

## **Meeting of the Council – 19<sup>th</sup> July, 2010**

### **Report of the Cabinet**

#### **Capital Programme Monitoring**

#### **Purpose of Report**

1. To consider the recommendations of the Cabinet on proposed amendments to the Capital Programme.
2. To consider the proposals of the Cabinet for the amendment of 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.

#### **Background**

3. At its meeting on 30<sup>th</sup> June, 2010, the Cabinet considered a report on Capital Programme Monitoring and made a series of recommendations to the Council which are contained in this report. Other recommendations contained in the report to the Cabinet meeting were determined under delegated powers. A copy of the Cabinet report is available from the Democratic Services Section (Telephone:01384 815236); or by e-mail to [richard.sanders@dudley.gov.uk](mailto:richard.sanders@dudley.gov.uk); or on the Council’s website [www.dudley.gov.uk](http://www.dudley.gov.uk) (follow the links to Council Decisions / Committee Information).

#### **Adult, Community and Housing**

##### **Amblecote Social Education Centre Refurbishment**

4. At its meeting in September 2009, Cabinet approved proposals for Amblecote Social Education Centre (SEC) to be refurbished as the centre of excellence for day care facilities for persons with a learning disability. The refurbishment is estimated to cost £1.2m, which it is expected can be funded by from the sale of facilities previously approved for disposal at Audnam, Grange House and Lower Gornal. Should the sale proceeds be insufficient to meet the costs of the project the shortfall will be met from either the Repairs and Maintenance budget or the Directorate’s Minor Works budget. Cabinet also agreed

that any surplus resources be allocated for projects at other community based facilities providing services for persons with a learning disability.

It is therefore proposed that the refurbishment of Amblecote SEC be included in the Capital Programme, together with any other projects that can be funded from surplus resources from the disposals detailed above.

#### Disabled Facilities Grants and Regional Housing Pot Allocations

5. The Council has been notified of its Disabled Facilities Grant funding allocation for 2010/11 amounting to £2.012m. This represents a higher allocation than expected in previous projections but maintains the same level of grant funding as for 2009/10. In addition, approximately £1.1m of capital receipts are estimated to be available from housing land disposals in the medium term to enable expenditure to be committed in advance of future years' allocations being clarified.

The Council has also been notified of its capital grant allocation from the Regional Housing Pot of £770,000 for 2010/11, to be targeted towards housing renewal and renovation projects. These resources will be directed to individual projects and activities in due course on the basis of local priorities.

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

#### Oak Lane Refurbishment

6. As a result of delays during the adverse weather last winter requiring provision of temporary sanitary facilities for a longer period than originally expected; unforeseen ground conditions requiring additional foundation, drainage and resurfacing works to the blocks; and major changes to the warden's facility to accommodate the main electrical supply, the cost of works on utility blocks at Oak Lane is expected to increase by £100,000. The additional costs can be covered by savings and reprioritisation from the other current schemes at Oak Lane (Security Improvements and New Plots) of £90,000 and from contributions from revenue budgets of £10,000.

It is proposed that the Capital Programme be amended accordingly.

### **Urban Environment**

#### Security at Stourbridge and Gornal Wood Crematoria

7. The crematoria hold numerous services daily with an average of 100 visitors at a time. Following a period where incidents of theft, vandalism and antisocial behaviour have occurred within the cemeteries, coupled with the findings from health and safety and fire risk inspections of the Crematoria, a package of security works has been developed costing £12,500 at each crematorium.

This can be funded from within Bereavement Services revenue budgets and a contribution from Risk Management resources. It is proposed that the works be approved and included in the Capital Programme.

### **Children's Services**

#### Practical Cooking Spaces – Oldswinford Hospital School

8. Oldswinford Hospital School has been awarded £345,000 exceptional Targeted Capital Funding (TCF) for practical cooking spaces to support the introduction of compulsory food technology at Key Stage 3 from September 2011. This will be received by the Council via the Standards Fund mechanism.

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

#### Sycamore Adventure Centre

9. The Sycamore Adventure Centre being provided as part of the Play Pathfinder initiative will provide a centre of excellence where a wide range of play opportunities can be delivered for all children including those with profound and complex needs. A sum of £35,000 is available from Directorate revenue budgets to address a shortfall in the resources needed to deliver the play barn facility and enable the centre to have a full care room.

