Leeds CITY COUNCIL

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Report of the Chief Officer Financial Services

Report to Executive Board

Date: 13th February 2019

Agenda Item 14 (b)

Subject: Capital Programme Update 2019-2022

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for Call-In? Except 6.1 (a to c)	☒ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ No

Summary of main issues

1. This report sets out the updated capital programme for 2019-2022 and includes an updated forecast of resources available over that period together with the current 2018/19 position. The Council continues to deliver significant capital investment across the city which will provide improved facilities and infrastructure and supports the Leeds economy, whilst ensuring the impact on debt costs within the revenue budget is managed.

2. In the period from 2018-2022, the council is seeking to deliver capital investment of £1,699.7m, of which £1,201.9m relates to the General Fund and £497.8m in the Housing Revenue Account (HRA). The Council will be injecting an additional £264.7m of its own funding over the four year period bringing the total investment to £805.4m, including 2018/19, to deliver the Council's priorities and objectives. The council's borrowing includes £647.3m of capital expenditure that is funded by additional income, generates revenue savings or ensures that our assets are maintained to an acceptable standard. The remaining £158.1m supports the Best Council Plan objectives. The council is also reducing its borrowing by making debt repayments of £139.8m over the period.

3. Whilst the capital programme remains affordable in 2019/20, ongoing reviews will need to consider the continued affordability of debt costs in future years in the context of: planned expenditure and the Best Council Plan priorities; projections on interest rates; and the strength of the Council's balance sheet to fund capital spend. Scheme phasing will continue to be monitored to ensure that it is accurate and realistic.

4. There are a number of significant capital pressures and £464.2m is being injected as part of this programme, these are detailed in **Appendix A(iii)**. These pressures have been contained within the existing funding envelope in 2019/20, with their future cost being an additional pressure upon the council's medium term financial strategy. There remains, however, a number of future pressures that will be addressed as business cases for capital investment are brought forward.

5. An update to the 2018/19 position shows projected spend of £352.9m. **Appendix A** outlines the objective analysis of this spend for the period 2018-2022, along with the capital resources required to finance this.

6. The HRA programme remains affordable over the next 3 years.

7. The report also includes a Capital and Investment strategy for approval reflecting changes made as a result of the update CIPFA codes and MHCLG guidance.

8. The Council's Minimum Revenue Provision (MRP) for 2018/19 and 2019/20 are included at 3.5 and set out in detail at **Appendix D(i)** and **D(ii)**.

Recommendations

9. Executive Board is asked to recommend to Council:

   a) the capital programme for 2019-2022 totalling £1,699.7m, including the revised projected position for 2018/19, as presented in **Appendix G**;

   b) the MRP policy statements for 2018/19 and 2019/20 as set out in **Appendix D(i)** and **D(ii);** and

   c) The new Capital and Investment Strategy as set out in **Appendix E**.

10. Executive Board are asked to approve:

    a) that the list of land and property sites shown in **Appendix B** will be disposed of to generate capital receipts for use in accordance with the MRP policy

    b) the following injections into the capital programme:

       - £194.0m, of annual programmes as set out in **Appendix A(iii)** funded by £90.5m LCC borrowing, £77.5m of HRA specific resources and £26.0m of general fund specific resources;

       - £90.9m, of Council Housing Growth Programme Phase 2 as set out in **Appendix A(iii)** funded by £67.8m of HRA borrowing supported by revenue, £23.1m of HRA specific resources;

       - £51.7m, of bid pressures as set out in **Appendix A(iii) and listed at Appendix A(iv)** funded by LCC borrowing; and

       - £127.6m, of other priority pressures as set out in **Appendix A(iii)** funded by £54.8m of LCC borrowing and £72.8m of general fund specific resources.

       The above decision to inject funding within this report of £464.2m will be implemented by the Chief Officer Financial Services.

1. Purpose of this report

1.1. This report sets out the updated capital programme for 2019-2022 and includes details of forecast resources for that period. It also includes an update of the 2018/19 programme.

