



Report of the Director of Corporate Services

Report to the Executive Board

Date: 15th November 2006

Subject: Capital Programme – 2006/07 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 2006/07 Capital Programme. The report highlights the major capital expenditure and funding changes that have arisen since the Capital Programme was approved at Council in February 2006. 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 2006/07 month 6 Capital Programme position. The report seeks a small number of scheme specific approvals which have arisen since the 2005/06 – 2008/09 Capital Programme was approved in February 2006. 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 2005/06 – 2008/09, approved by Council in February 2006, projected expenditure of £378.3m in 2006/07 with a supplementary programme of £38.6m dependent on government approval of additional Housing Revenue

Account (HRA) 2 star decency funding. General fund overprogramming of £23.7m was assumed, which based on previous years was considered to be manageable.

- 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 2005/06 – 2008/09 approved by Council in February 2006, projected 2006/07 expenditure for the general fund of £236.8m. Since February 2006 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 (showing those above £100k) is included at Appendix A.
- 3.2 It is anticipated that some of the resources assumed to be available to fund the programme in 2006/07 will not be achieved. In respect of capital receipts, an additional £10m target was set for 2006/07. The latest capital receipts projections indicate that this will not be achieved and that the mainline projection of 2006/07 receipts has also fallen. Projected resources for 2006/07 also assumed that £5m from S106 contributions could be used to fund the overall capital programme. Some work has commenced in looking at this potential but indications are that this sum will not be secured for the programme in 2006/07.
- 3.3 In order to compensate for the loss of this funding, additional unsupported borrowing of £15m has been assumed. After making these adjustments the overprogramming for 2006/07 stood at £28.1m which for this stage of the year is considered to be too high. Given this increase in overprogramming since February 2006, further work has been undertaken to analyse the funding sources of contractually committed and uncommitted schemes in the programme. This analysis shows that a large proportion of the council's own resources (supported borrowing and capital receipts) are already required on contractually committed schemes. In order that further schemes can progress during the year a further £10m of unsupported borrowing has been assumed within the resources statement.
- 3.4 The financing costs of this additional £25m of unsupported borrowing will have an impact on the revenue budget in 2006/07 and future years. Treasury management activity throughout the year has resulted in revenue savings to the council and these are reported elsewhere on this agenda. These additional costs of borrowing will be offset against these revenue savings.
- 3.5 After making these funding adjustments, estimated expenditure for 2006/07 now totals £227.1m whilst resources are projected at £209.0m. The resulting overprogramming of £18.1m is lower than at the February 2006 programme but at this point in the year will need careful management to ensure that the programme is affordable. It should be noted however, that estimated spend of £227.1m for the year when compared to actual spend of £175m on general fund services in 2005/06 may appear optimistic.
- 3.6 In order to ensure that the overall programme is affordable, tight control is being exercised on the awarding of contracts for schemes which require the council's own (flexible) resources as funding. Alongside this Directors have been asked 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 2006/07.

3.7 The Director of Corporate Services (DCS) is monitoring all uncommitted capital schemes at contract award stage to ensure that expenditure is essential prior to the council awarding the contract.

3.8 The DCS will continue to use these mechanisms through to February 2007 (when Members will receive the draft 2007/08 – 2009/10 Capital Programme for consideration and approval) to ensure that, despite the difficult funding position, the Capital Programme is delivered within the available resources whilst minimising the service related impact of any delay in delivering schemes.

4.0 Housing Revenue Account Programme

4.1 The Capital Programme approved in February 2006, projected a balanced programme for the HRA in 2006/07 with estimated 2006/07 expenditure and resources of £141.5m. A supplementary programme of £38.5m was also included. Subsequent to the approval of the February 2006 Capital Programme the council received notification from the Office of the Deputy Prime Minister (now the Department for Communities and Local Government) of approval of £18.680m additional 2 star decency funding for 2005/06 and 2006/07 enabling this element of the supplementary programme to proceed.

4.2 The latest position for the HRA shows projected 2006/07 expenditure of £171.8m with corresponding resources of £168.0m leaving a shortfall of £3.8m. Further work will be undertaken with the Director of Neighbourhoods & Housing 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 programme review 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 2007 review and these are highlighted below:

1) General Sure Start Grant (GSSG) – Childrens Centres & Extended Schools

In August 2006 the council was notified of a revised GSSG allocation of £12.829m for 2006/07 and 2007/08. GSSG grant has to be applied to deliver Phase 2 of the childrens centres programme plus extended schools provision delivered by Education Leeds in conjunction with the Early Years service. The current Capital Programme reflects £7.308m funding over the two year period for childrens centres. It is therefore necessary to reflect the latest funding position by seeking a £5.521m fully funded injection into the Capital Programme.

2) Grant to Northern Ballet and Phoenix Dance Company

A separate report on this agenda sets out the details of the proposed development of a dance headquarters on Quarry Hill. A Yorkshire Forward grant of £500k was secured towards the overall cost of the development but was time

limited and had to be used in 2005/06. To make sure the grant was not lost, Yorkshire Forward gave approval to use the grant in funding expenditure on the museum project, currently on site, in 2005/06. This grant substituted the council's own flexible resources and so it is now proposed to re-instate this funding in support of the Quarry Hill scheme, through an injection to the capital programme of £500k in 2007/08.

