



Report of the Director of Resources

Executive Board

Date: 11th February 2011

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

((recommendation 10.1(a) to (c))

Executive Summary

1. The report sets out the updated capital programme for 2010-2014 which has been very much influenced by the reduction in government support for both capital and revenue expenditure.
2. A large proportion of capital programme schemes are funded from external resources which are still available and therefore projects using these grants are continuing as planned. The revenue budget for 2011/12, sets a limit on the increase in debt costs from 2010/11 at £6.8m. Within this, interest rate changes need to be reflected as well as new borrowing and therefore emphasis has been placed on consolidating the existing programme and ensuring that schemes released to proceed are priorities.
3. In order to keep the programme within the budget set, it has not been possible to make provision for all existing schemes and schemes which cannot proceed at present are contained within the reserved capital programme.
4. Overall, the council is seeking to deliver a total of £690.1m general fund capital investment within the city together with investment of £184.2m in the HRA over the next 5 years. Careful monitoring and control throughout the year will be required to manage the programme within resources available given the reduced level of government funding likely to occur in the coming years.

1. Purpose Of This Report

- 1.1 This report sets out the updated capital programme for 2010/2014 and includes details of forecast resources for that period.
- 1.2 In accordance with the Council's Budget and Policy Framework¹, decisions as to the Council's capital programme are reserved to Council. In addition, statutory guidance requires that policies on Minimum Revenue Provision (see 5.4) are approved by Council. As such, the recommendations at 10.1 (a) to (c) are not subject to call in.

2. 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.
- 2.2 This update of the capital programme has been very much influenced by the reductions in public sector funding announced in the Comprehensive Spending Review in October 2010 and reflected in the government settlements in December 2010. The significant reductions in revenue grant to be paid by government to the Council also impacts on the level of capital programme that can be sustained. A large proportion of the capital programme is financed through borrowing, the costs of which are met by the revenue budget, and with large revenue grant reductions, it is imperative that only priority capital schemes are progressed.

3. Capital Resources

3.1 Capital Programme Update 2010/11

- 3.1.1 The latest forecast expenditure for 2010/11 is £349.9m with resources of £342.7m. Both the general fund and HRA programmes reflect a level of overprogramming for both General Fund £3.6m and a £3.6m HRA shown as a supplementary programme.

3.2 Capital Resources 2011/12 onwards

- 3.2.1 Resources of £537.8m have been identified to fund the City Council's capital programme from 2011/12 to 2014/15. These are summarised in Appendices A and B, divided into specific resources and corporate resources.
- 3.2.2 **Specific Resources** – Specific capital resources total £295.4m over this period and represent funding which has been secured for specific schemes. This could be in the form of government grants such as as schools devolved formula capital, section 31 transport grant and HRA major repairs allowance (£138.7m), or in the form of contributions from external bodies, including the Big Lottery Fund and private developers. 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 corporate resources. Contributions from these agreements totalling £10.5m over the period are used to support the council's revenue budget.

- 3.2.3 **Corporate Resources** – Corporate resources over the period total £242.4m. These represent resources which the Council has more freedom to allocate to its own policy priorities. The main sources are the Single Capital Pot, capital receipts, borrowing and reserves. From 2010/11, a change in the way capital receipts are used, explained more fully in paragraphs 5.4 to 5.6, will mean that fewer capital receipts will be available to fund capital expenditure. In financing the overall capital programme, the Director of Resources will use the optimum mix of funding sources to achieve the best financial position for the Council. A list of land and property sites for disposal is included at Appendix E.
- 3.2.4 Government support is currently forecast at £80.2m over the period. Government departments have clear expectations about how most of this will be spent and this is taken into account in the Single Capital Pot Policy in the Capital Strategy, outlined in section 5. Details of allocations for 2011/12 are shown in Appendix C.
- 3.2.5 The proposed capital programme includes £163.0m of unsupported borrowing over the programme period. This represents commitments made earlier for schemes such as the Leeds Arena, business transformation and other spend to save projects. A cautious policy in relation to future unsupported borrowing is proposed and this is set out in the Capital Strategy.
- 3.2.6 Total capital resources assumed are detailed in Appendices A and B and summarised below:

	2011/12 £000's	2012/13 £000's	2013/14 £000's	2014/15 £000's	Total £000's
Specific resources	177,309.3	71,479.2	32,365.9	14,216.4	295,370.8
Corporate resources	112,601.3	65,450.0	14,639.3	49,712.2	242,402.8
Total Resources	289,910.6	136,929.2	47,005.2	63,928.6	537,773.6

4 Proposed Capital Programme 2011/12 onwards

- 4.1 As set out in section 3, the capital resources available for the capital programme are constrained by the level of external grants and contributions available and by the debt budget provided for in the revenue budget. There has been no scope this year to include many new capital schemes, rather emphasis has been placed on making sure schemes within the existing programme are priorities and have robust and affordable business cases.
- 4.2 Members will recall that a review of the capital programme was undertaken over the summer of 2010, the outcome from which was reported to Executive Board in November 2010. This review took place after the government's emergency budget and in anticipation of a harsh Comprehensive Spending Review and revenue grant settlement.
- 4.3 A significant part of the capital programme is funded from specific external grants and contributions and these elements of the programme were unaffected by the review. The review considered all council funded uncommitted schemes and sought to re-consider the need for schemes and business cases justifying schemes. The outcome of this review was to place schemes into categories; Green (to progress), Amber

(requiring up to date business case) and Red (not to progress). Schemes within these categories were approved at Executive Board in November 2010.

4.4 Following the revenue support grant settlement it has been necessary to further tighten the priority of schemes funded by the Council's own resources, within the capital programme. The revenue budget for 2011/12, sets a £6.8m limit on the increase (from 2010/11) in debt costs. In order to ensure that the cost of the capital programme does not exceed this, emphasis has been placed on consolidating the existing programme and ensuring that projects that do proceed are priorities and where appropriate have a sound business case. The following approach has been taken in compiling the programme:

- a) All committed schemes (where contracts have been awarded) have been funded using any external and specific sources of funding and any call upon the Council's own resources (capital receipts or unsupported borrowing). The resulting borrowing costs have been assessed.
- b) The remaining borrowing that can be undertaken has then been assessed (using interest rates as set out in the Treasury Strategy elsewhere on this agenda) to remain within the revenue budget for debt.
- c) These resources have then been allocated to uncommitted schemes in the following order of priority
 - Health & Safety schemes
 - Schemes supporting the revenue budget
 - Annual programmes (grants and upgrading)
 - Asset management schemes
 - Developmental schemes – both part Leeds funded and fully Leeds funded

4.5 From the Red, Amber and Green lists approved by Executive Board in November 2010, it has been necessary to further tighten priorities and the status of some schemes has been amended to make the programme more affordable. Schemes classed as Amber will only be released following consideration of a business case. Transfers from the amber to the green programme will be made by the Director of Resources under his Executive Delegation scheme following consideration by the Strategic Investment Board and subject to consultation with the Leader of the Council.

4.6 A summary of the forecast programme by Directorate is set out below and an updated capital programme is attached.

	2011/12 £000's	2012/13 £000's	2013/14 £000's	2014/15 £000's	Total £000's
City Development	84,534.8	59,138.9	5,832.2	7,506.4	157,012.3
Environment and Neighbourhoods	15,442.8	7,862.5	7,692.4	1,320.8	32,318.5
ALMOs	49,800.2	40,016.8	29,173.4	13,689.8	132,680.2
Children's Services	6,529.6	8,839.0	2,115.1	537.6	18,021.3
Education	138,350.3	19,902.8	1,675.0		159,928.1
Adult Services	4,939.7	3,922.2	1,600.0	499.9	10,961.8

Central and Corporate Functions	12,865.5	11,448.6	7,430.8	3,051.6	34,799.5
Strategic	12,861.4	10,795.7	8,868.4	21,047.4	53,572.9
Over Programming	(35,416.7)	(24,997.3)	(17,382.1)	16,275.4	(61,520.7)
Total	289,910.6	136,929.2	47,005.2	63,928.9	537,773.9

