



Report of the Director of Corporate Service

Executive Board

Date: 16th August 2006

Subject: Capital Programme Monitoring - Update

Electoral Wards Affected:

All

Specific Implications For:

Ethnic minorities

Women

Disabled people

Narrowing the Gap

Eligible for Call In

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

EXECUTIVE SUMMARY

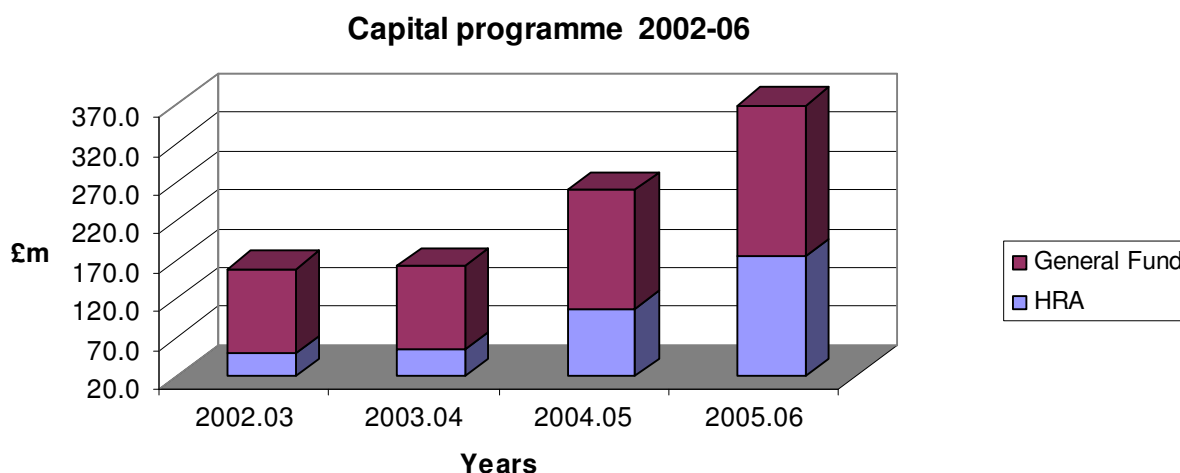
1. This report provides an update on the resources and estimated spend on the capital programme between 2006 and 2009. The report highlights the continued success in delivering investment across the city. Members are asked to note the continuing pressure on capital resources into the medium term and sets out measures which the Director of Corporate Services is taking to manage spend within available resources.

1 Purpose Of This Report

- 1.1 The capital programme was approved by Executive Board and Council in February 2006. At their meeting, Executive Board requested quarterly monitoring reports on the programme. This is the first of these reports and seeks to highlight the continuing investment made by the council in the city while explaining the pressures on future schemes and providing details on the latest resources and expenditure estimates for the capital programme.

2 Background Information

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



- 2.3 The level of investment delivered by general fund services, rose from £108.4m in 2002/03 to £194.8m. In 2005/06 this includes investment in land and buildings through which council services are delivered (schools and civic buildings for example), on the city's infrastructure (highways maintenance and parks for example), and on other programmes for example by supporting disadvantaged groups in private sector housing (by disabled aids and adaptations, other grants and housing renewal).
- 2.4 Investment delivered through the Housing Revenue Account, including the ALMOs has increased rapidly as the decency programme (commenced in 2004/05 and aiming to ensure all council houses meet the decency standard by 2010) has shown investment rise from £49.8m in 2002/03 to £174.4m in 2005/06.
- 2.5 The capital programme is funded from a number of sources, notably from government (as supported borrowing or through grants), from grants and contributions from other sources (from developers for example), from the sale of council assets (as capital receipts) and more recently from additional unsupported borrowing the council has determined that it can afford to take out to support investment in the city.
- 2.6 A number of different funding sources have contributed to the council's investment in the city. For developments delivered through the HRA, there has been a significant increase in supported borrowing for the decency programme. For schemes delivered by general fund services, the growth in delivery has been made possible from increased supported borrowing, capital receipts and unsupported borrowing.

3 Main Issues

- 3.1 In February 2006, the capital programme assumed total spend between 2005/06 and 2008/09 of £1.3bn, this included £703.7m general fund spend and £597m by the HRA. At that time funding for general fund projects amounted to £670.8 which assumed a reasonable level of overprogramming at £32.9m. However, as much of this overprogramming was in the first two years of the programme (£34.8m, £11.1m in 05/06 and £23.7m in 06/07) Executive Board asked the Director of Corporate Services to monitor and control the release of uncommitted schemes to ensure the overall programme was affordable.
- 3.2 In the report to Executive Board in June 2006 on the outturn position for 2005/06, it was noted that the total general fund capital spend and resources were £194.8m, including the provision for equal pay. Total spend on capital schemes was actually £174.4m which compared to the £185.4m considered by Executive Board in February 2006. This meant that £11m spend on schemes slipped to 2006/07.
- 3.3 The latest estimate of general fund spend in 2006/07 is for £256.5m, but this assumes overprogramming of £35.2m. For the programme from 2006/07 to 2008/09 the total estimated spend is now £541.7m with available resources of £508.9m. This means that overprogramming up to 2008/09 is now estimated at £32.7m. The overall level of overprogramming therefore is still considered to be supportable, but the level in 2006/07 is not considered reasonable or sustainable.
- 3.4 The Director of Corporate Services will therefore be liaising with directors to ensure that their estimates of expenditure on committed schemes are realistic. He will also take steps to ensure that schemes relying on the council's controllable capital funding are only released or committed when there is reasonable certainty that sufficient funding is available. In the first instance, the emphasis will be to slip sufficient schemes from early years of the programme to balance the risks and the affordability of the overall capital programme.
- 3.5 A similar exercise was effective in re-profiling departmental spend in preparation for the current capital programme. Departments will be involved in determining their priorities within the council's overall affordability limits.
- 3.6 The delivery of capital investment by the ALMOs and by the HRA strategic landlord in 2005/06 has illustrated that they have developed their capacity to deliver the significant challenges of the decency and other programmes in their portfolios. Shortly after the Executive Board approved the capital programmes in February 2006, the DCLG (then ODPM) advised that ministers had approved the additional allocation of supported borrowing for the decency programme. This was approximately equivalent to an addition of 20% on the previously announced resources and amounts to £18.7m for 2005/06 and 2006/07.
- 3.7 In 2005/06 the HRA delivered £174.4m of investment. They were able to use £13.5m of this additional supported borrowing. This was £2.5m more than estimated in February 2006, but this has been managed within available resources. The Director of Corporate Services will continue to work with the ALMO chief officers to ensure that the most effective mix of resources are available to support their agreed programmes.
- 3.8 One of the key challenges in managing the council's capital programme is the uncertainty on the timing and size of some of the funding sources the council uses. The biggest area of uncertainty is with capital receipts. Disposal of sites can be complex and take time to deliver. This is particularly so for the larger, high value sites. A risk based approach is adopted in valuing sites and estimating when a

