



DERBY CITY COUNCIL

**COUNCIL CABINET**  
**14 JUNE 2005**

**ITEM 32**

Report of the Director of Finance and  
Director of Corporate Services

## **Contract and Financial Procedure Matters Report**

### **RECOMMENDATION**

- 1.1 To note the latest financial position for Creative Industries Managed Workspace and approve an £83k grant from the pump priming fund.
- 1.2 To approve a proportional transfer of the first £30,000 p.a. of any Derby City Council share of Creative Industries surplus to a corporate reserve.
- 1.3 To approve the funding proposals at paragraph 2.2, to secure additional temporary valuation resources to progress potential new capital receipts.
- 1.4 To approve the capital programme changes and capital scheme commencements at Appendix 3.
- 1.5 To note the allocation to priority repair and maintenance schemes from the additional £500,000 repair and maintenance budget included in the 2005/6 approved revenue budget.
- 1.6 To approve an extension of the HR/Payroll contract to November 2008, subject to mutually acceptable terms and conditions.

### **SUPPORTING INFORMATION**

#### **2.1 Creative Industries Managed Workspace (CIMW) - recommendations 1.1-1.2**

- 2.1.1 The approved capital programme for CIMW includes a Council contribution of £600k funded from unsupported borrowing. This was approved by Cabinet in September 2004 as a Capital "spend to save" subject to confirmation of partner funding and a financial review. Partner funding is due to be confirmed at the June EMDA Board and by GOEM for the ERDF funding soon after. The financial review has been undertaken and cash flow estimates updated.
- 2.1.2 The scheme proposal and the revenue/capital funding split from partners have changed since the original application. The estimated Council capital funding has now reduced to £524k and is replaced by an estimated £83k revenue cost. The impact is shown in appendix 2.

- 2.1.3 In the first three years 2004/5 to 2006/7 there is a revenue cashflow shortfall of £83k as shown in Appendix 2. A grant from the pump priming fund is requested with full repayment in 2007/08.
- 2.1.4 The original spend to save application included a site opportunity cost of £30,000 p.a. to cover the annual corporate income that would have been earned on the capital receipt foregone for Council owned land transferred to the scheme. DDEP and EMDA have insisted as part of the funding agreement that this opportunity cost be removed from the cashflow. In addition a share of any future surplus has also been requested based on the proportion of capital investments. This would give the Council a share of 62.33%. The impact of these changes to the Council is the annual loss of 37.67% of the £30,000 opportunity cost, which is £11,301.
- 2.1.5 It is proposed, therefore, that the first £30,000 p.a. of any surplus share the Council receives is still returned to corporate reserves to secure the lost corporate income.

## **2.2 Funding of additional temporary valuation work to generate capital receipts**

- 2.2.1 There is scope within the Council's asset portfolio for the disposal of more properties and land to realise capital receipts than forecast in the latest capital strategy. The potential receipts from an initial portfolio of properties / sites which could be progressed for disposal is £4m. Although there has recently been a restructure of the Estates section, a review of current workloads and staffing capacity has identified that there is little scope at present to progress these potential capital receipts in-house.
- 2.2.2 The specific work that needs carrying out is the appraisal of each of the sites and properties, liaising with planning colleagues to draw up development briefs as necessary, the preparation of sales particulars and the marketing and disposal of each property.
- 2.2.3 It is proposed, therefore to seek additional resources for an initial period of 12 months to progress these potential sales. The preferred option would have been to appoint a temporary Valuer for a period of 12 months. Recent recruitment activity in this area has proved unsuccessful due to the temporary nature of the position. It is therefore proposed to seek bids from the private sector to progress a portfolio of the disposals and pay their fees either on an hourly fixed fee or percentage basis. A target list of potential receipts to be progressed will be drawn up as a work programme, after consideration of which potential receipts best fit the use of external agents either for direct sale to the market or sale by auction rather than by in-house staff.
- 2.2.4 The cost of a temporary valuer for 12 months would have been in the region of £30k to £32k at top of scale. A contract with the private sector would be constrained to the same total cost.

