Leeds CITY COUNCIL

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**Report of the Deputy Chief Executive**

**Agenda Item 6(iii)**

**Report to Executive Board**

**Date: 11th February 2015**

**Subject: Capital Programme Update 2015-2018**

| | | |
|---|---|---|
| Are specific electoral Wards affected?<br>If relevant, name(s) of Ward(s): | ☐ Yes | ☒ No |
| Are there implications for equality and diversity and cohesion and integration? | ☐ Yes | ☒ No |
| Is the decision eligible for Call-In? Except 6.1 (a to c) | ☒ Yes | ☐ No |
| Does the report contain confidential or exempt information?<br>If relevant, Access to Information Procedure Rule number:<br>Appendix number: | ☐ Yes | ☒ No |

## Summary of main issues

1. This report sets out the updated capital programme for 2015-2018 and includes an updated forecast of resources available over that period. The Council continues to seek to deliver a large capital programme across the city which will provide improved facilities and infrastructure and which supports the Leeds economy, whilst ensuring the impact on debt costs within the revenue budget is managed. The capital programme remains affordable in 2015/16.

2. In the period from 2015/16 to 2018/19, the council is seeking to deliver capital investment of £1,008m, of which £673m relates to the General Fund and £335m in the Housing Revenue Account (HRA).

3. An update to the 2014/15 position shows projected spend of £285.7m. **Appendix A** outlines the objective analyses of this spend, along with the capital resources required to finance this.

4. The phasing of capital expenditure will continue to be monitored to ensure it is accurate and realistic ensuring that the debt borrowing requirement can be managed efficiently.

5. A review of the Council's MRP policy has identified two changes to the way in which MRP is calculated which will reduce the pressure on its revenue budget but still ensure that a prudent level of provision is set aside.

**Recommendations**

6. Executive Board is asked to recommend to the Council:

   a) that the attached capital programme, as presented in **Appendix G**, be approved

   b) that the revised MRP policy for 2014/15 as set out in **Appendix D** be approved

   c) that the proposed MRP policy for 2015/16 as set out in **Appendix E** be approved

7. Executive Board are asked to agree:

   a) that the list of land and property sites shown in **Appendix B** will be disposed of to generate capital receipts for use in accordance with the MRP policy;

## 1. Purpose of this report

1.1. This report sets out the updated capital programme for 2015-2018 and includes details of forecast resources for that period. It also includes a review of 2014/15 scheme spend.

1.2. In accordance with the Council's Budget and Policy Framework, decisions as to the Council's capital programme are reserved to Council. In addition, statutory guidance requires that policies on Minimum Revenue Provision (see 3.5) are approved by Council. As such, the recommendations at 6.1(a-c) are not subject to call in.

## 2. Background information

2.1. In preparing the capital programme update, ongoing reviews of the phasing of expenditure on existing capital schemes has been undertaken together with an up to date projection of capital resources. Where appropriate, scheme estimates have been revised.

2.2. This update of the capital programme has been prepared in the context of the overall resources available to the Council. The Government's Autumn Statement set out the revenue funding local authorities can expect over the coming years and this capital programme is therefore constrained by these funding reductions.

2.3. The capital programme is outlined at **Appendix A,** split between General Fund and HRA.

## 3. Capital Programme Update

### 3.1. Capital Programme Update 2014/15

3.1.1. The latest forecast expenditure for 2014/15 is £285.7m and it is forecast that resources will be available to fund this level of expenditure both within the General Fund and HRA programmes. Table 1 shows the latest position against previous updates to Executive Board. Individual schemes updates are provided in section 3.3.5 - 3.3.9 below.

**Table 1 - Capital Resources Position**

| | February 2014 Capital Programme £m | Qtr 1 report £m | Qtr 2 report £m | This report £m | Var This report to Q2 £m |
|---|---|---|---|---|---|
| Forecast Expenditure | 343.3 | 370.0 | 333.7 | 285.7 | (48.0) |
| Funded By | | | | | |
| Government Grants | 129.1 | 136.3 | 135.2 | 112.9 | (22.3) |
| Other Grants and Contributions | 7.1 | 22.1 | 22.2 | 18.5 | (3.7) |
| Borrowing - Corporate | 98.3 | 108.9 | 92.5 | 70.9 | (21.6) |
| Borrowing - Departmental | 21.1 | 16.6 | 17.5 | 24.7 | 7.2 |
| HRA Self Financing | 87.7 | 86.1 | 66.3 | 58.8 | (7.5) |
| **Total Forecast Resources** | **343.3** | **370.0** | **333.7** | **285.7** | **(48.0)** |

3.1.2. A review of all capital schemes within the programme takes place on a monthly basis, with two quarterly reviews reported to Executive Board in July and November. These reviews ensure that where schemes are funded from borrowing, they are still an essential priority for the Council in supporting the delivery of the Council Plan. Given the aspiration not to increase the level of debt, only new schemes that are fully funded (either by external resources or departmental prudential borrowing), or are essential (under health and safety grounds or in order to ensure Council assets are maintained for continued service provision) have been included. Table 1 shows that there is significant slippage through the year, however the debt budget makes an allowance for capital programme slippage in establishing the costs of financing the capital programme. The cost of debt is considered elsewhere on this Agenda in the Treasury Management Strategy Report.

**3.2. Capital Programme Resources 2015/16 onwards**

3.2.1. The medium term financial plan outlines the aspiration to limit the increase in the debt taken on by the authority. Therefore borrowing would be limited to the level of debt repayment that the Council is required to make (minimum revenue provision). This currently stands at £45m. However, the strategy allows for an additional increase in debt where the additional debt cost is met from schemes that generate greater savings, or avoid revenue costs, or provide income streams. The council will continue to explore and take advantage of investment opportunities as they arise and these will be subject to robust business case review. Executive Board approval will be sought in line with financial procedure rules. The Council continues to work towards limiting corporate borrowing to MRP but notes that the value of other Corporate Borrowing is currently forecast to be £47m above MRP in 2015/16.

**Table 2**
**Medium Term Financial Aspiration to Limit increases in the Council's debt**

| | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m |
|---|---|---|---|---|
| Annual Programme in Year | 34 | 35 | 36 | 35 |
| Annual Programme C/F previous Year | 4 | 9 | 2 | 1 |
| **Total Annual Programmes & C/F** | **39** | **44** | **37** | **36** |
| Other Corporate Borrowing | 12 | 48 | 24 | 12 |
| Sub Total Corporate Borrowing | 50 | 92 | 62 | 48 |
| MRP | 42 | 45 | 45 | 49 |
| **Difference MRP to overall Corp Borrowing** | **8** | **47** | **17** | **-1** |

3.2.2. Resources of £1,008m are required to fund the City Council's capital programme from 2015/16 to 2018/19. These are summarised in **Appendix A**, divided into General Fund resources and HRA resources. **Table 3** below shows the overall position including 2014/15;

**Table 3: Capital Resources 2014/15 – 2017/18**

| | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 on £m | Total £m |
|---|---|---|---|---|---|
| Specific resources | 189.9 | 264.1 | 206.2 | 166.2 | 826.4 |
| Corporate resources | 95.8 | 137.5 | 135.4 | 98.6 | 467.3 |
| **Total Resources** | **285.7** | **401.6** | **341.6** | **264.8** | **1,293.7** |

3.2.3. **Specific Resources General Fund** – Specific capital resources total £301.5m over the period 2015/16 to 2017/18 and represent funding which has been secured for specific schemes in the form of government grants such as schools' Devolved Formula Capital, Targeted Basic Need and Section 31 transport grant, single capital pot funding such as Basic Need which is pass ported to the relevant directorate, contributions from external bodies including the Heritage Lottery Fund and private developers.

3.2.4. **Specific Resources HRA** – Specific HRA resources supporting HRA expenditure total £335.0m over the period 2015/16 to 2017/18. In accordance with the Environment and Housing section of the Revenue Report 2015/16 elsewhere on this agenda, HRA capital expenditure has been set assuming a 2.88% rent increase for 2015/16.

3.2.5. **Corporate Resources** – Corporate Resources over the period total £371.4m. These represent resources which the Council has more freedom to allocate to its own policy priorities. The main sources are borrowing and capital receipts. The Capital Strategy, approved by Executive Board in February 2011, sets out that capital receipts are allocated firstly to fund the liabilities to be written down for the year in relation to PFI schemes and finance leases. However, in financing the overall capital programme, the Deputy Chief Executive will use the optimum mix of funding sources available to achieve the best financial position for the Council. The changes in MRP outlined below

3.2.6. In terms of forecast capital receipts, a list of land and property sites for disposal during the period is included in **Appendix B**. Proceeds from capital receipts are assumed to fund either:

- the liabilities in the revenue budget arising from PFI schemes and finance leases;
- the most prudent use of these receipts, taking into account forecasts for future expenditure and the generation of further receipts;
- the reprovision of services through application of the ringfencing policy; or
- Locally determined priorities through the Capital Receipts Incentive Scheme (CRIS).