1.2. In accordance with the Council's Budget and Policy Framework, decisions as to the Council's capital programme are reserved to Council. In addition, statutory guidance requires that policies on Minimum Revenue Provision (see 3.5) are approved by Council. As such, the recommendations at 6.1 (a-c) are not subject to call in.

2. Background information

2.1. In preparing the capital programme update, ongoing reviews of the phasing of expenditure on existing capital schemes has been undertaken together with an updated projection of capital resources. Where appropriate, scheme estimates have been revised.

2.2. This update of the capital programme has been prepared in the context of the overall resources available to the Council. The Government's spending review combined with the Autumn Statement, the provisional local government settlement in December and final in January set out the revenue funding local authorities can expect over the coming years and this capital programme is therefore constrained by these funding reductions and in line with the Medium Term Financial Strategy.

2.3. The capital programme outlined at **Appendix A,** is split between General Fund and HRA with **Appendix A(i), A(ii) and A(iii)** providing the details across the annual and major programmes and injections since the quarter 2 report. Appendix **F** provides a full list of schemes by objective analysis.

3. Capital Programme Update

3.1. Capital Programme Update 2018/19

3.1.1. The latest projected expenditure for 2018/19 is £352.9m and it is forecast that resources will be available to fund this level of expenditure both within the General Fund and HRA programmes. **Table 1** shows the latest position against previous updates to Executive Board.

Table 1 - Capital Resources Position

	February 2018 Capital Programme £m	Qtr 2 Nov 18 EB report £m	This report £m	Variance this report to Qtr 2 Nov 2018 £m
Forecast Expenditure	406.2	355.3	352.9	(2.4)
Funded By				
Government Grants	136.1	105.2	112.7	7.5
Other Grants and Contributions	17.6	21.1	11.6	(9.5)
Borrowing	166.9	153.1	142.5	(10.6)
HRA Self Financing	71.8	63.8	71.2	7.4
HRA Right to buy Receipts	13.8	12.1	14.9	2.8
Total Forecast Resources	**406.2**	**355.3**	**352.9**	**(2.4)**

3.1.2. A review of all capital schemes within the programme takes place on a monthly basis, with two quarterly reviews reported to Executive Board in July and November. These reviews ensure that where schemes are funded from borrowing, they are still an essential priority for the Council in supporting the delivery of the Council Plan. Table 1 shows that since the February 2018 capital programme, borrowing decreased by £13.8m between February 18 and Q2 and a further £10.6m between Q2 and this report, a net £24.4m which mainly relates to re-phasing on a number of LCC funded schemes. Further individual major scheme updates are provided in **Appendix C(i)**.

3.1.3. Members are asked to note that there are other capital related reports elsewhere on the agenda. These include reports on – Learning Places Expansion of Moor Allerton Hall PS, Fleet Improvement Plan, Proposed New Gym at Middleton Leisure Centre, Full Fibre Network Programme, Leeds Public Transport Investment Programme – Bradford to Leeds A647 Bus Priority Corridor, Heads of Term for Joint Venture Arrangements between London and Continental Railways (LCR) and LCC, Phase 2 Leeds (River Aire) Flood Alleviation Scheme, Local Flood Risk Management Strategy, Leeds City Region Enterprise Zone Update and Infrastructure Delivery and Leeds Living: Housing Infrastructure Fund Bid. Reports with capital funding implications are included within this capital programme update.

