

**Report of the Director of Resources**

**Report to Executive Board**

**Date: 7<sup>th</sup> November 2012**

**Subject: Capital Programme Update 2012-2015**

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| Are specific electoral Wards affected?<br>If relevant, name(s) of Ward(s):   | <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No |
| Are there implications for equality and diversity and cohesion and integration?  | <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No |
| Is the decision eligible for Call-In?  | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No            |
| Does the report contain confidential or exempt information?<br>If relevant, Access to Information Procedure Rule number:<br>Appendix number: | <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No |

**Summary of main issues**

1. This report sets out the latest capital programme position for both the general fund and HRA. The Council continues to seek to deliver a large and ambitious capital programme across the city which will provide improved facilities and infrastructure and which supports the Leeds economy.
2. The report shows that overprogramming on the general fund has increased since July 2012 whilst the HRA will deliver a balanced programme within the resources available.
3. The report sets out progress so far in 2012/13 on some major schemes and spending programmes and seeks a specific approval in respect of the Fulfilling Lives Investment Programme.
4. The report concludes that general fund overprogramming in the current year and over the three year period is higher than usual tolerances. Careful monitoring of the overall resources position and phasing of schemes will be required to ensure the programme is affordable. The HRA shows a balanced programme over the next 3 years which will be delivered within the resources available.

**Recommendations**

5. Note the latest position on the general fund and Housing Revenue Account capital programmes;
6. Note the transfer of schemes from the Amber to the Green programmes as set out in section 3.3;

7. Approve the use of £765k of Department of Health grant, already in the capital programme, to support the Fulfilling Lives programme, of which £185k will be injected to the capital programme when confirmed in December 2012.
8. To approve the injection to the capital programme of £3.5m of S106 contributions to support the NGT scheme.
9. To approve the allocation of £350k from the capital contingency scheme to provide for demolition and asbestos removal works on void properties.
10. To note that funds allocated to Lower Albion Street upgrade are no longer required and to give approval to a scheme being developed for the upgrade of Commercial Street.
11. To approve the allocation of £50k from the Economic Initiative scheme which together with a £50k private sector contribution will provide for a £100k refurbishment of Bond Court.

## **1 Purpose of this report**

- 1.1 The purpose of the report is to provide Members with an update of the financial position for 2012/13 as at September 2012. The report includes an update of capital resources; a summary of schemes which have been upgraded from 'Amber' status to 'Green' status since July and provides a summary of progress made on some major schemes within the programme. The report also includes a specific approval in relation to the Fulfilling Lives Investment Programme.

## **2 Background information**

- 2.1 The Capital Programme approved by Council in February 2012, projected expenditure of £872.5m from 2011/12 to 2014/15. Overprogramming over that period of £62.4m was assumed which whilst higher than in previous years, was considered to be manageable. In addition, the programme also included a reserved programme of £41.8m
- 2.2 At quarter 1, the overprogramming in 2012/13 had increased to £51.2m with the forecast shortfall over 3 years standing at £67.2m.

## **3 General Fund Capital Programme**

### **3.1 Resources Position**

- 3.1.1 The latest capital programme resources position in Table 1 below.
- 3.1.2 Since the approval of the Capital Programme in February 2012, the position on 2011/12 capital expenditure has been finalised and the revised phasing and resources position have been reflected in the programme. The latest resources position reflects annual programmes of expenditure through to 2014/15 which includes Disabled Facilities grants, general capitalisation and annual repair and refurbishment programmes. No provision has yet been made for these spending programmes beyond 2014/15 and consideration will need to be given to the level of provision made for these during the capital programme review in February 2013. Since 2004, the programme has provided some £80m, funded by the Council, for highway maintenance. This budget is scheduled to be fully spent by the end of 2013/14 and will also need to be reviewed as part of the February 2103 capital programme.
- 3.1.3 Overprogramming in 2012/13 has reduced to £31.8m following a review of phasing for both committed and uncommitted schemes and by applying government grants received in 2012/13 which won't be required until 2013/14. However, it should be noted that Leeds resources required to meet capital commitments in 2012/13 currently exceed the resources available by £15m and this position will increase through to the year end. To fund this, additional borrowing will need to be undertaken and whilst the cost of additional borrowing in 2012/13 will be minimal, there will be an impact on the debt budget in 2013/14. To ensure that borrowing costs are minimised, control will continue to be exercised in relation to capital expenditure commitments for 2012/13 to ensure that only essential commitments are entered into.

