Leeds CITY COUNCIL

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Report of the Director of Resources

Executive Board

Date: 22nd July 2009

Subject: Capital Programme Update 2009-2013

Electoral Wards Affected:	**Specific Implications For:**	
	Equality & Diverstity	☐
	Community Cohesion	☐
☐ Ward Members consulted (referred to in report)	Narrowing the Gap	☐

Eligible for Call In ✓

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

Executive Summary

1. This report sets out the latest capital programme position for both the general fund and housing. During the first quarter of 2009/10, resources of £2.8m have been released from existing schemes and some spending pressures have arisen which require consideration.
2. Executive Board in February 2009 gave delegated authority to the Director of Resources to transfer schemes from the reserved programme to the funded programme in consultation with the Leaders of the Council. Decisions taken so far are reported in Table 2 and some further proposals are recommended.
3. This report also recommends the allocation of the remaining Strategic Development Fund to the New Generation Transport and Flood Alleviation schemes.

1.0 Purpose Of This Report

1.1 To provide Members with an updated financial position on the 2009 – 2013 Capital Programme and to seek approval to allocate resources to specific schemes.

2.0 Background Information

2.1 The Capital Programme 2008/09 – 2012/13, approved by Council in February 2009, projected expenditure of £1,214.7m from 2008/09 to 2012/13. General Fund overprogramming over that period of £25.1m was assumed, which based on previous years was considered to be manageable. The position approved in February also included a reserved programme of £30.6m which can only be progressed if additional resources become available.

2.2 Some of the resources to fund the capital programme are generated from the sale of assets. In the current economic climate, projected capital receipts from the sale of surplus land and buildings have fallen and the capital receipts forecast incorporated within the capital programme in February reflected the latest position. Changes to the capital receipts position are included within this report. Also included is an update on the HRA (including ALMOs) capital programme position.

2.3 Since February some spending and resource issues have arisen or have been further clarified and these are set out in this report.

3.0 Main Issues

3.1 Strategic Development Fund

3.1.1 The £100m Strategic Development Fund was originally allocated as £60m for major infrastructure, £20m for delivery of strategic outcomes and £20m for business transformation/efficiency projects (Executive Board October 2008). The latest position, reflected in the February capital programme is shown in Table 1:

Table 1 – Strategic Development Fund

Investment Type	£m	Project
Major Infrastructure	**35.9**	Including Leeds Arena, purchase of Land at Lowfields Road, Northern ballet Theatre, City Varieties and City Centre upgrade.
Business Transformation / Efficiency	**9.1**	Including Westland Road CRM, Core Enabling Projects and Customer Relations Transformation Ph 2
Strategic Outcomes	**1.3**	Libraries RFID
Transfer to Reserved Programme	**18.4**	Reserved until additional resources are available
Balance Remaining in the funded programme	**35.4**	

3.1.2 Two of the projects for which the major infrastructure element of the SDF was intended were the New Generation Transport scheme and the Leeds Flood Alleviation scheme. Whilst detailed project costs on these two schemes are as yet not finally confirmed, it is anticipated that the remaining balance of £35m will be sufficient to meet the Council's aspirations under these projects. Given the strategic importance of both these projects, it is proposed that the £35.4m remaining in the SDF be earmarked for these projects.

3.1.3 Since the SDF was allocated as shown above, there has been a general fall in land values and it is considered that there could be a £1m saving in the budget allocated for the Lowfields Road land acquisition. This reduction will return funds to the SDF for reallocation.

3.2 General Fund Capital Programme

3.2.1 The General Fund Capital Programme approved by Council in February 2009, projected expenditure of £925.7m from 2008/9 to 2012/13 with overprogramming of £25.1m.

3.2.2 The February 2009 Capital Programme included a long standing provision for potential compensation claims for the Seacroft Town Centre scheme. Given the 10 years plus since the plots/sites became vested with the Council, the Director of City Development is of the view that all claims have now been dealt with or the parties concerned are out of time to pursue such claims. The overall remaining sum is £1.842m and this funding is now available to help deal with some specific funding pressures.

3.2.3 During the period to June 2009 the need to release some schemes which were placed in the reserved programme in February 2009 became urgent. Following consultation with Leaders of Council, the Director of Resources approved the transfer of schemes totalling £531k from the reserved to the funded programme. In addition two other projects were released from the reserved programme without a direct call on the additional resources available and these are shown in Table 2.