It is proposed that the Capital Programme be amended accordingly.

### **Law, Property and Human Resources and Chief Executive's**

10. Asset Management Plan and Area Committee Allocations

It is estimated that sufficient resources from the disposal of surplus assets will be available in 2010/11 to fund the Asset Management Plan AMP team (£136,000), and Area Committee Capital spend on the basis of £10,000 per Ward (£240,000). In the current economic climate, no further resources are anticipated at this stage, but should further resources become available during the year, proposals for their allocation will be brought to Cabinet in a future report.

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

### **Reduction in Government Grant Funding**

11. Following the announcement on the 24th May that local government would make a £1.2bn contribution to savings across the public sector in 2010/11, some details of reductions to individual grants were announced on 10th June, 2010. The reductions so far announced which directly impact on Dudley are within the area of Highways and Transport as follows.

- Integrated Transport Block - £920,000 reduction.
- Primary Route Network (PRN) - £20,000 reduction.

It is proposed that these funding reductions be noted, that the Director of the Urban Environment be authorised to agree details in consultation with the Cabinet Member for Transportation, and that the Capital Programme be amended accordingly.

As the overall picture is clarified, there may be other reductions in capital funding that impact on Dudley both directly, and as a result of resources channelled through other funding agencies. The position will be kept under review and reported back to Cabinet as necessary.

### **Urgent Amendments to the Capital Programme**

12. Ripples Through Time - Heritage Lottery Fund (HLF) Bid  
Decision Sheet DUE/48/2009 (September 2009) approved the submission of the Ripples through Time Stage 2 application to the HLF to deliver the Ripples through Time project on the Wren's Nest National Nature Reserve and to accept any grant arising. In December 2009, the Council was awarded a grant of up to £711,000.

Whilst the Decision Sheet identified the estimated project costs at the time, it did not specifically state the financial contribution that the Council would be making and HLF have asked that this be formally confirmed. In summary the Council is required to commit to providing the gap funding needed to enable the project to proceed.

Prior to tendering, the costs of the project were estimated to be £1,160,000 with the HLF grant of £711,000 resulting in the Council potentially having to provide £449,000.

At present £64,000 has been secured leaving a funding gap of £385,000. Applications are being made to other funding bodies to help meet this gap and a tentative sum of £100,000 was included in the Stage 1 application as being deliverable for this project. However, there is no guarantee that this will be forthcoming. Consequently the Council needs to underwrite the maximum sum that could be required.

Of the £385,000 current gap, £109,000 is revenue funding required over a four year period that can be met from existing revenue budgets within Culture and Leisure Services. The balance of £276,000 is capital expenditure that can be funded through prudential borrowing over a 20 year period, the debt charges of which can also be met from existing Culture and Leisure budgets.

The £385,000 is a 'worst case' scenario in terms of the level of gap funding needed. There are opportunities for other external funding to become available, plus likely availability of Section 106 monies that

could be allocated to this project. Furthermore there is the possibility of cost reductions as part of the tendering exercise, and there is a healthy contingency sum built into the current costs which may reduce further the amount of gap funding required.

In order to comply with the necessary HLF timescales, a decision (ref. DUE/12/2010) was made by the Leader of the Council in consultation with the Interim Director of Finance on 24<sup>th</sup> March 2010 to (along with certain other items relating to delivery of the project) amend the Capital Programme and approve the Council's maximum financial contribution to the project as set out above.

Since the above decision was made, the tender process has been completed leading to a reduction in costs, and a bid for Natural Assets funding from Advantage West Midlands has been successful - reducing the capital funding gap to be met from prudential borrowing to £150,000.

#### Halesowen Leisure Centre Equipment

13. In 2005, the Council entered into a partnership with Alliance Leisure Services to improve the Health and Fitness facilities at Halesowen Leisure Centre. The contract terminated in May 2010 and under the terms of the contract the equipment would have reverted to the ownership of Alliance Leisure. Of the options available, it was considered that the best option for the Council was to purchase the equipment from Alliance Leisure for the £24,400 residual value contained within the original agreement.

This can be met from the budget of Halesowen Leisure Centre.