3.2. Capital Programme Resources 2018/19 onwards

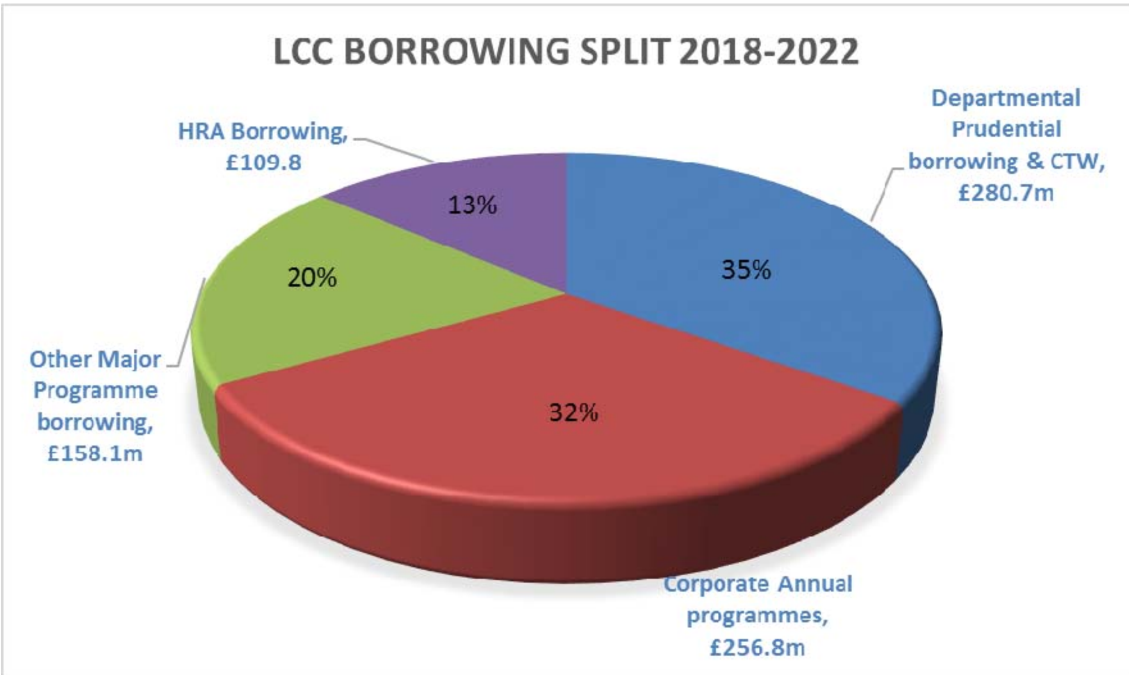
3.2.1. **General Fund** - The Council's revenue funding envelope over the medium term places constraints on the level of debt that Council can afford. As such only those schemes supported by a robust business case and that meet the Council's priorities will progress. However, the strategy allows for an additional increase in debt where the additional debt cost is met from schemes that generate greater savings, or avoid revenue costs, or provide income streams. The council will continue to explore and take advantage of investment opportunities as they arise and these will also be subject to robust business case review and Executive Board approval in line with financial procedure rules. Table 2 below shows the Council's level of annual programmes, corporate borrowing and borrowing supported by income streams and or cost savings.

3.2.2. The programme results in a borrowing requirement of £805.4m over the four year period, including 2018/19, to deliver the Council's priorities and objectives. The council's borrowing includes £647.3m of capital expenditure that is funded by additional income, generates revenue savings or ensures that our assets are maintained to an acceptable standard. The remaining £158.1m supports the Best Council Plan objectives. The council will reduce its borrowing by making debt repayments of £139.8m.

Table 2 - Capital Programme Net Borrowing Requirement 2018/19 -2021/22

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Corporate Borrowing					
Annual Programmes in Year	60.0	73.7	65.7	57.5	256.8
Corporate Borrowing Gen Fund	16.4	19.7	55.8	66.2	158.1
Corporate Borrowing HRA	0.6	24.3	32.7	52.2	109.8
Total Corporate Borrowing	**77.0**	**117.7**	**154.1**	**175.9**	**524.7**
Borrowing supported by revenue	65.6	103.7	69.5	41.9	280.7
Total LCC Borrowing	**142.6**	**221.4**	**223.6**	**217.8**	**805.4**
Repayment of Debt (MRP)	17.4	14.8	47.4	60.2	139.8
Net Borrowing requirement	**125.2**	**206.5**	**176.2**	**157.6**	**665.6**

3.2.3. Overall the level of borrowing required to fund the full 2018-22 capital programme is £805.4m. Of this, £647.3m or 80% relates to capital expenditure that is funded by additional income or generates revenue savings or ensures that our assets are maintained to an acceptable standard. The remaining £158.1m or 20% supports the Best Council Plan objectives. The split of LCC borrowing for the full programme is shown in the pie chart below.



