

Meeting of the Council – 24th February, 2014

Report of the Cabinet

Capital Programme Monitoring

Purpose of Report

1. To report progress with the implementation of the Capital Programme.
2. To propose amendments to the Capital Programme.
3. To propose the “Prudential Indicators” as required to be determined by the CIPFA Prudential Code for Capital Finance in Local Authorities and the Local Government Act 2003.
4. To propose the Council’s Minimum Revenue Provision (MRP) Policy for 2014/15.

Background

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

	2013/14	2014/15	2015/16
	£’000	£’000	£’000
Public Sector Housing	39,985	32,979	31,399
Other Adult, Community and Housing	8,989	2,647	550
Urban Environment	28,180	23,894	10,302
Children’s Services	10,255	20,194	80
Corporate Resources	2,378	2,196	1,428
Total spend	89,787	81,910	43,759
Revenue	17658	11600	7938
Major Repairs Reserve (Housing)	22118	22273	22625
Capital receipts	6675	15301	8318
Grants and contributions (inc. Lottery)	19212	16872	1963
Capital Financing Requirement*	24124	15864	2915
Total funding	89,787	81,910	43,759

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

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

6. In accordance with the requirements of the Council's Financial Regulations, details of progress with the 2013/14 Programme are given in Appendix A. It is proposed that the current position be noted, and that budgets be amended to reflect the reported variances. An update on progress with the Council's most significant capital schemes is shown in Appendix B.

Adult, Community and Housing

Disabled Facilities Grants 2014/15 Allocation

7. The Council has been notified of its Disabled Facilities Grant funding allocation for 2014/15 of £2.033m which will, along with the availability of other Housing capital resources, provide a total budget of £2.517m. This will fund around 185 grants depending on the nature and cost of the works involved, allowing waiting times to be reduced. It is proposed that the allocation be noted and the associated expenditure included in the Capital Programme.

Tiled House Lane Residential Care Home

8. In September 2013, Cabinet approved a budget of £600,000 for the refurbishment of the Care Home, of which £500,000 was to be funded from resources received by the Council from the Primary Care Trust prior to its winding up. It is now proposed that these costs be funded instead from unallocated Adult Social Care capital grant funding which is already included in the Capital Programme, and that the Capital Programme be amended accordingly.

Adult Personal Social Services Community Capacity Grant

9. In February 2013, Cabinet noted the Council's allocations of Adult Personal Social Services capital funding for 2013/14 and 2014/15, intended to support development in the three key areas of personalisation, reform and efficiency, and agreed that the associated spend on relevant Adult Personal Social Services projects be included in the Capital Programme.

Libraries play an important role in the provision of information and advice which is central to our delivery of the personalisation agenda. It is therefore proposed that it be noted that the programme to be funded from these resources this year includes £17,000 of expenditure on fire safety compliance work at Halesowen Library, and also that the Director of Adult, Community and Housing Services be authorised to allocate such funding for similar purposes, as appropriate within the overall objectives of the grant allocations.

Urban Environment

MoT Testing Facility

10. In June 2012, Cabinet approved a project to upgrade and equip premises at Enterprise Trading Estate, Brierley Hill to provide an MOT Testing Service to be offered in conjunction with the routine taxi inspection, effectively creating a Taxi "One Stop Shop" in an attempt to minimise the amount of time taxis are off the road.

Alternative premises have now been identified at Hurst Business Park, Narrowboat Way as the facility is more suitable for office accommodation, staff, training and the fitment of Vehicle and Operator Services Agency (VOSA) approved equipment. This facility requires less adaptation to bring it into use. The specialist equipment required can be installed and ready for use on 1st May 2014.

It is proposed that the revised project be approved.

Pay and Display Machine Renewal

11. The condition of the existing Pay and Display machines is deteriorating, and parts are becoming obsolete. Many of the existing machines were installed when Pay and Display was implemented in 1993 and have performed well beyond their anticipated life expectancy. The intention is to replace all 52 machines including the pedestals and software at a cost of approximately £300,000 funded from revenue repairs and maintenance budget contributions over 5 years.