In order to comply with the necessary timescales relating to the cessation of the contract with Alliance Leisure, a decision (ref. DUE/15/2010) was made by the Leader of the Council in consultation with the Interim Director of Finance on 27<sup>th</sup> April, 2010 to include the purchase of health and fitness equipment for Halesowen Leisure Centre within the Capital Programme.

#### "My Support" Software

14. A decision (ref. DACHS/014/2010) was made by the Leader of the Council in consultation with the Cabinet Member for Adult and Community Services, Director of Adult, Community and Housing Services, and Interim Assistant Director of Finance on 10<sup>th</sup> May 2010 to accept a quotation from Northgate Information Systems to purchase "My Support" - a web based citizen access tool to enable people to manage their personal budgets - and for this expenditure to be added to the Capital Programme.

The detailed decision (considered in private), is available to Members on request to Democratic Services (01384) 815236 or email [richard.sanders@dudley.gov.uk](mailto:richard.sanders@dudley.gov.uk).

#### King George V Park, Wordsley

15. Part of a wall to the eastern boundary of King George V Park with Bells Lane was found to be in very poor condition and needed to be demolished as soon as possible. Temporary fencing was installed to protect people and the public highway.

Unfortunately, because of complex and costly engineering matters, it was both impractical and financially prohibitive to reconstruct the wall. Special foundations would be needed to overcome a number of ground problems, including bridging a major sewer, and the proximity of mature trees.

As a result of this, it was proposed to take down the wall and replace it with a fence at a cost of approximately £33,000, since this provides better value for money and would be much quicker to install.

In addition, since the removal of the wall would expose the play area within the Park to the neighbouring properties in Bells Lane, the scheme included the planting of hedges/shrubs against the fence to screen the park and help attenuate noise.

A budget of £55,000 was identified from sums received from Section 106 monies and it was proposed to deploy this budget for this work and for other improvements set out in the Master Plan for King George V Park.

In order to enable the timescales associated with the works to be complied with, a decision (ref. DUE/26/2010) was made by the Leader of the Council in consultation with the Interim Director of Finance on 10<sup>th</sup> June 2010:

- to approve the demolition of a wall and the installation of a fence to part of the boundary to the Park;
- to deploy Section 106 funding on this work and other improvements set out in the Park Master plan;
- to include the scheme in the Capital Programme.

#### **International Financial Reporting Standards (IFRS)**

16. One of the main impacts of the application of International Financial Reporting Standards (IFRS) to the Council's Accounts from 2010/11 is to bring onto the Council's Balance Sheet many leased assets – particularly property and equipment that is leased for a significant part of its useful life. In such cases, the "risks and rewards" of holding the assets are deemed to be with the Council as lessee, rather than the legal owner, in much the same way as if the Council had acquired the assets directly.

Entering into such leases, and other similar credit arrangements, will likewise form part of the Council's capital expenditure, and will need to be included in the Capital Programme.

#### Approval of Capital Expenditure

17. Where the Council enters into leases of property - which will often result in a significant long term rent liability - it is only right and proper that if they count as capital expenditure, they should be subject to approval of full Council following consideration by Cabinet, as part of the normal processes for amending the Capital Programme.

However, for relatively short term leases of equipment funded by ongoing revenue budgets, it would be onerous and disproportionate for these to require individual approval. It is therefore proposed that the Treasurer be authorised to include any such lease-financed expenditure in the Capital Programme, subject to being satisfied that it constitutes value for money and is affordable. Any leases and other credit arrangements that would have been capital spend under the old rules will continue to require Council approval.

#### Vehicle Fleet Procurement

18. When "Prudential Borrowing" was first introduced in 2004/05, it was agreed that up to £3m of vehicle acquisition costs be included in the Capital Programme each year. This was to take advantage of the flexibility that had become available to use finance leases and outright acquisition (both counting as capital expenditure) as procurement options where these were more advantageous than traditional "off balance sheet" operating leases. Even so, operating leases continued to be used where these offered the best deal.

Under IFRS, most of these operating leases will be reclassified as finance leases and will need to be treated as capital expenditure. Also, a large number of high value vehicles are due for replacement in the near future, and there is a trend towards leasing / purchase as a better value option than short term hire in many instances. It is therefore proposed that the annual vehicle acquisition allowance in the Capital Programme be increased to £3.5m, subject to periodic review.