### 3.3. Capital Expenditure 2015/16 onwards

3.3.1. A summary of the forecast capital programme by capital objective is set out below and the updated capital programme is attached at **Appendix G.**

**Table 4: Analysis of Capital Expenditure by Objective 2014/15 – 2017/18 on**

| | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 on £m | Total £m |
|---|---|---|---|---|---|
| Improving our assets | 132.9 | 201.3 | 189.3 | 166.3 | 689.7 |
| Investing in major infrastructure | 34.8 | 65.1 | 23.3 | 5.1 | 128.3 |
| Supporting service provision | 60.9 | 73.0 | 90.1 | 63.5 | 287.4 |
| Investing in new technology | 12.5 | 12.8 | 5.3 | 5.1 | 35.7 |
| Supporting the Leeds economy | 31.9 | 35.1 | 22.2 | 3.9 | 93.1 |
| Central and Operational Expenditure | 12.8 | 14.4 | 11.5 | 20.9 | 59.6 |
| **Total** | **285.7** | **401.6** | **341.6** | **264.8** | **1293.7** |

3.3.2. As can be seen from table 4 above, investment of £285.7m is taking place during 2014/15 with further investment of £1,007.0m planned from 2015/16 to 2017/18 onwards.

3.3.3. The projected gross spend in 2015/16 is considerably more than in previous years. However there are a number of major schemes that are expected to spend £135m more than in 2014/15. These schemes include Basic need, Highways, Changing the Workplace, Kirkgate Market, Kirkstall Forge, City Cycle ambition, Social Care and Health Fund and the Council House growth and refurbishment programme. Delivery of these schemes and the rest of the capital programme will continue to be monitored, challenged and reviewed with programme managers to ensure that forecast scheme spend profiles are accurate. As mentioned 3.1.2 above the treasury management report takes into account slippage and the Council's capacity to deliver the capital programme and therefore assumes slippage in borrowing.

3.3.4. This investment will deliver a number of priorities. **Appendix C** details the major schemes contained within each objective. A detailed update on these major schemes is provided below.

**3.3.5. Improving our Assets**

***General Fund***

**Changing the Workplace –** The Merrion House Agreement for lease was completed in October 2013 and further work has been underway to obtain planning and other permissions to reach unconditional agreement for lease. This is now expected by March 2015. Significant work has progressed to take staff through new ways of working and move them out of Merrion house to interim accommodation. Merrion will be fully vacant in April 2015. The decant strategy has focussed on creating capacity in existing Council buildings to minimise interim accommodation costs and no additional 3rd party property has been acquired for this purpose saving the council significant costs. It is anticipated that the refurbishment and extension of Merrion House will commence after the last staff have vacated in April 2015. Planning has now started on the next stage of phase 1 to take all staff in scope through new ways of working and optimise the 3 city centre buildings to be retained in the longer term allowing further leased premises to be released.

A refresh of the 2012 phase 1 Business Case is currently being undertaken with a view to taking an updated position to Executive Board in the summer of 2015. A Phase 2 business case will be taken forward as part of a wider agenda across the localities in 2015/16. A detailed update on CTW is included within this Executive Board agenda.

**Highways Maintenance and Structures Programme –** The Highways programme includes £35.5m LCC resources up to 2017/18 to address backlog maintenance on district roads / streets together with £24.4m of Local Transport Plan government grant, for the maintenance of principal roads and bridges / structures. The transport package will deliver £5.5m of investment across the 3 years. An additional £2m has been transferred into Bridges to deal with some of the high priority maintenance works.

**Schools' Capital Maintenance –** The Authority is awaiting confirmation of grant allocations for 2015/16 in respect of schools Capital Maintenance and Devolved Formula Capital. In anticipation of the funding announcement, annual Capital Maintenance grant of £7m and annual Devolved Formula Capital grant of £1.6m for 2015/16, 2016/17 and 2017/18 has been assumed; these provisions will be amended to reflect actual allocations when they are known. The Authority has submitted a 'Priority School Building Programme 2' funding bid to the Education Funding Agency to support extensive building improvements to two secondary schools and one Special Education Needs establishment and has supported the one Academy and one Diocesan submission and if successful any funding provided to the maintained schools will be injected into the capital programme.

***Housing Revenue Account (HRA)***

**Council Housing Growth Programme –** The programme has increased to £95.37m after additional injections of £8.6m HCA grant and £14m of Right to Buy 1 for 1 replacement funding. The programme will deliver an estimated £6m in 2014/15, £29m in 2015/16, £40m in 2016/17 and £20m in 2017/18. Commitments to date on the full programme are £24m against schemes identified of £73m.

The empty homes programme has commenced with 17 long term empty properties purchased from the initial programme of 20 with a larger programme of 100 acquisitions commencing in the new financial year.

The £54m commencement of council house new build programme will deliver homes to the Leeds Standard; high quality homes that meet the changing needs of households and energy efficient solutions to minimise running costs for tenants, address fuel poverty and contribute to broader sustainability and wellbeing agendas. The first new build site at East End Park is now under construction and will deliver 32 properties. The Extra Care housing new build scheme in Yeadon has been tendered with the contract due to be in March. The next tranche of new build sites at the Squinting Cat Public House site in Swarcliffe (planning submitted), the Garnets in Beeston and the Broadleas in Bramley, with the latter two sites in the final stages of design. A further four sites are at design feasibility stage and there are four additional sites that will be procured and developed via the Brownfield Land programme.

The acquisition of 23 new properties "off plan" from a developer at Thorn Walk Gipton are under construction with the first tranche handed over to the council in January 15 to be let as council housing.

**Council Housing Investment Programme –** Housing Leeds and BITMO are projecting to spend £244m over the coming 3 year period 2015-18, an increase of £36.8m made available as a result of the latest business plan projections. A further £13.5m across the 3 years has also been made available from increased projections on right to buy sales. This investment will fulfil a number of LCCs key priorities; improving housing conditions and energy efficiency, improvements to the environment through reduced carbon emissions and supporting more people to live safely in their own homes.

There are 4 main priorities for Housing Leeds in delivering its capital programme to Council Housing over the next 3 years :

- Delivering statutory investment in order for Housing Leeds to comply with its statutory responsibilities, including investment in fire precautionary measures and adaptations.

- Undertaking essential investment, including works to maintain housing stock to meet the new Leeds homes maintenance standard.
- Additional investment in insulation and heating in order to improve the energy efficiency of housing stock.
- Additional investment in specific property types, such as multi storey flats and sheltered housing, improving facilities for tenants and increasing the long term sustainability of these properties.

### 3.3.6. Investing in Major Infrastructure

**Flood Alleviation –** Progress continues in line with programme, with early flood defence work at Woodlesford completed and the main works contract for £22.8m awarded in September 2014. An Enhancement Development Plan has been implemented to maximise available funding for the project which improves the City's waterfront whilst improving flood defences. The current estimated scheme completion date is January to March 2017. In addition £500k has been set aside over two years to address minor Flood Alleviation works and fund further development projects across the city.

**New Generation Transport (NGT) –** £24m is provided for in the programme. The public enquiry was completed at the end of October and the outcome of this is anticipated in Autumn 2015, following which the final business case will be presented to DfT for full approval in 2016.

**Kirkstall Forge Rail Growth –** Works commenced on site on 27 October 2014 and are progressing well. Initial works include the remediation of contaminated ground, resultant of the historic industrial use of the site, and the construction of new river walls along the River Aire. The construction of a traffic signal controlled access junction into the site will commence in February 2015. This new junction will provide access to the site on a new link road and new bridge over the river. A temporary car park will also be provided adjacent to the new Rail Station (which is currently being built by others). Work is due to be complete in November 2015.

**A58 Leeds Inner Ring Road –** Works are progressing well. Concrete strengthening works are substantially complete in the westbound route and are ongoing in the eastbound. The installation of new energy efficient, low maintenance LED lighting will commence early in 2015 accompanied by a protective ceramic painting system to the walls. Work is continuing to be done mainly at night but some weekend closures will be required in 2015 to undertake repairs to the tunnel roof which cannot be done overnight. Works still remain on budget and are due to complete in February 2016.