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

12. Better Bus Area Fund

In 2012 the Council along with project partners, Westfield Shopping Towns and local bus operators, supported the successful submission of a bid by Centro to the Better Bus Area Fund (BBAF). The bid to improve accessibility to public transport for the Brierley Hill Area secured £5,000,000 of Government grant and was match funded by the project partners.

Originally it had been anticipated that the highway elements of the project would be delivered by Westfield Shopping Towns. However, following their withdrawal from the project and in order to meet timescales for the BBAF grant it is now proposed that the Council lead delivery of the remaining highway elements. This involves construction of a new signal controlled pedestrian crossing on the A4036 Pedmore Road, subject to planning permission, and additional road space and signal controls to facilitate bus priority measures at the junction of the Boulevard with Mill Street, Brierley Hill.

The estimated cost of the works is £1,200,000 which can be funded by £1,100,000 of Government grant supported by £100,000 from the Council's Integrated Transport Block allocations for 2014/15.

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

Children's Services

Schools Capital Allocations – Basic Need 2015/16 and 2016/17

13. The Council has been notified of its Basic Need allocations for 2015/16 and 2016/17 of £90,000 and £94,000 respectively – to support the provision of new pupil places where required. The funding will be allocated to specific projects in due course.

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

Schools Capital Allocations – Maintenance 2014/15

14. The Council has been notified of its Capital Maintenance allocation for 2015/16 of £3,721,000. This will be allocated on the basis of priorities determined through asset management data including health and safety issues, building condition surveys and access needs.

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

Schools Capital Allocations – Devolved Capital 2014/15

15. The Council has been notified of its Devolved Capital allocation for 2015/16 of £784,000. This will be allocated to schools based on a Department for Education formula. Schools will be expected to determine capital projects in accordance with priorities set out in their schools' asset management plans and in conjunction with the Buildings and Estates Team.

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

Universal Infant Free School Meals Capital allocation

16. The Council has been allocated £855,000 towards the capital requirements resulting from the entitlement of a free school meal for every pupil at key stage 1 from September 2014. The funding will be allocated to specific projects in due course.

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

The CIPFA Prudential Code for Capital Finance in Local Authorities

17. 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.
18. 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

19. Before the start of each financial year each authority must agree its policy on making Minimum Revenue Provision (MRP) for repayment of non-Housing Revenue Account (HRA) borrowing incurred to fund Capital expenditure, in respect of that financial year. (There is no requirement to make MRP in respect of HRA borrowing.)
20. In line with the current policy, it is proposed that the Council agrees the following MRP Policy for 2014/15 as follows. This is unchanged from the 2013/14 Policy.

- For unsupported borrowing to fund capital expenditure incurred from 1st April 2008 onwards, MRP be calculated on the basis of equal instalments or annuity as appropriate over the initial estimated life of the assets - the “Asset Life” method. And in respect of “PFI” schemes and other Finance Leases etc., MRP be calculated on a basis equivalent to the principal element of the unitary/lease payments. This would also apply to such expenditure incurred before 1st April 2008 but only subsequently included on the Balance Sheet as a result of changes to accounting arrangements. *(This means that such borrowing and other credit arrangements will be repaid over the life of the assets for which it was incurred, matching the costs with the benefits received.)*
- For all supported borrowing, and unsupported borrowing to fund capital expenditure incurred before 1st April 2008, MRP be calculated on the basis of the previous regulations - the “Regulatory Method”. *(This means that supported borrowing will mainly be repaid to match the support received from the Government, and that unsupported borrowing will be repaid as was anticipated when it was incurred, avoiding any change to the net impact on annual revenue budgets.)*

21. On consideration of the above, the Cabinet, at its meeting held on 12th February, 2014, resolved to recommend the Council to approve the proposals set out in paragraph 26 below.

