



Report of the Director of Resources

Executive Board

Date: 3rd November 2010

Subject: Capital Programme Update 2010-2014

Electoral Wards Affected:

Ward Members consulted
(Referred to in report)

Specific Implications For:

Equality & Diversity

Community Cohesion

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. Overprogramming on the general fund programme has remained at the same level as reported in August 2010. Forecast expenditure within the ALMO programmes can be contained within available resources.
2. Following the conclusion of the capital review, the report seeks approval to transfer some schemes to the reserved programme and request that business cases are re-considered for some other schemes.
3. The report concludes that overprogramming in the current year is considered manageable but over the 5 year programme is not sustainable in the long term. Careful monitoring of the overall resources position and phasing of schemes will be required to ensure the programme is affordable.

1.0 Purpose Of This Report

- 1.1 To provide Members with summary financial details of the 2010/11 month 6 Capital Programme position. The report seeks approval to transfer some schemes to the reserved capital programme, following the conclusion of the capital review. 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 approved by Council in February 2010, projected expenditure of £1,105.5m from 2009/10 to 2013/14. General Fund overprogramming over that period of £40.2m was assumed which whilst higher than the previous year, was considered to be manageable. The position approved in February also included a reserved programme of £49.0m. For HRA, overprogramming of £16.4m was included and ALMOs are expected to manage this throughout the year and constrain their expenditure within resources available.
- 2.2 Since June 2010, government have announced a number of in year capital grant cuts which were reported in July and the capital programme has been updated to reflect these.
- 2.3 In anticipation of future reductions in revenue grants through the Comprehensive Spending Review, a review of all uncommitted Leeds funded schemes has taken place and some recommendations from that review are included at section 8.1.

3.0 Main Issues

3.1 General Fund Capital Programme

- 3.1.1 The latest capital programme resources position in Table 1 below:

Table 1 – Capital Resources Position

	2010/11		
	February 2010	August 2010	Latest
	£m	£m	£m
Forecast Expenditure	310.2	344.2	327.4
Funded By:			
Government Grants	145.2	152.1	142.0
Other grants & contributions	28.7	22.4	20.4
Supported borrowing	40.9	45.3	46.1
Unsupported Borrowing	70.8	104.0	103.3
Capital Receipts	7.7	5.9	5.9
Capital receipts adjustments		(6.0)	(6.9)

Revenue / reserves	0.7	1.5	1.5
Total Forecast Resources	294.0	325.2	312.3
Overprogramming	16.2	19.0	15.1

3.1.2 As Table 1 shows, in year overprogramming had increased at the first quarter position and has now fallen back to £15.1m due to rephasing of capital schemes.

3.1.3 For the capital programme period through to 2013/14, overprogramming increased from £40.2m at February 2010 to £51.1m at August 2010 (following adjustments at 2009/10 outturn). At month 6 this has remained at £51m but is not sustainable in the long term. Some proposals to transfer schemes to the reserved capital programme are set out later in this report.

3.1.4 The capital receipts position continues to be a difficult one. The forecast receipts from disposal of land and buildings during the current year stands at around £6m and in the current climate this is unlikely to improve. During 2009/10, HRA capital receipts of £6m were used to fund the general fund programme and these are scheduled to be repaid during 2010/11.

3.1.5 Overprogramming in the current year is £15.1m and in the following three years is £23.9, £14.9, and £11.6m. This will need careful management to ensure the programme is affordable. It should be noted also that in year 5 of the programme (2014/15), only £2m of unfunded capital expenditure is currently forecast whilst capital receipts of £16.4m are assumed. The current forecast position is set out in **Appendix A**.

3.2 Review of Uncommitted Schemes

3.2.1 As reported in August 2010, a review of all uncommitted Leeds funded schemes has taken place with a view to either reducing or delaying schemes to save borrowing costs. To focus this review it was necessary to determine some high level priority areas and these are:

- **Invest to Save** – does the scheme save revenue costs in the future or generate additional income? Is the business case robust?
- **Avoidance of Future Costs** – does the investment mean that costs will be avoided in future?
- **Protecting our assets** – does the investment protect our existing assets and/or meet compliance/regulatory requirements
- **Adult and Children’s Social Care** - Following the principles above in terms of sound business case, does the investment support improvements in Adult or Children’s Social Care?
- **Environmental Impacts** – Does the investment reduce energy costs and/or carbon emissions?