**East Leeds Orbital Road –** The Business Case for East Leeds Orbital Road is progressing with funding assistance from the West Yorkshire Combines Authority and will be submitted in January 2015. The Combined Authority will then undertake a formal review to determine if further funding from the West Yorkshire Transport Fund will be made available. The 7km road would unlock the potential to build 7000 new homes.

**Home Energy Programme –**Since April 2014 the council's Fuel Poverty Fund has helped 233 people with upgrades to heating systems and boiler repairs and installed external wall insulation on two homes. £600k of ERDF funding has been used to externally insulate 58 properties in the north of the city and another £450k has been allocated to the Clyde's District Heating Scheme. When completed (summer 2015) this will provide lower cost heating to 231 council flats in two tower blocks and a sheltered housing complex.

In March 2014 LCC were awarded £4.94m of Green Deal Communities Funding from the Department of Energy and Climate change. Of this, £2.52m is being used to run area based solid wall insulation programmes for approximately 320 households in Leeds through the Wrap Up Leeds ECO contract. £1.43m is being passported to Bradford and Wakefield, who supported the bid. A further £900k is being used to launch Better Homes Yorkshire. This is a partnership between the Leeds City Region Green Deal and ECO Framework and 9 of the 10 Leeds City Region local authorities. This will fund 1,000 household vouchers worth £750 each to help subsidise more expensive energy efficiency improvements (283 in Leeds and 10 showhomes). Better Homes Yorkshire will also deliver external wall insulation to 128 council properties in Leeds. Both of these programmes will start in March 2015.

**Cycle City Ambition –** Design work continues to ensure that the project can be delivered within the budget of £21.2m. Contracts for 6 out of 7 sections of the route have been awarded and works are due to start onsite in January 2015.

**3.3.7. Supporting Service Provision**

**Basic Need** – In September 2014, Executive Board approved capital spending delegations to enable efficient delivery of school places. A £10m Risk Capital Fund was established and remains intact. A progress report is due to be considered by Executive Board in March 2015. Basic Need Grant allocations for 2015/16 and 2016/17 have previously been confirmed at £19.4m and £20.4m respectively. Basic Need plans have been articulated for future years and as such, estimated annual grant allocations of £18.9m for 2017/18 and 2018/19 are also included in the capital programme.

**Social Care and Health Fund –** The national Better Care Fund (BCF) established a £3.8 billion fund at the national level. The aim of the BCF is to ensure that Health and Social Care becomes more integrated so that people have a more seamless experience of these types of care when they need it. Significant work has already been undertaken alongside colleagues from the 3 Clinical Commissioning Groups in the city to bring forward schemes designed to fulfil requirements set down in relation to the BCF. £25m has been set aside to further develop initiatives at the local level.

**Energy from Waste –** The Recycling and Energy Recovery Facility is currently being constructed at Cross Green. Once fully operational in 2016 it will process all of the kerbside black bin waste that is collected from households in Leeds. This change will represent a step change in the use of residual waste as a resource rather than the previous historical reliance on landfill.

In addition the facility is already designed to generate enough electricity to power over 22,000 homes. There is a further opportunity to harness the heat that is also produced whilst processing the waste, and develop a District Heating Scheme. It is estimated that more than 2,000 flats in parts of the city where fuel poverty is most prevalent could have their heat supplied direct during the first phase of the scheme. This initiative would replace out dated heating systems currently which offer poor levels of comfort and value for money. This first phase would build the foundations for a wider district heating network that can be developed in the future and also create confidence in the principle of heat networks and possible further schemes.

**Disabled Facilities Adaptations** - Grants of £6.7m per year are provided for in the programme (partly funded by government). This supports in the region of 1,000 grants per year. A further £400k is provided for adaptations to private homes to support more people to remain independently in their own homes.

### 3.3.8. Investing in New Technology

**ICT Infrastructure –** There are a number of significant IT investments and associated programmes of work required over the next few years. The council's old analogue telephone exchange needs to be decommissioned and replaced with a modern solution fit for the 21st century. This work will take a number of years but must be completed by late 2017. The council's electronic collaboration platform - Sharepoint 2010 and the associated critical environments which also underpin our important web and intranet applications need to be upgraded and will require significant reconfiguration work. Many of our end user devices – laptops and PC's are 'end of life' and need to be replaced. Elements of the desktop common to all users and elements of data centre infrastructure; hardware and software that will become unsupported will also need to be replaced.

### 3.3.9. Supporting the Leeds Economy

**Sovereign Square –** Located immediately adjacent to Leeds central railway station has been designed by the Council to create a premier office location and provide three commercial development plots around an area of quality public realm. One Sovereign Square (61,500 sq ft) was completed to 'Shell and Core' December 2014 and is currently being fitted out by the lessee ready for occupation in September 2015. Three Sovereign Square is under contract with detailed planning permission to construct 75,000 sq ft offices above active ground floor units; the lessee proposes to commence construction of this building in January 2015 with practical completion anticipated in June 2016. The Council has let the contract to construct the green space/public realm. Construction is to commence in January 2015 with completion in October 2015. The intention is to place the third and final development plot on the market in the summer of 2015.

**Kirkgate Market –** The scheme design proposals for the improvement and refurbishment of Kirkgate Market have been developed to RIBA Stage E. The proposals have been passed to the Council's preferred contractor to prepare their second stage tender for the proposed works. Subject to achieving a budget compliant scope of works, it is envisaged that works would commence on site in April 2015.

**Aire Valley Leeds Enterprise Zone**
Temple Green – The site has the potential for 2.2M sq ft of warehouse and distribution floorspace. As part of the first phase of development, the Council is acquiring a plot of 10 acres from Aire Valley Land LLP upon which the Combined Authority will construct a park and ride facility accommodating 1,000 parking spaces. When remediation of the site has been completed later this year, the Council will complete the acquisition on behalf of the Combined Authority.

Logic Leeds – The site has the potential to create 1.6M sq ft of manufacturing, warehouse and distribution floor space. To kick start development of the site, the Council has exchanged a Put and Call Option for the acquisition of an 80,000 sq ft warehouse unit. Construction has commenced and the building should be completed in August 2015. The development of the warehouse unit and creation of the flood relief channel and retention pond is the subject of a Government grant of £2.5M under the Building Foundations for Growth.

Thornes Farm Connex 45 – The Council has exchanged a Put Option for the acquisition of 30,000 sq ft and 50,000 sq ft warehouses. Construction has commenced and the buildings should be completed in about nine months. The development of the units is the subject of a Government grant of £670K under the Building Foundations for Growth.

**Broadband Super Connected Cities –** The WY Local Broadband Project will be complete in September 2015 and will give access to Superfast Broadband to over 65,000 homes and premises within the WY region. The Super Connected Cities (SCC) programme is a joint programme with Bradford which finishes in March 2015. However SME businesses still have a further 6 months to obtain a voucher to deliver superfast broadband to their premises. The project will have also delivered Wi-Fi in public buildings and on public transport on the Leeds and Bradford corridor. Both projects are likely to have second phases for which details of the bidding process for funding are awaited.

### 3.4. Economic Impact Analysis

3.4.1. An assessment of the economic impact of the Council's capital programme investment has been undertaken which makes use of the Regional Econometric Model (REM) which can estimate the wider economic impact of the capital programme through multiplier effects. The key points below estimate the economic impact for Leeds and the Leeds City Region from 2014/15 – 2017/18:

- 1761 FTE job roles in Leeds will be created over four years through Leeds City Council capital expenditure
- These jobs will generate over £322m Gross Value Added (GVA) for the Leeds economy
- A further 226 jobs and £31m GVA will be created in the wider Leeds City Region by our capital expenditure
- In total, it is therefore estimated that Leeds City Council capital expenditure between 2014/15 and 2017/18 will create 1987 FTE jobs and generate £353m GVA in the Leeds City Region

3.4.2. In addition to the use of the REM to determine the effect on the economy, further analysis is ongoing to assess the impact employment and skills obligations within Council contracts have on jobs and apprenticeships. In the year to December 2014 analysis shows that revenue and capital contracts let by the Council have resulted in 463 local residents securing jobs and 47 young people supported into or remaining in apprenticeships.

