



Report of the Director of Corporate Services

To: Executive Board

Date: 9th February 2007

Subject: Capital Programme 2006/07 to 2010/11

Electoral Wards Affected:

All

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

This report sets out the latest expenditure and resources position in respect of the capital programme. The report outlines government support for capital expenditure of £175.5m announced recently. It details other resources available to fund the capital programme and also highlights the major expenditure programmes within the capital programme. Current expenditure plans exceed resources and the report proposes further constraints on progressing uncommitted schemes in order to ensure that expenditure is contained within available resources.

1.0 Purpose Of This Report

- 1.1 This report sets out the updated capital programme for 2006/2011. The report includes details of forecast resources and a summary of the major capital schemes due to be delivered within particular service areas. It also details the changes to the capital programme since previously approved by Council in February 2006.
- 1.2 This report also asks the Executive Board to recommend the report to full Council.

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, cost estimates have been

revised and provision made for anticipated commitments in relation to ongoing contractual issues.

3. Main Issues

3.1 Capital Programme 2007/08 to 2010/11

- 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 also be available on the council's internet site.
- 3.1.2 A full list of new general fund schemes over £250k, which have been included since the February 2006 programme, is provided in appendix D (some of which were reported to Executive Board in the capital programme update report in November 2006). This appendix shows the full value of the relevant schemes which have been injected into the capital programme showing expenditure up to 2011. Similarly, any general fund schemes deleted from the programme since February 2006 are shown at Appendix E together with the rationale behind the decision. Unless stated, the figures quoted are the gross costs over the life of this programme.
- 3.1.3 The specific schemes referred to below are described under the heading of the department which currently holds management responsibility for the delivery of that scheme.

3.2 Development Department

- 3.2.1 Development work is continuing on the Holbeck Urban Village project in partnership with Yorkshire Forward.
- 3.2.2 The council has recently been awarded £4.7m capital funding over the next three years under the Local Enterprise Growth Initiative (LEGI) programme as part of the overall £15.6m of government funding provided to Leeds. This funding is intended to help develop enterprise, create new jobs and boost prosperity in the city's most disadvantaged communities. Initially this funding will be used to develop a number of business centres to provide bases and support services to assist the development of new small business enterprises.
- 3.2.3 Within the city centre precinct area the programme provides £1.4m for the Lower and Mid Albion Street refurbishment works.
- 3.2.4 Continued provision is included for Stage 7 of the Inner Ring Road with government support of £20.8m projected for 2007/08 within a total project cost of £51.5m.
- 3.2.5 Provision is included for the strategic East Leeds Link road at £33.9m which includes government and Yorkshire Forward support of £24.3m.
- 3.2.6 Work has recently been completed on phase 1 of the refurbishment and renovation of Leeds Grand Theatre. The project which includes the provision of accommodation for Opera North, has secured lottery funding to date of £13.8m from the Arts Council. A further bid to the Heritage Lottery Fund has been prepared for £2.2m towards phase 2 works. A provision of £9.1m is included to deliver the phase 2 scheme.

- 3.2.7 The programme provides £9.2m for the proposed refurbishment of the City Varieties Music Hall theatre. The funding of this scheme assumes the council will be successful with its £3m bid to the Heritage Lottery Fund and £1m funding is to be provided by the Grand Theatre and Opera House Limited. A report elsewhere on this agenda provides further details as to the progress with these scheme proposals.
- 3.2.8 There is currently a programme of private street works to provide for the surfacing of unadopted streets across the city but primarily focused on works in the outer districts. A further £1.3m per annum is provided for from 2008/09 to 2010/11 to allow for the continuation of this programme over a six year time span.
- 3.2.9 Project development work is continuing on the proposals for a Leeds Arena. The council is currently committed to a £20m bid target of public sector funding in its procurement of an operating and development partner for the project.

3.3 City Services Department

- 3.3.1 Provision is included within the programme to support the continued development of waste management facilities and to support the council's priorities in looking after the environment. This includes £2.4m for the development of the east Leeds waste sorting site and other associated works. The programme also contains £5m, funded through prudential borrowing, for the development of an innovative recycling scheme and a further £5m for waste bin replacements and the continued rollout of the recycling and green waste initiatives.
- 3.3.2 The highways maintenance programme is currently provided for with £23m for 2007/08 and the forward years. A further £37.4m of funding has been injected into the programme between 2007/08 and 2012 to enable the remaining maintenance backlog to be more promptly addressed.

