Dudley Metropolitan Borough Council

Agenda Item No. 8

Meeting of the Cabinet - 10th February 2010

Joint Report of the Chief Executive and Interim Director of Finance

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 2010/11.

Background

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

Service	**2009/10**	**2010/11**	**2011/12**
	£'000	**£'000**	**£'000**
Public Sector Housing	33,803	26,324	23,234
Other Adult, Community & Housing	7,529	9,241	2,915
Urban Environment	24,256	22,577	8,356
Children's Services	37,572	32,133	4,950
Finance, ICT & Procurement	488	1,307	103
Law, Property and Human Resources	1,265	1,588	924
Chief Executive's	977	168	191
TOTAL	**105,890**	**93,338**	**40,673**

Note that the overall capital programme is likely to increase as extra funding becomes available, particularly for 2011/12 when Government grant and supported borrowing allocations are announced.

6. In accordance with the requirements of the Council's Financial Regulations, details of progress with the 2009/10 Programme are given in Appendix A. It is proposed that the current position be noted.

Prudential Borrowing

7. The Revenue Budget report elsewhere on this agenda contains a specific new growth proposal which involves utilising the flexibilities now available under the "prudential borrowing" regime to fund the following capital project:

    Urban Environment
    Investment totalling £3.1m during 2011/12 and 2012/13 to continue the replacement of the Council's ageing Street Lighting infrastructure.

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

Other Capital Programme Amendments

Adult, Community and Housing

Disabled Facilities Grants

9. To address pressures on waiting lists for Disabled Facilities Grants (DFGs), it is proposed that a further allocation of £500,000 be made in the current year from other Housing capital resources, and that the Capital Programme be amended accordingly.

Kickstart

10. The Kickstart programme provides assistance to improve housing conditions in the private sector through equity loans via our partner Home Improvement Agency Black Country Housing Group (BCHG). A grant allocation has been received for 2010/11 of £241,000 for Innovation Funding to be used in support of the Kickstart programme.

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

Urban Environment

Bereavement Services - Memorials

11. To ensure Bereavement Services are able to continue to offer bereaved families the range of memorials currently provided, one new columbarium wall at Gornal Wood and two new memorial planters at Stourbridge are required in order to meet demand for the next three years. The total cost of £24,000 can be funded by revenue generated by the sale of niches and plaques.

    It is proposed that the installation of these items be approved and included in the Capital Programme.

King George V Park, Wordsley - Mess and Office Facilities

12. Portacabins and shipping containers have been used at the above site for several years to provide storage, office and mess facilities for the ground maintenance teams that service Wall Heath, Kingswinford, and Brierley Hill areas.

In order to rationalise the depot and address planning and other issues, it is proposed to erect a modular office / mess room building adjoining the existing garage building, and that this project be included in the Capital Programme.

The estimated cost of £120,000 can be funded by annual contributions from the existing Green Care revenue budget.

Finance, ICT and Procurement

Risk Management Contributions to Capital Projects

13. Limited resources are held within overall risk management budgets to contribute to minor capital works such as CCTV, either as stand alone projects or as enhancements to existing capital schemes. It is proposed that the related expenditure be included in the Capital Programme as appropriate.

Urgent Amendments to the Capital Programme

Tesco Air Quality Monitoring

14. Environmental Protection officers identified a potential air quality issue associated with the planned expansion of the Tesco store located at Burnt Tree Island in Dudley at the planning application stage. A project has been designed to allow officers to monitor emissions to air during the demolition and redevelopment phase and to detect if the predicted increase in road traffic servicing the new store has an adverse effect on air quality in the vicinity of the redevelopment site. The project will have a positive impact on the Environment and will provide data and intelligence for future air quality work.

The initial capital costs are for the purchase of air quality monitoring equipment amounting to £21,700. Ongoing costs for the projected 3 year duration of the project are £45,300 giving a total cost of the project to be £67,000 which can be fully funded from Section 106 agreement monies related to the development.

The air quality monitoring needs to commence as soon as possible in order to precede the start of the works on the Tesco, site. A decision (ref. DUE/68/2009) was therefore made by the Leader of the Council in consultation with the Interim Director of Finance on 18th December 2009 that the project be included in the Capital Programme.

Play Pathfinder and Liveability Projects

15. In order to comply with funding deadlines and address safety and other urgent issues, a decision (ref. DUE/69/2009) was made by the Leader of the Council in consultation with the Interim Director of Finance on 29th December 2009 that the following items be included in the Capital Programme:

- £53,000 to enhance the play area improvements at Kinver Street (Wordsley), Heathbrook Farm and Albion Street (Wall Heath) and Spring Meadow Open Space (Dudley Wood) being carried out as part of the Play Pathfinder project;

- £40,000 to support the delivery of a Multi Use Games Area in the vicinity of Highfields Park (Halesowen) as part of the Liveability programme;
- £24,000 towards the resurfacing and lighting of the car park and access road which serves the public open space and associated facilities at Wall Heath Community Centre,

all of which can be funded from available Section 106 resources.

