



DERBY CITY COUNCIL

COUNCIL CABINET
13 JANUARY 2004

Report of the Director of Finance

ITEM 25

Financial and Contract Procedure Matters Report

RECOMMENDATION

- 1.1 To seek approval for an addition to the 2003/2004 capital programme for capital work to Warwick House to create a new intermediate care wing at a cost of £135,000.
- 1.2 To seek approval for an addition to the 2003/2004 capital programme for a Sure Start Osmaston/Allenton scheme to refurbish Kingdom Hall at a cost of £250,000.
- 1.3 To approve the commencement of capital schemes over £100,000 as detailed in section 3.2.
- 1.4 To approve the retention of the Fire and Rescue Service's existing projected reserves by the service.
- 1.5 To note the allocations from the E-Derby budget.
- 1.6 To approve a one-off addition to the Derby Homes management fee 2003/2004 of £221,000.
- 1.7 That the Cabinet approves an increase to the capital programme of £3m relating to the achievement of Decent Homes, and approves the new capital programme for Housing attached as Appendix 2.
- 1.8 That the Cabinet accept an offer of a £3m Supplementary Credit Approval, SCA, to fund the increased expenditure.

REASON FOR RECOMMENDATIONS

- 2.1 Financial procedure rules require Council Cabinet approval of changes and additions to the 2003/04 capital programme.
- 2.2 Financial procedure rules require Council Cabinet approval to commence spending on individual capital schemes, which in total exceed £100,000.
- 2.3 The retention of reserves by the service is in line with assumptions made by both the contributing Authorities – Derby City and Derbyshire County Council, and the Fire Service itself.

- 2.4 All pre-requisites to the use of Derby Homes 2002/2003 under-spends have now been satisfied.
- 2.5 The additional SCA enables the achievement of Decent Homes' targets to be brought forward and to make efficiency savings in the cost of procurement of the works.

SUPPORTING INFORMATION

3.1 Additions to the Approved Capital Programme (recommendations 1.1 and 1.2)

Warwick House

- 3.1.1 Social Services require the addition of a new capital scheme for works to be carried out to convert and refurbish a new intermediate care wing at Warwick House.
- 3.1.2 The work will be carried out by Development & Cultural Services at a cost of £135,000. The scheme is funded from the Performance Grant allocation (£75k) and £60k from the Access and Systems Capacity Grant.
- 3.1.3 The scheme if approved would increase the number of Intermediate Care Beds available in order to improve the range of rehabilitation and intermediate care services to help prevent admission to hospital, delayed discharges from hospital and premature admission to long term care.

Kingdom Hall

- 3.1.4 An extra £250,000 capital has been granted by the Sure Start Unit to Osmaston/ Allenton Sure Start as a trailblazer. The grant has to be spent by March 2004.
- 3.1.5 The funding will be used to . . .
- Refurbish Kingdom Hall to ensure it meets Health and Safety standards and is up to the quality standard of the new build of the First Steps building and to ensure the crèche will meet OfSTED requirements. This will ensure a quality crèche facility whilst local residents are accessing learning opportunities within First Steps. Total cost £185,000.
 - Meet the extra building costs of the new build - £30,000.
 - Provide landscaping and fencing for new building - £25,000.
 - To build a buggy park for the Neighbourhood Nursery, a one way mirror for nursery managers office and extension and alteration to the nursery play area - £10,000.

3.2 Capital Scheme commencement

- 3.2.1 The 2003/04 approved capital programme contains the following schemes:
- alterations and extensions to Homelands House. £1,250,000 to be funded from Government Grant
 - refurbishment of Kingdom Hall. £250,000 to be funded from Government Grants (see 3.1.5)

- adult education centre – Village site. £140,000 to be funded from Government Grant and revenue contributions.

