

## SEPTEMBER 2006/07 CAPITAL PROGRAMME MONITORING

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1. This is the second round of in-year capital monitoring for 2006/07. The purpose of this monitoring exercise is to update the capital budget position for any new funding allocations, potential slippages or overspends identified at the six-month point. The capital monitoring process ensures that no conditional capital resources are lost and forecast changes are managed in the most efficient and effective way.
2. The revised forecast for 2006/07 as at 30<sup>th</sup> September totals £59,803,000, which is a decrease of £868,000 from the July forecast. The main reason for this decrease is a reduction in the forecast on affordable housing schemes where the target number of units is partly being met directly by developers' obligations. Explanations of forecast changes are detailed in the body of this report. This programme is funded as detailed in Appendix D1.
3. The expected use of Prudential Borrowing in 2006/07 has increased by £316,000 since the July report to £23,807,000. This is primarily due to the allocation of £300,000 prudential borrowing to the Aylestone park canal section and associated works. The borrowing costs of this are to be financed through a revenue contribution from Adult and Community Services. A summary is set out on Appendix D4.
4. This capital forecast continues to reflect the planned capital spending requirements of acquiring the Plough Lane offices. The forecast also continues to reflect the potential for the £8,503,000 investment in Herefordshire Connects to be spent in 2006/07.
5. Each individual capital project has an expected spend profile and expected spend in the first six months totalled 39% of the revised forecast. The actual spend of £18,126,000 represents 30% of the revised forecast. Including committed spend raises this to 38% of the revised forecast. The under spend to date mainly relates to the expected corporate accommodation costs not falling due. A summary of the expenditure for each service area is set out on Appendix D2.
6. 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**

7. The capital forecast for this area has been reviewed and increased slightly in respect of feasibility costs towards the rebuilding of The Minster College under the Building Schools for the Future project. This DfES funded capital scheme is to be completed in the 2009-10 academic year.
8. The Sutton Primary School replacement will be going to tender shortly and the capital forecast for this will be revised for the next round of capital monitoring. The Riverside Junior and Infant school amalgamation capital scheme has been delayed by one month, work should now start on site in February.

### **Resources Directorate**

9. The forecast for this area has been increased to reflect the successful allocation of a Carbon Management Grant (Salik Fund) of £200,000, which is matched by a Council revenue contribution. This will be used to fund schemes of an 'invest to save' nature.

### **Corporate and Customer Services Directorate**

10. There has been no forecast review in this round of capital monitoring.

### **Environment Services Directorate**

11. The LTP capital forecast has been reviewed and not changed.
12. The Crematorium forecast has not changed although tenders for this project have now been received and are currently under review. Profiling of this spend over a number of years is critical to avoid breaching the Council VAT Partial Exemption limit. Scheme delays may therefore prove inevitable.
13. Potential slippage on the Leominster closed landfill site monitoring infrastructure works have been identified. Further capital resources will be required in future years to complete the project.

### **Adult and Community Services Directorate**

14. The forecast for this area has decreased significantly mainly due to slippage on the affordable housing capital budget funded through the LSVT capital receipt. Some 61 affordable housing units, within the total of 161 housing units for the year, will be generated through planning consent stipulations for the end of March.
15. The extra care housing scheme has experienced delays due to planning alterations in relation to the location of the main sewer. The scheme is still expected to complete in September 2008.

## **Prudential Indicators**

16. 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.
17. 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.
18. 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 as updated by subsequent additions to the Capital Programme for schemes to be funded with Prudential Borrowing. 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
- Treasury Management Indicators