3.2.4. Resources of £1,699.7m are required to fund the City Council's capital programme from 2018/19 to 2021/22. These are summarised in **Appendix A**, divided into General Fund resources and HRA resources. **Appendix A(i) and (ii)** provides the details across the annual and major programmes. **Table 3** below shows the overall resources position including 2018/19;

Table 3: Total Capital Resources 2018/19 - 2021/22

		2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Specific Resources	General Fund	120.9	170.6	167.1	47.7	506.3
Specific Resources	HRA	89.5	98.2	98.0	102.3	388.0
* **Corporate Borrowing Resources**		142.5	221.4	223.6	217.9	805.4
Total Resources		352.9	490.2	488.7	367.9	1699.7

* Includes £109.8m of borrowing for the HRA programme. £97.8m for Council House Growth Programme and £12m for Housing Leeds.

3.2.5. **Specific Resources General Fund £506.3m** – This includes funding which has been secured for specific schemes in the form of government grants such as Learning Places (Basic Need), Capital Maintenance in Schools, Section 31 transport grant, Leeds Public Transport Programme, East Leeds Orbital Road, Flood Alleviation, Local Transport Plan, Other government departments and other contributions from external bodies including the Heritage Lottery Fund and private developers which is then passported to the relevant directorate programmes.

3.2.6. **Specific Resources HRA £388.0m -** In accordance with the HRA budget, HRA capital expenditure has been set assuming a 1% rent reduction for 2019/20. Despite a general reduction of 1%, the HRA capital programme has been prioritised to deliver investment of £328.6m for the Council House refurbishment programme and £59.4m for the Council Housing Growth Programme.

3.2.7. **Corporate Resources £805.4m, Gen Fund £695.6m & HRA £109.8m -** These represent resources which the Council has more freedom to allocate to its own policy priorities. The main sources are borrowing and capital receipts. Capital receipts are allocated firstly to fund the liabilities to be written down for the year in relation to PFI schemes and finance leases then the Council's statutory requirement to repay debt (MRP). In financing the overall capital programme, the Chief Finance Officer will use the optimum mix of funding sources available to achieve the best financial position for the Council.

3.2.8. In terms of forecast capital receipts, a list of land and property sites for disposal during the period is included in **Appendix B**.

3.3. Capital Expenditure 2018/19 onwards

3.3.1. A summary of the forecast capital programme by capital objective is set out below and the updated capital programme by individual scheme within these objectives is attached at **Appendix F.**

Table 4 - Capital Resources 2018/19 - 2021/22

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Improving Our Assets	197.8	246.7	235.3	238.6	918.4
Investing In Major Infrastructure	53.0	123.5	140.2	66.7	383.4
Supporting Service Provision	51.8	48.1	64.5	13.7	178.1
Investing in New Technology	10.1	15.3	12.0	10.9	48.3
Supporting the Leeds Economy	18.3	23.6	9.8	6.3	58.0
Central and Operational Expenditure	22.0	32.9	26.9	31.7	113.5
Total Resources	352.9	490.2	488.7	367.8	1,699.7

3.3.2. As can be seen from table 4 above, investment of £352.9m is taking place during 2018/19 with further investment of £1,346.8m planned from 2019/20 to 2021/22 onwards.

3.3.3. **Appendix A(iii)** details the injections that this report seeks which have taken place between the Quarter 2 update report and this report. This report seeks to inject £464.2m of which £194.0m relates to annual programmes and £270.2m of other priority pressures.

3.3.4. Annual programme injections of £194.0m include £77.5m HRA funding for the Housing Leeds and BITMO refurbishment programmes, £75.2m for General Fund programmes maintaining our existing assets, £20m for vehicle replacement, £13.1m of Local Transport Plan grant, £6.7m School Condition grant and £1.5m of devolved formula capital grant.

