



DERBY CITY COUNCIL

COUNCIL CABINET
26 APRIL 2005

ITEM 27

Report of the Director of Finance and
Director of Corporate Services

Contract and Financial Procedure Matters Report

RECOMMENDATION

- 1.1 To note the additional costs of foreseen site condition works at various PFI schools, and to approve the proposed funding arrangements.
- 1.2 To approve the technical adjustments to the 2005/06 revenue budget approved by Council on 2 March 2005, as set out in Appendix 2, and to note their impact on the indicative budgets for 2006/07 and 2007/08.
- 1.3 To approve the funding of a Change Management team for the Council for an initial period of two years, at a total estimated maximum cost of £386,350, to be met from within the Building for Excellence budget.
- 1.4 To adopt a system of internal budget virements to meet the cost to the Treasury Management budget of additional departmental self-financing unsupported borrowing.
- 1.5 To waive Contract Procedure Rule 15 and award Moss Drainage Services a three year plus two year option contract for land drainage and flood defence services, with an option to extend this further based on performance indicators.

SUPPORTING INFORMATION

2.1 Grouped Schools PFI – Site Condition issues

- 2.1.1 When the final contract for the Grouped Schools PFI contract was in preparation, the Council's service provider, Derby Schools Solutions, wanted to negotiate a contingency within their capital costs. This was to cover for the risk of site condition work costs, which they felt would inevitably be incurred during construction. Their estimate at the time to cover for such works was approximately £1.5m. If included in the PFI costs, this would have resulted in an increased unitary charge of around £100k per year for the 27 year life of the contract. Following advice from its own environmental advisers, the Council considered £1.5m to be excessive, and that whilst it was accepted that certain costs would be incurred, the potential cost of works would be significantly lower. As a result, the relevant schedule of the PFI project agreement was written such that the risk of these costs would be borne by the City Council, in the knowledge that some costs would be incurred at a later stage.

2.1.2 Following the commencement of works at the PFI schools, an assessment of the required works has now taken place, the details of which are shown below:

Hardwick - removal of contaminated ground - £37k
Hardwick – Installation of gas prevention membrane - £2k
Da Vinci – Installation of gas prevention membrane - £12k
Merrill – Installation of gas prevention membrane - £19k

Total approximate cost - £70k

2.1.3 These one-off costs have not been included within the financial modelling and affordability discussions previously carried out and reported to the Cabinet to date. As a result, there are no funding arrangements in place to pay for the works.

2.1.4 It is proposed to fund the works from the additional grant that will be received over the life of the contract resulting from the PFI grant reform. This reform took place earlier this year in order to ensure grant for future PFI projects more accurately reflects the profile of contract payments made by Councils under PFI agreements. As a result of this reform, the Council has opted to change the methodology used to calculate the annual revenue grant stream. This is justified by the fact that this change in methodology will generate additional grant of £4.6m in net present value terms (NPV) over the 27year contract period, offset by a loss of £4.4m NPV relating to grant now foregone, that would have been received after the contract period. This results in a net additional income in NPV terms of around £200k, more than sufficient to cover the above works.

2.2 Technical Adjustments to the Revenue Budget 2005/06 to 2007/8

2.2.1 Since the approval of the 2005/06 revenue budget at Council on 2 March 2005, the detailed service budgets have been finalised. As in previous years, this process has resulted in certain technical virements, which need to be reflected in the Council's final published budget for 2005/6 – the 'blue book'.

2.2.2 The technical adjustments are shown in Appendix 2 together with individual explanations. They all reflect a position reached prior to the Council decision, including virements made under delegated powers, which for various reasons had been omitted from the consolidated budget proposals previously brought before Cabinet and Council. There is no net impact on the overall net budget requirement for 2005/6 approved by Council.

2.2.3 The Council also approved indicative 2006/07 and 2007/08 budgets for planning purposes on 2 March. It is similarly proposed to update those indicative budgets to reflect the ongoing impact of the changes in Appendix 2, within the published blue book. There will again be no net impact on the indicative overall net budget requirements for 2006/7 and 2007/8 previously reported.