### 3.5. Capital Strategy

3.5.1. The Minimum Revenue Provision (MRP) is an annual revenue charge for the repayment of borrowing and other capital financing liabilities. The statutory requirement is simply for local authorities to make a prudent level of provision, and the government has issued statutory guidance, which local authorities are required to 'have regard to' when setting a prudent level of MRP. The guidance sets out the broad aims of a prudent MRP policy, which should be to ensure that borrowing is repaid either over the life of the asset which the capital expenditure related to or, for supported borrowing, the period assumed in the original grant determination. The guidance identifies four options for calculating MRP which would result in a prudent provision, but states that other approaches are not ruled out. Local authorities therefore have a considerable level of freedom in determining their MRP policies, provided that they are in line with the broad aims set out in the statutory guidance.

3.5.2. The Capital Finance and Audit Regulations require councils to produce a statement of policy on making MRP. Any subsequent revisions which are proposed to the approved policy should also be approved by full council. This report recommends the policies to be applied for 2015/16, and also recommends a change to the MRP policy for 2014/15.

3.5.3. The current statutory framework for MRP has been in place since 2007/08, and since that date the council's MRP policy has remained unchanged and has followed two of the options set out in the statutory guidance. However, the council has now undertaken a review of its MRP policies and identified two changes to the way in which its MRP is calculated which will reduce the pressure on its revenue budget but still ensure that a prudent level of provision is set aside. Advice has been sought on the proposed changes from Legal Services, who have confirmed that the proposed new approach would be lawful. The council's external auditors KPMG have also been consulted, and they have raised no objections.

3.5.4. The first proposed change relates to the use of capital receipts. Councils are allowed by statute to use capital receipts for the repayment of any borrowing previously incurred. The application of capital receipts to repay debt would reduce the level of MRP chargeable to revenue, but the statutory guidance does not address how such a reduction should be calculated. The council proposes that in years when it uses capital receipts to redeem borrowing, the value of the MRP which would otherwise have been set aside for that year will be reduced by the amounts which have instead been repaid from capital receipts. This will still result in a prudent level of MRP, as there will be no reduction in the overall level of funding set aside to redeem debt. It is proposed that the MRP policy will state that the level of capital receipts to be applied to redeem borrowing will be determined annually by the Deputy Chief Executive, taking into account forecasts for future expenditure and the generation of further receipts. It is proposed that this change to MRP policy is introduced from 2014/15, and thus it requires an amended MRP policy for 2014/15 to be approved by council.

3.5.5. The second proposed change relates to borrowing that was incurred before 2007/08. MRP on this tranche of borrowing is currently charged on the pre-2007/08 statutory basis, i.e. on a 4% reducing balance but with no MRP being charged on an amount known as Adjustment A. At 31st March 2014 the total value of this borrowing was £533.2m, and Adjustment A for the council is £69.5m. (Adjustment A arose out of the transition to the Prudential Borrowing framework in 2004/05). It is proposed that the MRP on this borrowing should change to being calculated on an asset life annuity basis, which would be consistent with more recent borrowing incurred. However it is not possible to identify this debt to spending on individual assets, as would be required by a strict application of the asset life option given in the statutory guidance. It is therefore proposed that an average of the asset lives of the council's current assets should be applied to the total value of this borrowing in order to calculate the MRP provision. This approach would re-profile the repayment of this borrowing, resulting in a significantly lower MRP provision being required in earlier years, but meaning that the borrowing will be repaid in a finite number of years, and that MRP will start to be charged on Adjustment A.

3.5.6. It is proposed that this change should be introduced from 2015/16, to allow time for a review of the asset lives of the assets held in the council's Asset Register to be undertaken.

3.5.7. It is therefore proposed that the council's 2015/16 MRP policy should be :

- If capital receipts have been used to repay borrowing for the year then the value of the MRP which would otherwise have been set aside to repay borrowing will be reduced by the amounts which have instead been repaid from capital receipts.
- MRP for borrowing for 2014/15's capital expenditure will be calculated on an annuity basis over the expected useful life of the assets. For expenditure capitalised under statute where there is no identifiable asset, the lifetimes used for calculating the MRP will be as recommended in the statutory guidance.
- MRP for borrowing on capital expenditure incurred between 2007/08 and 2013/14 for which an annuity asset life basis is already being used will continue on the same basis.
- For earlier borrowing, MRP will be charged on an asset life annuity basis. As data is not available to identify the individual assets which this borrowing relates to, an average asset life for the assets in the authority's current asset register will be used. This approach represents a change to the council's policy.
- For PFI and finance lease liabilities, a MRP charge will be made to match the value of any liabilities written down during the year which have not been otherwise funded by capital receipts.

3.5.8. In deciding on the application of capital funding it is proposed that:

- Capital receipts are allocated firstly to fund the liabilities to be written down for the year in relation to PFI schemes and finance leases. This will remove the need for MRP charges equal to the value of the capital receipts applied.
- For any remaining capital receipts, the Deputy Chief Executive will determine annually the most prudent use of these receipts, taking into account forecasts for future expenditure and the generation of further receipts.
- Any other general capital income will be allocated to those capital schemes which relate to the shortest lived assets.

3.5.9. The options to be considered in determining the policy are set out in more detail in the MRP policies for 2014/15 and 2015/16 at **Appendices D and E**.

## 3.6. Prudential Indicators

3.6.1. Under the current self-regulatory financial framework, CIPFA's prudential code for capital finance[1], each authority is required to set a number of prudential indicators and limits for its capital plans which will include affordability, the impact of capital investment plans on council tax and housing rents, capital expenditure levels, external debt and treasury management indicators. A number of these indicators relate specifically to treasury management operations and for 2015/16 these are included in the treasury management strategy report elsewhere on the agenda. In relation to capital expenditure, and in accordance with the prudential code, this report indicates future levels of capital expenditure, forecast resources and the resulting borrowing requirement (before providing for the statutory charge to revenue for past capital expenditure, known as minimum revenue provision). Details are set out in **Appendix A.**

3.6.2. Any unsupported borrowing carried out must be affordable within the revenue budget (i.e. the cost of interest and debt repayments). For 2015/16, all schemes funded through borrowing have been provided for in the revenue budget, approval for which is contained within the revenue budget report.

# 4. Corporate Considerations

## 4.1. Consultation and Engagement

4.1.1. The Council's initial budget proposals, including capital programme, were set out in a report to Executive Board in December 2014.

4.1.2. The report was also used for wider consultation with the public through the Leeds City Council web site, the results of this consultation is still awaited.

## 4.2. Equality, Diversity, Cohesion and Integration Screening

4.2.1. The capital programme sets out a plan of capital expenditure over future years and further spending decisions are taken, in accordance with capital approval processes, as projects are developed. This is when more detailed information will be available as to where in the city capital spending will be incurred and the impact on services, buildings and people. Service Directorates will include equality considerations as part of the rationale in determining specific projects from capital budgets.

4.2.2. In terms of the content of this report, an Equality Screening document has been prepared and is attached at **Appendix F.**

[1] CIPFA – The Prudential Code for Capital Finance in Local Authorities (amended 2011)

### 4.3. Council policies and City Priorities

4.3.1. Capital objectives were set out and agreed in the initial budget proposals report considered by Executive Board in December 2013. The capital programme attached to this report is structured to show schemes under these objectives.

### 4.4. Resources and value for money

4.4.1. The resource implications of this report are detailed in section 3 above. For the capital programme to be sustainable, the Deputy Chief Executive must be satisfied that spend in each year of the programme can be afforded. For 2015/16 the forecast of borrowing costs resulting from capital expenditure are budgeted for within the revenue budget. In the year following capital expenditure, as well as budgeting for interest costs, the revenue budget must make provision for the minimum revenue provision on borrowings. On average this amounts to a further 4%.

4.4.2. Forecasts for the debt budget beyond 2015/16 are dependent upon the interest rate assumptions, the likely level of capital spend and the Councils cash balances. The debt budget is currently forecast to increase by £3.5m in 2016/17. The interest rate assumptions and the borrowing requirement arising from the capital programme will be kept under review throughout 2015/16, before establishing the 2016/17 debt budget.

4.4.3. In order to ensure that schemes meet Council priorities and are value for money, the Deputy Chief Executive will put processes in place to ensure:

- the introduction of new schemes into the capital programme will only take place after completion and approval of a full business case and identification of the required resources; and
- the use of prudential borrowing by directorates is based on individual business cases and that revenue resources to meet the borrowing costs are identified.

### 4.5. Legal Implications, Access to Information and Call In

4.5.1. In accordance with the Council's Budget and Policy Framework, decisions as to the Council's capital programme are reserved to Council. In addition, statutory guidance requires that policies on Minimum Revenue Provision (see 3.5) are approved by Council. As such, the recommendations at 6.1 (a to c) are not subject to call in.

