



Report of the Director of Resources

Report to the Executive Board

Date: 14th November 2007

Subject: Capital Programme – 2007/08 mid year financial update

Electoral Wards Affected:

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In

(Details contained in the report)

EXECUTIVE SUMMARY

The report seeks to inform Members of the latest financial position in respect of the 2007/08 Capital Programme. The report highlights some capital expenditure and funding changes that have arisen since the Capital Programme was approved at Council in February 2007 and since the subsequent update report to Executive Board, 22 August 2007. A small number of scheme specific approvals are also sought. The report also explains the specific action that is being taken at individual scheme level to ensure that the overall level of Capital Programme expenditure can be managed within the projected level of available resources.

1.0 Purpose Of This Report

1.1 To provide Members with summary financial details of the 2007/08 month 6 Capital Programme position. The report seeks a small number of scheme specific approvals which have arisen since the 2006/07 – 2010/11 Capital Programme was approved in February 2007 and the previous update report to Executive Board in August 2007. The report also details the action that is being taken in respect of individual capital schemes to ensure that the overall level of Capital Programme expenditure can be managed within the tolerances assumed for what is an ever changing resource position.

2.0 Background Information

2.1 The Capital Programme 2006/07 – 2010/11, approved by Council in February 2007, projected expenditure of £424.1m in 2007/08. General Fund overprogramming of

£25.5m was assumed, which based on previous years was considered to be manageable. In the Capital Programme update report to Executive Board in August 2007, this had increased slightly to £25.7m.

- 2.2 This report sets out an updated Capital Programme position for both the general fund and for the HRA (including ALMOs). In preparing this updated position, the incidence of expenditure on existing schemes has been reviewed and updated and any changes to resources available have been reflected.

3.0 General Fund Capital Programme

- 3.1 The Capital Programme 2006/07 – 2010/11 approved by Council in February 2007, projected 2007/08 expenditure for the general fund of £263.3m. Since February 2007 there have been a number of Capital Programme injections some of which have been funded by external and other resources. A schedule of these schemes, which includes those injections detailed in the August 2007 update report (showing those injections above £100k) is included at Appendix A.

- 3.2 The level of overprogramming in February 2007 over the period 2006/07 to 2010/11 was projected at £46.3m. The August 2007 report introduced new forecast capital receipts of £31.85m and new expenditure of £24.6m leaving an overprogramming position of £43.65m to 2011/12. It was noted however that whilst forecast receipts of £20.7m anticipated to be received in 2011/12 were included, no expenditure pressures for that year were included. On the same basis, the October 2007 overprogramming position is slightly reduced at £41.2m.

- 3.3 The projected level of 2007/08 capital receipts has increased from £62.3m as reported in February 2007 to the current figure of £65.4m. However, there remains a risk that at least a proportion of these receipts will not be delivered by the end of 2007/08. It is important therefore that tight control is maintained on spending so that any additional unsupported borrowing required is minimized.

- 3.4 Due to slippage from 2006/07 to 2007/08, unsupported borrowing assumed to fund this expenditure has also slipped and increased the use of unsupported borrowing in 2007/08 from £19m to £29.3m.

- 3.5 The estimated expenditure for 2007/08 now totals £298.5m whilst resources are projected at £271.7m. The resulting overprogramming of £26.7m is £1m higher than reported in August. With careful management of the scheme commitments the 2007/08 programme should still be affordable. Currently the 2008/09 programme is projecting overprogramming of £37.1m which is not sustainable. This will be reviewed in the coming months with a view to setting out a programme that can be delivered within available resources whilst minimizing the service related impact of any delay in delivering schemes. This will be reported to Executive Board in February 2008.