**Table 1 – Capital Resources Position**

|                              | 2012/13     |             |             |
|------------------------------|-------------|-------------|-------------|
|                              | February    | July        | Latest      |
|                              | 2012<br>£m  | 2012<br>£m  | £m          |
| Forecast Expenditure         | 246.0       | 269.3       | 240.0       |
| <b>Funded By:</b>            |             |             |             |
| Government Grants            | 80.7        | 78.5        | 76.4        |
| Other grants & contributions | 7.2         | 10.7        | 10.6        |
| Borrowing                    | 111.8       | 128.7       | 120.0       |
| Capital Receipts             | 0.2         | 0.0         | 0           |
| Revenue / reserves           | 0.2         | 0.2         | 1.2         |
| Total Forecast Resources     | 200.1       | 218.1       | 208.2       |
| <b>Overprogramming</b>       | <b>45.9</b> | <b>51.2</b> | <b>31.8</b> |

- 3.1.4 Since the February Capital Programme was approved, the capital receipts forecast has been updated. At February, £15.2m was included as funding from future capital receipts in years 2012/13 to 2014/15. Some sites have now been moved back in the forecast to later years and receipts now supporting the programme have reduced to £7.7m
- 3.1.5 The General Fund programme continues to be a large and ambitious capital programme and as well as providing investment in improved facilities and infrastructure, the capital programme has an impact on the Leeds economy through supporting jobs and income and business generated throughout the city. In the period through to 2014/15 the capital programme forecasts expenditure of £489.6m with forecast resources of £413.8m leaving overprogramming of £75.8m. This compares to a figure of £67.2m at quarter one and the increase is due to a reduced level of capital receipts available to fund the capital programme as stated above and the inclusion in the capital programme of schemes initiated under s278 agreements where the s278 grant is used to support the revenue budget.
- 3.1.6 Overprogramming in the current year is £31.8m and in the following two years are £46.6m with a credit position of £2.6m in 2014/15. The 3 year overprogramming of

£75.8m significantly exceeds usual tolerances. Prior to the capital programme update in February 2013, priorities will need to be reconsidered along with the level of borrowing that will be required to fund the programme. The current forecast position is set out in **Appendix A**.

## 3.2 **Progress on Major Schemes**

3.2.1 The capital programme approved in February 2012 categorises capital schemes under five investment headings; Improving our assets, investing in major infrastructure, supporting service provision, investing in new technology and supporting the Leeds economy. In addition, a further category, Central and Operational Expenditure is included which covers corporately controlled provisions and schemes such as capital contingency and capital expenditure from revenue.

3.2.2 Major scheme progress within these investment categories is outlined below:

## 3.3 **Improving our Assets**

3.3.1 **Road Structures** – Essential maintenance work to three key structures on the Inner Ring Road is progressing to programme. Works to New York Road Viaduct were substantially completed in September 2012, with Lovell Park Road Bridge works currently on site with anticipated completion in March 2013, in time for the opening of the Arena. There are further works planned to Woodhouse Tunnel over the next two years with a further report due to be considered by Executive Board early in 2013.

3.3.2 **Changing the Workplace** – Work has continued on the Changing the Workplace programme with 5 further projects in delivery for 2012/13. A full business case was also approved at Executive Board in July for substantial investment in the reconfiguration of city centre office accommodation within the city centre together with the critical investment in people and required technology to roll out new ways of working across 3500 staff in phase 1.

## 3.4 **Investment in Major Infrastructure**

3.4.1 **Flood Alleviation** – Work continues to develop plans and secure funding for the Flood Alleviation Scheme to protect Leeds City Centre against a 1 in 75 year flood between Leeds Railway Station and Knostrup Cut. Funding bids to a variety of organisations, including European Regional Development Fund, Central Government's Regional Growth Fund and the Environment Agency's Flood Defence Grant in Aid are due to be considered during autumn and the early part of 2013 at which time a further report to Executive Board will be presented.

3.4.2 The first stage of Phase One of delivering the scheme is the moveable weirs which, due to the potential affordability and speed of delivery, have now been prioritised for construction during the years 2013/14. The weir element of the scheme is to be submitted for planning permission this month with full planning permission anticipated by January 2013.

