE/88/2004) was made by the Leader of the Council in consultation with the Director of Finance on 29th November:

- to approve the submission of a bid to Advantage West Midlands for funding to acquire premises in the Priory Street Opportunity Area of Dudley Town Centre;
- to authorise the Director of the Urban Environment to accept any grant funding arising, and include the scheme in the Capital Programme;
- to authorise the Director of Law and Property to enter into negotiations to acquire one or more premises on terms to be negotiated and agreed by him up to the limit of the funding approved.

2.13 The CIPFA Prudential Code for Capital Finance in Local Authorities

2.13.1 As outlined above, the Local Government Act 2003 introduced a new system of "prudential borrowing" from 1st April 2004 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.

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

3. Proposals

That the Council be recommended:

- 3.1 To earmark each SCE to the relevant service, but with a particular emphasis on demonstrating appropriate prioritisation *within* service programmes, and *within* spend headings, as set out in paragraph 2.3.2.
- 3.2 To earmark Housing capital receipts to be spent on Housing capital schemes as set out in paragraph 2.3.3.
- 3.3 To approve the Private Sector Housing Investment Programme for 2004/05 as set out in paragraph 2.5.2.
- 3.4 That the Education capital resources and related schemes be included in the Capital Programme as appropriate, as set out in paragraph 2.6.5.
- 3.5 That subject to the relevant element of the Revenue Budget Strategy being approved, the expenditure on Street Lighting Columns be included in the Capital Programme, as set out in paragraph 2.9.3
- 3.6 That the Capital Programme be amended to reflect the increased costs of the Seven Sisters Mine Infilling, as set out in paragraph 2.11.1.

- 3.7 That the scheme to remove the remaining GRC Cladding at the Ryemarket Car Park and its inclusion in the Capital Programme, as set out in paragraph 2.11.2 be approved.
- 3.8 That the scheme to reconstruct the Tipton Road Bridge be approved and included in the Capital Programme and that an agreement with Network Rail for the reconstruction work be entered into, as set out in paragraph 2.11.3.
- 3.9 That the expenditure on Incinerator Equipment be included in the Capital Programme, as set out in paragraph 2.11.4.
- 3.10 That the scheme to reconstruct the retaining wall at Summer Lane, and its inclusion in the Capital Programme, as set out in paragraph 2.11.5 be approved.
- 3.11 That the Lighting and Heating system at Lister Road Garage be replaced, and that the expenditure be included in the Capital Programme, as set out in paragraph 2.11.6.
- 3.12 That the project for improvements to the Health and Fitness facilities at Halesowen Leisure Centre and the inclusion of the capital works element in the Capital Programme as set out in paragraph 2.11.7 be approved.
- 3.13 That the scheme to improve security at Priory Hall be included in the Capital Programme at a cost of £210,000, being funded £50,000 from Risk Management resources, and £160,000 from resources generated by the disposal of surplus assets, as set out in paragraph 2.11.8.
- 3.14 That subject to the bid for grant funding for the All Weather Football Pitch and Changing Rooms at Redhill School, being successful, the scheme and its inclusion in the Capital Programme be approved, as set out in paragraph 2.11.9.
- 3.15 That subject to the bid for grant funding for the All Weather Football Pitch at The Coseley School, being successful and resources being available to meet the total cost, the scheme and its inclusion in the Capital Programme be approved, as set out in paragraph 2.11.10.
- 3.16 That the contribution from reserves to enhance the Basic Need Project at Dudley Wood Primary School, as set out in paragraph 2.11.11 be approved.
- 3.17 The ISDN project and its inclusion in the Capital Programme be approved, as set out in paragraph 2.11.12.
- 3.18 That the Benefits and CATS Telephony project and its inclusion in the Capital Programme be approved, as set out in paragraph 2.11.13.
- 3.19 That the amendments to the ICT Strategy, as set out in paragraph 2.11.14 be noted.
- 3.20 That the project to improve the Lye Homelessness Centre and its inclusion in the Capital Programme, as set out in paragraph 2.11.15 be approved.
- 3.21 That the Urgent Amendment to the Capital Programme, and the reasons therefor, as set out in paragraph 2.12 be noted.

3.22 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 be approved, as set out in paragraph 2.13 and Appendix A.

4. Finance

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

5. Law

5.1 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.

6. Equal Opportunities

6.1 These proposals comply with the Council's policy on Equal Opportunities.

7.0 Recommendation

7.1. That the proposals set out in Section 3 be approved.

8.0 Background Papers

8.1 Various internal e-mails relating to individual schemes and proposals.
Relevant resource allocation notifications.
CIPFA Prudential Code for Capital Finance in Local Authorities.
Treasury Management Strategy 2005/06.

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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 (6-10) are primarily concerned with day-to-day borrowing and treasury management activity. These also form part of the council's Treasury Management Strategy for 2005/06 being considered by the Audit Committee on 10th February.

The proposed figures for each indicator have been developed in the light of the Council's overall resource position and medium term financial strategy and have regard to the following matters as required by the Code:

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

Affordability and prudence are specifically addressed by the indicators set out below. The other matters listed form a fundamental part of the Council's budget setting, management and monitoring procedures - as summarised in the Financial Management Regime (FMR) which forms part of the Constitution - and with particular relevance to capital expenditure, set out in more detail in the Council's Capital Strategy and Asset Management Plan.