**APPENDIX D1**

**FUNDING OF REVISED 2006/07 CAPITAL PROGRAMME**

| <b>Capital Programme Area</b>      | <b>2006/07 Revised Forecast 30/09/06</b> | <b>SCE(R)</b> | <b>Prudential Borrowing</b> | <b>Grant</b>  | <b>Revenue Contribution</b> | <b>Capital Receipts Reserves</b> | <b>Unfunded</b> |
|------------------------------------|------------------------------------------|---------------|-----------------------------|---------------|-----------------------------|----------------------------------|-----------------|
|                                    | <b>£'000</b>                             | <b>£'000</b>  | <b>£'000</b>                | <b>£'000</b>  | <b>£'000</b>                | <b>£'000</b>                     | <b>£'000</b>    |
| Children & Young People's Services | 11,690                                   | 2,459         | 2,000                       | 4,269         | 161                         | 2,801                            | -               |
| Resources                          | 5,727                                    | -             | 3,269                       | 257           | 200                         | 2,001                            | -               |
| Corporate and Customer Services    | 12,245                                   | -             | 11,975                      | 270           | -                           | -                                | -               |
| Environment Services               | 13,810                                   | 10,475        | 2,457                       | 801           | -                           | 77                               | -               |
| Adult and Community Services       | 16,331                                   | 217           | 4,106                       | 7,612         | 17                          | 4,378                            | -               |
| <b>Total Revised Forecast</b>      | <b>59,803</b>                            | <b>13,152</b> | <b>23,807</b>               | <b>13,209</b> | <b>378</b>                  | <b>9,257</b>                     | <b>-</b>        |
| <i>July 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>       |
| <i>Change from July Forecast</i>   | <i>(868)</i>                             | <i>-</i>      | <i>316</i>                  | <i>(274)</i>  | <i>282</i>                  | <i>(1,153)</i>                   | <i>(39)</i>     |

|                                       |                      |                      |                      |                      |                   |                     |                 |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|-------------------|---------------------|-----------------|
| <b><u>Reported to date</u></b>        |                      |                      |                      |                      |                   |                     |                 |
| <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>-</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>       |
| <b><i>September 2006 Forecast</i></b> | <b><i>59,803</i></b> | <b><i>13,152</i></b> | <b><i>23,807</i></b> | <b><i>13,209</i></b> | <b><i>378</i></b> | <b><i>9,257</i></b> | <b><i>-</i></b> |

**APPENDIX D2**

**CAPITAL EXPENDITURE BY PROGRAMME AREA**

|                                    | <b>Outturn</b> | <b>Original Budget</b> | <b>Revised 2006/07 Forecast as at 30/09/06</b> | <b>Actual spend at 30/09/06</b> | <b>Actual spend as a % of the revised forecast</b> | <b>Committed Spend as a % of the revised forecast</b> | <b>Expected spend as a % of the revised forecast</b> |
|------------------------------------|----------------|------------------------|------------------------------------------------|---------------------------------|----------------------------------------------------|-------------------------------------------------------|------------------------------------------------------|
| <b>Programme area</b>              | <b>2005/06</b> | <b>2006/07</b>         | <b>2006/07</b>                                 | <b>2006/07</b>                  | <b>2006/07</b>                                     | <b>2006/07</b>                                        | <b>2006/07</b>                                       |
|                                    | <b>£'000</b>   | <b>£'000</b>           | <b>£'000</b>                                   | <b>£'000</b>                    | <b>%</b>                                           | <b>%</b>                                              | <b>%</b>                                             |
| Children & Young People's Services | 7,907          | 8,048                  | 11,690                                         | 5,378                           | 46%                                                | 46%                                                   | 37%                                                  |
| Resources                          | 662            | 520                    | 5,727                                          | 310                             | 5%                                                 | 5%                                                    | 40%                                                  |
| Corporate & Customer Services      | 4,623          | 1,760                  | 12,245                                         | 1,018                           | 8%                                                 | 8%                                                    | 19%                                                  |
| Environment Services               | 10,288         | 12,554                 | 13,810                                         | 4,274                           | 31%                                                | 49%                                                   | 40%                                                  |
| Adult & Community Services         | 8,365          | 14,133                 | 16,331                                         | 7,146                           | 44%                                                | 55%                                                   | 55%                                                  |
| <b>Total</b>                       | <b>31,845</b>  | <b>37,015</b>          | <b>59,803</b>                                  | <b>18,126</b>                   | <b>30%</b>                                         | <b>38%</b>                                            | <b>39%</b>                                           |

