

## Report of the Deputy Chief Executive

### Report to Executive Board

**Date: 15<sup>th</sup> July 2015**

**Subject: Capital Programme Quarter 1 Update 2015-2019**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

### Summary of main issues

1. This report sets out the latest capital programme position for both the General Fund and the Housing Revenue Account (HRA).
2. The Council continues to seek to deliver a large and ambitious 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.
3. Whilst the capital programme remains affordable in 2015/16, a wider review will consider the continued affordability of debt costs in future years in the context of: planned expenditure and pressures in conjunction with the Council's best plan priorities; projections on interest rates; and the continued strength of the Council's balance sheet to fund capital spend. Scheme phasing will continue to be monitored to ensure that it is accurate and realistic.
4. The HRA programme remains affordable over the next 3 years.
5. Major schemes continue to progress, with no significant concerns to report at this stage.

### Recommendations

Executive Board is requested to:

1. Note the latest position on the General Fund and HRA capital programmes.

## 1. Purpose of this report

- 1.1. The purpose of the report is to provide Members with an update on the capital programme position as at end of June 2015. The report includes an update of capital resources, progress on spend and a summary of the economic impact of the capital programme.

## 2. Background information

- 2.1. The Capital Programme approved by Council in February 2015 projected expenditure of £1,008m from 2015/16 to 2019. This included borrowing of £401.4m over the period, including £137.5m in 2015/16. The cost of financing this borrowing was covered in the treasury management strategy report also approved in February 2015.

## 3. Capital Programme

### 3.1. Restated Capital Programme – Outturn

- 3.1.1. Since the approval of the Capital Programme in February 2015, the provisional 2014/15 accounts have been completed and the position reported to Members as part of the June Revenue Outturn Report to Executive Board. Consequently the 2015/16 and future years capital programme has been restated and the resources position has also been updated. Table 1 shows the revised capital programme for 2015/16 to 2018/19 as at period 3 2015/16.

**Table 1: Capital Programme as at period 3 2015/16 – 2018/19**

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
Forecast Expenditure	386.9	345.0	265.8	70.2	1068.0
<b>Funded By:</b>					
Borrowing	139.0	155.3	92.0	36.2	422.5
Government Grants	134.6	85.6	75.8	27.1	323.2
HRA Self Financing	86.2	93.4	79.2	5.7	264.5
Other grants & contributions	16.9	2.0	2.1	1.2	22.2
HRA Right to Buy Receipts	8.9	8.7	16.6	0.0	34.3
Revenue / reserves	1.3	0.0	0.0	0.0	1.3
<b>Total Forecast Resources</b>	<b>386.9</b>	<b>345.0</b>	<b>265.8</b>	<b>70.2</b>	<b>1068.0</b>

### 3.2. Capital Programme Latest Position

- 3.2.1. The General Fund capital programme currently stands at £723.6m for the period up to 2018/19. It provides for investment in improved facilities and infrastructure and also has an impact on the Leeds economy through supporting jobs and income and business generated throughout the city. The HRA capital programme provides for capital investment of £344.4m for the 3 years 2015/16 through to 2017/18.
- 3.2.2. The latest capital programme resources position for General Fund and HRA in 2015/16 is shown in Table 2 below.