3.4.3 **New Generation Transport** – As reported to Executive Board in October, the NGT scheme was granted programme entry status by the Department for Transport in

July 2012 and resources allocated. Work is ongoing to refine and update the NGT costs over the next few months and further details will be presented to Executive Board in due course including proposals on dealing with any project shortfall. The latest phasing of the local contribution is reflected in the programme.

- 3.4.4 S106 contributions of £3.5m are assumed as part of the local contribution to the scheme but are not yet included within the capital programme. It is recommended that these contributions are now injected into the capital programme as part of the local contribution to the scheme.
- 3.4.5 **A65 Quality Bus Initiative** - Works on the A65 were completed in early September in line with the agreed programme and within the Full Approval budget. The Quality Bus Scheme was officially opened by Norman Baker MP, Parliamentary Under Secretary of State for Transport on 12 September.
- 3.5 **Supporting Service Provision**
  - 3.5.1 **BSF**– Building Schools for the Future Phases 3 & 5: The BSF projects at both Farnley Park and Corpus Christie are complete. Works continue on site to deliver a part new build, part refurbishment at Mount St Mary's (handover due March 2013) and a new build at Leeds East Academy (handover due February 2013).
  - 3.5.2 **Primary Capital Programme** – Construction works to deliver new build/extensions and refurbishment at six primary schools throughout the city have been completed with further phases of demolition and landscaping due to be completed by May 2013.
  - 3.5.3 **Basic Need Provision** – The authority's basic need programme is intended to meet the statutory duty to ensure sufficient school places are provided for in response to the growing pre-school population. Works continue on site to provide an additional 2 forms of entry through the construction of new primary provision at Roundhay School for January 2013. Early design works have commenced for potential schemes which will provide an additional 3.5 forms of entry for September 2013 and a further 6 forms of entry for September 2014. These include 2 new schools to be built, one in Harehills and one in South Leeds. No statutory proposals have yet been brought forward for Secondary school places as they have been able to manage through existing capacity.
  - 3.5.4 **Children's Social Care Management System** – the procurement stage has been completed and a preferred supplier selected for the replacement case management system (ESCR). The planning of implementation has commenced with the supplier and project team and data preparation and migration work is progressing to plan. Significant work has been carried out with operational leads to map and rationalise processes and forms ready for system build to start in New Year.
  - 3.5.5 **Technology Components for Adult Social Care** –In July, Executive Board approved the preferred option for replacement of the existing case management system which is to enter into a partnership with Calderdale MDC to purchase a share in, and implement, their Adult Social Care Case Management System and also to implement the Council's Electronic Document Records Management System and Business Intelligence/Enhanced Reporting Tools.

3.5.6 Plans are now being made to scope the exact 'Day 1' implementation of the system, work which will be completed by the end of November. Finalisation of the contractual and partnership details, including the arrangements for implementation and development of the system will take place during October.

3.5.7 **PFI Schemes** – In addition to the mainline capital programme schemes, investment through PFI schemes is also taking place. This includes construction of the Well Being Centre at Holt Park, with a capital cost of around £17m the facility is due to become fully operational in September 2013. A further investment of around £144m is planned on the Little London, Beeston Hill and Holbeck PFI scheme which is due to reach financial close in late 2012. This will see the refurbishment of Council homes, the building of new homes and environmental improvements to the estates.

### 3.6 Investing in new Technology

3.6.1 **Web and Internet Replacement** - The new council website was successfully launched to the public on time in July. The new design, navigation and information has been well received and the new content management system has provided a much better way for us to manage pages, news and events for the public. We have an evolving 'Where I live' section which allows site visitors to find their nearest services such as local councillors, Sport centres and libraries. Development work on the intranet is complete with content being published ready for an end of November launch. The new intranet is the result of extensive consultation with staff. It will be much more transactional than the site it replaces and provides a vastly improved search facility. It seeks to provide staff with the essential tools we all need to carry out our jobs and improve the ways we communicate and interact with each other.

### 3.7 Supporting the Leeds Economy

3.7.1 **Leeds Arena** – The Leeds Arena construction contract remains on programme and on budget. Her Royal Majesty the Queen performed a 'topping out' ceremony in July to celebrate the building becoming wind and water tight. The main construction is due to be complete at the end of March; at this stage the building will be passed over to operator SMG-Europe, who will fit it out ready for hosting events. SMG has appointed and unveiled its management team and has announced that the Leeds Arena will open for major events with an opening season in September 2013, following a series of test events.