#### 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. As a result of the introduction of IFRS, a number of the indicators for 2010/11 onwards now need to be updated. Details of the various indicators required, and the proposed amended figures to be set in relation to each indicator are set out at Appendix A. (Further updates may be required in due course as the precise implications of IFRS are clarified.)

## **Finance**

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

## **Law**

21. 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**

22. These proposals comply with the Council's policy on Equality and Diversity.
23. 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**

24. That the Council be recommended:
- That the refurbishment of Amblecote SEC be included in the Capital Programme, together with any other projects that can be funded from surplus resources from the disposals detailed, as set out in paragraph 4.
  - That the Disabled Facilities Grant and Regional Housing Pot resources be noted and the associated expenditure included in the Capital Programme, as set out in paragraph 5.
  - That the Capital Programme be amended to reflect the increased costs of the Oak Lane Refurbishment, as set out in paragraph 6.
  - That the Security Works at Stourbridge and Gornal Wood Crematoria be approved and included in the Capital Programme, as set out in paragraph 7.

- That the funding for Practical Cooking Spaces project at Oldswinford Hospital School be noted, and that the project be included in the Capital Programme, as set out in paragraph 8.
- That the Capital Programme be amended in respect of the Sycamore Adventure Centre, as set out in paragraph 9.
- That the Asset Management Plan and Area Committee allocations be approved and included in the Capital Programme, as set out in paragraph 10.
- That the funding reductions for Highways and Transport be noted, that the Director of the Urban Environment be authorised to agree details in consultation with the Cabinet Member for Transportation, and that the Capital Programme be amended accordingly, as set out in paragraph 11.
- That the Treasurer be authorised to include any lease-financed equipment expenditure in the Capital Programme, subject to being satisfied that it constitutes value for money and is affordable, as set out in paragraph 17.
- That the annual vehicle acquisition allowance in the Capital Programme be increased to £3.5m, subject to periodic review, as set out in paragraph 18.
- That the amended 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 paragraph 19 and Appendix A, be approved
- That the urgent amendments to the Capital Programme, as set out in paragraphs 12-16, be noted.



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**Leader of the Council**

## CIPFA Prudential Indicators

The following indicators (as specified in the CIPFA *Prudential Code for Capital Finance in Local Authorities* ("the Code"), now need to be revised for 2010/11 – 2012/13 to reflect the impact so far of the introduction of International Financial Reporting Standards (IFRS). They have also been updated to reflect any other relevant changes since they were set in February.

### Estimated 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.

Subject to the other proposals in this report, and those relating to Public Sector Housing report elsewhere on this Agenda, being agreed the proposed indicators are as follows.

	2010/11 £m	2011/12 £m	2012/13 £m
Non - HRA	83.9	23.2	9.0
HRA	32.6	36.0	24.9
<b>Total</b>	<b>116.5</b>	<b>59.2</b>	<b>33.9</b>

### Estimated Capital Financing Requirement

The Capital Financing Requirement (CFR) 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.

	2010/11 £m	2011/12 £m	2012/13 £m
Non - HRA	360.6	352.6	343.1
HRA	106.6	125.2	134.2
<b>Total</b>	<b>467.2</b>	<b>477.8</b>	<b>477.3</b>

## **Net Borrowing and the Capital Financing Requirement.**

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

It is anticipated that this requirement will be met for the years 2010/11 to 2012/13.

## **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 the Public Sector Housing report elsewhere on this Agenda. The impact on Rents of these proposals is as follows.

	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Increase in Weekly Housing Rent	0.11	0.27	0.32

Note that to the extent 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 rents.

There are no proposals in this report which will have an impact on Council Tax.

## **Estimated 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.

	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Non - HRA	10.9	11.7	11.1
HRA	7.1	8.0	8.5

## The Authorised Limit and Operational Boundary

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 PFI, and finance leases for the procurement of vehicles and other equipment. Provided that the total Authorised Limit and Operational Boundary are not exceeded, the Treasurer 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.

	2010/11	2011/12	2012/13
	£m	£m	£m
<b>Authorised limit for external debt:</b>			
Borrowing	666	680	674
Other long term liabilities	43	46	48
<b>Total</b>	<b>709</b>	<b>726</b>	<b>722</b>
<b>Operational boundary:</b>			
Borrowing	627	630	632
Other long term liabilities	43	46	48
<b>Total</b>	<b>670</b>	<b>676</b>	<b>680</b>