Finance

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

Law

23. 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

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

25. 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

26. That the Council be recommended:

- That current progress with the 2013/14 Capital Programme, as set out in Appendix A be noted, and that budgets be amended to reflect the reported variance.
- That the Disabled Facilities Grant allocation for 2014/15 be noted and the associated expenditure funded from this and other available Housing capital resources be included in the Capital Programme, as set out in paragraph 7.
- That the revised funding for the Tiled House Lane Residential Home project be approved, and the Capital Programme amended accordingly, as set out in paragraph 8.
- That it be noted that the programme to be funded from Adult Personal Social Services Capacity Grant this year includes £17,000 of expenditure on fire safety compliance work at Halesowen Library, and also that the Director of Adult, Community and Housing Services be authorised to allocate such funding for similar purposes, as appropriate, within the overall objectives of the grant allocations, as set out in paragraph 9.
- That the revised project for provision of an MOT Testing Facility be approved, as set out in paragraph 10.
- That the project to renew all Pay and Display machines be approved and included in the Capital Programme, as set out in paragraph 11.
- That the Better Bus Area project be approved and included in the Capital Programme, as set out in paragraph 12.
- That the Schools Basic Need allocations for 2015/16 and 2016/17 be noted and the associated expenditure included in the Capital Programme, as set out in paragraph 13.
- That the Schools Capital Maintenance allocation for 2015/16 be noted and the associated expenditure included in the Capital Programme, as set out in paragraph 14.
- That the Schools Devolved Capital allocation for 2015/16 be noted and the associated expenditure included in the Capital Programme, as set out in paragraph 15.
- That the Universal Infant Free School Meals allocation be noted and the associated expenditure included in the Capital Programme, as set out in paragraph 16.
- 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 approved.
- That the Minimum Revenue Provision (MRP) Policy for 2013/14 be approved as set out in paragraph 20.



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Leader of the Council

2013/14 Capital Programme Progress to Date

Service	Budget £'000	Spend to 31st December £'000	Forecast £'000	Variance £'000	Reasons for Variance
Public Sector Housing	39,985	23,094	38,753	-1,232	See note 1
Other Adult, Community & Housing	8,989	5,176	8,989		
Urban Environment	28,180	17,239	28,180		
Children's Services	10,255	4,462	10,255		
Corporate Resources	2,378	1,682	2,378		
TOTAL	89,787	51,653	88,555	-1,232	

1. Reduction in amount of overall total Minor Works expenditure which is of a capital nature.

Progress with Major Capital Schemes

Adult, Community and Housing

New Council Housing

The Council has been successful in securing match funding from the Homes and Communities Agency (HCA) from the Care and Specialised Support Housing Fund and work has commenced on design and planning for the 14 two bedroom apartments for people with learning disabilities and who are on the autistic spectrum at the former depots at Norfolk Road, Wollaston and The Walk, Sedgley, and 3 two bedroom three person houses also at The Walk. Work is continuing on feasibility studies for other potential new build across the borough although no firm proposals have been developed yet. Spend this year is planned to be only design and planning fees, with construction on site planned to commence later in 2014. Schemes are expected to be delivered within budget.

Dementia Gateways

In September 2012, Cabinet approved a budget of £1.610m to create new dementia gateways. Work has been successfully completed on the dementia gateway at Brettell Lane, Brierley Hill. The second dementia gateway scheme at Brett Young in Halesowen is due to commence on site in February 2014 with completion in August 2014. Based on current estimates, a further £150,000 is required, which can be met from unallocated Mental Health capital grant funding already included in the Capital Programme.

Archive and Local History Centre

The new borough Archive and Local History Centre is now completed. The building is operational and the Archive and Local History Service opened to the public on 14th January 2014. Following completion on site, final costs of the scheme are now being established and we anticipate the work will be on budget.

Tiled House Lane Residential Home Modernisation

Refurbishment works to carry out improvements to Tiled House Lane Residential Home have commenced and are expected to be completed, within budget, in May 2014.