Table 2 – Approved Transfers from the Reserved programme

	£m
Saving on Seacroft Town Centre scheme	**1.842**
Funding returned to SDF	**1.000**
Total Resources Available	**2.842**
Resources allocated	
Traffic Management Schemes	0.531
East Leeds Waste Sorting site released from reserved programme and funded from DEFRA grant 2009/10 and 2010/11	0
Roundhay Road Relocation Programme – released from reserved programme and funded temporarily by unsupported borrowing	0
Balance of Resources Available	**2.311**

A number of other spending pressures are highlighted below:

3.2.4 **Purchase of the former St Gregory's RC school site - The** Council sold this 0.6ha (1.5 acres) site in 1973 to the Roman Catholic Diocese of Leeds who used it as a primary school. The school closed in July 2008 and the original conveyance contains a clause that should the buildings cease to be used as an RC school, then the land should be re-conveyed to the Council at a sum equal to the market value at the date of re-conveyance. The Director of City Development estimates the net purchase price of the buildings at £155k including stamp duty.

The Council will be left with a site that it can market for residential development but given the current economic conditions the eventual sale date and value are uncertain.

3.2.5 **East Leeds Family Learning Centre –** Following a breakdown of the boiler at this site resulting in closure of the facility and relocation of users, the current position is that the Children's Centre is operating again on the ELFLC site with the use of temporary heating. However this will not be adequate for the centre to operate during the 2009/10 winter period. The service has indicated that their preferred way forward is to hire a temporary building for the ELFLC site to provide the required accommodation until a permanent extension to the Seacroft Children's Centre can be completed. The cost of the temporary unit can be met from within the ELFLC revenue budget but to complete the extension works will require release of some of the currently reserved scheme for the extension works. Costs are currently being finalised on this and should not exceed £1m.

3.2.6 **Funding of demolition / dilapidations costs -** There is currently no central Capital Programme provision for funding demolition and dilapidation costs when they arise. The decision to demolish a property prior to selling a site is usually made on the grounds of Health & Safety and/or minimising security costs prior to sale. In theory demolishing a building should increase the value of the site (because the buyer does not have to demolish) but it is often difficult to substantiate whether this is actually the case. In recent times some demolition costs have had to be funded from the Corporate Property Management (CPM) maintenance allocation with a consequent impact on the Council's ability to maintain its property portfolio.

In terms of dilapidation costs, these occur when Council services vacate leased properties and there is a liability for the Council to make good any dilapidations. These costs are not regular occurrences but can be substantial when they occur and more often than not, service users will not have made financial provision for these costs. The Director of City Development and the Chief Officer, CPM are currently working on a policy for dealing with dilapidations costs but in the interim a funding gap for these occurrences remains.

If we are to make progress in addressing backlog maintenance on our estate, the CPM maintenance allocation needs to be spent on maintenance and therefore a dedicated demolition and dilapidations fund would need to be established. It is proposed that the balance of the resources available (around £1.156m) be available for this purpose.

3.2.7 Table 3 below summarises the proposals for allocating resources.

Table 3 Proposal for Allocating Additional Resources

		£m
Resources available from Table 1		**2.311**
Proposal for Allocating Resources		
St Gregory's RC Primary School		0.155
East Leeds Family Learning Centre	*estimate*	1.000
Demolition / Dilapidations Fund	*balance*	1.156
Balance Remaining		**0**

3.2.8 One additional scheme to be included within the capital programme is for the purchase of food waste bins for the food waste pilot scheme. This scheme totals £125k and is funded through unsupported borrowing, the revenue costs for which were included in the 2009/10 revenue budget. This report formally includes this scheme within the capital programme.

3.3 Housing Capital Programme

3.3.1 The approved February 2009 Capital Programme reported an overall HRA programme of £321.3m for 2008/9 through to 2012; this included an additional programme of £32.3m for which resources were not available. The 2009/10 programme was £64.1m (gross, including £12.8m overprogramming), significantly reduced from the 2008/09 outturn position of £116.8m.

3.3.2 The reduction in the overall value of the ALMO programmes for 2009/10 is a result of 2008/09 being the final year in which the government has provided funding to the ALMOs via supported borrowing in order to progress to all HRA properties meeting Decency standards by March 2011. The ALMOs are now reliant on their annual Major Repairs Allowance (MRA) grant funding as their main source of funds for tackling Decency.