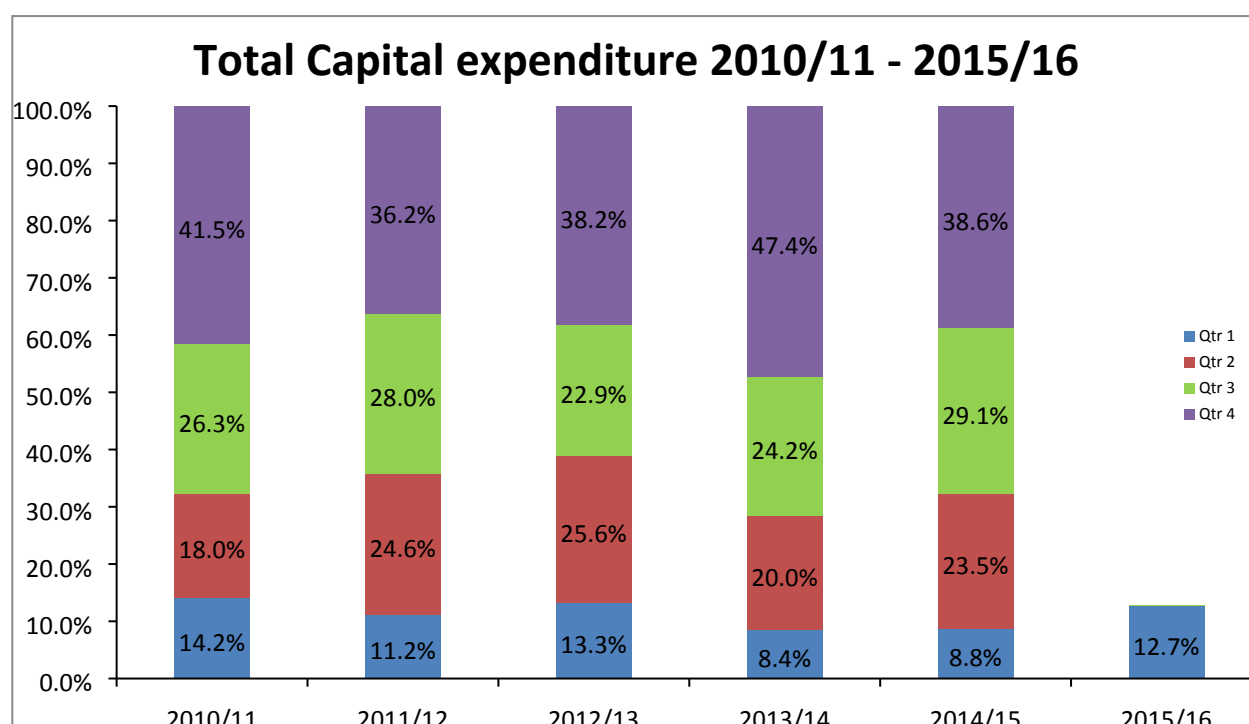
**Table 2: Capital Resources Position**

	<b>2015/16</b>	
	<b>Restated Capital programme as at outturn May 2015 £m</b>	<b>Period 3 as at June 2015 £m</b>
Forecast Expenditure	417.2	386.9
<b>Funded By:</b>		
Borrowing	141.1	139.0
Government Grants	141.9	134.6
HRA Self Financing	103.5	86.2
Other grants & contributions	20.5	16.9
HRA Right to Buy Receipts	8.9	8.9
Revenue / reserves	1.3	1.3
<b>Total Forecast Resources</b>	<b>417.2</b>	<b>386.9</b>

3.2.3. The current forecast position for 2015-18 is set out in Appendix A. This shows that whilst there is a reduction of borrowing in 2015/16 there is a slight increase in the level of borrowing required to fund the full 2015-19 capital programme of £12.1m from £410.4m to £422.5m since Outturn 2014/15 reported to EB in June 2015

3.2.4. Appendix A details projected spend in 2015/16 of £386.9m. Graph 1 below shows that the rate of actual spend as a percentage of total in year spend in Quarter 1 is slightly higher than the previous two years. In addition, the current projection of £386.9m is significantly higher than actual spend delivered in previous years. It is unlikely that this level of spend will be delivered and a review of current scheme profiles and capacity to deliver the capital programme is currently being undertaken. Furthermore, an ongoing review continues to ensure that the capital programme continues to be aligned to the strategic priorities of the Council.