4.5.2. In accordance with the Budget and Policy Framework Rules, the Executive Board is required to make proposals to Council regarding the degree of in year changes which may be undertaken by the Executive. These are set out in Financial Procedure Rules[2]. There have been no changes to these rules during the year.

[2] Leeds City Council Constitution – Part 4 Rules of Procedure

## 4.6. Risk Management

4.6.1. One of the main risks in developing and managing the capital 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, using a risk based approach, by the Director of City Development;
- 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 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; and
- compliance with both financial procedure rules and contract procedure rules to ensure the Council's position is protected.

4.6.2. The ongoing review of the capital programme throughout the year, together with careful monitoring and implementation of the control measures referred to above will seek to ensure that the programme is affordable. However the council will continue to seek to maximise the external funding sources and to deliver capital receipts to ensure the programme can be delivered.

4.6.3. The Deputy Chief Executive will continue to work with service directors to ensure that capital schemes are properly developed and that a business case process is operated to demonstrate investment is aligned to capital objectives, meets the needs of the public and will deliver best value.

4.6.4. In managing the overall funding for the programme particular emphasis is placed on ensuring that contractual commitments are only made when there is reasonable certainty that the appropriate resources are available. The Deputy Chief Executive will co-ordinate scheme reviews and the approval of schemes to ensure that they are brought forward in a timely way and can be afforded. Update reports on the overall capital programme will be reported to Executive Board 3 times each year.

## 5. Conclusions

5.1. Over the four year period to 2017/18 the Council is seeking to deliver a total of £1,293.7m capital investment within the city.

5.2. This is funded through £826.4m specific or external funding and £467.3m of corporate resources.

5.3. Forecasts for the general fund debt budget beyond 2014/15 are dependent upon the interest rate assumptions, the likely level of capital spend and the Councils cash balances. These will be kept under review throughout 2015/16, before establishing the 2016/17 debt budget. Funding is available to meet the level of HRA investment within the HRA business plan.

5.4. The Deputy Chief Executive will continue to ensure adequate resources are available to meet the planned level of investment through continued and regular review of profiling, priorities and resources within the programme.

## 6. Recommendations

6.1. Executive Board is asked to recommend to the Council:

a) that the attached capital programme, as presented in **Appendix G**, be approved;

b) that the revised MRP policy for 2014/15 as set out in **Appendix D** be approved

c) that the proposed MRP policies for 2015/16 as set out in **Appendix E** be approved.

6.2. Executive Board are asked to agree;

a) that the list of land and property sites shown in **Appendix B** will be disposed of to generate capital receipts for use in accordance with the MRP policy.

### Appendices

A – Capital Programme Statement 2014/15-2017/18

B – List of sites to be disposed of over the programming period

C – Major Schemes by Objective 2015/16 – 2017/18

D – Statement of Policy on the Minimum Revenue Provision for 2014/15 – Revised February 2015

E – Statement of Policy on the Minimum Revenue Provision for 2015/16

F – Equality, Diversity, Cohesion and Integration Screening Document

G – Capital Programme – Scheme Details (Organised by Expenditure Objective)

### Background documents[3]

None

[3] The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

## Capital Programme Statement 2014/15 to 2017/18 — Appendix A

| | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 | Total £000 |
|---|---|---|---|---|---|
| **EXPENDITURE** | | | | | |
| **GENERAL FUND (GF)** | | | | | |
| IMPROVING OUR ASSETS | 62,766.6 | 84,998.7 | 67,804.4 | 70,161.8 | 285,731.5 |
| INVESTING IN MAJOR INFRASTRUCTURE | 34,768.7 | 65,071.8 | 23,320.7 | 5,110.8 | 128,272.0 |
| SUPPORTING SERVICE PROVISION | 60,875.3 | 72,958.0 | 90,059.2 | 63,513.9 | 287,406.4 |
| INVESTING IN NEW TECHNOLOGY | 12,504.3 | 12,774.1 | 5,272.8 | 5,108.4 | 35,659.6 |
| SUPPORTING THE LEEDS ECONOMY | 31,903.8 | 35,148.5 | 22,184.3 | 3,867.0 | 93,103.6 |
| CENTRAL & OPERATIONAL EXPENDITURE | 12,821.7 | 13,237.6 | 11,473.6 | 20,900.9 | 58,433.8 |
| **TOTAL ESTIMATED SPEND ON GF** | **215,640.4** | **284,188.7** | **220,115.0** | **168,662.8** | **888,606.9** |
| **HOUSING REVENUE ACCOUNT (HRA)** | | | | | |
| IMPROVING OUR ASSETS | 70,109.2 | 116,264.3 | 121,462.8 | 96,092.1 | 403,928.4 |
| CENTRAL & OPERATIONAL EXPENDITURE | 0.0 | 1,147.0 | 0.0 | 0.0 | 1,147.0 |
| **TOTAL ESTIMATED SPEND ON HRA** | **70,109.2** | **117,411.3** | **121,462.8** | **96,092.1** | **405,075.4** |
| **TOTAL ESTIMATED SPEND** | **285,749.6** | **401,600.0** | **341,577.8** | **264,754.9** | **1,293,682.3** |
| **RESOURCES** | | | | | |
| **GENERAL FUND (GF)** | | | | | |
| **Specific Resources** | | | | | |
| GOVERNMENT GRANTS | 111,915.7 | 134,976.1 | 83,559.9 | 68,917.6 | 399,369.3 |
| OTHER GRANTS | 7,898.3 | 11,674.5 | 1,204.1 | 1,213.6 | 21,990.5 |
| **Corporate Resources** | | | | | |
| RCCO / RESERVES | 193.8 | 41.8 | 0.0 | 0.0 | 235.6 |
| BORROWING - Departmental | 24,732.4 | 28,796.8 | 54,523.7 | 20,430.9 | 128,483.8 |
| BORROWING - Corporate | 70,900.2 | 108,699.5 | 80,827.3 | 78,100.7 | 338,527.7 |
| **CAP. RESOURCES REQD FOR GF** | **215,640.4** | **284,188.7** | **220,115.0** | **168,662.8** | **888,606.9** |
| **HOUSING REVENUE ACCOUNT (HRA)** | | | | | |
| **Specific Resources** | | | | | |
| HRA SELF FINANCING | 58,782.7 | 101,970.1 | 83,342.9 | 75,146.0 | 319,241.7 |
| R.T.B. CAPITAL RECEIPTS | 7,860.8 | 10,673.2 | 12,500.0 | 10,500.0 | 41,534.0 |
| GOVERNMENT GRANTS | 940.0 | 3,621.0 | 6,066.0 | 0.0 | 10,627.0 |
| RCCO / RESERVES | 584.6 | 1,147.0 | 0.0 | 0.0 | 1,731.6 |
| OTHER CONTRIBUTIONS | 1,941.1 | 0.0 | 0.0 | 0.0 | 1,941.1 |
| HRA BORROWING | 0.0 | 0.0 | 19,553.9 | 10,446.1 | 30,000.0 |
| **CAP. RESOURCES REQD FOR HRA** | **70,109.2** | **117,411.3** | **121,462.8** | **96,092.1** | **405,075.4** |
| **TOTAL CAP. RESOURCES REQD** | **285,749.6** | **401,600.0** | **341,577.8** | **264,754.9** | **1,293,682.3** |

| | | | | | |
|---|---|---|---|---|---|
| GF BORROWING REQUIRED TO FUND THIS PROGRAMME | **95,826.4** | **137,538.1** | **135,351.0** | **98,531.6** | **467,247.1** |

**Appendix B**

# List of sites to be disposed of over the coming period

## 2014/15 Disposal sites still to complete:

Agnes Stewart School, Caretakers House
Astley Lane Site 8, Swillinglton
Brook House, Lytham St Annes, FY3 1YB
Cloverfield House, Quay Road, Woodlesford
Cross Green 185, Land adjoining
East Leeds Leisure Centre
Garforth OSC, Former, 1-5 Main Street, Garforth LS25
Ireland Wood Social Club
Lawnswood School, Caretakers Cottage, 10 Spen Road, Leeds
Pudsey Road 154, Land at
Robb Street 23, Beeston LS11 7HG
Svereigh Square/Plot 3 (fees only)
Thornes Farm (Plot 2A)
Wood Lane Children's Home, Car Park, Headingley