**APPENDIX D3**

**MAIN CAPITAL SCHEMES OF REVISED 2006/07 CAPITAL PROGRAMME**

| <b>Capital Programme Scheme</b>                                             | <b>Schemes with a Revised Forecast &gt;£500,000</b> |
|-----------------------------------------------------------------------------|-----------------------------------------------------|
|                                                                             | <b>£'000</b>                                        |
| <b>Children &amp; Young People's Services schemes:</b>                      |                                                     |
| Weobley High – Sports Hall (no change)                                      | 1,225                                               |
| Sutton Primary – Replacement School (no change)                             | 1,463                                               |
| Whitecross High – Restrictive Covenant (no change)                          | 1,600                                               |
| Hunderton Junior & Infant – Amalgamation (budget decrease, carried forward) | 2,415                                               |
| New Deal for Schools Condition Improvement Works (no change)                | 800                                                 |
| <b>Resources:</b>                                                           |                                                     |
| Corporate Accommodation (no change)                                         | 3,800                                               |
| Plough Lane (no change)                                                     | 650                                                 |
| <b>Corporate and Customer Services - ICT schemes:</b>                       |                                                     |
| ICT The Golden Thread Network Enhancement (no change)                       | 2,347                                               |
| Info by Phone (no change)                                                   | 868                                                 |
| Herefordshire Connects (no change)                                          | 8,503                                               |
| <b>Environment Services:</b>                                                |                                                     |
| 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 (no change)                                            | 1,323                                               |
| <b>Adult and Community Services schemes:</b>                                |                                                     |
| Aylestone Park (budget increase, funding allocation)                        | 631                                                 |
| Friar St Museum Resource & Learning Centre (no change)                      | 1,913                                               |
| Hereford High Town & High St (no change)                                    | 1,733                                               |
| Private Sector Housing (no change)                                          | 1,000                                               |
| Disabled Facilities Grants (budget increase, from 05-06)                    | 683                                                 |
| Extra Care Housing (no change)                                              | 5,280                                               |
| Affordable Housing Grants (budget decrease, carried forward)                | 2,556                                               |
| <i>Other schemes with a revised forecast of less than £500,000</i>          | <i>13,274</i>                                       |
| <b>Revised Forecast</b>                                                     | <b>59,803</b>                                       |

## 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 30 SEPTEMBER 2006

|                                                                                      | 2006/07       | 2007/08       | 2008/09       | 2009/10        |
|--------------------------------------------------------------------------------------|---------------|---------------|---------------|----------------|
|                                                                                      | £'000         | £'000         | £'000         | £'000          |
| <b>Original Allocations and slippage:</b>                                            |               |               |               |                |
| Original Allocations                                                                 | 5,968         | 5,108         | 700           |                |
| Slippage from prior year                                                             | 4,226         | 541           | 167           |                |
| Slippage into future year                                                            | (541)         | (167)         |               |                |
| Funded by available SCE                                                              | (125)         | (125)         |               |                |
| <b>Additional Prudential Borrowing:</b>                                              |               |               |               |                |
| Herefordshire Connects                                                               | 8,503         | 10,853        |               |                |
| Accommodation Strategy (net of receipts)                                             | 2,953         | (731)         | 5,575         | (1,300)        |
| Rotherwas Relief Road (Potential)                                                    |               |               | 2,988         |                |
| Residential Homes Improvements                                                       | 300           |               |               |                |
| <b>Additional Prudential Borrowing - costs to be funded by revenue contribution:</b> |               |               |               |                |
| ICT Network Enhancement                                                              | 2,000         |               | 1,500         |                |
| Purchase of Gritters instead of leasing                                              | 123           |               |               |                |
| Queenswood Car Park                                                                  | 100           |               |               |                |
| Aylestone Park                                                                       | 300           |               |               |                |
|                                                                                      | <b>23,807</b> | <b>15,479</b> | <b>10,930</b> | <b>(1,300)</b> |

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 30 SEPTEMBER 2006

|                                      | Outturn       | Budget        | Estimated     | Estimated     |
|--------------------------------------|---------------|---------------|---------------|---------------|
|                                      | 2005/06       | 2006/07       | 2007/08       | 2008/09       |
|                                      | £'000         | £'000         | £'000         | £'000         |
| <b>Capital Programme Area: -</b>     |               |               |               |               |
| Children and Young People's Services | 7,907         | 11,690        | 6,281         | 2,110         |
| Environment General                  | 10,288        | 13,810        | 12,814        | 13,952        |
| Corporate and Customer Services      | 4,623         | 12,245        | 11,903        | 1,500         |
| Resources                            | 662           | 5,727         | 3,750         | 8,450         |
| Adult and Community Services         | 8,365         | 16,331        | 7,055         | 4,025         |
|                                      | <b>31,845</b> | <b>59,803</b> | <b>41,803</b> | <b>31,037</b> |
| <b>By funding:</b>                   |               |               |               |               |
| Capital Receipts Reserve             | 1,827         | 9,257         | 9,351         | 7,268         |
| Grants                               | 10,169        | 13,209        | 3,869         | 475           |
| SCE(R)                               | 13,916        | 13,152        | 12,647        | 10,597        |
| Revenue Contribution                 | 802           | 378           |               |               |
| Prudential Borrowing                 | 5,131         | 23,807        | 15,479        | 10,930        |
| Unfunded                             |               |               | 457           | 1,766         |
|                                      | <b>31,845</b> | <b>59,803</b> | <b>41,803</b> | <b>31,037</b> |