Urban Environment

Street Lighting

Street lighting improvement works are in progress and the Street Lighting Central Management System (CMS) is now fully commissioned and operational. Just over 7,600 of the Council's 32,000 street lights can now be controlled via the CMS system remotely to help save energy; 3,400 of these have been converted to new lanterns. Spend is forecast to be within budget.

Recycling

The grant funded recycling vehicles are now operational and approximately two thirds of the boxes and bags have been deployed to households in line with Phases 1 and 2 of the rollout. Phase 3 rollout is expected to complete the recycling capital expenditure Spend is forecast to be within budget.

Wheeled Bins

Phases 1 and 2 wheeled bin deliveries have now been rolled out with Phase 3 bins expected to be delivered by February 2014. Spend is forecast to be within budget.

Priory Park Improvements

Awaiting some final snagging issues to be resolved by the main contractor, but capital project is virtually complete. Claims for capital funding from Heritage Lottery are almost complete. Revenue spend is progressing well with a large number of new volunteers involved in the improvements. Spend is forecast to be within budget.

Mary Stevens Park

Heritage Lottery Fund has given permission to start project. All conditions have been met. The Project Manager started work in December, and is due to start the process of regular project meetings to monitor progress. The design team will be recruited by March, and the procurement process has begun. Spend is forecast to be within budget.

Castle Hill

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

Phase 2 onwards: This comprises the secondary route, recreational route, car parking and Visitor Hub. Planning permission was granted on 12th March 2013. The design team are currently working on detailed designs on a phased basis. Works commenced onsite for the initial phase of the secondary route on 23rd September 2013. Works is to commence on lower level car parks later in the year with completion due early in the New Year. Further works to commence early 2014, with final completion currently projected for December 2014. Spend is forecast to be within budget.

Dudley Marketplace and Town Centre

The Dudley Marketplace project is currently underway with the first construction phase in Castle Street commencing on 20th January 2014. The Market Place phase will follow in the next financial year. Spend is forecast to be within budget.

Children's Services

DGfL3

Dudley Grid for Learning 3 includes a programme of ICT equipment upgrade and renewal across financial years 2013/14 & 2014/15. Consultation with schools to ascertain their priorities for the 'refresh' programme is underway and options have been presented to schools at events in December. Initial equipment procurement has commenced in response to schools and service needs. The programme and associated expenditure is therefore on schedule to bring improvement to schools ICT as planned.

Corbyn Road - base for joint Children's Safeguarding Unit and frontline social work teams

Tenders have now been returned, and work started on 20th January 2014 with a planned completion date of 27th June 2014. Expected outturn cost is within budget.

Pens Meadow Special School – Additional Places

A costed feasibility study has been produced and the next stage is for more detailed surveys to be undertaken to ascertain more up to date costs for refurbishment. Corporate Estates have been commissioned by the Directorate of Children's Services to negotiate a lease of the building on behalf of the Council. Construction & Design have been commissioned to provide full design services for the project.

Corporate Resources

Transforming our Workplace (ToW)

The project is now less than 6 months to completion. There has been some overspend on the refurbishment of core offices but this has been offset by underspend on other ToW budget lines such as fewer staff moves. Additionally, Non-Domestic Rate credits have been received for vacant offices during refurbishment periods. Work to offices at 3/5 St James's Road was originally due to complete before Christmas but has been delayed; predominantly due to slow work on site over November and December. However, furniture and ICT has been installed and the programme remains on target to relocate staff in early February. Alterations to offices at Mary Stevens Park Stourbridge are in progress ahead of the relocation of around 250 Children's Services staff commencing at the end of March. Work to the Council House complex and 8 Parsons Street is scheduled to commence in February 2014. The release of 12 surplus office sites has commenced with Castle Court, 5-7 The Broadway now on the market. The other 11 sites will be vacated in 2014. The whole programme of work is currently running to budget and is scheduled to complete accordingly to plan in July 2014.