- 3.6 In order to ensure that the overall programme is affordable, tight control is being maintained on the awarding of contracts for schemes which require the council's own (flexible) resources as funding. Alongside this Directors have been asked to continue to review their programmes to:

- 1) re-profile expenditure on any committed schemes which use flexible resources, where project delays are slowing the spending on these schemes;

2) review all uncommitted schemes which make a call on flexible resources and re-profile expenditure on schemes where it is not deemed essential they commence in 2007/08.

3.7 It should be noted however, that estimated spend of £298.5m for 2007/08 when compared to actual spend of £182.4m on general fund services in 2006/07 appears optimistic. The Director of Resources (DoR) continues to monitor all uncommitted capital schemes at contract award stage to ensure that expenditure is essential prior to the council awarding the contract.

4.0 Housing Revenue Account Programme

4.1 The Capital Programme approved in February 2007, projected a near balanced programme (£0.3m overprogramming) for the HRA in 2007/08 with estimated 2007/08 net expenditure of £160.6m. A supplementary programme of £49.1m was also included for 2008/09 and the forward years. The supplementary programme reflects a degree of uncertainty as to the future funding levels for the ALMO programmes. The Council is still awaiting notification of the level of supported HRA borrowing for 2008/09 (£107.6m in 2007/08); supported borrowing has been the main source of funding for the ALMO programmes and represents 67% of the projected funding for the 2007/08 programme.

4.2 The latest position for the HRA shows projected 2007/08 expenditure of £156.6m with corresponding resources of £169.1m giving surplus resources of £12.5m. However, over the forward years through to 2011 there has been an increase in the overall projected overprogramming, up from £49.1m in February 2007 to £56.3m in October 2007. Further work will be undertaken with the Director of Environment & Neighbourhoods and the ALMOs to address the overprogramming and deliver a programme within the available resources.

5.0 Capital Programme Additional Funding & Pressures

5.1 The current review of schemes being undertaken in conjunction with service departments has highlighted a small number of expenditure and resource issues which require consideration and approval in advance of the February 2008 report and these are highlighted below:

1) Combined Secondaries PFI Project, additional expenditure

Additional estimated costs of £2.177m are being incurred in preparing the surplus school sites, associated with this project, for release. The works relate primarily to the decanting and clearance of the buildings prior to their subsequent demolition. Due to the high cost risk premium quoted by the PFI contractor for the removal of asbestos on these sites, the Council has determined to exclude these works from the PFI contract and directly procure these works with a consequent revenue saving from a reduced unitary charge. The estimated cost of the asbestos removal works at six sites is £1.757m.

Some remedial works have been required, totalling £172k to cover the cost of decanting works and making buildings suitable for alternative use. There are also additional statutory utility costs of £247k primarily associated with the diversion of electricity supplies relating to the demolition of Ralph Thoresby High school.

The additional costs identified above are offset by £2.4m of projected additional receipts following the Director of City Development's revised valuations for the

surplus high school sites (Primrose, Carr Manor, Merlyn Rees and Matthew Murray).

2) Vehicle Licencing building extension works

There is a requirement to provide additional accommodation at 225 York Road to enable the existing staff to move out of temporary portacabin accommodation and also to provide for any extra staff required as a result of the implementation of the Road Safety Act. Additional licensing and enforcement requirements have been placed on the Council in respect of limousines and similar transport.

The estimated cost of these works is £693k of which £71k was met by the revenue budget in 2006/07. The balance of £622k is to be funded from £104k of accumulated surplus from licence fees and the £518k remaining balance funded from unsupported borrowing, the revenue costs of which will be met from additional licence fee income in the forward years.

3) The Mansion, Roundhay – third party operator, refurbishment costs

Executive Board on 17 October 2007 received a report on proposals to remarket and seek a third party operator for the café/restaurant/bar facility at the property. Members agreed the principle of a financial contribution towards the refurbishment costs (as detailed in confidential Appendix 2 to the October 2007 report) and agreed to a further report on the commercial offers received in due course.

