



Report of the Director of Resources

Executive Board

Date: 22nd August 2007

Subject: Capital Programme Monitoring - Update

Electoral Wards Affected:

All

Specific Implications For:

Ethnic minorities

Women

Disabled people

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In
(Details contained in the report)

EXECUTIVE SUMMARY

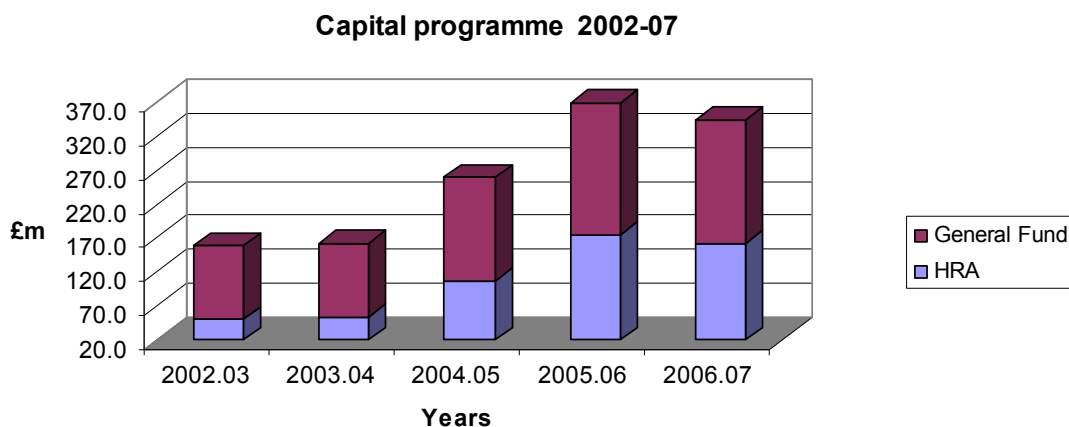
1. This report provides an update on the resources and estimated spend on the capital programme between 2007 and 2010. The report highlights the continued success in delivering investment across the city.
2. The report sets out some capital programme pressures and recommends some injections to the programme to address these. The report seeks Executive Board approval to some key principles for controlling the programme and highlights some control measures which the Director of Resources is taking to ensure the programme continues to be affordable and sustainable.

1 Purpose Of This Report

- 1.1 The capital programme was approved by Executive Board and Council in February 2007. This report sets out the latest capital programme position and seeks approval to include some new projects within the capital programme. The report also highlights the continuing investment made by the council in the city while explaining the pressures on future schemes and providing details on the latest resources and expenditure estimates for the capital programme.

2 Background Information

- 2.1 The capital programme sets out the investment the council makes on assets across the city of Leeds. The level of investment by the council has grown significantly in recent years and the following graph illustrates the increases.
- 2.2 Capital programme expenditure has increased from £158.2m in 2002/03 to £369.2m in 2005/06 and falling back slightly in 2006/07 to £344.1m.



- 2.3 In February 2007, the capital programme assumed total spend between 2006/07 and 2010/11 of £1.366bn, this included £804.2m general fund spend and £562m by the HRA. At that time funding for general fund projects amounted to £757.9m which assumed a reasonable level of overprogramming at £46.3m. As much of this overprogramming (£32.2m) was in the first two years of the programme, Executive Board asked the Director of Resources to monitor and control scheme progress and commitments to ensure the overall programme was affordable.
- 2.4 In the report to Executive Board in June 2007 on the outturn position for 2006/07, it was noted that the total general fund capital spend and resources were £183m including £2.1m for equal pay costs. Total spend on capital schemes was actually £181m which compared to the £207m considered by Executive Board in February 2006. This meant that £26m spend on schemes slipped to 2007/08 and beyond.

3 Main Issues

3.1 General Fund Programme

- 3.1.1 The latest estimate of general fund spend in 2007/08 is for £297m, but this assumes overprogramming of £32.7m. For the programme from 2007/08 to 2010/11 the total estimated spend is now £648.2m. The resources available to support this have increased due to additional sites being included in the capital receipts forecast and the capital receipt from the sale of Leeds Bradford Airport exceeding that previously assumed. Available resources over the period are now forecast at £618m reducing

the overprogramming up to 2010/11 to an estimated £19m, which is well within tolerances usually maintained.