## 2015/16 Disposals:

Access House, Land Adjacent, Parkside Lane, LS11
Amberton Court, Gipton
Ash Tree Primary School, Kippax
Ashfield Works, Otley
Asket Drive North & South, Seacroft
Chapeltown Road 180
Cockcroft House Sheltered Housing, Headingley
Easel Site 6 - Oak Trees
Elland Road (Land for Planet Ice)
Farfield Community Centre, Farfield Drive/Avenue
Farnley Hall Estate, Clock Barn
Farnley Hall Estate, Cottage
Grange Farm (Land)
Hillside Reception Centre, 602 Leeds & Bradford Road, Bramley
Inglewood Children's Home, Whitely Croft Garth, Otley
Kelsall Grove 26, Leeds, LS6 1QY
Kelsall Grove 28, Leeds, LS6 1QY
King Lane, Land off, Bus Terminal
Kirkland House, Queensway, Yeadon
Lincoln Green Road 101,
Micklefield House Annexe & Caretakers Lodge, New Rd Side, Rawdon
Moorend Training Site, Tulip Street, LS10
Moorland Crescent, Morley (self build)
Newmarket Lane, Wholesale market (site A)
Otley OSC/Area Office, 6-8 Boroughgate, Otley, Leeds, LS21
Richmond Court Hostel, Walter Crescent, Cross Green

Roundhay Road 265
Rumple Croft, Meagill Rise, Otley, extra fees
St Luke's Nursery, Beeston Hill, Beeston, Leeds LS11
Swarcliffe Avenue
Thornes Farm  (Plot 2B)
West Leeds Family Centre, Former, Whingate Road, Leeds
Westholme HOP, Wortley

## 2016/17 Disposals:

Arena Development Site
Bailey's House, Baileys Hill, LS14 6PS
Bath Road (site D)
Bath Road/Derwent Place (Site B)
Bramham House, Bramham, Freely Lane, Phase 1
Broad Lane 275, Bramley (Q8), Kuwait Petroleum
Brown Lane West, North Site
Butcher Lane, Land at, Sale of Rothwell Temperence Band
Carriage House/Mansion Cottage/Rose Cottage
Easel Site 3, Bellway - Amberton Close
Eastmoor School (Former)
Elmete Centre, Elmete Lane, Rounday
High Street 1-11,  Kippax
Hill Top PH, land at Beckhill Grove
Holt Park District Centre
Housing Association Sites x 12 Disposals
Lobb Cottage, Thorn Lane,  Roundhay, LS8 1NF
Merlyn Rees High School, Middleton Road
Midland Road PC's, Woodlesford
Miles Hill Primary School & The Beckhills
Mistress Lane, Armley
New Wortley, Former Liberal Club site
Park Lees site, St Anthony's Road, Beeston, LS11
Parkside Lane, LS11
Pontefract Lane, Wholesale Market Site (B)
Primrose High School
Ramshead Hill 53
Roundhay Road Area Office (Social Services Site)
Sovereign Street/Plot C
St Gregory's Primary School
Towcester Avenue + 3 other sites, Middleton
Westgate Car Park, Westgate, Otley
Wortley High School
Wyther Community Centre, Raynville Crescent
York Road (Great Clothes/All Saints Development Area)

## 2017/18 Disposals:

Abbey Mills, Kirkstall Road, LEEDS 4
Aire Street Workshops, 30-34 Aire Street

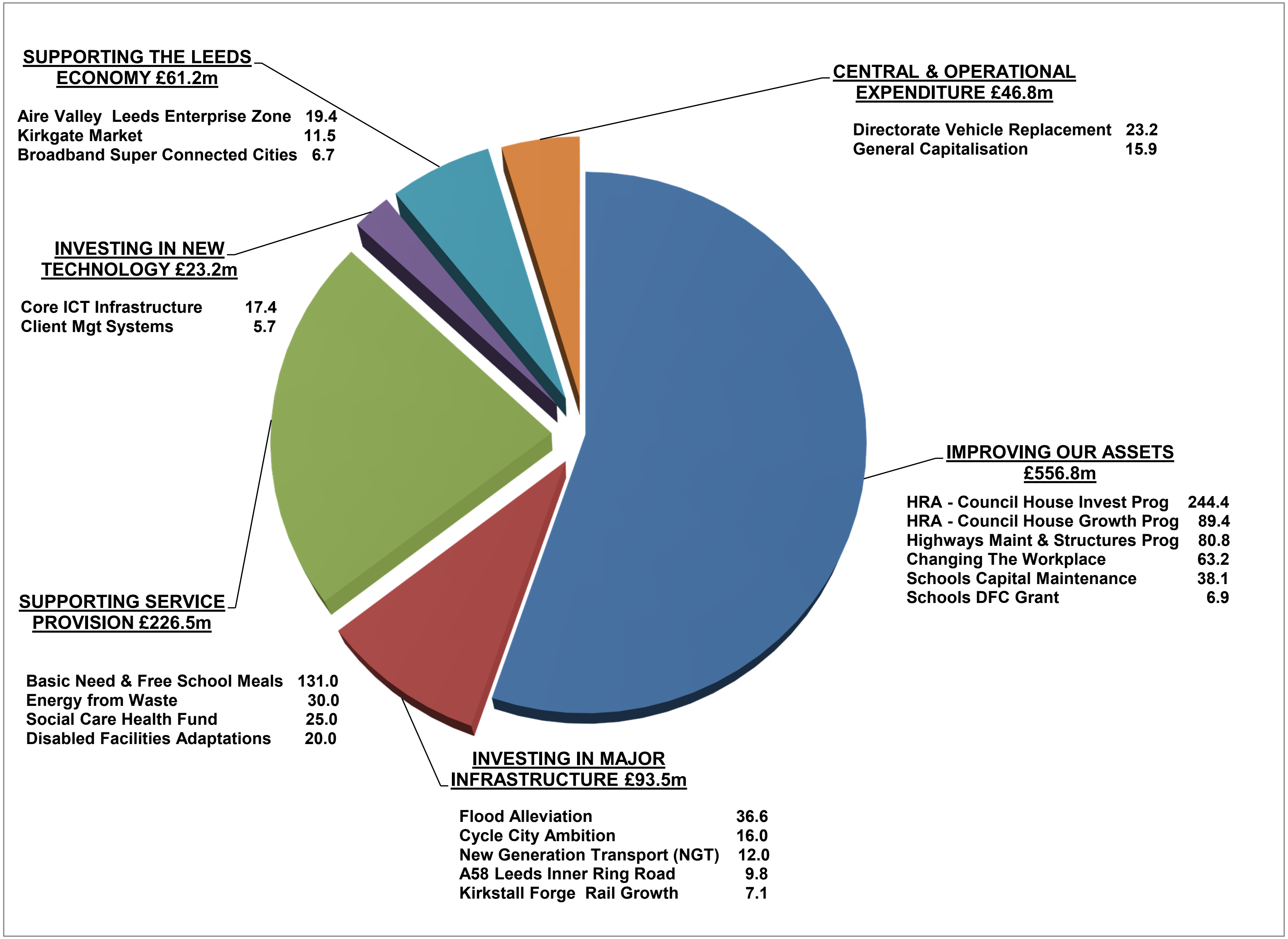
Bentley Lane Primary School (Park Lane College)
Charles Street, Farsley
Clarence Road Industrial Units
Clarence Road, Hydro Aluminium Site
Copperfields College
Kirkstall Hill District Centre
Ledston Luck Enterprise Park, Ledston Luck, Kippax, Leeds
Leeds Bradford Airport (Coney Lodge Farm - Site 2)
Leeds Bradford Airport (Employment Land - Site 1)
Leeds Bradford Airport (Ransom Strip - Site 3)
Matthew Murray High School
Nepshaw Lane
Oldfield Lane, Wortley (Sports Assoc Field)
Quarry Hill (Plot 6)
Quarry Hill Car Parking Payment
Rothwell Fire Station, Carlton Lane, Old Dental Clinic
Rumple Croft, Meagill Rise, Otley, Strip of land
South Accommodation Road, Leeds
Sovereign Street/Plot B
St Ann's Mills
Wade Street/Land Street, Corner of, Farsley
Windlesford Green Hostel, 126 Holmsley Lane, Woodlesford
Woodland Grove, 3, Leeds 8
Woodland Grove, 4, Leeds 8
Woodland Grove, 5, Leeds 8
Woodland Grove, 8, Leeds 8
York Road Depot, Easel Site 8

## 2018/on Disposals:

Burley Willows Care Home
Elland Road (Site B Car Park), Leeds
Gledhow Lane 46/48, LS8
Greenhill Centre
Half Mile Green, Former Garage Site, LS28 6HS
Healey Croft Hostel, Westerton Road, Tingley
Holborn Court Sheltered Housing, Woodhouse
Kendal Carr sheltered Housing, Woodhouse
Kenneth Street, Land at Holbeck
Leeds International Pool
Manor Crescent, Former Garage site, Self Build, LS26 0RE
North Parade Depot, otley
Peckfield Colliery, Plots 4, 5 and 6
Peel Street Community Centre, Melbourne Street
St Catherine's Crescent, Former Garage Site, Self Build, LS13 2JU
Wellington Grove, Former Garage Site, LS13 1AJ
Western Flatts Park, Cliff Cottage off Fawcett Lane

# Major Schemes by Objective 2015/16 -2017/18

Appendix C



**Appendix D**

**Statement of Policy on the Minimum Revenue Provision for 2014/15 – Revised February 2015**

## 1. Introduction

1.1. The Council is required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.

1.2. Until 2007/08, the basis of calculation for the MRP was specified in legislation. However, from 2007/08 onwards the statutory requirement is simply for local authorities to make a prudent level of provision, and the government has instead issued statutory guidance, which local authorities are required to 'have regard to' when setting a prudent level of MRP. The guidance gives local authorities more freedom to determine what would be a prudent level of MRP.