CIPFA Prudential Indicators

The indicators set out below are specified in the CIPFA *Prudential Code for Capital Finance in Local Authorities* (“the Code”), which is required to be complied with as “proper practice” by Regulations issued consequent to the Local Government Act 2003. They are required to be set and revised through the process established for the setting and revising of the budget, i.e. by full Council following recommendation by the Cabinet. Indicators for the forthcoming and following years must be set before the beginning of the forthcoming year, but may be revised at any time following due process.

The first group of indicators (1-5) are essentially concerned with the prudence and affordability of the Council’s capital expenditure and borrowing plans in the light of resource constraints. The remaining indicators (6-7) are primarily concerned with day-to-day borrowing and treasury management activity.

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

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

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

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

Indicators set for 2013/14, 2014/15 and 2015/16 this time last year have been reviewed and where necessary are proposed to be updated to reflect latest forecasts.

1. Estimated and Actual Capital Expenditure

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

Subject to the other proposals in this report being agreed, together with those contained in reports elsewhere on the agenda, the proposed indicators are as follows.

	2012/13 £m Actual	2013/14 £m Revised Estimate	2014/15 £m Revised Estimate	2015/16 £m Revised Estimate	2016/17 £m Estimate
Non - HRA	31.1	50.0	57.6	12.5	7.2
HRA	41.3	38.8	43.1	41.2	41.0
Total	72.4	88.8	100.7	53.6	48.2

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.

	2012/13 £m Actual	2013/14 £m Revised Estimate	2014/15 £m Revised Estimate	2015/16 £m Revised Estimate	2016/17 £m Estimate
Non - HRA	292.5	301.7	303.3	291.9	283.5
HRA	464.1	464.1	464.1	464.1	464.1
Total	756.6	765.8	767.4	756.0	747.6

The limit on the HRA CFR imposed on implementation of self-financing is £464.1m.

3. Gross Debt and the Capital Financing Requirement.

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

It is anticipated that this requirement will be met for the years 2013/14 to 2016/17.

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

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

The forecast debt charges resulting from anticipated overall borrowing are fully reflected in the figures set out in the Budget Strategy and Public Sector Housing reports elsewhere on this agenda. There are no proposals to undertake new borrowing for General Fund capital expenditure. New borrowing for Public Sector Housing capital expenditure would not be possible within the limits imposed on the HRA CFR as part of self-financing; The impact on Council Tax and Rents is therefore as follows.

	2014/15	2015/16	2016/17
	£	£	£
Increase in Annual Band D Council Tax	0	0	0
Increase in Weekly Housing Rent	0	0	0

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

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

	2012/13	2013/14	2014/15	2015/16	2016/17
	%	%	%	%	%
	Actual	Revised Estimate	Revised Estimate	Revised Estimate	Estimate
Non - HRA	9.7	8.9	9.0	10.0	9.8
HRA	44.8	44.3	44.8	43.5	42.9

The increase in the HRA indicator from 2012/13 onwards, compared with previous years' figures, reflects the extra debt taken on as part of HRA self-financing and the inclusion of depreciation within capital financing costs in accordance with updated Code requirements.

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.

	2012/13	2013/14	2014/15	2015/16	2016/17
		Revised	Revised	Revised	
	£m	£m	£m	£m	£m
Authorised limit for external debt:					
Borrowing	n/a	926	919	898	877
Other long term liabilities	n/a	38	39	40	41
Total	n/a	964	958	938	917
Operational boundary:					
Borrowing	n/a	811	817	855	855
other long term liabilities	n/a	37	39	40	41
Total	n/a	848	856	895	896
Actual External Debt:					
Borrowing	737.0	n/a	n/a	n/a	n/a
Other long term liabilities	33.9	n/a	n/a	n/a	n/a
Total	770.9	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 system in so far as it relates to treasury management activity. The Council has adopted the Code of Practice.