3.4 Corporate Services Department

- 3.4.1 Information and communications technology (ICT) project development costs of around £5.5m per year are included reflecting the commitment to the continued development of the council's use of ICT systems to meet the challenges detailed in the corporate plan and the ICT strategy.
- 3.4.2 The main element of this strategy is the service transformation programme, delivering increased efficiencies through the use of technology and delivering ICT developments in support of the major capital priorities.
- 3.4.3 As part of the council's continued commitment to improve the services to the customer, the ICT development programme supports the delivery of the customer services strategy. This work aims to lower the transaction costs and improve our response and service delivery times to customers by joining up the people, processes and technologies required.

3.5 Learning and Leisure

- 3.5.1 The council is delivering a new swimming & diving centre at the John Charles centre for sport and a provision of £18.1m is currently included in the programme. A contingency provision has been made to allow for any further potential cost increases through to the projected completion of this scheme in summer 2007.

- 3.5.2 A second phase of city wide children's centre developments and extended schools provision is progressing under the early years strategy with a projected completion date of March 2008. £10.3m of Department of Education and Skills (DfES) funding is supporting this programme.
- 3.5.5 A sum of £4.65m has been included as the council's support towards the construction of a dance facility for Northern Ballet and Phoenix Dance.
- 3.5.6 The council is currently delivering a new city museum in the Leeds Institute building which is scheduled to open in summer 2008. The associated Discovery Centre which will provide archive, conservatory and educational facilities has been built on land at Clarence Dock. The overall estimated cost of these projects is £28.7m, funded from £19m from the Heritage Lottery fund with £9.7m of council and Yorkshire Forward funding.
- 3.5.7 £5.5m is included in the programme for purchase of land to extend the cemetery at Lawnswood.
- 3.5.8 Schemes at Pudsey, £450k and Otley Wharfemeadows park £450k, are provided for as part of the parks renaissance programme. A further £0.25m per year for three years is to be provided from 2008/09 to enable the continuation of this programme.
- 3.5.9 Internal refurbishment and fit out works being undertaken at the Mansion, Roundhay are provided for at £1.75m. Further internal works will be funded by the third party operator when appointed.

3.5 Neighbourhoods and Housing Department

- 3.5.1 The council's housing stock is currently managed by the six arms length management organisations (ALMOs) who are delegated the responsibility for delivering the capital programme in their respective areas. The respective ALMO programmes detailed within the accompanying Capital Programme book will subsequently be reduced from six to three programmes under the delegated responsibility of the three new ALMOs that become operational with effect from 1 April 2007. The ALMOs programmes reflect continued progress towards the target of all deficient properties meeting decency standards by 2010/11.
- 3.5.2 In addition, the ALMOs deliver work to address specific tenant needs. In 2007/08 the ALMOs have £7.6m of supported borrowing plus projected capital receipts from Right to Buy sales of £9m for adaptations and other non decency works.
- 3.5.3 Investment in private sector renewal activity will continue to seek to improve poor housing conditions across the city. The council has been successful in obtaining Single Regional Housing Pot (SRHP) and Regional Housing Board (RHB) funding. Funding from the SRHP and the RHB has been secured for various projects targeting key areas of deprivation. The schemes include Beeston (£9.3m), Comptons/Ashleys in Harehills (£1.9m), Cross Green (£6m) and Burley (£2.1m). The council continues to pursue additional funding from the Housing Corporation to deliver these initiatives.
- 3.5.4 The council has also been notified of further funding for 2007/08 for the continued delivery of regeneration initiatives as part of the Leeds Housing Strategy. A further £5.96m funding is to be injected into the Beverleys and Lindens schemes funded by £4m of Housing Market Renewal (HMR) and £1.96m of SRHP funding. In addition £1.3m of SRHP funding is also being injected into the Decent Homes schemes to

provide continued support for vulnerable private owners to improve their homes to decency standards.

- 3.5.5 The 2006/07 provision for providing Disabled Facilities Grants has been increased to £2.5m and this level of provision continues for the forward years. The demands placed on this funding have increased significantly in recent years and the Department for Communities and Local Government has now recognised this and increased their 60% grant funding from £938k to £1.5m per annum with the council required to make a 40% (£1m) matching contribution.
- 3.5.6 There is currently an area well being programme, under which community schemes are delivered via the Area Committees. To enable these Area Committee programmes to continue, a further £1m per annum is provided for from 2007/08 through to 2009/10.
- 3.5.7 The Town and District Centre programme provides funding for regeneration initiatives within the outer districts and district centres. A further £0.75m per annum is to be provided from 2008/09 onwards to enable the continuation of these works in the forward years.