2.3 Funding for the Establishment of a Change Management Team

- 2.3.1 The implementation of a Customer Contact Centre is one of a number of significant changes the Council is going to have to address over the next few years. These changes will transform the structure, the way we operate and the overall culture of the organisation. Although the Council has been making significant progress in a number of areas, there is a need to create additional capacity to equip ourselves for the changes and challenges we now face if we are going to deliver the five strategy areas which make up the Building on Excellence programme.
- 2.3.2 Over the last few months, we have considered the potential options for creating additional capacity. This included working with Capita on a range of projects and exploring the potential for developing a partnership solution. Although a partnership would bring benefits to the Council, it was agreed at the last meeting of the Building on Excellence Board that the most cost effective and practical solution for Derby would be the creation of a dedicated in-house Change Management Team with BPR and project management expertise.
- 2.3.3 The Change Management Team will be created within the existing Strategic Planning and Performance Unit which has developed and supported the Building on Excellence programme to date. The Change Management Team will be lead by the Business Improvement and Change Manager and will consist of three Change Managers and part-time support from the Corporate Training and Development Adviser.
- 2.3.4 A virement is required for the total additional funding from Building on Excellence budget, within the following range, dependent upon experience / grades of the successful candidates.
- | | |
|--------|---------------------|
| 2005/6 | £129,529 - £138,585 |
| 2006/7 | £182,113 - £195,140 |
| 2007/8 | £ 49,130 - £ 52,625 |
| TOTAL | £360,772 - £386,350 |

2.4 Treatment of Prudential Borrowing by Departments

- 2.4.1 The Local Government Act 2003 established a new set of rules governing how local authorities borrow funds to meet capital expenditure requirements. In essence, these require authorities to have regard to the affordability of additional repayments of interest and capital as a consequence of any unsupported borrowing undertaken.
- 2.4.2 The Council has for 2005/06 to 2007/08 continued its policy of increasing the corporate capital programme by £2m a year funded from additional unsupported borrowing. This is already costed into corporate budget projections for Treasury Management.
- 2.4.3 The issue is how we meet the financing costs of further self-financing unsupported borrowing for departmental schemes that are additional to the corporate capital programme. Cabinet approval for such schemes is still required in order to include them in the capital programme of the Council. The overall costs of these schemes can be met from savings the borrowing generates within existing departmental budgets. Examples of this would be where departmental leasing costs can be replaced by borrowing to fund outright purchase of assets such as refuse vehicles,

or where additional future income should be more than sufficient to repay the initial investment.

- 2.4.4 The Council needs to make sure that the treatment of these costs in its accounts remains consistent with the Local Government Best Value Accounting Code of Practice, BVACOP, while ensuring that extra funds are available to the Treasury Management budget to finance the increased level of interest and repayments of borrowing. BVACOP requires Councils to charge depreciation and interest, known as 'capital charges', which is normally done outside of controllable departmental budgets.
- 2.4.5 The principle proposed that a fixed amount of budget will be required to transfer from the relevant department's budget to the Treasury Management budget to meet the financing costs of any such approved self-financed scheme undertaken by departments.
- 2.4.6 The amount to be transferred will be calculated by the Director of Finance, using a reasonable interest rate and expected life of the asset concerned. Where assets have a life over 15 years, the virement will be calculated using 15 years in order to avoid a situation where the cost to Treasury Management including minimum revenue provision for the repayment of debt is in excess of the amount made available by the service department. Exceptions to this rule would involve additional corporate funding and would therefore require a specific Cabinet approval. Annual cash limit uplifts within the budget cycle will be calculated gross before the budget transfer, so as not to reduce the scale of the uplift following the transfer.
- 2.4.7 The general approach above will not necessarily apply to borrowing for Commercial Services or other trading activities, where depreciation must be charged to the controllable budget, in contrast to other service budgets. Consequently a different treatment may be required in such cases to ensure that the budget virement has a neutral effect. The accounting approach to be taken will be confirmed when approving any such scheme.
- 2.4.8 The detail of the scheme will be developed to be consistent with the principles outlined in this report.

2.5 Land Drainage and Flood Defence Services Contract

- 2.5.1 This work involves:
- inspection and clearance of known problem areas on watercourses
 - taking part in Confined Space Team inspections
 - inspection and maintenance of Pumping Stations
 - 24 hr standby operations for response to automatic warnings
 - production of asset details for long term GIS
 - involvement in drawing up the five year rolling improvement plan
 - assisting in compiling and updating the annual asset register.
- 2.5.2 The work is currently carried out by Moss Drainage Services (MDS) after they won a one year contract in a competitive tendering exercise in 2003/04. Since then they have been given repeat annual contracts. The current one is worth approximately £60,000.