In relation to car parking facilities, work continues on programme and on budget. The majority of the external repairs are now complete and internally only works to levels 7 to 10 remain. Most of the works to the new southern access tower have been completed. Contractual completion for the refurbishment and improvements to Woodhouse Lane is January 2013.

3.7.2 **Aire Valley Enterprise Zone Logic Leeds Spine Road** - Following the establishment of the Enterprise Zone in Aire Valley Leeds, work is underway to plan the delivery of the spine road to the Logic Leeds site which the council agreed to support.

**3.7.3 Economic Impact Analysis** – Members will recall that the capital programme update report in July 2012 included details of the Economic Impact Assessment of the Council’s capital programme investment on the Leeds economy. This assessment made use of a Regional Econometric Model (REM) which can estimate wider economic impacts of the capital programme through multiplier effects. It showed that between 2011 and 2015:

- § 2,916 jobs are attributable to Leeds City Council capital expenditure
- § the REM estimates that the total jobs will generate over £110m for the Leeds economy over the same period – equivalent to around 1% of Leeds total GVA.
- § similar analysis for Leeds City Region suggests that the capital expenditure will create an additional 1,300 jobs through multiplier effects in the Leeds City Region.
- § In total therefore, it is estimated that Leeds City Council capital expenditure over the next 5 years will support almost 4,500 jobs in the economy and generate £172m GVA in the Leeds City Region

**3.7.4** When the updated capital programme is prepared in February 2013, an updated economic impact assessment will be prepared for inclusion within the capital programme report.

### **3.8 Approvals on Schemes with Amber Status**

**3.8.1** During the second quarter, one scheme graded as ‘Amber’ was promoted to ‘Green’. This was in relation to a remaining sum of £200k available on the original Town and District Regeneration Scheme. Following approval by Executive Board in July 2012 to provide a further £500k for the Town and District Regeneration programme, this remaining £200k has now been included with the new £500k to provide a total sum of £700k.

#### **3.9.1 Scheme Specific Issues**

**3.9.1 Fulfilling Lives Programme** – The plan for the transformation of day services for adults with learning disabilities was approved in the summer and autumn of 2011. So far the programme has seen investment of £1.16m in the creation of 13 new community bases as well as investment into existing community centres and leisure centres. The programme so far has been delivered with a saving of £60k on the original budget.

**3.9.2** There is a further community base to be delivered at Rothwell and a programme of works still to roll out within the East North East area and Holt Park. Following a full feasibility study and options appraisal in relation to Rothwell it is now clear that the preferred solution cannot be met from within the current provision for this element of the scheme. In order to provide sufficient resources to complete the programme across the city, it is proposed to transfer Department of Health capital grant of £765k into the Fulfilling Lives programme and to use the savings already achieved



on the existing programme. An element of this grant (£185k) will not be confirmed by Government until December 2012. If the grant funding is not confirmed, this sum will be met by borrowing funded from estimated revenue savings of £20,000 from running a new, as opposed to a refurbished building. A further report is being prepared for Executive Board in December which will provide full details of the preferred solution in respect of Rothwell.

- 3.9.3 **Demolition and Asbestos Removal** - There is a significant cost to the Council of holding void properties, some of which could be alleviated through a more proactive approach to demolition. To enable more demolition work to progress this financial year, it is proposed to allocate £350k from the capital contingency scheme. Provision for demolition and asbestos removal will need to be considered further when the capital programme is updated in February 2013.
- 3.9.4 **City Centre Upgrade** - the capital programme in February 2012 made provision of £626k, from the Economic Initiatives scheme, towards the completion of the pedestrianisation works surrounding the Trinity development in the City Centre. These works are being undertaken by the private sector developer and so this sum will be returned to the Economic Initiatives scheme. The next priority area in the city centre in need of upgrade is Commercial Street and it is proposed that a scheme be developed to be brought forward to a future Executive Board for approval.
- 3.9.5 **Bond Court** – Bond Court in the city centre was last refurbished in 1995 and is now in need of refurbishment. Adjacent landowners have brought forward a scheme which they wish to progress and propose making a contribution of £50k towards the total estimated cost of £100k. The refurbishment of the square could encourage additional private sector investment both in the square and the surrounding buildings. It is proposed to allocate £50k from the Economic Initiatives scheme to provide the Council's funding for this proposal.