3.3.3 There has been some realignment and further reduction in the projected ALMO programmes during the first quarter of 2009/10. The current 2009/10 programme is £53.4m, a reduction of £10.7m. The overall programme projection for 2009/10 through to 2012 is now £183.6m, a reduction of £0.75m compared to February 2009. Included within this is an amount of £1m provided to maintain the refurbishment programme for the "5M" properties on the Woodbridge estate in the Headingley area referred to in a separate report on this agenda. This overall reduction in the HRA programme reflects a more prudent assessment by the ALMOs of their funding in the forward years of the programme which at this stage is indicative and allocations for 2010/11 onwards have still to be confirmed.

3.3.4 The Director of Environment & Neighbourhoods has identified that the HRA ICT Phase 2 project (scheme 14293) which obtained a £1.15m authority to spend approval from Executive Board, 13 March 2008 now has a projected scheme spend of £1.35m. The project provides significant improvements in the management of the Council's housing stock through a fully integrated asset management and maintenance solution. This increased cost has resulted, in the main, from the system specification being subject to some detailed enhancements during the development stage.

3.3.5 A source of funding had been identified for the projected £200k additional costs (£100k as an HRA revenue contribution and £100k from the HRA Supported Borrowing base allocation in 2009/10). A recommendation seeking approval to inject the revenue contribution funding into the capital programme and obtain authority to spend is detailed in section 8 of this report.

4 Implications For Council Policy and Governance

4.1 As reported in February 2009, service directorates have started to develop plans for the capital investment that will need to take place if strategic outcomes are to be achieved. Alongside this, a strategic look at the future needs of the city is also taking place to develop an understanding of future infrastructure needs.

4.2 The economic downturn is continuing to have a significant effect on our ability to resource investment in our strategic priorities. As reported in paragraph 3.1, £18.4m of the Strategic Development Fund which was planned to be available for investment in strategic outcomes was moved to the reserved capital programme in February 2009 and will only be considered for release should additional resources become available.

4.3 The main risk 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 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;
- 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;
- the use of unsupported borrowing by directorates based on individual business cases and in the context of identifying the revenue resources to meet the borrowing costs;
- 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;

5 Legal and Resource Implications

5.1 The resource implications of this report are detailed in section 3 above. For the capital programme to be sustainable, the Director of Resources must be satisfied that spend in each year of the programme can be afforded. A level of overprogramming is suitable for the capital programme to take account of the nature of capital schemes where timing is not always easy to predict. The capital programme approved in February 2009 was overprogrammed by £25.1m over a 5 year period. The latest position shows overprogramming of £28.4m on general fund which is considered manageable with careful monitoring. For HRA, ALMOs will realign their programmes within the funding available and therefore any overprogramming will be contained.

5.2 In the February 2009 capital programme report Members agreed that no further injections can be made to the capital programme without a corresponding reduction or identification of additional resources. In light of the current resources position and the economic climate in general it is imperative that this principle is maintained.

6 Conclusions

6.1 The latest general fund forecast expenditure for 2009/10 is £321.1m with resources available of £310m resulting in overprogramming of £11.1m. This is considered manageable throughout the year. Overprogramming for the general fund programme through to 2012/13 stands at £28.4m which is higher than reported in February 2009. This is largely due to a more pessimistic assumption of highways uplift funding and some minor capital receipts variations.

6.2 For HRA, resources available in 2009/10 are £53.4m and expenditure plans will be contained within this total. HRA resources through to 2012/13 stand at £183.6m.

6.3 A number of spending pressures have arisen since the capital programme was approved in February 2009 and additional general fund resources of £2.8m have been identified. Proposals for allocating these resources are outlined in Table 3.

7 Recommendations

7.1 Executive Board are requested to:

a) approve that the £35.4m remaining balance of the SDF be allocated to NGT and Flood Alleviation projects;

b) note the delegated decisions to release reserved schemes set out in Table 2.

c) approve the proposals set out in Table 3

d) approve the injection of £125k to the capital programme for the food waste bin pilot, funded through unsupported borrowing

e) approve a variation of £200k on the HRA ICT Phase 2 project as outlined in section 3.3.4

Associated Documents

a) Capital Programme 2008/09-2012/13 – Executive Board 13th February 2009

b) Capital Programme Update 2008-2012 – Executive Board 8th October 2008

c) Director of Resources Delegated Decision – variations to the Approved Capital Programme (D35438)