Appropriate procedures have been established for proper management, monitoring and reporting in respect of all the indicators, and the risks associated therewith.

Indicators set for 2004/05, 2005/06 and 2006/07 this time last year have been reviewed and where necessary are proposed to be updated to reflect latest forecasts.

1. Estimated and Actual Capital Expenditure

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

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

	2003/04 £m Actual	2004/05 £m Revised Estimate	2005/06 £m Revised Estimate	2006/07 £m Revised Estimate	2007/08 £m Estimate
Non - HRA	39.0	56.2	62.3	36.7	30.7
HRA	25.4	24.1	23.2	21.9	24.7
Total	64.4	80.3	85.5	58.6	55.4

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.

	2003/04 £m Actual	2004/05 £m Revised Estimate	2005/06 £m Revised Estimate	2006/07 £m Revised Estimate	2007/08 £m Estimate
Non - HRA	187.2	198.0	207.8	219.8	229.0
HRA	42.0	45.2	48.4	50.9	53.3
Total	229.2	243.2	256.2	270.7	282.3

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 2004/5 to 2007/8.

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 unsupported “prudential borrowing” to fund capital investment are set out in section 2.9 of the report. In particular, the use of such borrowing to fund expenditure on structural improvements to roads and buildings (otherwise funded directly from revenue) will free-up revenue resources to fund priorities and increased legislative demands - including investment in the replacement of Street Lighting Columns.

The overall estimated incremental impact of the capital investment decisions set out earlier in this report on Council Tax is therefore effectively zero. The forecast debt charges resulting from anticipated borrowing are fully reflected in the figures set out in the budget strategy report elsewhere on this agenda.

The estimated incremental impact of Housing capital investment proposals (set out in the relevant report elsewhere on this agenda) on Housing Rents is also zero. This is based on the fact that rents are determined by government rent restructuring guidance and assumes that the Council will continue to comply with this guidance. Borrowing forecasts have been set at levels which will not necessitate a rent increase above guidelines. The Housing Capital Programme being proposed includes in particular “prudential borrowing” to finance necessary investment in Garages across the Borough at a cost of £1.272m. This borrowing will be repaid from the extra income generated by above-inflation Garage rent increases.

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.

	2003/04	2004/05	2005/06	2006/07	2007/08
	%	%	%	%	%
	Actual	Revised Estimate	Revised Estimate	Revised Estimate	Estimate
Non - HRA	4.5	4.6	4.9	5.1	5.3
HRA	4.7	4.2	4.4	4.6	4.6

The HRA ratio falls in 2004/5 as a result of a change in HRA accounting rules in that the HRA is no longer required to make provision for the repayment of housing debt. Both indicators are then expected to rise as borrowing (with consequent financing costs) increases faster than overall revenue.

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

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

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

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

It is not considered necessary to amend the Authorised Limit and Operational Boundary for 2004/05 set this time last year.

	2003/04	2004/05	2005/06 Revised	2006/07 Revised	2007/08
	£m	£m	£m	£m	£m
Authorised limit for external debt:					
Borrowing	n/a	515	529	535	538
Other long term liabilities	n/a	3	5	7	8
Total	n/a	518	534	542	546
Operational boundary:					
Borrowing	n/a	459	480	487	497
other long term liabilities	n/a	3	5	7	8
Total	n/a	462	485	494	505
Actual External Debt:					
Borrowing	427.3	n/a	n/a	n/a	n/a
Other long term liabilities	0	n/a	n/a	n/a	n/a
Total	427.3	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 new system in so far as it relates to treasury management activity. The Council adopted the CIPFA *Code of Practice for Treasury Management in the Public Services* in March 2002.

8. Upper Limits on Fixed Interest Rate and Variable Interest Rate Exposures

These indicators relate to the percentage of net borrowing (gross borrowing less investments) held at fixed or variable interest rates, and allow the Council to manage the extent to which it is exposed to changes in interest rates. The proposed upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt. The proposed upper limit for variable rate exposure allows for the use of variable rate debt to offset our exposure to changes in short-term rates on our portfolio of investments. This limit reduces over time as our strategy is to gradually reduce our level of investments.

It is not considered necessary to amend the limits for 2004/05 set this time last year.

	2004/05	2005/06	2006/07	2007/08
	%	%	%	%
	Revised		Revised	
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	30	20	15	15

9. Upper and Lower Limits for the Maturity Structure of Borrowing

The indicator for the maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years. On the basis of prudent treasury management, the following limits are proposed:

Maturity structure of fixed rate borrowing	Upper limit	Lower limit
	%	%
under 12 months	10	0
12 months and within 24 months	10	0
24 months and within 5 years	15	0
5 years and within 10 years	25	0
10 years and above	100	40

10. Limits for Principal Sums Invested for Periods Longer than 364 Days

The purpose of the prudential limits for principal sums invested for periods longer than 364 days is to contain the Council's exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. On the basis of prudent treasury management the proposed upper limit on principal maturing in any one year for sums invested for over 364 days is (as last year) £15m.