



Report of the Director of Resources

Report to: Executive Board

Date: 8 February 2008

Subject: Capital Programme 2007-2012

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In
(recommendation 7.1(a))

1.0 Purpose Of This Report

- 1.1 This report sets out the updated capital programme for 2007/2012 and includes details of forecast resources for that period. The report also sets out work ongoing in preparing a capital investment plan which supports the Council's strategic priorities.
- 1.2 This report includes the latest updated capital programme and Executive Board are asked to recommend the report to full Council.

2.0 Background Information

- 2.1 In preparing the capital programme, a review of the phasing of expenditure on existing capital schemes has been undertaken together with an up to date projection of capital resources. Where appropriate, costs estimates have been revised.

3.0 Main Issues

3.1 Capital Programme 2007/08 to 2011/12

- 3.1.1 A summary of programme payments and resources is shown at Appendices A and B and details of the proposed programme are given in the attached book. The capital programme, when approved, will be available on the council's internet site.

3.1.2 A full list of new general fund schemes over £100k, which have been included since the February 2007 programme, is provided in Appendix D (some of which were reported to Executive Board in the capital programme update report in November 2007). This appendix shows the full value of the relevant schemes which have been injected into the capital programme showing expenditure up to 2012. Similarly, any general fund schemes deleted from the programme since February 2007 are shown at Appendix E. Unless stated, the figures quoted are the gross costs over the life of the programme.

3.1.3 The capital programme has been re-ordered to reflect the new service directorates and schemes referred to below are described under the new service directorates. Any further changes to the structure and service allocations, to reflect the implementation of the Corporate Property Management function, established on 1st January 2008, will be considered at a later date.

3.2 **City Development** - Key projects within the programme include:
East Leeds Link – Continued provision is included for this major Highways scheme with a total project cost of £32.5m which includes government and Yorkshire Forward support of £24.5m.

Inner Ring Road Stage 7 – Continued provision of £7.9m in 2008/09 is provided for this strategic road improvement scheme for which the total project cost is £50.5m.

Highways Maintenance Programme – Significant investment to address backlog maintenance continues with £14m of planned works in 2008/09, with a further £32.6m investment planned from 2009/10 through to 2011/12.

Traffic Management Programme - £1.4m in total has been provided from 2008/09 through to 2011, to address pressures in relation to traffic management minor schemes. These are projects to reduce congestion, provide safer conditions for all road users, especially pedestrians, and to improve access for people and goods. This would be accomplished by various minor improvement works to increase the efficiency of the road network; providing additional crossing facilities; improvements to direction signing and minor road safety schemes

City Varieties refurbishment – The programme provides £11.2m for the proposed refurbishment of the City Varieties theatre including the purchase of the Swan public house as part of the overall redevelopment. The funding of the scheme assumes £3m of Heritage Lottery funding and £1m provided by the Grand Theatre and Opera House Limited.

Grand Theatre / Opera North - Provision of £10.5m is included for the Phase 2 works creating new music rooms and refurbishment of the Assembly Rooms to create a learning venue and a base for Opera North's orchestra. The eventual completion of these works, projected for 2009/10 will result in a projected overall investment of £33.1m for Phases 1 and 2 in total.

Northern Ballet / Phoenix Dance development – The programme includes the revised provision of £11.7m approved by Executive Board in June 2007 for this major new dance facility. £4m of the overall funding package is being provided by the Lottery and the private sector.

Local Enterprise Growth Initiative (LEGI) – A further £600k funding is included for a series of business centres to facilitate new job opportunities in the city's most deprived communities. This increases the overall projected investment to £6.6m, of which £1.7m is scheduled for 2008/09.

City Centre upgrade programme - £5m is included with the end purpose of generating further funding from both government agencies (Yorkshire Forward) and the private sector. The lower Albion Street refurbishment scheme at £1.4m is the first stage of this upgrade programme.

Leeds Arena - £10m is included as part of the public sector contribution towards a Leeds Arena development, for which the procurement process is currently progressing for both a developer and an operator.