## 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<br>£'000 | 2006/07<br>£'000 | 2007/08<br>£'000 | 2008/09<br>£'000 |
|----------------------------------------------------------|------------------|------------------|------------------|------------------|
| <b>Original Indicator (prior to PB allocations)</b>      |                  |                  |                  |                  |
| 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%            |
| <b>As at 31/7/06</b>                                     |                  |                  |                  |                  |
| Net Revenue Stream per MTFMS<br>(Cabinet report 13/7/06) | 110,926          | 118,285          | 123,486          | 127,613          |
| 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%            | 10.85%           |
| <b>As at 30/9/06</b>                                     |                  |                  |                  |                  |
| Net Revenue Stream per MTFMS<br>(Cabinet report 13/7/06) | 110,926          | 118,285          | 123,486          | 127,613          |
| Capital Financing Costs                                  | 8,364            | 8,875            | 11,230           | 13,892           |
| Ratio of financing costs to net revenue stream           | 7.54%            | 7.50%            | 9.09%            | 10.88%           |

## 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<br>£'000 | 2006/07<br>£'000 | 2007/08<br>£'000 | 2008/09<br>£'000 |
|--------------------|------------------|------------------|------------------|------------------|
| Original Indicator | 110,811          | 125,807          | 136,252          | 146,364          |
| Revised 31/7/06    | 110,995          | 141,264          | 161,128          | 170,470          |
| Revised 30/9/06    | 110,995          | 141,580          | 161,415          | 173,732          |



## 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          |
| <b>Original</b>             |                |                |                |                |
| Borrowing                   | 133,000        | 147,000        | 170,000        | 185,000        |
| Other Long Term Liabilities | 3,000          | 3,000          | 3,000          | 3,000          |
| <b>Total</b>                | <b>136,000</b> | <b>150,000</b> | <b>173,000</b> | <b>188,000</b> |
| <b>Revised from 31/7/06</b> |                |                |                |                |
| Borrowing                   | 133,000        | 162,000        | 195,000        | 210,000        |
| Other Long Term Liabilities | 3,000          | 3,000          | 3,000          | 3,000          |
| <b>Total</b>                | <b>136,000</b> | <b>165,000</b> | <b>198,000</b> | <b>213,000</b> |

## 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          |
| <b>Original</b>             |               |                |                |                |
| Borrowing                   | 94,500        | 108,500        | 125,500        | 136,500        |
| Other Long Term Liabilities | 1,500         | 1,500          | 1,500          | 1,500          |
| <b>Total</b>                | <b>96,000</b> | <b>110,000</b> | <b>127,000</b> | <b>138,000</b> |
| <b>Revised from 31/7/06</b> |               |                |                |                |
| Borrowing                   | 94,500        | 123,500        | 150,500        | 161,500        |
| Other Long Term Liabilities | 1,500         | 1,500          | 1,500          | 1,500          |
| <b>Total</b>                | <b>96,000</b> | <b>125,000</b> | <b>152,000</b> | <b>163,000</b> |

## 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        |
|------------------------------------------------------------------------|--------------------|--------------------|----------------|----------------|
| <b>Upper Limit for Fixed Interest Rate Exposure</b>                    |                    |                    |                |                |
| Net principal re fixed rate borrowing / investments                    | 100%               | 100%               | 100%           | 100%           |
| <b>Upper Limit for Variable Interest Rate Exposure</b>                 |                    |                    |                |                |
| Net principal re variable rate borrowing / investments                 | 50%                | 50%                | 50%            | 50%            |
| <b>Maturity Structure of new fixed rate borrowing during 2004/05</b>   |                    |                    |                |                |
|                                                                        | <b>Upper Limit</b> | <b>Lower Limit</b> |                |                |
| 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%                |                |                |
| <b>Upper Limit for total principal sums invested for over 364 days</b> |                    |                    |                |                |
|                                                                        | <b>2004/05</b>     | <b>2005/06</b>     | <b>2006/07</b> | <b>2007/08</b> |
|                                                                        | <b>£'000</b>       | <b>£'000</b>       | <b>£'000</b>   | <b>£'000</b>   |
| (Per maturity date)                                                    | 10,000             | 10,000             | 10,000         | 10,000         |