Audnam Brook Access Culvert, Amblecote

16. Audnam Brook is an ordinary watercourse under the control of the Council that drains the Audnam and Hawbush Areas to the River Stour and passes under an access way constructed to provide emergency access to Richardson Drive. Following the heavy rainfall in November 2008, properties in Rushall Close were flooded arising from a restriction to flow caused by debris and dumped rubbish reducing the waterway area of the existing pipeline. In order to reduce the likelihood that the culvert causes any restrictions in the future it has now been agreed with the Environment Agency that the pipeline should be replaced with a larger box section culvert. Against the background of long lead in times associated with manufacturing the culverts, a decision (ref. DUE/03/2010) was made by the Leader of the Council in consultation with the Director of the Urban Environment and Interim Director of Finance on 5th January 2010 that the scheme be approved and included in the Capital Programme. The estimated cost of £30,000 can be funded from existing Land Drainage revenue budgets.

Second Data Centre and co-location of ICT Services

17. The need to identify a suitable location for the ICT Services Division has been recognised for some time. The requirement to vacate the Tower Street Data Centre as set out in Decision Sheet DOF/18/2008 made this an urgent requirement which was felt to have been addressed in principle through approval of Decision Sheet DOF/29/2009. However the overall cost and viability of the solution identified at that stage has been prohibitive in taking it forward and a better more cost effective solution has now emerged.

This involves the co-location of ICT Services staff and development of a second ICT Data Centre in the basement of the existing Council building at 3-5 St James's Road and the relocation of ICT staff temporarily sited in Dudley Council Plus and in basement offices of the Council House to the ground floor of 4 Ednam Rd or 3-5 St James's Rd. The estimated capital cost of adapting the premises is £608,000, compared with the approved budget for the previous solution of £940,000.

To meet the deadlines necessary to avoid incurring significant telecommunications costs, a decision (ref. DOF/04/2010) was made by the Leader of the Council in consultation with the Chief Executive and Interim Director of Finance on 25th January 2010 to approve this project and amend the Capital Programme accordingly.

Post Completion Review of Capital Projects

18. The Post Completion Review required by Contract standing orders has now been undertaken for the following scheme, with a copy of the proforma summarising the review attached at Appendix B.

Chief Executive's
Refurbishment of Premises for Young Persons' Substance Misuse Service

It is proposed that this be noted.

The 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 C.

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. This requirement replaces the detailed regulations which were in force prior to 2007/08.

22. In line with the current policy, it is proposed that the Council agrees the following MRP Policy for 2010/11, and updates the Policy for 2009/10 as follows:

- 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. *(This means that such borrowing 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.)*

and also:

- in respect of "PFI" schemes and other Finance Leases etc. coming onto the Balance Sheet as a result of the adoption of new accounting arrangements, that MRP be calculated on a basis equivalent to the principal element of the unitary/lease payments, plus any necessary "catch up" in the first year. (*This means that the overall impact on revenue accounts should be the same as if the previous "off Balance Sheet" treatment had continued.)*

<u>Finance</u>

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 current progress with the 2009/10 Capital Programme, as set out in Appendix A be noted.

28. That the results of the Post Completion Review of capital projects, as set out in Appendix B be noted.

29. That the Council be recommended:

- That subject to the relevant element of the Revenue Budget Strategy being agreed, the capital expenditure to be funded from prudential borrowing be included in the Capital Programme, as set out in paragraphs 7-8.

- That a further allocation of £500,000 be made for Disabled Facilities Grants, and that the Capital Programme be amended accordingly, as set out in paragraph 9.

- That the expenditure of £241,000 for Innovation Funding in support of the Kickstart programme be approved and included in the Capital Programme, as set out in paragraph 10.

- That the installation of one new columbarium wall at Gornal Wood and two new memorial planters at Stourbridge Crematoria be approved and included in the Capital Programme, as set out in paragraph 11.

- That the erection of a modular office / mess room building at King George V Park, Wordsley be approved and included in the Capital Programme, as set out in paragraph 12.

- That expenditure funded by Risk Management contributions to capital works be included in the Capital Programme, as set out in paragraph13.

- That the Urgent Amendments to the Capital Programme, as set out in paragraphs 14-17 be noted.

- That the Prudential Indicators as required to be determined by the CIPFA Prudential Code for Capital Finance in Local Authorities and the Local Government Act 2003, as set out in Appendix C, be agreed.

- That the Minimum Revenue Provision (MRP) Policy for 2010/11, and updated Policy for 2009/10, be as set out in paragraph 22.

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List of Background Papers
Relevant resource allocation notifications.
CIPFA Prudential Code for Capital Finance in Local Authorities.