- 4.7 As can be seen from the table above, from 2011/12 to 2014/15 capital investment of £537.8m is planned which will deliver a number of priorities, some of which are referred to in the paragraphs below.
- 4.8 **City Development** – This capital programme will see construction commence on the new 12,500 seat Leeds Arena and associated car parking improvements both of which are due for completion in 2012. Continued investment totaling £15.3m in 2011/12 and 2012/13 should further address backlog maintenance on district roads. The A65 Quality Bus Initiative will make substantial progress towards its completion, expected 2012. Investment is also continuing, through the LEGI programme, in the Chapeltown Enterprise Network and the Enterprise Hub in Harehills. A £300k grant in the Business Growth Fund is being made to help create 280 private sector jobs in 65 companies. A major £1.9m refurbishment of Middleton Park is underway, supported by lottery funding, which will deliver a new visitor centre, performance area and upgraded paths and seating. The first project in a programme of crematoria upgrading will commence at Rawdon.
- 4.9 **Environment and Neighbourhoods** – The programme see investment in Armley Town Centre supported by the Townscape Heritage Initiative (Lottery) funding. As in previous years the programme provides for Disabled Facilities grants (DFG) at £6.5m to £7m per year (partly funded by government) which equates to in the region of 1100 grants per year. Following on from an earlier Executive Board approval, the programme provides for £1.3m to commence a programme of free home insulation grants for residents in Leeds. Funding to supplement this is being sought from the utility companies.
- 4.10 **Housing Revenue Account and ALMOs** - The ALMOs continue to work towards bringing council houses up to the decent home standard. As at December 2010 more than 95% of council housing in LCC achieved the decency standard which equates to 55,069 houses.

Following on from the decision of the government not to proceed with the round 6 Life Time Homes PFI programme, Strategic Landlord submitted a bid to the Homes and Communities Agency for additional funding as part of the Backlog Decency funding bid programme. The bid focused on the modernisation of 10 sheltered housing schemes. The total cost of the scheme amounts to £11.9m with Leeds contributing £4m from its HRA reserves.

In October of 2010 the government agreed to end the current HRA system of financing council housing by April 2012. The 2011/12 HRA/ALMOs capital programme will be the last to include major repairs allowance. From 2012/13 the council will be able to retain all its rental income in return for a one off debt settlement figure which will be announced in the spring of 2011. Within the ALMOs capital programme from 2012/13 onwards this funding has been set at the 2011/12 MRA level.

The proposed February 2011, capital programme is projecting expenditure of £200m between 2010/11 and 2014/15. Over this period there is overprogramming of £9.6m which will be managed back within available resources of £190.4m.

- 4.11 **Adult Social Care** – The Council is embarking on a programme to deliver Changing Places toilets in community buildings across the city to help improve the lives of people with the most complex needs, given that standard disabled persons toilets do not provide sufficient space or facilities to enable carers of persons with severe physical disabilities to use them safely. Investment is also being made in appropriate technology and business systems to enable personalisation and direct access by people, to health and social care support. To support more people to remain independently in their own homes, in line with national policy, the programme sees investment in the Telecare equipment programme. It is anticipated that equipment can be provided to over six thousand homes in total.
- 4.12 **Children's Services** – Demographic growth in Leeds over recent years has increased the demand for reception places in primary schools. Current projections show that 300 to 400 additional reception places will be needed each year until at least 2014. Provision for places is being met partly through the Primary Capital Programme, a programme of remodeling and refurbishment at six primary schools but also using a £15m government grant for basic need announced in December. A new schools capital maintenance government grant of £9.9m has been introduced to ensure that buildings and equipment are properly maintained and health and safety standards are met. This allocation has been provided to local authorities to support local prioritisation and larger projects, with coordinated and efficient procurement. Construction at the last 3 high schools under the BSF programme will commence during 2011/12; Corpus Christi, Mount St. Mary's and Parklands. Following a recent approval at Executive Board the programme now includes a substantial investment to provide a new Children's social care management system to support significant practice improvements that need to take place to enable professionals to fulfill their duties around safeguarding children and young people.
- 4.13 **Central and Corporate Functions** – The programme provides for investment in the Data Centres at Civic Hall and Apex Centre to ensure that the core facilities that underpin the delivery of ICT services to directorates, the public and our partners are fit for purpose. Investment is continuing in the Council's properties to reduce backlog maintenance and address health and safety and other essential works including fire safety.
- 4.14 **Strategic** - A directive has been received from government allowing the cost of settling equal pay claims in 2010/11 to be capitalised. Unsupported borrowing of £39.9m is included in 2010/11 which will increase debt costs by up to £2m in 2011/12. Further costs are likely to be incurred in later years and a request to capitalise costs will be made as appropriate. Similarly, a capitalisation directive has been received for 2010/11 to allow the Council to capitalise £5.7m of redundancy payments arising from the release of staff on early retirement or voluntary severance. This is funded through unsupported borrowing increasing debt costs by £300k in 2011/12.