3.2.2 A group of Chief Officers from across the Council have reviewed all uncommitted schemes funded by Council resources and have classified schemes according to traffic lights:

Green - recommended to proceed;

Amber – recommend the business case for the scheme is re-visited to ensure it is robust, costs are comprehensive and benefits clearly identifiable;

Red – recommend should not proceed at present and should be transferred to the reserved programme pending future consideration.

Recommendations from the review are set out in **Appendix B**, and Table 2 below summarises the Leeds funding element of schemes in these categories.

Table 2 – Capital Review Summary of Recommendations – Leeds Funded

<i>Recommended Action</i>	<i>2010/11 £000</i>	<i>2011/12 £000</i>	<i>2012/13 £000</i>	<i>2013/14 £000</i>	<i>2014 onwards £000</i>	<i>Total £000</i>
Do not progress / delay (RED)	1786.8	1634.1	2300.5			5721.4
Business Case Required (AMBER)	11278.8	24435.5	20482.7	10895.1	3300.0	70392.1
NGT / Flood Alleviation (AMBER) (awaiting external funding decisions)	2996.0	6000.0	4500.0	4500.0	9551.1	27547.1
Recommend to Proceed (GREEN)	40002.7	19205.1	9579.0	8450.4		77237.2
Total Uncommitted Leeds Funded	56064.3	51274.7	36862.2	23845.5	12851.1	180897.8

3.2.3 In relation to ‘amber’ schemes, it is recommended that business cases are considered in the first instance by the Strategic Investment Board which will recommend how they should proceed.

3.3 Specific Project Issues

3.3.1 **Kirkgate Market Business Support** - The February 2010 Capital Programme made provision for this £250k scheme within the reserved programme, awaiting detailed proposals to come forward. Given the priority given by Members to the improvements at Kirkgate Market, it is proposed to transfer this scheme to the funded capital programme to ensure that the works can be progressed.

- 3.3.2 **ALMO Vehicles** - The 2010/11 Capital Programme Quarter 1 report approved by Executive Board, 25 August 2010, gave authority to spend for £3.051m of replacement vehicles for General Fund services. Vehicle replacement requirements in relation to ALMOs have now been clarified and a further approval of £750k is now sought. Whilst the ALMO vehicles are dealt with as part of the overall General Fund vehicle replacement strategy, funding for them is held within ALMO budgets so there are no financial implications for General Fund.
- 3.3.3 **Equipment Programme** - In August 2010, Members gave approval to the first tranche of the equipment programme based on business cases approved to date. Further business cases have now been approved, in relation to equipment in Parks, Sport and the Adult Social Care service and therefore a further authority to spend of £685k is requested. In total, expenditure on vehicles and equipment remain within the total capital programme provision agreed in February 2010.
- 3.3.4 If Members are minded to agree the above proposals, the overprogramming in 2010/11 will reduce to £13.3m which is considered manageable with careful monitoring. Over the 5 year programme, overprogramming will reduce to £45.3m which is higher than would normally be acceptable. This will need to be monitored carefully to ensure the programme is affordable and it is possible that further transfers to the reserved programme will be necessary during the year. As business cases for the 'amber' schemes are considered the phasing and affordability of schemes will need to be considered.
- 3.3.5 **East Leeds Household Waste Site** - redevelopment was approved by Executive Board in July 2005. The proposals for the site have gone through various design iterations to determine the best operational use of the site with the new disposal contracts in place and the long term residual waste procurement project implemented.
- 3.3.6 Since July 2009, the scheme has developed to include a number of additional new works to complement the full scheme and these works have been adjusted to comply with planning requirements. The Strategic Design Alliance conducted a tender exercise in August/September 2010 and all seven tenders returned exceed the budget provision. The Strategic Design Alliance considers that the lowest tender represents value for money and is indicative of current market prices. Given this advice on tender prices the Director of Environment and Neighbourhoods has now awarded the main works contract as sufficient authority to spend has been approved previously. However, in order to deliver the overall scheme additional funding of £208,200 is required and this has been secured from a combination of government grant and third party funding.
- 3.3.7 **Home Insulation Scheme** – As reported to Executive Board in the first quarter update in August 2010, proposals are being drawn up for the introduction of a Home Insulation scheme within the city. Provision of £1.3m has been made in the capital programme to commence this. Any further funding required would need to be considered with regard to the overall capital programme provision and other capital pressures.

4.0 **Housing Revenue Account Programme**

- 4.1 The approved February 2010 Capital Programme reported an overall HRA programme of £235.4m for 2009/10 through to 2013; this included an additional programme of £16.4m for which resources were not available. The 2010/11

programme was £64.9m gross, including £2.2m overprogramming. Since supported borrowing allocations for decency have come to an end, ALMOs are now reliant on their annual Major Repairs Allowance (MRA) grant funding as their main source of funds for tackling Decency.