**Graph 1: Percentage spend rates per quarter**



- 3.2.5. To reflect a more realistic and deliverable capital programme the debt budget assumes borrowing slippage of £35m into the following years. Therefore the cost of funding the capital programme remains affordable and within the agreed 2015/16 debt budget. Projections for the following years show significant increases in debt costs in 16/17 and 17/18. These projections will continue to be adjusted for changes in the level of borrowing required to fund the capital programme, interest rates and the continued strength of the Councils balance sheet. The affordability of debt will continue to be monitored and assessed in the context of the medium term financial plan.
- 3.2.6. The February Capital Programme update report 2015-2018 detailed the major schemes within the capital programme and they continue to progress with no major concerns to report at this stage. A full update on the major schemes and pressures will be provided in the Quarter 2 update report to Members in November 2015.
- 3.2.7. Members are asked to note that there are a number of other capital related reports elsewhere on the agenda.

#### **4. Economic Impact of the Capital Programme**

- 4.1. Members will recall that the February 2015 Capital Programme update included details of the Economic Impact Assessment of the Council's capital programme investment on the Leeds economy. The key points being:
- 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

#### **5. Corporate Considerations**

##### **5.1. Consultation and Engagement**

There has been no external consultation in respect to the recommendations of this report as it is not considered appropriate. Consultation on the Council's budget proposals, including the capital programme, took place prior to the finalisation and approval of the budget in February 2015.

##### **5.2. Equality and Diversity / Cohesion and Integration**

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.

### **5.3. Council policies and Best Council Plan**

Capital objectives were set out as part of the February 2015 budget process and the capital programme approved in February 2015 is structured to show schemes under these objectives.

### **5.4. Resources and value for money**

5.4.1. The resource implications of this report are detailed in section 3.2 above.

5.4.2. For the capital programme to be sustainable, the Deputy Chief Executive must be satisfied that the cost of borrowing currently included in the capital programme can be contained within the approved revenue debt budget. The updated capital resources position statement set out in Appendix A shows that the cost of borrowing for 2015/16 can currently be contained within the agreed 2015/16 debt budget.

5.4.3. For HRA, the position as outlined at Appendix A shows that expenditure can be managed within resources available.

5.4.4. In order to ensure that schemes meet Council priorities and are value for money, the Deputy Chief Executive has 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;
- promotion of best practice in capital planning and estimating to ensure that scheme estimates and programmes are realistic;
- the use of departmental unsupported borrowing for spend to save schemes is based on individual business cases and in the context of identifying the revenue resources to meet the borrowing costs.

### **5.5. Legal Implications, Access to Information and Call In**

There are no legal implications arising from this report.

### **5.6. Risk Management**

5.6.1. One of the main risks in managing the capital programme is that insufficient resources are available to fund the programme. As the capital programme is now fully funded this risk lays within the treasury management of the debt budget. Monthly monitoring procedures are in place for expenditure, resources and capital receipts and debt monitoring to ensure that this risk can be managed effectively.

5.6.2. In addition, the following measure are in place:

- 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
- compliance with both financial regulations and contract procedure rules to ensure the Council's position is protected.

5.6.3. The February report highlighted that, 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) should be injected in the programme. A review is underway to ensure that the programme remains relevant within the context of the Best Council Business Plan objectives and is affordable in future years.

## **6 Conclusions**

- 6.1 The Council continues to seek to deliver a substantial capital programme across the city which will deliver improved facilities and infrastructure and also support the Leeds economy. The capital resources position statement shows a slight increase in the level of borrowing required to fund the 2015-19 capital programme of £12.1m to £422.5m since Outturn 2014/15. The cost of borrowing for 2015/16 programme can currently be contained within the agreed debt budget. A review of current scheme profiles and capacity to deliver the capital programme is currently being undertaken and will be reported back to Members in the Quarter 2 update in November 2015. For HRA, forecast expenditure can be contained within available resources in 2015/16.

## **7 Recommendations**

Executive Board is requested to:

- 7.1 Note the latest position on the General Fund and HRA capital programmes.

## **Appendices**

A – Capital Programme Resource Statement

## **Background documents<sup>1</sup>**

None

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<sup>1</sup> 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.