- 3.3 **Environment and Neighbourhoods** – Key projects within the programme include: Disabled Facilities grants (DFG) - the Council has faced a significant and continued growth in demand from clients who are eligible for Disabled Facilities grants. Whilst the Council has received additional government grant during 2007/08 increasing the total government grant to £2.1m, a further £1.5m of LCC resources per annum has been included in the 2008/09 and 2009/10 programmes increasing the total provision for DFG grants to £5m per annum. The DCLG has still to confirm the level of DFG grant the Council will receive for 2008/09. The £5m capital programme provision in 2008/09 assumes a prudent £1.5m allocation from government; any additional government grant will increase the overall provision.

RHB Regeneration schemes – Investment in private sector renewal schemes continues to address poor housing conditions. Single Regional Housing Pot (SRHP) and Regional Housing Board (RHB) funding has been secured and the main projects currently are Beeston/Beverleys (£9m), Holbeck Regeneration (£4.3m), Harehills Comptons/Ashleys (£1.7m) and Group Repair schemes (£4.1m).

Town & District Centre (TDC) programme – Further district centre regeneration and improvement schemes will progress during 2008/09. These include Armley Town Centre improvements (£1m), upgrading works at Yeadon Town Street (£985k) and Headingley centre improvements (£674k).

Lower Wortley Improvement scheme – A package of minor regeneration works (£296k) has been included for Lower Wortley which focuses on improving local facilities at a number of locations.

- 3.4 **Adult Services** – Key projects within the programme include: Social Care establishments, fire risk reduction works - the Council is required to comply with the latest fire safety regulations (The Regulatory Reform Fire Safety Order 2006). Works will be required to 19 Homes for Older People and £3.1m is provided between 2008/09 and 2010/11 to deliver a programme of works which will be subject to individual risk assessment at each home.

- 3.5 **Children's Services** – Key projects within the programme include: The programme reflects the latest formulaic allocations and the continued provision for the different 'waves' of building schools for the future (BSF). The wave 1 works include major rebuilding works at Coburn (£16.4m) and Temple Moor (£15.5m). In addition £23.9m is included from 2008/09 through to 2011/12 to deliver the IT infrastructure for the Wave 1 schools. The current investment across all three phases of the first wave of BSF is £148m.

The formulaic allocations for 2008/09 are modernisation funding (£7.6m), basic need (£4.1m), schools access initiative (£1.4m), extended schools provision (£1.2m) and devolved formula capital (£10.1m).

Youth Hub – The programme makes provision for a Youth Hub in South Leeds on the Merlyn Rees site and is jointly funded by the Youth Council.

3.6 **Strategic** – Key projects within the programme include:

Ward Based Initiatives(WBI) scheme – Provision of £30k per ward has been made for a WBI scheme commencing in 2008/09. This will provide Members with funding to progress minor schemes within their wards. Guidance will be issued to all Members in due course as to the procedure and types of schemes eligible for funding.

Strategic Development Fund – As already outlined in the December report to Executive Board on the Financial Plan, £100m has been provided for within the Programme for projects that lead to service delivery improvements, spend to save and efficiency and for investment in strategic infrastructure projects.

Capitalisation of Equal Pay – A directive has been received from government allowing the cost of equal pay claims in 2008/09 to be capitalised. Provision of £10m is included.

4.0 **Implications For Council Policy And Governance**

4.1 **The Strategic Plan**

4.1.1 The council's strategic plan and business plan set out the council's priority strategic outcomes and business improvement priorities for the next 5 years. Service directorates have reviewed schemes within the existing capital programme in relation to the new strategic outcomes, and have started to develop plans for the capital investment which will be required if these outcomes are to be achieved. It is proposed that further work takes place over the coming months to carry out the detailed option appraisals and costing to further develop these capital needs so that a capital investment plan can be finalised during the autumn of 2008.

4.1.2 Alongside this work, a strategic look at the future needs of the city is also taking place to develop an understanding of future infrastructure needs. This will be further developed as part of the capital investment plan to ensure that there is a focus for the development of funding plans and for leverage of private sector and government funding.

4.2 **Risk Assessment**

4.2.1 In developing the capital programme, 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;
- 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;
- 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 the Council's position is protected;
- consideration of additions to schemes will only be made on the context of available resources;
- 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;

4.4.2 The governance arrangements for project development and management are subject to regular review. This process seeks to enhance the effective control and delivery of capital projects in support of the council's priorities. Existing processes are also subject to review as part of the broader programme of work being undertaken for the Delivering Successful Change project which is seeking to embed best practice across the council with regard to the management of projects.