3.6 Strategic Accounts

- 3.6.1 A sum of £3.5m in 2007/08 has been included to reflect the correct accounting treatment of expenditure that is currently in the revenue budget, but should more appropriately be treated as capital expenditure. From 2008/09 onwards this expenditure will met from the vehicle and equipment programmes.
- 3.6.2 The programme includes £5m per annum for equipment purchase and renewal and £5m for a programme of vehicle purchase and replacement and these schemes are funded through prudential borrowing.
- 3.6.3 The Town and District Centre programme has been extended with an additional £1m provided for three years from 2008/09. £250k a year of this is provided for the parks renaissance programme. Overall, provision of £7.1m is included for the town and districts regeneration programme to provide for the continued economic regeneration of town, village and district centres. In addition, £1.59m is set aside to provide continued funding for parks renaissance schemes. The management of individual schemes within these programmes rests with the Directors of Neighbourhoods and Housing and Learning and Leisure respectively.

3.7 Education

- 3.7.1 The capital programme reflects the latest formulaic allocations per annum for 2007/08 and 2008/09 of modernisation funding (£8.2m), new pupil places (£1.9m), devolved formula capital (£8.9m) and schools access initiative (£1.2m).
- 3.7.2 Provision of £1.5m is also made for payments under the primary and seven schools PFI contract. The programme also includes £1.1m for provision of a new hall and classrooms at Thorpe primary school.
- 3.7.3 The council was successful in securing funding under the first wave of building schools for the future (BSF). The new capital programme now reflects the £86.8m cost of phases two and three of this programme. The funding comes from: government support of £25m of supported borrowing and £50.1m of grant funding; and council funding of £11.75m.

- 3.7.4 BSF phase two includes one school to be predominantly rebuilt under the private finance initiative in Inner West Leeds and major refurbishment and rebuilding schemes for Pudsey Priesthorpe and Crawshaw High Schools and Farnely Park High School. Phase three involves the refurbishment and rebuilding of Corpus Christi RC High School, Intake Arts High School, Parklands Girl's High School and Mount St. Mary's RC High School.
- 3.7.5 The programme also includes £36.7m for the phase one schemes. This involves the high schools of Allerton, Allerton Grange, Pudsey Grangefield and Rodillian which are being funded via £140m of PFI credits. In addition, schemes at Temple Moor and Cockburn High Schools are funded from £29.2m capital grant and £7.55m of council funding to cover elements of expenditure not covered by DfES funding.
- 3.7.6 Other secondary schools works being progressed include £4.6m for work scheduled at Otley Prince Henry's Grammar School which includes investment in the science accommodation and other facilities at the school, and £1.3m for the provision of sports pitches at Woodkirk High School.
- 3.7.7 The council has also agreed with the DfES that it will receive a £4.1m advance in 2007/08 on its future years Modernisation grant funding. The DfES will adjust for this advance payment during the three subsequent years.

4 Implications For Council Policy And Governance

4.4 Risk Assessment

- 4.4.1 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;

4.2 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 Legal And Resource Implications

5.1 Capital Expenditure and Resources 2006/07

The latest expenditure and resources for 2006/07 are £378.1m and £370.7m respectively. As reported to Executive Board in November 2006, there has been some slippage in general land and disposals assumed to fund the 2006/07 programme. Additional temporary unsupported borrowing will, if required, be utilised to bridge any remaining funding gap after slippage of all appropriate schemes.

5.2 Capital Resources 2007/08

In December 2006, announcements were made by government departments of support for local authority capital expenditure. For 2007/08 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:

| | | |
|-------|-------------------------------|--------------|
| 5.2.1 | 2007/08 Support for Borrowing | <u>£000s</u> |
| | Housing - HRA | 7,616 |
| | Housing - General Fund | - |
| | Highways & Transportation | 10,672 |
| | Education | 8,828 |
| | Social Services | 748 |
| | ALMO Decency | 100,000 |
| | Total Supported Borrowing | 127,864 |

£2.448m of Education funding previously advised as supported borrowing has been subsequently amended to capital grant.

5.3 Government Grants

5.3.1 In addition to the resources above, the government also provides grants for particular schemes and programmes. For 2007/08 grants of £136.3m are included which includes grants such as the schools devolved formula capital, transport supplementary grant and major repairs allowance.

5.4 Other Grants or Contributions

- 5.4.1 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 2007/08 contributions of £25.7m 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. A maximum of £2.5m per annum from 2008/09 of these private sector contributions to schemes are to be used to support the council's revenue budget.