- 2.5.3 The current contract comes to an end in March 2006 but rather than renewing it for a further year it is proposed to award it for a three year plus two year option period. This has advantages for both parties; for MDS it gives them the security and for the Council it gives continuity in this specialist area.
- 2.5.4 During their time as contractor for this service MDS have performed well and have built up an intimate knowledge of the drainage issues in the city and the specialist working practices, as well as establishing good relations with such bodies as the Environment Agency, Severn Trent Water and Defra. The award of the contract in this way will save the costs associated with tendering and retain a contractor with a proven track record and an intimate knowledge of the land drainage system and flood defence assets in Derby.
- 2.5.5 MDS' knowledge and experience will be particularly valuable during the next few years when, due to staff retirements, a wealth of knowledge within the in-house team will be lost. In addition, MDS will if awarded a long-term contract invest in equipment to provide an even better service.
- 2.5.6 It is therefore proposed that, to retain this expertise, MDS be awarded a five year contract without going through a competitive tendering exercise, as MDS proved most competitive when tendering last took place. It is regarded as highly unlikely that there is anyone else in this specialist market who could rival their local knowledge of problems and working practices/protocols.
- 2.5.7 To ensure value for money the contract rates for the new contract will be the same as those for the current annual contract other than yearly cost increases to reflect any change in the Retail Price Index or any unforeseen increases. The cost will be in line with the revenue budget provision available.
- 2.5.8 To protect the Council against poor performance over the five year period the contract will allow the Council to go to other contractors if MDS default on particular tasks and to terminate if MDS' performance is poor overall. On past records however this seems a remote possibility.
- 2.5.9 This is considered to be an exceptional case for the reasons outlined. As other similar contracts come up for renewal in the future, the department is preparing to seek tenders for longer periods.

For more information contact:	Carolyn Wright 01332 255349 e-mailCarolyn.Wright@derby.gov.uk
Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Technical Changes to 2005/6 Budget

IMPLICATIONS

Financial

1. As detailed in the report.

Legal

2. The PFI costs incurred are in line with the signed Schools PFI project agreement.

Personnel

3. None.

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.

Schedule of Changes to Approved 2005/06 Budget

APPENDIX 2

Department	Employees	Running Costs	External Income	Net Control Budget	Add Capital Charges	Add Support Services	Net Budget	Comments
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
CHIEF EXECUTIVES'S								
CE POLICY DIRECTORATE					16	(8)	8	Incorrect original coding: £16k from D&CS, £8k to Other Corporate
Directorate Management	1		(1)	0			0	
Derby Community Safety Partnership	(338)	338		0			0	Unallocated at present as detailed budgets not received
Housing General Fund Account		(5)		(5)			(5)	
Housing Services Management		5		5			5	
CE Policy Total	(337)	338	(1)	0	16	(8)	8	
CE CORPORATE SERVICES DIRECTORATE					9		9	Incorrect original coding from D&CS
Democratic Services							0	
Management & Admin	2	(2)	1	1			1	
Overview & Scrutiny	33	(5)		28			28	Corporate complaints officer post moved from Corporate Budgets
Committee Services		5		5			5	
Property Services								
Accommodation	(10)	10		0			0	Council House Assistant Manager Post reallocated. Additional cleaning costs included.
Estates	10	14	(24)	0			0	Council House Assistant Manager Post reallocated. Net increase in Pride Park income
Markets		(1)		(1)			(1)	
Environmental Health and Trading Standards							0	
Hackney Carriages	7	10	(17)	0			0	Increased income to cover staffing changes
CE Corp Services Total	42	31	(40)	33	9	0	42	

Schedule of Changes to Approved 2005/06 Budget

APPENDIX 2

Department	Employees	Running Costs	External Income	Net Control Budget	Add Capital Charges	Add Support Services	Net Budget	Comments
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
CHIEF EXECUTIVES'S (Continued)								
CE FINANCE DIRECTORATE								
Corporate Finance								
Finance Management	10	(10)		0			0	Increments for Finance Directorate - to be allocated further.
Contingency Budget	(10)	(5)		(15)			(15)	Funding of increments.
Accountancy and Technical Finance	(21)	4		(17)			(17)	Removal of budgeted one-off maternity cover
Financial Services								
Management Support	7	(7)		0			0)Movement of staffing budget following Fin Services restructure
Employee Payments			(1)	(1)			(1))
Vision System	(30)	(4)	1	(33)			(33))
Business Systems	31			31			31)
External Payments	1			1			1)
ICT and Performance								
Strategic Planning and Performance	1	(1)		0			0	
Computer Services		52	(52)	0			0	Adjustment to recharges outside General Fund
Revenues and Benefits								
Income & Post Room	(1)	10	1	10			10)General movement of staffing between all revenues and benefits cost centres
Council Tax Billing	2	(12)		(10)			(10))
NDR Billing & Collection		1	(1)	0			0)
Policy and Development		4		4			4)
Systems and Performance	14	(1)		13			13)
Divisional Management	(5)	(3)		(8)			(8))
Benefits Administration	(474)	(4)		(478)			(478)	Split of Benefits Admin team to new Corporate Customer Services Team
Inspection Services	67	(48)	(111)	(92)			(92)	Increased income levels expected resulting in 2 additional inspection staff and an additional fraud officer
Corporate Customer Services	581	14		595			595	25 front line staff transferred from Benefits Admin team to new Corporate Customer Services Team + 3 new posts
CE Finance Total	173	(10)	(163)	0	0	0	0	
CE CORPORATE BUDGETS								
Other Corporate Budgets								
Chief Executive						8	8	Incorrect original coding from Policy
Corporate Management	(33)			(33)			(33)	Corporate complaints officer post moved to Corporate Services
Residual Reorganisation Costs	(10)	10		0			0	Revised coding of costs
Insurance		39	(39)	0			0	Adjustment to Recharges Outside General Fund
Corporate Contingency Fund	(206)	256	100	150			150	Reclassification, balance from Support Services
Support Services Recharge Balance		(150)		(150)			(150)	Revised estimate, balance to contingency
Car Leasing		1	(1)	0			0	
External Audit Fees		1	(1)	0			0	
Benefit Payments		1,512	(1,512)	0			0	Increase in Income totals received for 2005/2006
CE Corporate Budgets Total	(249)	1,669	(1,453)	(33)	0	8	(25)	
CE Dept Total	(371)	2,028	(1,657)	0	25	0	25	