Appendix A

2009/10 Capital Programme Progress to Date

Service	Budget £'000	Spend to 31st December £'000	Forecast £'000	Variance £'000	Reasons for Variance
Public Sector Housing	33,803	19,363	33,803		
Other Adult, Community & Housing	7,529	4,864	7,524	-5	Minor savings
Urban Environment	24,256	14,680	24,267	+11	See note
Children's Services	37,572	18,666	37,572		
Finance, ICT & Procurement	488	337	488		
Law, Property and Human Resources	1,265	617	1,265		
Chief Executive's	977	438	977		
TOTAL	**105,890**	**58,965**	**105,896**	**+6**	

Note: Includes extra necessary costs of Gornal Crematorium Memorial Wall of £12,000 (to be funded from revenue budgets) plus other minor net variances.

Appendix B

Post Completion Review of Capital Schemes

Title of Scheme: Refurbishment of premises for provision of Young Persons Substance Misuse Service
Date of Cabinet approval: 13/08/2009 (Decision Sheet CE/6/2009) (i.e. inclusion in Capital Programme)
Original Budget (as first reported to Cabinet):… £150,000 **Planned Completion date: 03/2010**
Outturn Cost (please indicate if still provisional)£ 150,000 **Actual completion date: 10/2009**
Variation from Original Budget: .... £ 0 **Delay: 0 months**
Reason for Cost Variation and / or Delay in Completion (please indicate if any variation has previously been reported to Cabinet): n/a
Original Objectives of Scheme: 1) Refurbish recently identified premises for Young Persons Service to be delivered from, to a high standard that actively encourages Young People, parents and carers to access services. 2) Give capacity within the Young Persons Service to accommodate partner agencies with the aim of achieving better outcomes for young people, parents and carers 3) To purchase additional IT equipment that will upgrade and improve the current IT configuration that supports the operation of an integrated system between Young Persons Service and Adult Service. Also to complement information available from NDTMS in respect of monitoring outcomes for clients.
Have these Objectives been met? (If "No" please provide explanation): Yes these objectives have been met

Signed by: John Polychronakis ....(Director) Date: 18/11/09

Appendix C

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 Strategy Statement for 2009/10 being considered by the Audit Committee on 11th 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:

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 2009/10, 2010/11 and 2011/12 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 new accounting arrangements which will bring "PFI" and similar schemes onto the Balance Sheet from 2009/10, and other Finance Leases from 2010/11. The indicators below do not reflect these changes, and should be read as if the 2008/09 accounting arrangements still applied. They will therefore need to be amended as necessary in due course one 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.

	2008/09 £m Actual	2009/10 £m Revised Estimate	2010/11 £m Revised Estimate	2011/12 £m Revised Estimate	2012/13 £m Estimate
Non - HRA	96.6	78.0	67.4	19.3	8.6
HRA	26.0	33.9	30.1	33.7	24.9
Total	**122.6**	**111.9**	**97.5**	**53.0**	**33.5**

Note that the above figures include capitalisation of Equal Pay Back Pay costs in addition to conventional capital programme expenditure.

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.

	2008/09 £m Actual	2009/10 £m Revised Estimate	2010/11 £m Revised Estimate	2011/12 £m Revised Estimate	2012/13 £m Estimate
Non - HRA	312.3	318.9	326.5	323.7	315.9
HRA	71.8	83.0	102.1	118.3	127.4
Total	**384.1**	**401.9**	**428.6**	**442.0**	**443.3**

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 2009/10 to 2012/13.

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 7 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.

	20010/11 £	**2011/12 £**	**2012/13 £**
Increase in Annual Band D Council Tax	-	1.94	3.17
Increase in Weekly Housing Rent	0.13	0.44	0.84

Note that to the extent that General Fund revenue budgets are limited by (the threat of) capping 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.

	2008/09 % Actual	**2009/10 % Revised Estimate**	**2010/11 % Revised Estimate**	**2011/12 % Revised Estimate**	**2012/13 % Estimate**
Non - HRA	6.7	8.1	9.0	10.0	9.9
HRA	5.3	6.2	7.2	7.9	8.2

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 2009/10 set this time last year.

	2008/09	**2009/10**	**2010/11 Revised**	**2011/12 Revised**	**2012/13**
	£m	**£m**	**£m**	**£m**	**£m**
Authorised limit for external debt:					
Borrowing	n/a	651	663	679	674
Other long term liabilities	n/a	4	6	7	8
Total	**n/a**	**655**	**669**	**686**	**682**
Operational boundary:					
Borrowing	n/a	589	621	621	621
other long term liabilities	n/a	4	6	7	8
Total	**n/a**	**593**	**627**	**628**	**629**
Actual External Debt:					
Borrowing	444.4	n/a	n/a	n/a	n/a
Other long term liabilities	1.5	n/a	n/a	n/a	n/a
Total	**445.9**	**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 2009/10 – 2011/12 set this time last year.

	2009/10 %	**2010/11 %**	**2011/12 %**	**2012/13 %**
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	15	10	10	10

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, as last year:

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 £10m (£15m last year).