3) Pakistan Earthquake Appeal

The proposal to support the Lord Mayor's appeal towards the rebuilding of a hospital in Muzaffarabad to ensure the appeal raises a minimum £50k target is the subject of a separate report on this agenda and that report will seek the necessary approvals for the scheme funding. The £44k council contribution will be made within the overall Capital Programme funding position.

4) South Leeds Swimming & Diving Centre & the City Museum

In the period since the approval of the February 2006 Capital Programme a number of other significant resource pressures have arisen. The latest expenditure projections for both the South Leeds Swimming & Diving Centre and the City Museum indicate that they are likely to exceed their available funding. Given the overall cost of these strategic schemes, brief reference is made in this report but the Director of Learning and Leisure will produce reports on both these schemes for consideration at the December 2006 and January 2007 Executive Board meetings respectively. The intention is for the forecast additional funding requirements to be identified and reported to Members with the financial impact being taken account of as part of the February 2007 Capital Programme review.

5) Otley Ashfield works, compensation payment

The Director of Development had been in negotiations with an existing tenant at the above site and has reached an agreement that requires a compensation payment to terminate the lease. £125k funding needs to be injected into the Capital Programme to enable negotiations to be completed and free up this site for disposal. The funding will be first call on the eventual capital receipt following the capital receipts policy.

6) Belgrave House, lease termination / dilapidations costs

The Director of City Services is currently in negotiation with the owners of Belgrave House as to the council's refurbishment liability following the termination of its lease on this building. In order for a negotiated settlement to be concluded at this value an injection of an additional £100k funding is required into the Capital Programme.

7) Additional and Replacement Wheeled Bin Programme

The Director of City Services has assessed a city wide requirement of replacement and additional bins in order to progress the implementation of the council's green waste collection strategy. The projected cost of this programme is £5.005m over a 5 year implementation period. The funding of this programme will be met by additional unsupported borrowing. This report is seeking to inject this additional funding into the Capital Programme over the 5 year period as an addition to the equipment scheme in the capital programme. Given the extended and phased nature of this programme it is recommended that the subsequent approval of expenditure under this programme be delegated to the Director of

Corporate Services in line with the management of the equipment purchases scheme.

6.0 Capital Programme & Resources - 2007/08 and 2008/09

6.1 As a result of the Capital Programme review exercise referred to in section 3 of this report, some expenditure originally programmed for 2006/07, has been slipped back into the years 2007/08 and 2008/09. In the years 2006/07 to 2008/09 projected general fund expenditure totals some £528.3m with corresponding resources of £506.7m, leaving a shortfall of £21.6m.

6.2 This level and percentage shortfall would be acceptable in overall programme management terms were it not for the fact that the council has very few remaining flexible sources after taking account of schemes that are already contractually committed. In addition to monitoring 2006/07 commitments, monitoring of 2007/08 commitments is also taking place. As Appendix B shows, of the general capital receipts estimate of £65.5m in 2007/08, £25m is already accounted for on contractually committed schemes. The capital receipts programme includes a number of high value strategic disposals, and there is a high risk associated with predicting when these receipts will be received.

6.3 Risk Assessment

6.4 The programme review exercise in conjunction with the additional unsupported borrowing and the associated financial controls should ensure that the council does not commit expenditure in excess of the resources available in 2006/07.

6.5 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.

6.6 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.

7.0 Recommendations

Executive Board is requested:

7.1 To note the latest position of the Capital Programme 2006/07 and the projections for 2007/08 and 2008/09.

7.2 To approve the injection into the Capital Programme of £5.521m General Sure Start grant for children's centers and extended schools;

7.3 To approve the injection of £500k of Leeds resources in 2007/08 into the Northern Ballet & Phoenix Dance Company scheme.

- 7.4 To note that approval for the injection of £44k of Leeds resources in 2006/07 in respect of the funding granted to the Pakistan Earthquake Appeal elsewhere on this agenda.
- 7.5 To note the pressures on the approved funding for the South Leeds Swimming & Diving Centre and the City Museum schemes and the intention of the Director of Learning & Leisure to report on these schemes to the December 2006 and January 2007 meetings of the Executive Board respectively.
- 7.6 To approve the injection of £125k of Leeds resources in 2006/07 to enable the Director of Development to conclude the tenant compensation arrangements at the Otley Ashfield works site.
- 7.7 To approve the injection of £100k of Leeds resources in 2006/07 to enable the Director of City Services to conclude a negotiated settlement of the council's refurbishment liability in respect of Belgrave House.
- 7.8 To approve the injection of £5.005m of funding met from unsupported borrowing for the additional and replacement wheeled bin programme. The approval of subsequent expenditure within this programme to be delegated to Director of Corporate Services in line with the management of the equipment purchases scheme.

Appendices:

- Appendix A: Schemes over £100k injected since the February 2006 Capital Programme
- Appendix B: General Fund position statement
- Appendix C: HRA position statement

Background Documents

Capital Programme 2005-2009