5.0 Legal and Resource Implications

5.1 Capital Expenditure and Resources 2007/08

5.1.1 The latest expenditure and resources for 2007/08 are £378.4m. Both the general fund and HRA programmes have resources in hand in 2007/08 which will be carried forward into the 2008/09 programme.

5.2 Capital Resources 2008/09

5.2.1 In December 2007, announcements were made by government departments of support for local authority capital expenditure. For 2008/09, this support is provided in the form of revenue support to fund borrowing costs or capital grants to fund capital expenditure. Details of these settlements are included at Appendix C and summarised below:

5.2.2	<u>2008/09 support for borrowing</u>	<u>£000s</u>
	Housing – HRA	7,616
	Housing – General Fund	-
	Highways & Transportation	7,629
	Education	12,932
	Children’s Services	111
	Adult Social care	-
	ALMO decency	15,575 (A further £10m provision for 2007/08 has been confirmed)
	 Total Supported Borrowing	 43,863

5.2.3 **Government Grants** – In addition to the resources above, the government also provides grants for particular schemes and programmes. For 2008/09 grants of £133.3m are included which includes grants such as schools devolved formula capital, section 31 transport grant and HRA major repairs allowance (£37.3m).

5.2.4 **Other Grants and Contributions** – Some schemes in the capital programme are funded from contributions from external bodies, including the Big Lottery Fund and private developers, and these can be used in full to fund the relevant capital scheme. For 2008/09 contributions of £20m are forecast. Schemes proposed by private sector developers which are supported by agreements under Section 278 of the Highways Act are currently funded through the council’s own capital receipts. Contributions from these agreements totaling £6m are to be used to support the council’s revenue budget in 2008/09.

5.2.5 **Capital Receipts** – The generation of capital receipts to support the capital programme has become a significant element of the total resources available. For 2008/09, the following forecasts of usable capital receipts have been made:

	£m
Land, property and other disposals	39.1
Sale of Council Houses	7.9
Total Forecast Receipts	47.0

5.2.6 The above forecast is based on the latest capital receipts regulations under which the majority of the receipts from land sales are 100% usable. For council house sales, 75% of receipts generated are pooled nationally and used by government to fund new initiatives, in particular the housing decency policy. The remaining 25% can be used by the council to finance new capital expenditure.

5.2.7 In forecasting the level of capital receipts to be generated from land and property disposals, account is taken of the risks associated with each individual site and these risks are reflected in the forecasts shown above.

5.2.8 For the period 2007/08 to 2011/12, capital receipts from land and property disposals are forecast to be £280.7m. A list of sites for disposal is attached at Appendix F. This Appendix is confidential under Access to Information Rule 10.4 (3) because advance public knowledge of the list of sites that the council intend to sell could prejudice the sale values and result in lower capital receipts being generated for the Council. In these circumstances it is considered that the public interest in not disclosing this list of sites outweighs the interests of disclosure.

5.3 Minimum Revenue Provision Policy

5.3.1 In December 2007, the government issued a draft amendment to legislation affecting the MRP (minimum revenue provision) and draft guidance on its future calculation. Current legislation specifies how the MRP is to be calculated, but the draft legislation simply requires MRP to be set at a prudent level in accordance with the draft guidance. The guidance also requires councils to produce an annual MRP policy for approval by full council in advance of each financial year. Appendix G explains the proposed changes and their implications in more detail.

5.3.2 In its 2008/09 MRP policy, the council is required to decide on how MRP will be calculated for borrowing undertaken for the 2007/08 capital programme. The MRP charge in relation to borrowing for capital expenditure for 2006/07 and earlier will be unaffected by the changes. It is proposed that Leeds adopts the following MRP policies for 2008/09 :

- MRP for prudential borrowing for 2007/08's capital expenditure will be calculated on the basis of equal instalments over the expected useful life of the asset.
- MRP for borrowing to fund capitalised expenditure will continue to be calculated on the current basis for 2007/08's capital expenditure.
- For all other borrowing to fund the 2007/08 capital programme, MRP will continue to be calculated on the current basis.

