

Appendix D

JULY 2006/07 CAPITAL PROGRAMME MONITORING

1. This is the first round of in-year capital monitoring for 2006/07. The purpose of this monitoring exercise is to update the original capital budget position set before the 2005-06 year end, reporting new funding allocations, managing any potential slippages or overspends as new schemes and new sources of finance are identified. The capital monitoring process helps to ensure that no conditional capital resources are lost and forecast changes are managed in the most effective way.
2. The revised forecast for 2006/07 as at 31st July totals £60,671,000, which is an increase of £23,656,000 from the original forecast. This increase is mainly due to the inclusion of additional budgets reported separately to Cabinet for Corporate Accommodation (£4,603,000), Herefordshire Connects (£8,503,000) and additional ICT Network Enhancement costs (£2,000,000). Other changes represent budget reviews following the 2005-06 closedown and funding allocation confirmations; explanations of the changes are detailed in the body of this report. This programme is funded as detailed in Appendix D1.
3. A summary of the Prudential Borrowing position for 2006/07 is set out below and on Appendix D4. This represents the capital investment this year to be financed by the new borrowing powers afforded to local authorities in 2004. Elements of this prudential borrowing will relate to the increase in forecasted expenditure in para 2.

2006/07 Original Prudential Borrowing Allocation		£5,968,000
Add: Slippage from 2005/06		£4,226,000
Shaw Homes development		£300,000
Purchase of Gritters lease review		£123,000
Subsequent Cabinet allocations:		
Herefordshire Connects		£8,503,000
Accommodation Strategy		£2,953,000
ICT Network Enhancement		£2,000,000
Queenswood car park		£100,000
Less: Slippage into future years	(£557,000)	
Funded by available SCE(R)	(£125,000)	(£682,000)
Forecast use of Prudential Borrowing in 2006/07		<u>£23,491,000</u>

4. Each individual capital project has an expected spend profile and expected spend in the first four months totalled 27% of the revised forecast. The actual spend at £11,988,000 represents 20% of the revised forecast demonstrating that overall the Council is largely on track with its capital programme. Environment is showing a 16% less than forecast spend to end of July however orders have been raised and committed spend represents 40% of the revised forecast. A summary of the expenditure for each service area is set out on Appendix D2.
5. Set out in Appendix D3 is a list of all capital schemes with a budget in excess of £500,000. The detailed capital programme listing all capital schemes can be found on the Intranet. (*Info Library > Treasurers > Financial Policy > Capital > Capital Programme*).

Children and Young People's Services Directorate

6. The capital forecast for this area has increased by £3,496,000 due to:
 - The inclusion of £1,600,000 payment for the release of a restrictive covenant in order to be able to sell the old Whitecross High school site. This will be funded through the capital receipt to be generated by the sale.
 - £887,000 increase in childcare provision capital schemes (sited at Hunderton, Ross, Ledbury and Kington) to be funded through capital grant.
 - The inclusion of £474,000 LPSA2 Health, GCSE & NEET and School Attendance budgets, also funded through capital grant.
7. The current forecast predicts a small unfunded position, which will be revisited at the next round of capital monitoring. The Hunderton junior and infant school amalgamation capital scheme will go to tender in October for work to start on site in November.

Resources Directorate

8. The forecast for this area has increased to reflect the corporate accommodation capital budget as reported to Cabinet on the 25th May and as reported in the medium term financial strategy. Actual spend is currently lower than expected due to delays surrounding corporate accommodation spend.

Corporate and Customer Services Directorate

9. The forecast for this area has increased to reflect the additional funding of £2,000,000 allocated to the ICT Golden Thread network enhancement budget per report to Cabinet dated 27th April and the additional funding of £8,503,000 allocated to Herefordshire Connects reported to Cabinet on the 20th April.

Environment Services Directorate

10. The forecast for the LTP programme spend has not changed.
11. Other changes represent the inclusion of LPSA2 budgets for Street Scene and Road Safety (£310,000) funded by capital grant and the increase in public toilet improvements budget, to be funded through receipts generated by the sale of old sites.