In drawing up the revenue budget for 2011/12, to help to produce a budget within the reduced resources available, opportunities have been sought to identify revenue expenditure items which should more correctly be charged to capital. For 2010/11 additional capitalisation of £4.5m has been identified together with a forecast increase

of £2.3m for 2011/12. This has increased debt costs in 2011/12 by £0.5m (with a further increase falling in 2012/13).

Following on from reductions made in the last capital programme, replacement vehicles have been kept to a minimum in 2010/11 and it is intended that only emergency replacements are made in 2011/12. Any operational equipment replacements are largely funded by unsupported borrowing and are provided for within directorate capital and revenue budgets.

The strategic capital programme also includes some key ICT investments including the replacement of the Council's internet and intranet facilities which was recently reported to Executive Board and the Electronic Document Records Management System (EDRMS). The EDRMS scheme will provide electronic storage, sharing and retrieval of documents across the Council and is a key enabler for the Changing the Workplace programme.

Provision is made within this programme for the Council's contribution to two citywide strategic schemes; New Generation Transport and the Flood Alleviation scheme. Given the current financial climate and cutbacks in government funding, these projects have not yet secured the external funding they require to proceed. The Council will continue working with government departments and our partners to seek to secure the necessary funding required.

5. Capital Strategy

- 5.1 During 2010/11 services have reviewed their asset management plans in the context of service priorities and an updated asset management plan is being prepared for presentation to Executive Board in March 2011.
- 5.2 The effective utilisation of the Council's assets and capital resources is fundamental to delivering the Council's strategic outcomes and ensuring that services are provided in the most cost effective way. The Comprehensive Spending Review has set a clear direction for Council services over the next four years and it is imperative therefore that capital resources are directed to priorities and used as flexibly as possible.
- 5.3 The capital strategy gives an update for each service of capital investment priorities and also sets out the corporate approach for the use of capital receipts, 'Single Capital Pot' resources from Government and Unsupported Borrowing. The updated capital strategy is included at Appendix D, the main changes to the strategy are in respect of the use of capital receipts as already referred to in paragraph 3.2.3 and now includes specific reference to capital funding through S106 agreements, the funding of demolition costs and the use of Council land.
- 5.4 The Capital Finance and Accounting Regulations require councils to produce a statement of policy on making Minimum Revenue Provision (MRP). MRP is an annual revenue charge for the repayment of borrowing and other capital financing liabilities. Whilst the statutory guidance gives local authorities some discretion about how to calculate 'prudent provision' for MRP, the guidance steers authorities firmly towards a limited choice of options in which the key principles are demonstrating prudence and repaying borrowing over the period in which the capital expenditure provides benefits.

5.5 It is proposed that Leeds adopts the following MRP policies for 2011/12:

- MRP for prudential borrowing for 2010/11's capital expenditure will be calculated on an annuity basis over the expected useful life of the asset
- MRP for borrowing to fund capitalized expenditure incurred during 2010/11 will be calculated on an annuity basis using the lifetimes recommended in the government's statutory guidance
- For all other unsupported borrowing to fund the 2010/11 capital programme, MRP will be calculated on an annuity basis over the expected useful life of the asset
- For PFI and finance lease liabilities, a MRP charge will be made to match the value of any liabilities written down during the year which have not been otherwise funded by capital receipts.

5.6 In deciding on the application of capital funding, it is proposed that:

- Capital receipts are allocated firstly to fund the liabilities to be written down for the year in relation to PFI schemes and finance leases. This will remove the need for MRP charges equal to the value of the capital receipts applied.
- Any remaining capital receipts and any other general capital income will then be allocated to those capital schemes which relate to the shortest lived assets.