3.2.2 Approval is sought to commence spending on the above schemes.

3.3 Fire Service Reserves

- 3.3.1 The Derbyshire Fire and Rescue Service was set up on its current basis after Local Government Re-organisation, LGR, in 1997. It is currently a levying body – charging an amount to the City and County Councils each year. This status meant that they could charge a supplementary levy during any financial year. There is a doubt about whether they could hold reserves in their own right. Extensive Home Office legal advice suggested that there is nothing to prevent Fire Authorities from holding such reserves. Whilst this issue remains unclear, the practice has been that the service has held reserves since LGR. From April 2004, the service becomes a precepting body. This means that they are no longer able to issue supplementary levies, but can clearly hold reserves in their own right.
- 3.3.2 In order to avoid the prospect of either supplementary levy or levies being set, the Fire and Rescue Service has effectively held a balance of funds as a reserve since LGR. In effect, these reserves have arisen as a result of the service managing within its budget as set by the levy. The service is now requesting that the County and City Councils formally agree that the service be allowed to retain these reserves in line with previous and current practice. They need this formal approval of the City and County Councils, to clarify the doubt about the ownership of these reserves.
- 3.3.3 In practice, the service has operated on a similar basis to other Council services where balances are carried forward from year to year. It has also avoided the need for any supplementary levies in the middle of financial years since LGR as a direct result of the policy of allowing the retention of reserves, which would have been unhelpful for financial planning of both contributing authorities.
- 3.3.4 It is suggested that the service should, therefore, be permitted to retain these reserves. The alternative is likely to be that the service would, under its precepting powers, impose a greater increase in precept next year to recover this loss to them and a reasonable contingency for 2004/5. Two other options would be available to the service – to increase spending in 2003/4 to run down the level of reserves, or to raise a very late supplementary levy. All of these options would not advantage the City Council. Indeed the option of greater immediate spending would make our financial position worse, as the service would then need a greater increase in resources to return to a reasonable financial position.
- 3.3.5 At the end of 2002/3 the service had total reserves of £1.4m of which £0.7m was earmarked for specific purposes. The net £0.7m of un-earmarked reserves represents around 3% of their annual budget. This level of reserves is not deemed to be excessive by their external auditors. In theory, this represents a transfer to the service from the City Council of around £175,000. In practice, if this sum were successfully recovered, it would in all probability be added to the sum demanded in 2004/5 through the Fire precept. This would then leave the Council in the same financial position, but with some damage to relations with the Fire service.

- 3.3.6 The County Council are intending to respond positively to the request from the service, and a report will be presented to their Cabinet on 13 January. The officers' recommendation will be similar to this report's recommendation
- 3.3.7 The main alternative would be to resist the request from the service to retain the reserves that they hold currently. The City Council might then stand to receive around 25% of the final reserves of the Fire Authority as a levying body, should a legal challenge prove successful. The service could, in addition, attempt to run down their reserve by spending any projected balance quickly in this year. It may then attempt to recover this expenditure and build in a contingency into next year's precept. This is likely to encourage unnecessary spending in the short term and a higher than necessary precept on the 2004/5 Council Tax. It would also be contrary to the principles followed in the management of the levy for the period since 1997.
- 3.3.8 There would be no net impact on the budget, as the levy has been paid as demanded each year. Future precept increases would be higher at some point to recover the shortfall in the service's financial position.

3.4 E-Derby budget scheme allocations

- 3.4.1 In line with the E-Derby strategy approved by Council on 16 September 2003, the E-Derby board has approved, subject to further clarification of costs in some cases, allocations to individual schemes as detailed in Appendix 3. Cabinet is asked to note these allocations.
- 3.4.2 There is a total E-Derby budget of £1,250,000 to allocate. Work is underway to allocate to the relevant department's revenue and capital budgets. An update will be provided at the Cabinet meeting.

3.5 One-off addition to the Derby Homes management fee 2003/2004

Council Cabinet 5 August 2003 approved the treatment of the £221,000 2002/2003 out-turn under-spend in the management fee of Derby Homes, subject to a demonstration that the money was to be spent on one off items and that a variance analysis for the outturn was produced. This analysis has now been received. Derby Homes' proposals are intended to spend the additional resources on the following one off items within this financial year:

	£000
Staff uniforms	30
Employee and Board training	20
Consultancy	15
Housing future studies	54
IT Capita additional assignment days	<u>102</u>
Total	<u>221</u>

3.6 Housing Capital Programme

- 3.6.1 The Decent Homes programme is intended to bring all Council Houses up to Decent Homes standards by the end of the 2005/6 financial year. The progress made towards these targets in terms of works completed has been ahead of schedule. As a result of this achievement, it was suggested that the current year's funding for Decent Homes might run out before the end of the year. This would then lead to partners having to lay off workers and to unnecessary delay in the implementation of the programme which would then need to recommence in April.
- 3.6.2 The Decent Homes funding is in the form of two separate two-year SCAs – 2002/3 to 2003/4 and 2004/5 to 2005/6. It is only, therefore, transfers between 2003/4 and 2004/5 that have to be separately approved. As a result, a request was therefore made to the ODPM to see if there was any possibility that £3m of the overall ALMO/ Decent Homes programme could be brought forward from 2004/5 into 2003/4.
- 3.6.3 The ODPM have confirmed only last week that they would approve a transfer of £3m from 2004/5 to 2003/4 as long as the profile of the ALMO subsidy is not affected. In other words they would not give us any further funding, but will not reduce the overall subsidy originally agreed. As a result, the HRA will bear some additional interest costs on the sums brought forward until the subsidy calculation comes back into line with the expenditure profile at the end of the programme. It is estimated that the additional interest cost will be around £175,000 – around £25,000 in 2003/4 and the rest in 2004/5. This is approximately matched by the cost benefits that are expected as a result of increased efficiency in procurement of around 6% of costs. This is as a result of bringing forward expenditure, as assumptions of real terms increases over time are built into the current arrangements with suppliers. As a result, we would be able to bring forward the outcomes of the programme at little or no net cost to the HRA.
- 3.6.4 The programme is at the point where we either need to rein back expenditure to fit the funding allowed or to add to the programme. The SCA will provide a way of funding the additional expenditure.
- 3.6.5 The ODPM have indicated that there would be a difficulty in switching the SCA back to 2004/5 should we not require the entire amount in 2003/4. Derby Homes Director of Investment and Regeneration is confident that the entire amount can be spent in this financial year. Should for any reason this not be achieved, there would be a means to use less of our Major Repairs allowance which is also being focused on decent homes to carry forward any underspending. There is consequently an extremely low risk of losing any SCA as a consequence of this change.
- 3.6.6 The reasons for the increased costs in delivering Decent Homes is primarily an increase in the units made decent and the work done towards others being made decent. There are now planned to be a further 200 homes made decent than the original target by the end of this year.