1.3. The statutory guidance recommends that local authorities draw up a statement of their policy on the MRP, for approval by full council in advance of the year to which it applies. Any subsequent revisions to that policy should also be approved by full council.

1.4. This document revises and replaces the original MRP policy for 2014/15 which was approved by full council in February 2004.

## 2 Details of DCLG Guidance on MRP

2.1. The statutory guidance issued by DCLG sets out the broad aims of a prudent MRP policy as being "to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant." It then identifies four options for calculating MRP and recommends the circumstances in which each option should be used, but states that other approaches are not ruled out.

2.2. Option 1 is the previous statutory method, which is calculated as 4% of the council's general fund capital financing requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

2.3. Option 2 differs from Option 1 only in that the smoothing factors are removed. Option 2 has been included by DCLG to provide a simpler calculation for those councils for whom it would have a minimal impact, but the draft guidance does not expect it to be used by councils for whom it would significantly increase MRP.

2.4. Options 3 and 4 represent a more significant change, and both link the rate of MRP charged to the useful life of the asset. Option 3 is to charge the total amount borrowed to revenue over the expected life of the asset, either in equal annual instalments or using an annuity method (which more closely reflects the fact that an asset deteriorates slowly at first and more rapidly during its later years). Option 4 is to charge the total amount borrowed in accordance with depreciation accounting, which would mean that the rate at which the MRP is charged could increase (or, more rarely, decrease) from year to year. Option 3 is preferred to Option 4, because in most cases Option 4 would lead to MRP being charged more quickly, and it would also be more volatile.

2.5. For capital schemes acquiring new assets which take more than one year to complete, application of Options 3 and 4 would allow councils to delay charging MRP until the year after the new asset becomes operational.

2.6. Under the statutory guidance, it is recommended that local authorities use Options 3 or 4 for all prudential borrowing, and for all borrowing to fund capitalised expenditure (such as capital grants to other bodies and capital expenditure on IT developments). Authorities may use any of the four options for MRP for their remaining borrowing to fund capital expenditure.

2.7. For balance sheet liabilities relating to finance leases and PFI schemes, the guidance recommends that one prudent approach would be for local authorities to make an MRP charge equal to the element of the annual rental which goes to write down the balance sheet liability. This would have the effect that the total impact on the bottom line would be equal to the actual rentals paid for the year. However the guidance also mentions that Option 3 could be used for this type of debt.

2.8. The 2014/15 MRP policy relates to capital expenditure funded by borrowing in 2013/14. For 2014/15, the MRP on capital spending from 2007/08 to 2012/13 will continue to be charged on the basis approved in the relevant year's annual MRP policy. For all capital spending from 2006/07 and earlier, the previous MRP calculation of 4% will continue to be applied.

**3. Implications of the requirement for an MRP policy**

3.1. One of the implications of the more flexible arrangements for MRP is that it is now necessary to identify which individual schemes have been funded by borrowing and which have been funded by non-specific capital income (e.g. capital receipts and grants), rather than treating the balance of the capital funding requirement after specific capital funding has been applied as being met from a general receipts and borrowing pool.

3.2. In the case of capital receipts, statute gives local authorities the option to apply these to fund the payment of any liabilities relating to finance leases and PFI schemes. This is a reflection of the fact that such schemes are being treated in accounting terms as the acquisition of fixed assets, and the liability represents the amount being paid towards the purchase of the asset itself, rather than interest or service charges payable.

3.3. Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years. Applying capital receipts to redeem borrowing would reduce the level of MRP which the council needs to set aside from revenue as a prudent provision.

3.4. The general principle adopted will be to allocate capital receipts firstly to fund the liabilities to be written down for the year in relation to PFI schemes and finance leases. This will remove the need for MRP charges equal to the value of the capital receipts applied.

3.5. For any remaining capital receipts, the options are for these to be retained in the Usable Capital Receipts Reserve, used to redeem debt, or used to fund capital expenditure on short life assets. The Deputy Chief Executive will determine annually the most prudent use of these receipts, taking into account forecasts for future expenditure and the generation of further receipts.

**4. Proposed 2014/15 MRP Policy**

4.1. In it's 2014/15 MRP policy, the council is required to decide on how MRP will be calculated for borrowing undertaken for the 2013/14 capital programme. It is proposed that Leeds adopts the following MRP policies for 2014/15 :

- If capital receipts have been used to repay borrowing for the year then the value of the MRP which would otherwise have been set aside to repay borrowing will be reduced by the amounts which have instead been repaid from capital receipts.

- MRP for prudential borrowing for 2013/14's capital expenditure will be calculated on an annuity basis over the expected useful life of the asset (Option 3).

- MRP for borrowing to fund capitalised expenditure incurred during 2013/14 will be calculated on an annuity basis using the lifetimes recommended in the government's guidance (Option 3).

- For all other supported borrowing to fund the 2013/14 capital programme, MRP will continue to be calculated on an annuity basis over the expected useful life of the asset (Option 3).

- For PFI and finance lease liabilities, an MRP charge will be made to match the value of any liabilities written down during the year which have not been funded by capital receipts.

4.2 These policies will ensure that the council satisfies the requirement to set aside a prudent level of MRP. The arrangements for allocating capital funding set out in paragraphs 3.3 to 3.5 above will help to ensure that the level of MRP is not excessive.

**Appendix E**

## Statement of Policy on the Minimum Revenue Provision for 2015/16

### 1. Introduction

1.1. The Council is required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.

1.2. Until 2007/08, the basis of calculation for the MRP was specified in legislation. However, from 2007/08 onwards the statutory requirement is simply for local authorities to make a prudent level of provision, and the government has instead issued statutory guidance, which local authorities are required to 'have regard to' when setting a prudent level of MRP. The guidance gives local authorities more freedom to determine what would be a prudent level of MRP.

1.3. The statutory guidance recommends that local authorities draw up a statement of their policy on the MRP, for approval by full council in advance of the year to which it applies.

### 2. Details of DCLG Guidance on MRP

2.1. The statutory guidance issued by DCLG sets out the broad aims of a prudent MRP policy as being "to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant." It then identifies four options for calculating MRP and recommends the circumstances in which each option should be used, but states that other approaches are not ruled out.

2.2. Option 1 is the previous statutory method, which is calculated as 4% of the council's general fund capital financing requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

2.3. Option 2 differs from Option 1 only in that the smoothing factors are removed. Option 2 has been included by DCLG to provide a simpler calculation for those councils for whom it would have a minimal impact, but the draft guidance does not expect it to be used by councils for whom it would significantly increase MRP.

2.4. Options 3 and 4 represent a more significant change, and both link the rate of MRP charged to the useful life of the asset. Option 3 is to charge the total amount borrowed to revenue over the expected life of the asset, either in equal annual instalments or using an annuity method (which more closely reflects the fact that an asset deteriorates slowly at first and more rapidly during its later years). Option 4 is to charge the total amount borrowed in accordance with depreciation accounting, which would mean that the rate at which the MRP is charged could increase (or, more rarely, decrease) from year to year. Option 3 is preferred to Option 4, because in most cases Option 4 would lead to MRP being charged more quickly, and it would also be more volatile.

2.5. For capital schemes acquiring new assets which take more than one year to complete, application of Options 3 and 4 allows councils to delay charging MRP until the year after the new asset becomes operational.