The options to be considered in determining the policy are set out in more detail in the MRP policy at Appendix F.

6. Prudential Indicators

6.1 Under the current self regulatory financial framework, CIPFA's prudential code for capital financeⁱⁱ, 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 2011/12 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.

6.2 Any unsupported borrowing carried out must be affordable within the revenue budget (i.e. the cost of debt repayments). For 2011/12, all schemes funded through unsupported borrowing have been provided for in the revenue budget, approval for which is contained within the revenue budget report.

7 Implications for Council Policy and Governance

7.1 Risk Assessment

7.1.1 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;
- 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;
- 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.

7.2 Governance

7.2.1 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. Given the very tight

financial position and the level of overprogramming, the review of the capital programme will be ongoing throughout the year to ensure that only priority schemes are progressed, schemes are properly developed and justified and expenditure can be contained within available resources.

- 7.2.2 In accordance with the Budget and Policy Framework, the Executive Board are required to make proposals to Council regarding the degree to which in year changes to the capital budget may be undertaken by the Executive. Where these apply to capital programme schemes these are set out in Financial Procedure Rulesⁱⁱⁱ.
- 7.2.3 Some schemes are classed as 'Amber' and release of these schemes will only take place after re-consideration of business cases. Transfers between the amber, reserved and green programmes will be made by the Director of Resources under his Executive Delegation scheme following consideration by the Strategic Investment Board and subject to consultation with the Leader of the Council.
- 7.2.4 A list of land and property sites for disposal is included at Appendix E. It is proposed that the Executive Board be authorised to approve in year amendments to this list subject to such amendments subsequently being reported to the Council. Any such changes will be reported in the periodic capital programme update reports to Executive Board, for recommendation to Council.

8.0 Equality Impact Assessment

- 8.1 In order to arrive at an affordable capital programme it has not been possible to budget for all existing schemes at their original value. In applying reductions to schemes the impact on disabled people, BME communities and low socio-economic groups needs to be considered. The capital programme sets out a plan of capital expenditure over future years and further spending decisions are taken, in accordance with capital approval processes, as projects are developed. This is when more detailed information will be available as to where in the city capital spending will be incurred and the impact on services, buildings and people. Service Directorates will include equality considerations as part of the rationale in determining specific projects from capital budgets.

9.0 Conclusions

- 9.1 Over the five year period of 2010/11 to 2014/15, the council is seeking to deliver a total of £874.3m capital investment within the city net of the reserved programme. Current expenditure plans exceed the resources available to deliver these plans. Over the 5 year period, overprogramming in the capital programme at £68.7m is higher than at this stage last year. The ongoing review of the programme throughout the year together with careful monitoring and implementation of the control measures referred to in paragraph 7.1, will seek to reduce this. 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.
- 9.2 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.

- 9.3 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.

10. Recommendations

10.1 Executive Board is asked to recommend to the Council:

- a) that the attached capital programme be approved;
- b) that the Executive Board be authorised to approve in year amendments to the capital programme including transfers from and to the reserved programme in accordance with Financial Procedure Rules; and,
- c) that the proposed MRP policies for 2011/12 as set out in 5.5 and 5.6 and explained in Appendix F be approved.

10.2 Executive Board are asked to agree:

- a) the capital strategy attached at Appendix D;
- b) that the list of land and property sites shown in Appendix E will be disposed of to generate capital receipts for use in accordance with the capital strategy; and,
- c) that the Director of Resources will manage, monitor and control scheme progress and commitments to ensure that the programme is affordable;

Appendices:

- A** General Fund programme statement, 2010/11 to 2014/15
- B** Housing Revenue Account programme statement, 2010/11 to 2014/15
- C** Government Funding allocations for 2011/12
- D** Capital Strategy 2011
- E** List of sites to be disposed of over the programming period
- F** Minimum Revenue Provision Policy

ⁱ Leeds City Council Constitution – Part 2, Article 4

ⁱⁱ CIPFA – The Prudential Code for Capital Finance in Local Authorities

ⁱⁱⁱ Leeds City Council Constitution – Part 4, Rules of Procedure