- 2.2.5 It is proposed that this would be funded from the Corporate Investment fund, as the generation of receipts will reduce the need to call on corporate reserves for investment in the Modernisation of services. The cost of time spent on development briefs and the marketing of vacant land for redevelopment, in order to generate a higher receipt, can be offset against the capital receipt. Where this applies, it will be identified at the time of the Cabinet approval for disposal and will reduce the call on the Corporate Investment fund.

### **2.3 Capital programme changes and capital scheme commencements**

- 2.3.1 Appendix 3 details changes to the latest approved capital programme 2005/2006 requiring Cabinet approval before inclusion.
- 2.3.2 Scheme commencement approval is sought for the two Education schemes over £100,000 in Appendix 3, in line with financial procedure rules.

### **2.4 Repair and Maintenance budget 2005/6**

- 2.4.1 The approved 2005/6 revenue budget includes an additional £500,000 funded from corporate reserves to further support repair and maintenance of Council property.
- 2.4.2 Attached at Appendix 4 are the first proposed allocations from this budget totalling £340k. These have been approved by the Asset Management Group as priority works. A further report will be brought as schemes are prioritised.

### **2.5 HR/Payroll system contract extension**

- 2.5.1 The current HR/Payroll contract with Selima will expire in November 2006. It has an annual value of £134k and is over the EC Public Procurement threshold requiring advertisement in the Official Journal of the European Union. Procurement and implementation of a replacement system could incur additional upfront costs of up to £500,000, in addition to an annual charge if we were to change our supplier. By extending the current contract, we would avoid this additional expenditure.
- 2.5.2 The current HR/payroll system is being developed to provide a fully integrated service that addresses many of the requirements of the e-government agenda and the Gershon report, it would therefore be counterproductive to begin a new procurement process.
- 2.5.3 The resources available to support such a procurement process are minimal at present with a number of projects underway within the Finance Directorate including the planned Financial System and Revenues and Benefits System Replacements. Negotiation of a two-year extension would enable us to manage the risk.

- 2.5.4 Cabinet approval is sought in principle, as required by contract procedure rules, to extend the current contract by 2 years to November 2008. If approved, terms would be agreed with Selima to the extension following consultation with the Director of Finance. An extension of two years would cost approximately £268k, which can be contained within the directorate's revenue budgets.

For more information contact:

Background papers: Carolyn Wright 01332 255349 e-mail Carolyn.Wright@derby.gov.uk

List of appendices: None

Appendix 1 – Implications

Appendix 2 – Creative Industries

Appendix 3 – Capital programme changes and scheme commencements

Appendix 4 – Repair and Maintenance budget

<b>IMPLICATIONS</b>
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**Financial**

1. As detailed in the report

**Legal**

2. None

**Personnel**

3. As detailed in the report.

**Equalities impact**

4. None

**Corporate objectives and priorities for change**

5. These recommendations, where relevant, are in line with approved budgets which accord with the Council's corporate objectives and priorities.