3.6.7 The HRA would have to meet additional interest payments in 2003/4 and 2004/5 amounting to approximately £0.175m. There would be corresponding reductions in the cost of capital expenditure incurred in delivering the programme. The SCA will not bring any additional direct subsidy, but will cost the HRA more in terms of interest in the short term. The costs roughly the same to the revenue account as will be saved on capital. This amount can be afforded on a one off basis, given the increases in subsidy as a result of the expected increases to MMA from next year.

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Housing Capital Programme Appendix 3 – E-Derby allocations

IMPLICATIONS

Financial

1. As detailed in the report.

Legal

2. The Home Office sought legal advice on this issue, which concluded that there was no reason why Fire and Rescue Services could not hold reserves in their own right. There is some doubt over whether this advice is correct, but it would need to be successfully challenged to recover the funds. Any successful outcome to such a challenge is likely to result in a greater demand for precept from the service. This position needs to be confirmed by legal services before a final decision is taken.

Personnel

3. None.

Corporate Themes and Priorities

- 4.1 The additions to the capital programme accord with the Council's key themes and priorities.
- 4.2 The proposed treatment of Fire Service reserves covers:
 - 'Value for Money' being maintained by avoiding any doubt at the Fire service about the treatment of these funds, and avoiding an incentive to rush to spend reserves by the end of the financial year
 - 'Safer and Healthier Communities' is assisted in avoiding any danger of locally imposed reductions in funding for the Fire service as a result of a loss of expected funding.
- 4.3 'A Great Place to Live' would obviously be enhanced by a faster speed of improvement in the standards of decency in relation to Council Homes. 'Value for Money' is enhanced in terms of the prices being paid for additional works being lower by around 6% as a consequence of higher volumes of work.

Draft Public Sector			
Capital Programme	2003/04	Additional	Revised
	Budget		Budget
	£000's	£000's	£000's
Kitchens & Bathrooms post war north	6,232	300	6,532
Kitchens & Bathrooms post war south	3,532	250	3,782
Kitchens pre war	1,200	200	1,400
Bathrooms pre war	600	100	700
DPC	400		400
Installation of Burglar alarms	300		300
Replacement warden call	175		175
Electrical upgrade	500		500
Re Roofing	2,444	300	2,744
St Clares Drainage	183	50	233
Asbestos Removal	250		250
Wimpeys	2,300	600	2,900
Unities	3,000	500	3,500
Pre war (full mods)	2,000		2,000
PVCu windows	1,800		1,800
Gas central heating new/replacement	3,500	700	4,200
City Housing Improvement Plans (Large Scale)	880		880
City Housing Improvement Plans (Small Scale)	320		320
Adaptations for disabled people	600		600
Installation of Smoke Alarms	150		150
Crime Prevention Measures	150		150
Individual door entry systems	100		100
Communal door entry systems	200		200
Flat lobby refurbishment	100		100
Estate regeneration (Osmaston)	20		20
IT Development	160		160
Conversion of Sheltered Accommodation	50		50
Cardinal Square Floor 1	20		20
Capitalised salaries	807		807
Marketing	10		10
TOTAL	31,983	3,000	34,983

E-Derby allocations

Owning Section / Department	Scheme details	£000
D&CS - Libraries	To provide free public Internet access from library sites. Further element of funding may be required, £30k, for monitoring and security, this is currently under technical review.	35
Education	Pupil and Admissions Systems – To provide the basis of an integrated hub to effectively manage and monitor pupil interactions, in line with government requirements. Subject to technical review of the project: risks, costs and implementation plan	80
Chief Executive's - Corporate Services	Resources and software to develop and maintain, to BS7666, a Corporate Land and Property Gazetteer to provide a common address link for the Council's various property information systems. The proposed funding may reduce subject to technical review of an alternative approach linked to 2001 census data.	120
Chief Executive's - Corporate Services	To automate key aspects of the decision making process and facilitate publication of documents in paper, to Derbynet and Internet. Also to automatically link information together so that a history of decisions and debates can be available to Officers, Councillors and members of the public. Subject to clarification of some elements of the business case.	60
Corporate Projects	Contingency budget to support the local implementation of projects provided by the Derbyshire e-Government Partnership <ul style="list-style-type: none"> • e-Forms and e-forms portal • A to Z • GIS • CRM The total funding required will be dependant on the scope of implementation of each project across the council.	50
	Total	345