- 4.2 The 2010/11 forecast spend now stands at £75.7m including overprogramming of £2.1m. This will be managed within available resources with the likelihood that some schemes will slip to later years.
- 4.3 In the forward years through to 2013, forecast spend stands at £181.2m, with overprogramming of £10.1m. 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.
- 4.4 Monitoring of the individual ALMO programmes indicates that current levels of overprogramming in the 2010/11 programmes can be managed down within the available resources by March 2011. The current position for each ALMO is summarised below:

Belle Isle and Aire Valley Homes (AVH) – Both organisations have realistic programmes and the 2010/11 month 6 expenditure is in line with projections. Belle Isle is currently projecting a balanced programme; expenditure at month 6 is £448k. AVH are projecting a small surplus position of £344k on a £14.738m programme; expenditure at month 6 is £1.347m. Their current programmes are realistic for being delivered within the available resources.

East North East Homes (ENEH) – the 2010/11 programme is currently £20.635m with at mid year, a manageable overprogramming level of £1.276m(6%). The expenditure position at month 6 is £3.422m and whilst there is a level of overprogramming it can with careful monitoring still be managed effectively within available resources. ENEH are undertaking some stock rationalization, private property acquisitions and site assembly for the EASEL project. 2010/11 is the final year of the current EASEL site assembly process.

West North West Homes (WNWH) – the 2010/11 programme at £25.204m is currently the largest of the three ALMOs. There is a projected overprogramming of £812k (3%) which is considered a manageable level. The Month 6 spend position is £6.711m and the programme is considered realistic for delivery within available resources.

- 4.5 In addition, an updated investment position received from the ALMOs and Belle Isle at period 6 on the achievement of decency, demonstrates that the council is on course to meet the governments Decent Homes Standard by March 2011.

5 Implications for Council Policy and Governance

- 5.1 In order to ensure that schemes meet Council priorities and are value for money, the Director of Resources will put processes in place to ensure:
- 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;

- promotion of best practice in capital planning and estimating to ensure that scheme estimates and programmes are realistic;
- 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;

5.2 One of the main risks 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;
- compliance with both financial procedure rules and contract procedure rules to ensure the Council's position is protected.

6 Legal and Resource Implications

6.1 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.

6.2 The economic downturn is continuing to have a significant effect on our ability to resource investment in our strategic priorities. If the proposals outlined in Table 2 are accepted, the overprogramming over the life of the capital programme will reduce to £45.3m which is £5m higher than reported in February 2010.

6.3 For HRA, the position outlined in section 4 shows that in the main, expenditure by the ALMOs can be managed within resources available.

6.4 In the February 2010 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. In addition, further transfers to the reserved programme may need to be considered during the year dependent on the overall resources position.

7 Conclusions

7.1 The general fund overprogramming of £13.3m in 2010/11 is considered manageable through to the end of the year. The overprogramming over the life of the programme, £45.3m is higher than normal tolerances and due to the current

economic conditions, is unlikely to improve in the near future. Careful monitoring of the 5 year programme is required to ensure it can be afforded.

- 7.2 For HRA, ALMO forecast expenditure can be contained within available resources in 2010/11.
- 7.3 Specific approvals are requested in relation to Kirkgate Market, the vehicle and equipment programmes and East Leeds Household Waste site and these are set out in paragraph 3.3.

8 Recommendations

- 8.1 Executive Board is requested to:
 - a) note the latest position on the general fund and HRA capital programmes;
 - b) give approval to transfer to the reserved capital programme, schemes classified as 'red' on Appendix B;
 - c) agree that further business cases be considered in relation to schemes classified as 'amber' on Appendix B;
 - d) approve the transfer of £250k from the reserved to the funded programme in relation to the Kirkgate Market business support scheme;
 - e) agree an injection to the capital programme of £750k and give authority to spend of £598k for replacement of vehicles, the revenue cost of which is provided for within ALMO budgets; and,
 - f) Give authority to spend of £685k for equipment purchases within the Parks, Sport and Adult Social Care services.
 - g) agree an injection into the capital programme and authority to spend of £208,200 for East Leeds Household Waste Site funded through government grant of £188,200 and third party funding of £20,000.

Associated Documents

- a) Capital Programme 2009/10-2013/14 – Executive Board 12th February 2010
- b) Capital Programme Update 2010-2014 – Executive Board 25th August 2010