The above policies will ensure that the council satisfies the requirement to set aside a prudent level MRP.

5.3.3 The final version of the MRP guidance is expected to be issued in March 2008. It is considered to be unlikely that the final guidance will differ significantly from the draft version, but if it does differ to such an extent that the above policies are no longer appropriate, a revised MRP policy for 2008/09 will be brought to full council for approval

5.4 Prudential Indicators

5.4.1 Under the current self regulatory financial framework, CIPFA's prudential code for capital finance, 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 2008/09 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 Appendices A and B.

5.4.2 Any unsupported borrowing carried out must be affordable within the revenue budget (i.e. the cost of debt repayments). For 2008/09, all schemes funded through unsupported borrowing have been provided for in the revenue budget, approval for which is contained within the revenue budget report.

5.5 Capital Expenditure 2008/09

General Fund Services

- 5.5.1 There are insufficient resources available to fund the general fund expenditure plans in 2008/09. Expenditure is programmed at £265.7m whilst resources are forecast of £237.5m. In order for the overprogramming of £28.2m to be maintained at a manageable level given the uncertainties with the capital receipts forecast, the following control measures are applied:
- All Leeds funded schemes are subject to individual review at the point at which the client service seeks spending approval
 - No new injections to the programme can be made without first identifying additional resources or substituting for an existing scheme
 - No capital receipts assumed to fund the programme can be diverted to other projects or initiatives without identifying alternative resources that will be available within the same year.
- 5.5.2 For the majority of the council's activities, it is able to reclaim all VAT incurred on its inputs (purchases of supplies and services). However, some activities are classed by HM Revenue and Customs as exempt and for local authorities these activities include crematoria, insurance, training services (including sports coaching and lessons), lettings / hiring out of space e.g. public halls, sports halls and pitches and industrial units.
- 5.5.3 For these activities there is a restriction as to the amount of VAT the council can reclaim. It is anticipated that eligibility to full VAT recovery can be retained during 2008/09, however the position will continue to be monitored throughout the year.

Housing Revenue Account

- 5.5.4 The ALMOs continue to work towards bringing council houses up to decent home standard by 2011. Government resources for decency in 2007/08 and 2008/09 have now been confirmed at £125.5m.
- 5.5.5 Provisional estimates have been included for the 2011/12 financial year. These are only indicative at this stage and will change depending on the level of investment required to complete decency work and the overall funding mix available.

6.0 Conclusions

- 6.1 Over the five year period of 2007/08 to 2011/12, the council is seeking to deliver a total of £989.3m general fund capital investment within the city. Current expenditure plans exceed the resources available to deliver these plans. Over the 5 year period, overprogramming in the capital programme is £48.1m which for the size of the programme is considered manageable with careful monitoring and control. 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.
- 6.2 A number of measures are taken to ensure that the programme remains affordable as outlined in 5.5.1. The Director of Resources 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 corporate objectives, meets the needs of the public and will deliver best value.

- 6.3 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 Director of Resources will co-ordinate scheme reviews and the approval of schemes to ensure that they are brought forward in a timely way and are affordable. Update reports on the overall capital programme position will be reported to Executive Board 3 times each year.

7.0 Recommendations

7.1 Members are asked to:

- a) recommend to full council that the attached capital programme be approved;
- b) agree that the Director of Resources will manage, monitor and control scheme progress and commitments to ensure that the programme is affordable;
- c) agree that the list of land and property sites shown in Appendix F will be disposed of to generate capital receipts to support this capital programme; and,
- d) recommend to full council that the proposed MRP policies for 2008/09 as set out in 5.3.2 and Appendix G be approved

Appendices:

- A** General Fund programme statement, 2007/09 to 2011/12
- B** Housing Revenue Account programme statement, 2007/08 to 2011/12
- C** Allocations of Government Support
- D** General Fund schemes over £100k injected since the February 2007 capital programme
- E** General Fund schemes over £100k deleted since the February 2007 capital programme
- F** List of sites to be disposed of over the programming period (Confidential Appendix)
- G** Minimum Revenue Provision Policy