- 3.1.2 Since the capital programme was agreed in February 2007, a number of capital pressures have emerged which require capital resources and these are outlined below.
- 3.1.3 **Disabled Facilities Grants** – demand for these mandatory grants has increased significantly over recent years. Funding is provided through Government grant (60%) and Leeds resources (40%) and total capital programme provision totalling £2.5m was included for 2006/07. Actual spend in 2006/07 was £3.7m. Provision in 2007/08 and future years stands at £2.5m and even though some measures have been put in place by the service to prioritise grant applications for future years, at the start of 2007/08 approved schemes already in the system totalled around £3m. On this basis it is anticipated that a budget of £4.5m will be needed in 2007/08 and as no further Government funding has been made available for 2007/08, this additional £2m will need to be found from Leeds resources. For 2008/09 this funding pressure will continue and whilst increased funding will be sought from Government, there will also be a requirement for additional Leeds resources.
- 3.1.4 **Water Safety in Parks** – Members will be aware that a ROSPA report has been received in relation to water safety in parks which makes recommendations for improvements. Some funds have already been made available to progress works at Roundhay and Wharfemeadows and recently works at four other sites have been agreed. Further detailed risk assessments need to be undertaken on the remaining parks but it is anticipated that works of around a further £1.3m will be required over the next 3 years.
- 3.1.5 **Garforth Cemetery** – Works of £207k are required to extend the existing cemetery to provide sufficient burial space until 2025. Currently it is forecast that the cemetery will reach capacity in 2008.
- 3.1.6 **World Corporate Games** – Members will be aware that Leeds has been successful in securing the World Corporate Games due to take place in 2008. Investment in some Council facilities will be required during the next 12 months, including resurfacing of the athletics track at the John Charles stadium (£94k). It is proposed that a further £200k is held within the capital contingency scheme to address other investment needs that are identified. It is proposed to delegate authority to release this sum to the Director of Resources following an assessment of the investment needs required.
- 3.1.7 **Traffic Management** – A number of pressures have emerged in relation to traffic management minor schemes. These are projects to reduce congestion, provide safer conditions for all road users, especially pedestrians, and to improve access for people and goods. This would be accomplished by various minor improvement works to increase the efficiency of the road network; providing additional crossing facilities; improvements to direction signing and minor road safety schemes. It is anticipated that these projects, in 2007/08, will total £700k and it is proposed to fund this by a £400k contribution from the main Highways Maintenance capital programme and an injection to the capital programme of £300k.
- 3.1.8 **Drainage Works** – Some priority drainage works across the city have been identified and prioritised to address those areas of greatest need, i.e. where properties are a risk of flooding or where there are serious road safety issues. It is anticipated that £320k will be required to address these issues and it is proposed to allocate this sum from the main Highways Maintenance capital programme.

- 3.1.9 **Town & District Regeneration Project** – The capital programme already includes resources for Town and District regeneration. There are a number of projects currently waiting consideration and it is therefore proposed to increase the resources available by £2m over the next two years. This will specifically include Otley Civic Centre.
- 3.1.10 **Leeds Arena** - Members will be aware that Executive Board have previously given a commitment to financial support towards the development of an Arena in Leeds. The current proposals are that an expectation of up to £20m of public funding will be required to support the project and it is proposed that provision of £10m is made in the capital programme towards this. Discussions are taking place with other public sector bodies to secure the remaining funds.
- 3.1.11 When all these projects are included, the overprogramming on the General Fund programme will increase to £43.6m, as shown in Appendix A. Whilst this is higher than in previous years it is felt that it can be managed provided that the following key principles are adhered to:
- no new injections to the capital programme will be made without identifying new resources or taking an existing scheme out
 - existing schemes will be managed within current budgets, making no further call on Leeds resources
 - capital receipts from sites on the existing disposal programme cannot be diverted to other projects and initiatives
 - the disposal programme is kept under review with a view to seeking to identify any additional disposal sites that can be included
- 3.1.12 In addition to these key principles, the Director of Resources will continue to liaise with directors to ensure that their estimates of expenditure on all schemes are realistic. He will also take steps to ensure that schemes relying on the council's controllable capital funding are only released or committed when there is reasonable certainty that sufficient funding is available.
- 3.1.13 As Appendix A shows, due to the forecast timing of payments, all the overprogramming falls within the first two years of the programme. To the extent that this cannot be smoothed through slippage, the Director of Resources will take out temporary borrowing to fund payments in the early years, repaying the borrowing when receipts are available in the later years. The cost of this to the revenue account will be incorporated within the capital financing costs and can be met through treasury management savings achieved to date.
- 3.2 Housing Revenue Account
- 3.2.1 The delivery of capital investment by the ALMOs and by the HRA strategic landlord in 2006/07 has illustrated that they have developed their capacity to deliver the significant challenges of the decency and other programmes in their portfolios.
- 3.2.2 In 2006/07 the HRA delivered £161.7m of investment which is slightly lower than 2006/07. The Director of Resources will continue to work with the ALMO chief officers to ensure that the most effective mix of resources are available to support their agreed programmes.
- 3.3 Capital Receipts
- 3.3.1 During 2007/08 the disposal of Leeds Bradford Airport was completed generating a capital receipt to date, for Leeds, of £51.15m. A proportion of this receipt was already included within capital resources plans and has enabled a wide range of projects to be included within the capital programme including; supporting the school rebuilding programme through the Building Schools for the Future

programme, major investment in the city's roads, regeneration of our town and district centres and parks, investment with our partners in the refurbishment of the Grand Theatre and the City Varieties, an investment in a city centre swimming facility and a substantial contribution towards securing an arena facility for the city.