CREATIVE INDUSTRIES - Cash Income & Expenditure by Financial Year @ 14/06/06								
		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Total
<b>Capital Spend</b>								
Construction cost		0	2,128	33	0	0		2,161
Fees		60	260	0	0	0		320
		60	2,388	33	0	0	0	2,481
<b>Capital Funding</b>								
ERDF	36%	0	860	12	0	0		872
DCC		503	21					524
DDEP		0	1,085	0	0	0		1,085
		503	1,966	12	0	0	0	2,481
shortfall		-443	422	21	0	0	0	0
<b>Revenue Spend</b>								
Cost of borrowing		19	49	49	49	49	49	265
Site opportunity costs		0	0	0	0	0	0	0
Sinking fund		0	4	16	16	17	17	70
Facilities management		0	60	80	83	90	90	403
Building overheads		0	0	62	66	67	70	265
		19	113	208	213	223	226	1,002
<b>Revenue Funding</b>								
ERDF	36%	0	22	51	26	0	0	99
Tenants		0	0	134	345	380	383	1,242
DDEP		0	50	0	0	0	0	50
		0	72	185	371	380	383	1,391
Net Revenue								
+shortfall/- surplus		19	42	22	-158	-157	-157	-389
<i>cumulative</i>		19	61	83	-75	-232	-389	
<b>Less first call to repay pump priming</b>								
		0	0	0	-83	0	0	
<b>Balance</b>					<b>-75</b>	<b>-157</b>	<b>-157</b>	
<b>Shared to:</b>								
<b>DCC - share @ 62.33%</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>-47</b>	<b>-98</b>	<b>-98</b>	
<i>- corporate</i>					-30	-30	-30	
<i>- departmental</i>					-17	-68	-68	
<b>EMDA share</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>-28</b>	<b>-59</b>	<b>-59</b>	

Sources of Funding 2004/05 - 2008/09			
	Capital	Revenue	Total
DCC unsupported borrowing	524	0	524
ERDF	872	99	971
Tenants	0	1,242	1,242
DDEP	1,085	50	1,135
	2,481	1,391	3,872
<i>DCC Land</i>	400		
	2,881		

DCC+ERDF £	1,396
DCC Land Value	400
	1,796
DCC+ERDF %	<b>62.33%</b>

## **Approved Capital Programme 2005/2006- 2007/008**

### **Capital programme changes and scheme commencement**

#### **Education**

##### **Alterations and extensions to the sports hall at Littleover Community school**

This is a New Opportunities fund project incorporating some essential capitalised maintenance works

The latest approved programme includes £1.374m in 2005/6 to be funded from New Opportunities Fund

The revised scheme cost and funding is:

- 2005/6 - £1.385m to be funded from £117k school contribution, £112k New DEAL for Schools condition funding and £1.156m New Opportunities fund
- 2006/7 - £64k to be funded from New Deal for Schools Condition funding

##### **Alvaston Junior and Infants schools – replacement heating system**

The latest approved programme includes £234k in 2005/6 and £6k in 2006/7 funded from New Deal for Schools Modernisation funding.

The revised scheme funding is:

- 2005/6 - £234k funded from £32k school contribution and £202k New Deal for Schools Modernisation funding
- 2007/8 - £6k New Deal for Schools Modernisation funding

#### **Commercial Services**

##### **Knightsbridge Recreation ground - sports wall youth facility**

This is a new 2005/6 scheme arising from a successful external funding bid

Total cost 2005/6 £20,000 to be funded by a Small Change grant

## Repair and Maintenance budget 2005/6

Scheme No	Building	Scheme details	Estimated cost £000
1	Ashlea Hostel	New heating system: The heating and domestic water system pipework is corroded and leaking in many places. The entire heating and domestic water system needs to be replaced and there is some associated asbestos removal.	150
2	Shaftesbury Sports Centre	Provision of fire alarm installation (none currently).	25
3	Market Hall	Replacement control system for plant operation.	20
4	Ashtree House	Provision of automatic fire alarm system to part of site.	25
5	Parker's Piece	Repairs and refurbishment, including roof repairs and bringing one changing room back into use.	50
6	Silk Mill	Listed building consent has recently been obtained for the removal, refurbishment and re-erection of the fire escape to the Silk Mill. Estimated costs are £100,000 but the full extent of the refurbishment work can only be known after X-ray survey. English Heritage has informally pledged £70,000 which will add to the Council's contribution in this application for £30,000. The Council may need to find the full amount if English Heritage do not contribute.	30
7	Markeaton Lodge and Kedleston Road toilets	Demolition of closed and surplus properties	40
<b>TOTAL TO DATE</b>			<b>340</b>