Adult and Community Services Directorate

12. The forecast for this area has increased by £3,879,000 due to:
 - Decrease of £300,000 on private sector housing budgets, reflecting a reduced funding allocation by central government. This funding has changed from borrowing allocation to capital grant focused on providing decent homes for vulnerable people, this has generated a greater demand and expectations are that this funding allocation will reduce again in future years.
 - Extra Care housing development forecast has increased by £2,640,000 representing slippage from 2005-06 with work starting on site in 2006-07. Building work will commence in September.
 - Affordable housing grant forecast has increased by £867,000 with this

increase mainly being funded through S106 income. A number of affordable housing and grant funding commitments have been made to date totalling £2,900,000.

Prudential Indicators

13. A key objective of the Prudential Code is to ensure that capital investment plans and treasury management decisions are made in a manner that supports prudence, affordability and sustainability.
14. Cabinet have endorsed a range of Prudential Indicators that are to be monitored on a regular basis as part of the existing Capital Programme monitoring process. Cabinet considers these on an annual basis through the Treasury Management report.
15. The framework of PIs covers Capital Expenditure and Treasury Management and the Prudential Code incorporates the PIs as set out below. The PIs included in this report are based on the 2006/07 Capital Programme. Due the additions to the Capital Programme for schemes to be funded with Prudential Borrowing it is necessary to restate the Prudential Indicators accordingly. **The revised Prudential Indicators must be approved by full Council.** The indicators are set out on Appendix D4 and significant changes in the indicators are highlighted at each point.
 - Actual and estimated capital expenditure for the current and future years
 - Ratio of financing costs to net revenue stream
 - Capital Financing Requirement
 - Authorised limit for External Debt
 - Operational boundary for External Debt
 - Council Tax implications of the incremental effect of capital decisions
 - Treasury Management Indicators
16. The Council has agreed in principle the construction of Rotherwas Access Road and this will have an impact on the prudential borrowing indicators currently agreed. It is the Council's intention to fund the significant element of the overall cost of the road through AWM and private developer contributions, however it is highly likely in the short term for the Council to increase its borrowing over current limits and these will need to be approved by full Council.

APPENDIX D1

FUNDING OF REVISED 2006/07 CAPITAL PROGRAMME

Capital Programme Area	2006/07 Revised Forecast 31/07/06	SCE(R)	Prudential Borrowing	Grants	Revenue Contribution	Capital Receipts Reserves	Unfunded
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Children & Young People's Services	11,544	2,459	2,000	4,274	96	2,676	39
Resources	5,237	-	3,269	-	-	1,969	-
Corporate and Customer Services	12,245	-	11,975	270	-	-	-
Environment Services	13,633	10,476	2,447	633	-	77	-
Adult and Community Services	18,012	217	3,800	8,306	-	5,688	-
Total Revised Forecast	60,671	13,152	23,491	13,483	96	10,410	39
<i>Original Budget</i>	37,015	13,197	9,499	9,431	33	4,855	-
<i>Change from original budget</i>	23,656	(45)	13,992	4,052	63	5,555	39

<u>Reported to date</u>							
<i>Original Budget</i>	<i>37,015</i>	<i>13,197</i>	<i>9,499</i>	<i>9,431</i>	<i>33</i>	<i>4,855</i>	-
<i>July 2006 Forecast</i>	<i>60,671</i>	<i>13,152</i>	<i>23,491</i>	<i>13,483</i>	<i>96</i>	<i>10,410</i>	<i>39</i>

APPENDIX D2

CAPITAL EXPENDITURE BY PROGRAMME AREA

	Outturn	Original Budget	Revised 2005/06 Forecast as at 31/07/06	Actual spend at 31/07/06	Actual spend as a % of the revised forecast	Expected spend as a % of the revised forecast
Programme area	2005/06	2006/07	2006/07	2006/07	2006/07	2006/07
	£'000	£'000	£'000	£'000	%	%
Children & Young People's Services	7,907	8,048	11,544	3,407	30%	30%
Resources	662	520	5,237	146	3%	11%
Corporate & Customer Services	4,623	1,760	12,245	417	3%	13%
Environment Services	10,288	12,554	13,633	1,437	11%	27%
Adult & Community Services	8,365	14,133	18,012	6,581	37%	39%
Total	31,845	37,015	60,671	11,988	20%	27%