5.5 Capital Receipts

- 5.5.1 The generation of capital receipts to support the capital programme has become a significant element of the total resources available. For 2007/08, the following forecasts of usable capital receipts have been made:

| | |
|------------------------------------|-------------|
| | <u>£m</u> |
| Land, property and other disposals | 62.3 |
| Sale of Council Houses | <u>9.0</u> |
| Total Forecast Receipts | 71.3 |

- 5.5.2 The above forecast is based on the latest capital receipt 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.
- 5.5.3 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.
- 5.5.4 For 2007/08 the capital receipts forecast is increased by the council's portion of the projected sale receipt for Leeds Bradford International Airport. When this specific receipt is excluded the future years receipts forecasts continue to decline.

5.6 Prudential Indicators

- 5.6.1 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 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 2007/08 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.
- 5.6.2 Any unsupported borrowing carried out must be affordable within the revenue budget (i.e. the cost of debt repayments). For 2007/08, all schemes funded through unsupported borrowing have been provided for in the revenue budget, approval for which is dealt with elsewhere on this agenda.

5.7 Capital Expenditure 2007/08

General Fund Services

- 5.7.1 There are insufficient resources available to fund the general fund expenditure plans in 2007/08. Expenditure is programmed at £263.3m whilst resources are forecast of £237.8m. In order for the level of overprogramming, £25.5m to be maintained at a manageable level given the uncertainties with the capital receipts forecast, all uncommitted Leeds funded schemes have been reviewed and the start date slipped one year. The only exceptions are schemes required to ensure compliance with health and safety and other time limited statutory requirements. In order to manage the overprogramming position all Leeds funded schemes are subject to individual review at the point at which the client department seeks spending approval for the main works. The position will be monitored throughout the year and managed in line with capital receipts actually achieved in order to ensure the schemes can be funded.
- 5.7.2 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), letting / hiring out of space eg. public halls, sports halls and pitches, industrial units and the provision of pre-school nursery care.
- 5.7.3 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 2007/08, however the position will continue to be monitored throughout the year.

Housing Revenue Account

- 5.7.4 For 2007/08, forecast expenditure of £160.8m and resources of £160.6m are shown in appendix B. The six existing ALMOs have submitted their updated business cost models to the DCLG and following approval of the amalgamation proposals the three ALMO structure will be effective from 1st April 2007. The DCLG have also confirmed £100m of supported borrowing for 2007/08 to further address decency.
- 5.7.5 The Capital Programme book is presented in the existing six ALMO form as the existing organisations continue as operational bodies until 31 March 2007.
- 5.7.6 The Directors of Corporate Services and Neighbourhoods and Housing will be presenting a report to a future meeting of the Executive Board confirming the respective ALMO capital programmes as restructured with effect from 1st April 2007.

6. Conclusions

- 6.1 Over the five year period approval for which is currently being sought from 2006/07 to 2010/11 the council is seeking to deliver a total of £1,366.5m investment in assets in the city. Current expenditure plans exceed the resources available to deliver these plans. Over the five year period, overprogramming in the capital programme is £47.2m which for the size of the programme is considered manageable with careful monitoring and control. However, the council will continue to seek to maximize the external funding sources and to deliver capital receipts to ensure the programme can be delivered.

- 6.2 Also, a number of measures are taken to ensure that the programme remains affordable. The Director of Corporate Services will continue to work departmental directors to ensure that capital schemes are properly developed. A business case process is operated to demonstrate investment is aligned to corporate objectives, meets to needs of the public and will deliver best value. As schemes are developed its business case gains support and approval in stages (strategic mandate, outline business case and final business case). Each stage is designed to ensure strong governance and financial control on schemes so that the council can gain assurance that they will be delivered on time and on budget.
- 6.3 In managing the overall funding for the programme the particular emphasis is being placed on ensuring that contractual commitments are only made when there is reasonable certainty that the appropriate resources are available. The Director of Corporate Services will co-ordinate scheme reviews and the approval of schemes to ensure that they are brought forward in a timely way and are affordable. He will continue to regularly review the overall funding position and bring quarterly reports on the capital programme to Executive Board.

7. Recommendations

- 7.1 Members are asked to:
- a) agree that the Director of Corporate Services will manage, monitor and control scheme progress and commitments to ensure that the programme is affordable; and
 - b) recommend to full Council that the attached capital programme be approved.

Appendices:

- A** General Fund programme statement, 2006/07 to 2010/11
- B** Housing Revenue Account programme statement, 2006/07 to 2010/11
- C** Allocations of Government Support
- D** General Fund schemes over £100k injected since the February 2006 Capital Programme
- E** General Fund schemes over £100k deleted since the February 2006 Capital Programme