### 3.10 **Housing Revenue Account Programme**

- 3.10.1 The approved February 2012 Capital Programme reported an overall HRA/ALMO programme of £193m for the 3 years 2012/13 through to 2014/15. The HRA/ALMOs will deliver a balanced programme within the available resources. The latest forecast position for expenditure and resources is shown at **Appendix B**.
- 3.10.2 The 2012/13 HRA/ALMOs capital programme is the first year to use the self financing regime. Members will recall that a detailed ALMO investment plan for 2012/13 was included within the July 2012 capital programme update report and this is still on track. The ALMOs capital programme for 2012/13 is currently forecast at £56.7m.
- 3.10.3 Executive Board in July 2012 approved a contribution to support the Little London Beeston and Holbeck PFI project and this is to be met from HRA resources, from 2013/14 onwards, which are not yet allocated to specific schemes. Adjustments required to the capital programme to reflect this will be included within the February 2013 capital programme along with the capital expenditure requirements arising from the refreshed HRA Business Plan.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

4.1 Consultation on the Council's budget proposals, including the capital programme, took place prior to the finalisation and approval of the budget in February 2012. This report gives an update on progress with the approved capital programme. This report also seeks to allocate funding to specific proposals for which the necessary consultations will take place when the individual schemes are implemented by services.

### **4.2 Equality and Diversity / Cohesion and Integration**

4.2.1 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.

4.2.2 In terms of the content of this report, an Equality Screening document has been prepared and is attached at **Appendix C**.

### **4.3 Council policies and City Priorities**

4.3.1 Capital objectives were set out as part of the February 2012 budget process and the capital programme approved in February 2012 is structured to show schemes under these objectives. A review is currently taking place of approval processes for capital developments and this work will also include prioritisation methodology.

### **4.4 Resources and value for money**

4.4.1 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.

4.4.2 The overprogramming through to 2014/15 stands at £75.8m which is £8.6m higher than reported in July 2012.

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

4.4.4 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.

#### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 The recommendations in this are available for call in. There are no other legal implications arising from this report.

#### **4.6 Risk Management**

4.6.1 One of the main risks in managing the capital programme is that insufficient resources are available to fund the programme. Monthly monitoring procedures are in place for expenditure, resources and capital receipts to ensure that this risk can be managed effectively.

4.6.2 In addition, the following measure are in place:

- 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.

4.6.3 In the February 2012 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 budget challenges ahead 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.

### **5 Conclusions**

5.1 The Council continues to seek to deliver a large and ambitious capital programme across the city which will deliver improved facilities and infrastructure and also support the Leeds economy.

5.2 In order to manage the general fund overprogramming of £31.8m in 2012/13 there will need to be a re-phasing of existing schemes to later years. The overprogramming over the life of the programme at £75.8m is higher than normal tolerances and will require a review of capital priorities and available resources before the capital programme is updated in February 2013.

- 5.3 For HRA, ALMO forecast expenditure can be contained within available resources in 2012/13.
- 5.4 Specific approvals are requested in relation to resources required to complete the Fulfilling Lives programme of investment.

## **6 Recommendations**

Executive Board is requested to:

- 6.1 Note the latest position on the general fund and Housing Revenue Account capital programmes;
- 6.2 Note the transfer of schemes from the Amber to the Green programmes as set out in section 3.3;
- 6.3 Approve the use of £765k of Department of Health grant in 2012/13 and 2013/14 to support the Fulfilling Lives programme of which £185k will be injected to the capital programme when confirmed in December 2012.
- 6.4 To approve the injection to the capital programme of £3.5m of S106 contributions to support the NGT scheme.
- 6.5 To approve the allocation of £350k from the capital contingency scheme to provide for demolition and asbestos removal works on void properties.
- 6.6 To note that funds allocated to Lower Albion Street upgrade are no longer required and to give approval to a scheme being developed for the upgrade of Commercial Street.
- 6.7 To approve the allocation of £50k from the Economic Initiative scheme which together with a £50k private sector contribution will provide for a £100k refurbishment of Bond Court.

## **Appendices**

A – General Fund Capital Programme Funding Statement

B – HRA Capital Programme Funding Statement

C – Equality Screening

## **7 Background documents<sup>1</sup>**

None

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.