APPENDIX D3

MAIN CAPITAL SCHEMES OF REVISED 2006/07 CAPITAL PROGRAMME

Capital Programme Scheme	Schemes with a Revised Forecast >£500,000
	£'000
Children & Young People's Services schemes:	
Weobley High – Sports Hall (no change)	1,225
Sutton Primary – Replacement School (budget decrease, slippage)	1,463
Whitecross High – Restrictive Covenant (new budget)	1,600
Hunderton Junior & Infant – Amalgamation (budget increase, from 05-06)	2,587
New Deal for Schools Condition Improvement Works (no change)	800
Resources:	
Corporate Accommodation (new budget)	3,800
Plough Lane (new budget)	650
Corporate and Customer Services - ICT schemes:	
ICT The Golden Thread Network Enhancement (budget increase)	2,347
Info by Phone (budget decrease, spent 05-06)	868
Herefordshire Connects (new budget)	8,503
Environment Services:	
Rotherwas Access Road (no change)	500
Capitalised maintenance of principal roads (no change)	1,728
Capitalised maintenance of non-principal roads (no change)	3,547
Footways (no change)	1,064
Capitalised assessment & strength of bridges (no change)	900
Crematorium Hereford (budget increase, from 05-06)	1,323
Adult and Community Services schemes:	
Friar St Museum Resource & Learning Centre (budget increase)	1,169
Hereford High Town & High St (budget decrease, spent 05-06)	1,732
Private Sector Housing (budget decrease)	1,000
Disabled Facilities Grants (budget increase, from 05-06)	683
Extra Care Housing (budget increase, from 05-06)	5,280
Affordable Housing Grants (budget increase)	4,367
<i>Other schemes with a revised forecast of less than £500,000</i>	<i>13,535</i>
Revised Forecast	60,671

APPENDIX D4

ACTUAL AND ESTIMATED CAPITAL EXPENDITURE

The first table sets out the current forecast for the use of Prudential Borrowing. The Prudential Indicators approved by Council 10 March 2006 assumed a future level of £5,000,000 prudential borrowing per year. The table below replaces that estimate with agreed and potential prudential borrowing allocations.

PRUDENTIAL BORROWING AS AT 31 JULY 2006

	2006/07	2007/08	2008/09	2009/10
	£'000	£'000	£'000	£'000
Original Allocations and slippage:				
Original Allocations	5968	5,108	700	
Slippage from prior year	4226	557	167	
Slippage into future year	(557)	(167)		
Funded by available SCE	(125)	(125)		
Additional Prudential Borrowing:				
Herefordshire Connects	8,503	10,853		
Accommodation Strategy (net of receipts)	2,953	(731)	5,575	(1,300)
Rotherwas Relief Road (Potential)				3,076
Residential Homes Improvements	300			
Additional Prudential Borrowing - costs to be funded by revenue contribution:				
ICT Network Enhancement	2,000		1,500	
Purchase of Gritters instead of leasing	123			
Queenswood Car Park	100			
	23,491	15,495	7,942	1,776

This table takes into account new borrowing for which the government is providing support, government grants, capital receipts, other funding (including s106 receipts) and prudential borrowing as above. The table also shows how the programme would be funded.

FORECAST CAPITAL PROGRAMME AS AT 31 JULY 2006

	Outturn	Budget	Estimated	Estimated
	2005/06	2006/07	2007/08	2008/09
	£'000	£'000	£'000	£'000
Capital Programme Area: -				
Children and Young People's Services	7,907	11,544	6,281	2,110
Environment General	10,288	13,633	12,824	10,964
Corporate and Customer Services	4,623	12,245	11,903	1,500
Resources	662	5,237	3,550	8,450
Adult and Community Services	8,365	18,012	5,002	4,025
	31,845	60,671	39,560	27,049
By funding:				
Capital Receipts Reserve	1,827	10,410	8,291	6,268
Grants	10,169	13,483	2,531	475
SCE(R)	13,916	13,152	12,647	10,597
Revenue Contribution	802	96		
Prudential Borrowing	5,131	23,491	15,495	7,942
Unfunded		39	596	1,767
	31,845	60,671	39,560	27,049

RATIO OF FINANCING COSTS TO NET REVENUE STREAM

The net revenue stream is the budget amount to be met from Formula Grant and Council Tax income (the budget requirement). The ratio is the proportion of the budget requirement that relates to the ongoing capital financing costs.