Period 3

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 on £000	Total £000
<b>EXPENDITURE</b>					
<b>GENERAL FUND (GF)</b>					
IMPROVING OUR ASSETS	91,148.4	60,091.5	65,131.3	18,701.5	235,072.7
INVESTING IN MAJOR INFRASTRUCTURE	62,287.2	25,080.0	7,709.3	929.7	96,006.2
SUPPORTING SERVICE PROVISION	58,910.4	93,781.0	59,641.1	31,962.4	244,294.9
INVESTING IN NEW TECHNOLOGY	15,600.1	5,272.8	4,187.2	0.0	25,060.1
SUPPORTING THE LEEDS ECONOMY	43,715.7	26,396.2	3,905.9	1,131.2	75,149.0
CENTRAL & OPERATIONAL EXPENDITURE	15,779.6	10,013.4	10,413.1	11,801.6	48,007.7
<b>TOTAL ESTIMATED SPEND ON GF</b>	<b>287,441.4</b>	<b>220,634.9</b>	<b>150,987.9</b>	<b>64,526.4</b>	<b>723,590.6</b>
<b>HOUSING REVENUE ACCOUNT (HRA)</b>					
IMPROVING OUR ASSETS - COUNCIL HOUSING	99,479.4	124,397.4	114,824.9	5,717.8	344,419.5
<b>TOTAL ESTIMATED SPEND ON HRA</b>	<b>99,479.4</b>	<b>124,397.4</b>	<b>114,824.9</b>	<b>5,717.8</b>	<b>344,419.5</b>
<b>TOTAL ESTIMATED SPEND</b>	<b>386,920.8</b>	<b>345,032.3</b>	<b>265,812.8</b>	<b>70,244.2</b>	<b>1,068,010.1</b>
<b>RESOURCES</b>					
<b>GENERAL FUND (GF)</b>					
<b>Specific Resources</b>					
GOVERNMENT GRANTS	132,149.5	80,813.2	72,908.7	27,110.1	312,981.5
OTHER GRANTS	16,721.1	2,022.3	2,073.1	1,238.3	22,054.8
<b>Corporate Resources</b>					
BORROWING - Corporate	109,142.7	76,142.2	66,670.5	20,951.7	272,907.1
BORROWING - Departmental	29,361.2	61,657.2	9,328.6	15,226.3	115,573.3
RCCO / RESERVES	66.9	0.0	7.0	0.0	73.9
<b>CAP. RESOURCES REQD FOR GF</b>	<b>287,441.4</b>	<b>220,634.9</b>	<b>150,987.9</b>	<b>64,526.4</b>	<b>723,590.6</b>
<b>HOUSING REVENUE ACCOUNT (HRA)</b>					
<b>Specific Resources</b>					
HRA SELF FINANCING	86,215.9	93,353.0	79,239.6	5,717.8	264,526.3
R.T.B. CAPITAL RECEIPTS	8,897.7	8,743.9	16,622.5	0.0	34,264.1
GOVERNMENT GRANTS	2,457.8	4,802.0	2,927.2	0.0	10,187.0
RCCO / RESERVES	1,270.5	0.0	0.0	0.0	1,270.5
OTHER CONTRIBUTIONS	171.6	0.0	0.0	0.0	171.6
BORROWING - Departmental	465.9	17,498.5	16,035.6	0.0	34,000.0
<b>CAP. RESOURCES REQD FOR HRA</b>	<b>99,479.4</b>	<b>124,397.4</b>	<b>114,824.9</b>	<b>5,717.8</b>	<b>344,419.5</b>
<b>TOTAL CAP. RESOURCES REQD</b>	<b>386,920.8</b>	<b>345,032.3</b>	<b>265,812.8</b>	<b>70,244.2</b>	<b>1,068,010.1</b>
<b>BORROWING REQUIRED TO FUND THIS PROGRAMME</b>					
	<b>138,969.8</b>	<b>155,297.9</b>	<b>92,034.7</b>	<b>36,178.0</b>	<b>422,480.4</b>
<b>Average Interest rate (subject to change)</b>					
	<b>0.65%</b>	<b>1.75%</b>	<b>2.5%</b>	<b>2.5%</b>	