Schedule of Changes to Approved 2005/06 Budget

APPENDIX 2

Department	Employees	Running Costs	External Income	Net Control Budget	Add Capital Charges	Add Support Services	Net Budget	Comments
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
COMMERCIAL SERVICES								
Trading Services		50	(50)	0			0	Revisions in Street Cleaning Budget
Commercial Services Total	0	50	(50)	0	0	0	0	
D&CS								
Estates Capital charges - Miscoded to D&CS					(25)		(25)	Incorrect original coding. To Policy and Corp Services.
D&CS Total	0	0	0	0	(25)	0	(25)	
EDUCATION							0	
Individual Schools Budget		83		83			83	Additional delegation from Catering and Inclusion budgets
Resources and Strategic Planning								
Catering		(6)		(6)			(6)	Delegation of self prepared meals - see ISB
Resources & Strategic planning services		(28)		(28)			(28)	Reduction of contingency budget
Lifelong Learning and Community/ Youth and Community								
Youth	25			25			25	Allocation from contingency for backdated pay award. Settled late in budget process
School Improvement and Inclusion								
Inclusion		(72)		(72)			(72)	Delegation of nurture group funding - see ISB
Recoupment / Non Maintained Schools		14	35	49			49	Transfer of LSC income between budget book lines from School Improvement & Inclusion Other
School Improvement			22	22			22	Permanent virement from Special Services Support - actioned during 2004/05
Special services support	(22)			(22)			(22)	See School Improvement
School Improvement & Inclusion Other			(49)	(49)			(49)	See Recoupment
Education Sport and Leisure								
Sports Centres		(2)		(2)			(2)	Roundings
Education Total	3	(11)	8	0	0	0	0	

Department	Employees	Running Costs	External Income	Net Control Budget	Add Capital Charges	Add Support Services	Net Budget	Comments
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
SOCIAL SERVICES								
Service Strategy & Regulation								
Policy, Planning, Perf & Res			1	1			1	Rounding
Children & Families								
Children & Families Management	(64)	62		(2)			(2)	£62k budget transfer to Corporate Services for Solicitor costs £2k roundings
Non Residential Services	1	(1)	43	43			43	£43k reduction in announced from estimated grant allocation for Safeguarding Children
Residential Care		1		1			1	Rounding
Older People								
Management		1	(1)	0			0	Roundings
Residential Care		327	102	429			429	£327k increase in running costs budget arising from one-off increase in A&SC grant set aside to balance budget. £102k net reduction in Older People Residential Care share of changes between announced and estimated allocations for A&SC, Preserved Rights, Residential Allowance and NTS grants
Non Residential Services			(395)	(395)			(395)	£395k net increase in Older People Non-Residential Services share of changes between announced and estimated allocations for A&SC and Carers' grants
Physical Or Sensory Disability								
Residential Care			1	1			1	Rounding
Non Residential Services		32	(32)	0			0	£32k income from Education & recharge from Corporate services relating to ALS removal from St Helen's House to Rycote Centre
Learning Disabilities								
Residential Care		1	55	56			56	£55k net reduction in Learning Disabilities Residential Care share of changes between announced and estimated allocations for Preserved Rights and Residential Allowance grants.
Mental Health Needs								
Residential Care			(116)	(116)			(116)	£116k net increase in Mental Health Residential Care share of changes between announced and estimated allocations for Preserved Rights and Residential Allowance grants.
Non Residential Services		(1)		(1)			(1)	Rounding
Resources And Performance M'Gt								
Management And Administration	(1)			(1)			(1)	Rounding
Training Information			(17)	(17)			(17)	£17k net increase in HRDS & NTS grants over cessation of TSP grant.
			1	1			1	Rounding
Social Services Total	(64)	422	(358)	0	0	0	0	
TOTAL ALL DEPARTMENTS	(432)	2,489	(2,057)	0	0	0	0	
Net Capital Charges					0		0	
NET EXPENDITURE	(432)	2,489	(2,057)	0	0	0	0	