2.6. Under the statutory guidance, it is recommended that local authorities use Options 3 or 4 for all prudential borrowing, and for all borrowing to fund capitalised expenditure (such as capital grants to other bodies and capital expenditure on IT developments). Authorities may use any of the four options for MRP for their remaining borrowing to fund capital expenditure.

2.7. For balance sheet liabilities relating to finance leases and PFI schemes, the guidance recommends that one prudent approach would be for local authorities to make an MRP charge equal to the element of the annual rental which goes to write down the balance sheet liability. This would have the effect that the total impact on the bottom line would be equal to the actual rentals paid for the year. However the guidance also mentions that Option 3 could be used for this type of debt.

## 3. Implications of the requirement for an MRP policy

3.1. One of the implications of the more flexible arrangements for MRP is that it is now necessary to identify which individual schemes have been funded by borrowing and which have been funded by non-specific capital income (e.g. capital receipts and grants), rather than treating the balance of the capital funding requirement after specific capital funding has been applied as being met from a general receipts and borrowing pool.

3.2. In the case of capital receipts, statute gives local authorities the option to apply these to fund the payment of any liabilities relating to finance leases and PFI schemes. This is a reflection of the fact that such schemes are being treated in accounting terms as the acquisition of fixed assets, and the liability represents the amount being paid towards the purchase of the asset itself, rather than interest or service charges payable.

3.3. Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years. Applying capital receipts to redeem borrowing would reduce the level of MRP which the council needs to set aside from revenue as a prudent provision.

3.4. The general principle adopted will be to allocate capital receipts firstly to fund the liabilities to be written down for the year in relation to PFI schemes and finance leases. This will remove the need for MRP charges equal to the value of the capital receipts applied.

3.5. For any remaining capital receipts, the options are for these to be retained in the Usable Capital Receipts Reserve, used to redeem debt, or used to fund capital expenditure on short life assets. The Deputy Chief Executive will determine annually the most prudent use of these receipts, taking into account forecasts for future expenditure and the generation of further receipts.

## 4. Proposed 2015/16 MRP Policy

4.1. In its 2015/16 MRP policy, the council is required to decide on how MRP will be calculated for borrowing undertaken for the 2014/15 capital programme and earlier years. It is proposed that Leeds adopts the following MRP policies for 2015/16 :

- If capital receipts have been used to repay borrowing for the year then the value of the MRP which would otherwise have been set aside to repay borrowing will be reduced by the amounts which have instead been repaid from capital receipts.

- MRP for borrowing for 2014/15's capital expenditure will be calculated on an annuity basis over the expected useful life of the assets (Option 3). For expenditure capitalised under statute where there is no identifiable asset, the lifetimes used for calculating the MRP will be as recommended in the statutory guidance.

- MRP for borrowing on capital expenditure incurred between 2007/08 and 2013/14 for which Option 3 is already being used will continue on the same basis.

- For earlier borrowing, MRP will be charged on an asset life annuity basis. As data is not available to identify the individual assets which this borrowing relates to, an average asset life for the assets in the authority's current asset register will be used. This approach represents a change to the council's policy. In previous years the MRP for this element of borrowing was calculated under Option 1 in the guidance, i.e. the pre 2008 statutory 4% reducing balance basis.

- For PFI and finance lease liabilities, an MRP charge will be made to match the value of any liabilities written down during the year which have not been funded by capital receipts.

4.2 These policies will ensure that the council satisfies the requirement to set aside a prudent level of MRP. The arrangements for allocating capital funding set out in paragraphs 3.3 to 3.5 above will help to ensure that the level of MRP is not excessive.

**Appendix F**

Equality, Diversity, Cohesion and Integration Screening

As a public authority we need to ensure that all our strategies, policies, service and functions, both current and proposed have given proper consideration to equality, diversity, cohesion and integration.

A **screening** process can help judge relevance and provides a record of both the **process** and **decision.** Screening should be a short, sharp exercise that determines relevance for all new and revised strategies, policies, services and functions. Completed at the earliest opportunity it will help to determine:

- the relevance of proposals and decisions to equality, diversity, cohesion and integration.
- whether or not equality, diversity, cohesion and integration is being/has already been considered, and
- whether or not it is necessary to carry out an impact assessment.

| | |
|---|---|
| **Directorate: Resources** | **Service area: Audit and Investment** |
| **Lead person: Bhupinder Chana** | **Contact number: 51332** |

| |
|---|
| **1. Title: Capital Programme Update** |
| Is this a:<br>[X] **Strategy / Policy** [ ] **Service / Function** [ ] **Other**<br><br>**If other, please specify** |

| |
|---|
| **2. Please provide a brief description of what you are screening** |
| **The report presents an updated capital programme including the overall** |

| |
|---|
| **financial position and a progress report on major schemes and programmes.** |

| | | |
|---|---|---|
| **3. Relevance to equality, diversity, cohesion and integration**<br>All the council's strategies/policies, services/functions affect service users, employees or the wider community – city wide or more local. These will also have a greater/lesser relevance to equality, diversity, cohesion and integration.<br><br>The following questions will help you to identify how relevant your proposals are.<br><br>When considering these questions think about age, carers, disability, gender reassignment, race, religion or belief, sex, sexual orientation. Also those areas that impact on or relate to equality: tackling poverty and improving health and well-being. | | |
| **Questions** | **Yes** | **No** |
| Is there an existing or likely differential impact for the different equality characteristics? | | X |
| Have there been or likely to be any public concerns about the policy or proposal? | | X |
| Could the proposal affect how our services, commissioning or procurement activities are organised, provided, located and by whom? | | X |
| Could the proposal affect our workforce or employment practices? | | X |
| Does the proposal involve or will it have an impact on<br>• Eliminating unlawful discrimination, victimisation and harassment<br>• Advancing equality of opportunity<br>• Fostering good relations | | <br>X<br><br>X<br>X |

If you have answered **no** to the questions above please complete **sections 6 and 7**

If you have answered **yes** to any of the above and;

- Believe you have already considered the impact on equality, diversity, cohesion and integration within your proposal please go to **section 4.**
- Are not already considering the impact on equality, diversity, cohesion and integration within your proposal please go to **section 5.**

| 4. Considering the impact on equality, diversity, cohesion and integration |
|---|
| If you can demonstrate you have considered how your proposals impact on equality, diversity, cohesion and integration you have carried out an impact assessment.<br><br>Please provide specific details for all three areas below (use the prompts for guidance). |
| • **How have you considered equality, diversity, cohesion and integration?**<br>(**think about** the scope of the proposal, who is likely to be affected, equality related information, gaps in information and plans to address, consultation and engagement activities (taken place or planned) with those likely to be affected) |
| • **Key findings**<br>**(think about** any potential positive and negative impact on different equality characteristics, potential to promote strong and positive relationships between groups, potential to bring groups/communities into increased contact with each other, perception that the proposal could benefit one group at the expense of another) |
| • **Actions**<br>**(think about** how you will promote positive impact and remove/ reduce negative impact) |

| **5.** If you are **not** already considering the impact on equality, diversity, cohesion and integration you **will need to carry out an impact assessment**. | |
|---|---|
| Date to scope and plan your impact assessment: | |
| Date to complete your impact assessment | |
| Lead person for your impact assessment<br>(Include name and job title) | |

| **6. Governance, ownership and approval**<br>Please state here who has approved the actions and outcomes of the screening | | |
|---|---|---|
| **Name** | **Job title** | **Date** |
| Bhupinder Chana | Head of Finance (Acting) Capital, Insurance and Treasury Management | 29th January 2015 |
| **Date screening completed** | | |

| **7. Publishing** | |
|---|---|
| Though **all** key decisions are required to give due regard to equality the council **only** publishes those related to **Executive Board**, **Full Council, Key Delegated Decisions** or a **Significant Operational Decision.**<br><br>A copy of this equality screening should be attached as an appendix to the decision making report:<br>• Governance Services will publish those relating to Executive Board and Full Council.<br>• The appropriate directorate will publish those relating to Delegated Decisions and Significant Operational Decisions.<br>• A copy of all other equality screenings that are not to be published should be sent to equalityteam@leeds.gov.uk for record.<br><br>Complete the appropriate section below with the date the report and attached screening was sent: | |
| For Executive Board or Full Council – sent to **Governance Services** | Date sent: |
| For Delegated Decisions or Significant Operational Decisions – sent to appropriate **Directorate** | Date sent: |
| All other decisions – sent to equalityteam@leeds.gov.uk | Date sent: |

**Appendix G**

## Capital Programme – Scheme Details (Organised by Expenditure Objective)