receipt will be realised and when it can be assumed to be available to fund the capital programme.

- 3.9 A review of the capital strategy and asset management plan is now underway and the results of this will be fundamental to understanding the pressures for capital spend. There are likely to continue to be significant resources required to maintain the effectiveness and sustainability of the council's asset base. In addition, services will come forward with new schemes which will need to be assessed and appraised to provide detailed information for the prioritisation of future capital resources.

4 Implications For Council Policy And Governance

- 4.1 The capital strategy, which sets out the framework for the distribution of capital resources is currently being reviewed. Changes will be reported for approval to Executive Board at a future meeting.
- 4.2 When there is greater certainty on available resources, and taking account of update to the corporate asset management plan, the director of Corporate Services will release uncommitted schemes and will assess and advise on the scope for and timing of future injections of schemes requiring the council's capital resources.
- 4.3 To assist in this process risk assessments are carried out both in relation to individual projects and in formulating the overall programme. The main risk in developing and managing the overall programme is that insufficient resources are available to fund the programme. A number of measures are in place to ensure that this risk can be managed effectively:
- monthly updates of capital receipt forecasts prepared by the Director of Development;
 - the use of a risk based approach to forecasting of capital receipts;
 - a target for additional capital receipts for 2008/09 has been assumed, sites or other funding for which is still to be confirmed. Work will progress in 2006/07 to identify suitable disposals, however, should receipts not be forthcoming, schemes will not be able to progress as planned;
 - monthly monitoring of overall capital expenditure and resources forecasts alongside actual contractual commitments;
 - quarterly monitoring of the council's VAT partial exemption position to ensure that full eligibility to VAT reclaimed can be maintained;
 - ensuring that written confirmation of external funding is received prior to contractual commitments being entered into;
 - provision of a contingency within the capital programme to deal with unforeseen circumstances;
 - promotion of best practice in capital planning and estimating to ensure that scheme estimates and programmes are realistic;
 - compliance with both financial procedure rules and contract procedure rules to ensure that the Council's position is protected;
 - consideration of additions to schemes or the introduction of new or reserved schemes into the capital programme will only be made in the context of available resources.
- 4.4 Further work on the governance of capital projects is being undertaken to provide greater assurance that the council's strategic outcomes and best value will be achieved.

5 Legal And Resource Implications

- 5.1 The council has been successful in attracting a range of addition funding sources since the capital programme was approved in February 2006. This funding includes monies to support specific schemes and for other investment proposals. Funding from Yorkshire Forward has been received to support works at the City Art Gallery and Central Library and for the development of proposals for the Leeds Arena in total amounting to £1.7m. Schemes which are funded from developers contributions with a total value of £2.9m are now been included in the programme. Three major government grants have been confirmed, for the intensive neighbourhood management scheme (£2.1m), for school travel plans (£275k) and for the joint affordable housing scheme with Harrogate and York council's, the golden triangle scheme (£1m).
- 5.2 In addition, the Department for Education and Schools has agreed to revise the funding they are providing for the Building Schools for the Future programme and will now provide funding in the early years as capital grant rather than as borrowing. They have indicated grant support in excess of £103m for the programme with total resources they are providing (not including PFI credits) of £128m.
- 5.3 The Government Office for Yorkshire and Humber has recently announced the allocation for Leeds under the youth opportunities fund and youth capital fund for 2006/07. The capital allocation is for £429k which will be used to allow young people to develop projects and initiatives.
- 5.4 The latest resources and expenditure estimates for the capital programme therefore, show that the level of overprogramming is sustainable over the life of the programme. However, as £11m of expenditure was slipped from 2005/06 to 2006/07 the level of overprogramming in the current year is too high and directors will be asked to re-profile an equivalent amount of their schemes from 2006/07 into future years. In addition, the Director of Corporate Services will continue to monitor and control schemes as council capital resources are confirmed.

6 Conclusions

- 6.1 The capital programme continues to be sustainable and affordable and is delivering significant benefit through long term investment across the city.
- 6.2 Effective monitoring and control of capital spending will continue to be updated and immediate steps will be taken with the cooperation of directors to ensure the capital programme is correctly profiled and is delivering the council's priorities.

7 Recommendations

- 7.1 The Executive Board are asked to note the contents of this report and to endorse the measures being taken by the Director of Corporate Services, in liaison with the other directors to ensure the affordability and sustainability of capital programme.