There is currently no provision within the Capital Programme for any capital contribution towards this refurbishment. Members agreed at the Executive Board in August 2007 that no further injections would be made to the capital programme without identifying a corresponding reduction or additional capital resources.

It is anticipated that the outcome of the remarketing exercise will be known in the new year. It is proposed therefore that the capital resources required will be considered as part of the February 2008 update of the capital programme.

4) East Leeds Family Learning Centre

The existing scheme in the capital programme for the East Leeds Family Learning Centre was based on requirements identified in 2003. The scheme was reliant on funding from the Learning & Skills Council which is no longer available and in addition the Council's requirements for the site are now being reviewed. It is possible that there is scope for savings in the proposed reprovisioning of facilities currently based at the East Leeds Family Learning Centre (ELFLC) and a feasibility study has been commissioned for the East Leeds site to determine the extent of works required. Until this is complete the cost of works that will be required is unknown. It is proposed therefore to transfer the balance of the currently available funding for this scheme (£6.35m) into the capital contingency scheme. Releases from this will then be sought when it has been established how the East Leeds site fits within the Council's priorities and strategic outcomes .

6.0 Capital Programme & Resources - 2007/08 to 2010/11

- 6.1 As a result of the scheme review exercise undertaken for this report, some expenditure originally programmed for 2007/08, has been slipped back into 2008/09 and the forward years. In the years 2007/08 to 2010/11 projected general fund expenditure totals some £674.8m. Resources for the same period total £613.2m, and after inclusion of £20.7m receipts in 2011/12 for which there is only a minimal expenditure programme, the overprogramming position stands at £41.2m as outlined in Appendix B.
- 6.2 The Council has very few remaining flexible resources in 2007/08 and 2008/09 after taking account of schemes that are already contractually committed. Hence the monitoring of commitments in 2007/08 and the forward years is also taking place. As Appendix B shows, of the general capital receipts estimate of £65.4m in 2007/08, £53.8m is already accounted for on contractually committed schemes. The equivalent figures for 2008/09 are a capital receipts estimate of £25.2m of which £16.6m relates to committed schemes.
- 6.3 The capital receipts programme includes a number of high value strategic disposals, and it must be noted there is a clear risk associated with predicting when these receipts will be received.

7.0 Risk Assessment

- 7.1 The continued review of schemes and the associated financial controls in place should ensure that the council does not commit expenditure in excess of the resources available in 2007/08.
- 7.1 Further contractual commitments beyond the general capital receipts forecast in 2007/08 will effectively mean that the council is committing expenditure against future capital receipts which are not yet certain to be realised in that year. If these receipts are not received, the council would need to take up additional unsupported borrowing with corresponding financing costs falling on the revenue budget.
- 7.2 There are a number of schemes in the Capital Programme which are funded by specific capital receipts. Where expenditure is scheduled to occur before the capital receipt is received, the council will need to borrow to cover the associated cash flow effects with the relevant department meeting the cost of borrowing.

8.0 Recommendations

Executive Board is requested:

- 8.1 To note the latest position of the Capital Programme 2007/08 and the projections for 2008/09 to 2010/11.
- 8.2 To approve the injection in 2007/08 of £2.177m of Leeds resources for the additional site related costs associated with the Combined Secondary Schools PFI project and give authority to spend for this sum.
- 8.3 To approve the injection in 2007/08 of £622k of Leeds resources for the additional accommodation works at 225 York Road for the Taxi and Private Hire Licensing Section.

- 8.4 To note that any additional capital resources required to support the Roundhay Mansion scheme will be considered as part of the February 2008 capital programme update
- 8.5 To approve the transfer of £6.35m from the East Leeds Family Learning Centre scheme to the capital contingency scheme to be released at a later date when requirements for the East Leeds site are known.

Appendices:

Appendix A: Schemes over £100k injected since the February 2007 Capital Programme

Appendix B: General Fund position statement

Appendix C: HRA position statement

Background Documents

Capital Programme 2005-2009