The capital financing costs will change as actual borrowing replaces forecast borrowing and as the outturn of capital spending changes from the expected profile. The increase in this ratio from the original directly relates to the costs of funding the increased level of prudential borrowing.

	2005/06 £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000
Original Indicator (prior to PB allocations)				
Net Revenue Stream	110,926	118,285	122,998	129,610
Capital Financing Costs	8,364	8,875	10,599	11,322
Ratio of financing costs to net revenue stream	7.54%	7.50%	8.62%	8.74%
As at 31/7/06				
Net Revenue Stream per MTFMS (Cabinet report 13/7/06)	110,926	118,285	123,486	132,192
Capital Financing Costs	8,364	8,875	11,215	13,850
Ratio of financing costs to net revenue stream	7.54%	7.50%	9.08%	10.48%

CAPITAL FINANCING REQUIREMENT

This indicator represents the underlying need to borrow for a capital purpose. The effect of actual and additional Prudential Borrowing allocations affect the future years Capital Financing Requirement and increase the need to repay debt.

	2005/06 £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000
Original Indicator	110,811	125,807	136,252	146,364
Revised 31/7/06	110,995	141,264	161,128	170,470

AUTHORISED LIMIT FOR EXTERNAL DEBT

The Authorised Limit for external debt represents the absolute maximum level of debt that may be incurred. This limit would only be reached in exceptional circumstances. This limit needs to be increased to accommodate the additional Prudential Borrowing required.

	2005/06	2006/07	2007/08	2008/09
	£'000	£'000	£'000	£'000
Original				
Borrowing	133,000	147,000	170,000	185,000
Other Long Term Liabilities	3,000	3,000	3,000	3,000
Total	136,000	150,000	173,000	188,000
Revised 31/7/06				
Borrowing	133,000	162,000	195,000	210,000
Other Long Term Liabilities	3,000	3,000	3,000	3,000
Total	136,000	165,000	198,000	213,000

OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

The Operational Boundary for external debt is the prudent expectation of the maximum level of external debt.

	2005/06	2006/07	2007/08	2008/09
	£'000	£'000	£'000	£'000
Original				
Borrowing	94,500	108,500	125,500	136,500
Other Long Term Liabilities	1,500	1,500	1,500	1,500
Total	96,000	110,000	127,000	138,000
Revised 31/7/06				
Borrowing	94,500	123,500	150,500	161,500
Other Long Term Liabilities	1,500	1,500	1,500	1,500
Total	96,000	125,000	152,000	163,000

COUNCIL TAX IMPLICATIONS OF THE INCREMENTAL EFFECT OF CAPITAL DECISIONS

This indicator represents the increases in Council Tax resulting from Prudential Borrowing decisions taken by the Council. The large increase in this indicator primarily relates to the costs of Herefordshire Connects. As the Herefordshire Connects borrowing is repaid over a short period of time the higher debt repayments lead to a higher indicator. However this indicator does not currently reflect the saving expected to result from the Herefordshire Connects project. If the projected savings were recognised in this indicator it would show a negative increase in Council Tax.

	2006/07	2007/08	2008/09
	£ p	£ p	£ p
Original Indicator			
Increase in council tax (Band D, per annum) based on Prudential Borrowing of £5,843,000 taken for 2006/07 with £5,000,000 per year in subsequent years.	3.86	10.54	16.74
Revised Indicator following 2005/06 allocations			
Increase in council tax (Band D, per annum) based on revised Prudential Borrowing as at 31/7/06	6.12	34.67	61.48

TREASURY MANAGEMENT INDICATORS

These are specific indicators, which relate to the management of the Treasury Management process.

	2004/05	2005/06	2006/07	2007/08
Upper Limit for Fixed Interest Rate Exposure				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure				
Net principal re variable rate borrowing / investments	50%	50%	50%	50%
Maturity Structure of new fixed rate borrowing during 2004/05	Upper Limit	Lower Limit		
Under 12 Months	30%	0%		
12 months and within 24 months	60%	0%		
24 months and within 5 years	90%	0%		
5 years and within 10 years	100%	0%		
10 years and above	100%	20%		
Upper Limit for total principal sums invested for over 364 days	2004/05	2005/06	2006/07	2007/08
	£'000	£'000	£'000	£'000
(Per maturity date)	10,000	10,000	10,000	10,000