- 3.3.2 One of the key challenges in managing the council's capital programme is the uncertainty on the timing and size of some of the funding sources the council uses. The biggest area of uncertainty is with capital receipts. Disposal of sites can be complex and take time to deliver. This is particularly so for the larger, high value sites. A risk based approach is adopted in valuing sites and estimating when a receipt will be realised and when it can be assumed to be available to fund the capital programme.
- 3.4 Capital Strategy
- 3.4.1 The capital strategy was approved by Executive Board in February 2007 (along with the asset management plan) and sets out the Council's approach to capital investment and in particular how the various sources of funding, available to fund capital expenditure, are utilised.
- 3.4.2 One source of funding that has not previously been included in the capital strategy is Section 106 contributions towards the provision of green space. These contributions occur as a result of the planning process and are made available to the Council to deliver green space priorities within specific areas of the city. However, in line with Government guidance on Planning Obligations (Circ. 05/2005), such investment in greenspace must be within reasonable proximity of the development which generated the funding. Greenspace priorities are set out in broad terms in the asset management plan and in detail in the three priority strategies developed within the Parks and Countryside service in relation to sports pitches, play areas and community parks. If timely progress is to be made in delivering on these priorities, it is important that when eligible contributions are received in a locality where such priority schemes exist, they are directed to these areas of expenditure. It is proposed therefore that the capital strategy includes a requirement that, subject to such developer contributions being available in a given area, the provision of greenspace will be directed to one of the three priority areas referred to above. The specific wording is included at Appendix B.
- 3.4.3 Elected Members are in a good position to highlight community needs and aspirations in this respect and therefore it is important that they contribute to the pre-determined priorities for their wards/communities. This will ensure that there continues to be an inclusive and consultative approach to investing s.106 contributions in green space priorities.

4 Implications For Council Policy And Governance

- 4.1 As resources are confirmed throughout the year, the Director of Resources will release uncommitted schemes and will assess and advise on the scope for and timing of future injections of schemes requiring the council's capital resources.
- 4.2 To assist in this process risk assessments are carried out both in relation to individual projects and in formulating the overall programme. The main risk in developing and managing the overall programme is that insufficient resources are available to fund the programme. A number of measures are in place to ensure that this risk can be managed effectively:
- monthly updates of capital receipt forecasts prepared by the Director of City Development;
 - the use of a risk based approach to forecasting of capital receipts;

- a target for additional capital receipts for 2009/10 and 2010/11 has been assumed, sites or other funding for which is still to be confirmed. Work will progress in the next two years to identify suitable disposals, however, should receipts not be forthcoming, schemes will not be able to progress as planned;
- monthly monitoring of overall capital expenditure and resources forecasts alongside actual contractual commitments;
- quarterly monitoring of the council's VAT partial exemption position to ensure that full eligibility to VAT reclaimed can be maintained;
- ensuring that written confirmation of external funding is received prior to contractual commitments being entered into;
- provision of a contingency within the capital programme to deal with unforeseen circumstances;
- promotion of best practice in capital planning and estimating to ensure that scheme estimates and programmes are realistic;
- compliance with both financial procedure rules and contract procedure rules to ensure that the Council's position is protected;
- consideration of additions to schemes or the introduction of new or reserved schemes into the capital programme will only be made in the context of available resources.

4.3 Further work on the governance of capital projects is being undertaken to provide greater assurance that the council's strategic outcomes and best value will be achieved.

5 Legal And Resource Implications

5.1 If members are minded to approve the injections to the capital programme set out in section 3 and Appendix A, the overprogramming over the life of the programme stands at £43.6m. This can be managed through a combination of re-profiling spend on uncommitted schemes, adhering to the principles set out in paragraph 3.1.11 and introducing some additional borrowing as a temporary funding source to be repaid when capital receipts are realised in later years.

6 Conclusions

6.1 The capital programme continues to be deliver significant benefits through long term investment across the city.

6.2 Effective monitoring and control of capital spending will continue to take place and where necessary, steps will be taken, with the cooperation of directors, to ensure the capital programme is correctly profiled and is delivering the council's priorities.

6.3 The principles outlined in 3.1.11 are key to ensuring that the overall programme remains affordable.

7 Recommendations

The Executive Board are asked to:

- a) note the contents of this report;
- b) agree the capital programme injections detailed in 3.1.3 to 3.1.10 and Appendix A;
- c) agree the delegation to the Director of Resources outlined at 3.1.6;
- d) agree the key principles for managing and controlling the capital programme outlined in 3.1.11;

- e) agree the amendment to the capital strategy as outlined in 3.4 and Appendix B;
- f) endorse the measures being taken by the Director of Resources, in liaison with the other directors to ensure the affordability and sustainability of capital programme.