3.3.5. The other injections totalling £270.2m relate to priority pressures including £90.9m for Council Housing Growth phase 2, £61.9m Flood Alleviation measures, £51.7m of Capital Pressure bids listed at **Appendix A(iv)**, £36.3m to address PFI Lifecycle Capitalisations, £10.9m for a Strategic Investment Acquisition and £18.5m for various other priority injections listed in **Appendix A(iii)**.

3.3.6. The overall investment will deliver a number of council priorities and objectives. **Appendix C** lists the major schemes contained within each objective and **Appendix C(i)** provides a narrative update on the major schemes appearing in 2019-2022.

3.3.7. The Council recovers VAT on expenditure (capital and revenue) relating to the council's statutory functions and on activities which are charged for at the standard rate of VAT. VAT incurred on expenditure relating to activities which are charged for and which are exempt from VAT is only recoverable if the amount of such VAT does not exceed 5% of the council's total VAT on expenditure in any one year. Examples of exempt activities are sport, culture, land & property transactions, and crematoria. To ensure that the current programme stays within the 5% limit for 2019/20, some schemes only include feasibility works. The programme references £54m of spend that has the potential to affect the partial VAT calculation to some degree. These schemes are identified in **Appendix A(i), (ii), (iii)** and **(iv)** and will only be allowed to progress once the full impact of the VAT implication has been assessed. If the Council's VAT on expenditure relating to its exempt activities exceeds the 5% limit, all VAT on expenditure attributable to exempt activities is irrecoverable. This would create an additional cost to the Council of at least £7m. In addition, the Council would also have to bring into account a proportion of any VAT incurred in the prior 10 years which was attributable to exempt activities and recovered in full at the time.

3.3.8. CIPFA has issued a revised prudential code that has been adopted and a new capital and investment strategy is included at Appendix E. The other changes as a result of the revised CIPFA code and Guidance and additional MHCLG guidance are reflected in the Treasury Management Report elsewhere on the agenda.

3.4. **Economic Impact Analysis**

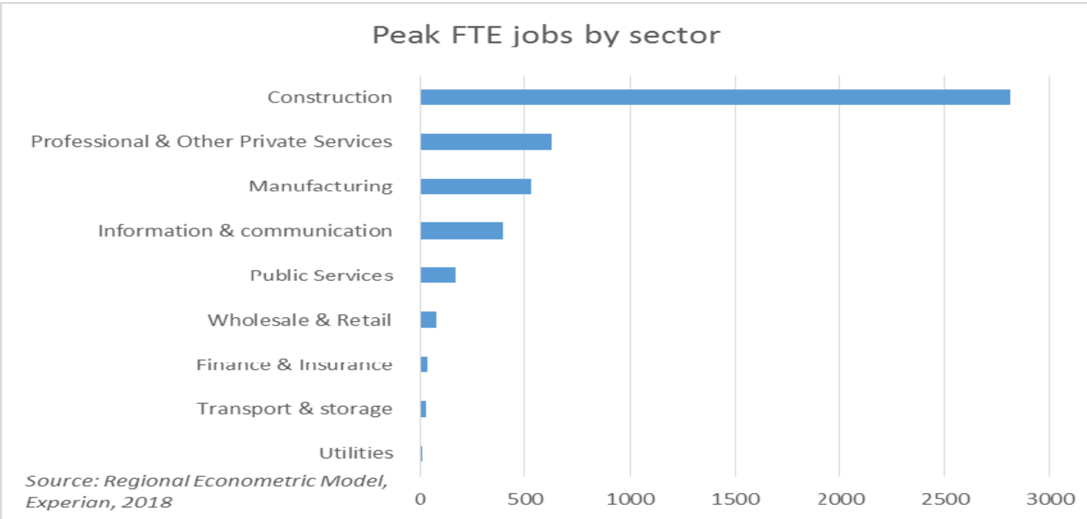
3.4.1 An assessment of the economic impact of the Council's capital programme investment has been undertaken which makes use of the Capital Expenditure (CAPEX) to model construction employment generated through Capital Expenditure and the Regional Econometric Model (REM) which can estimate the wider economic impact of the capital programme through multiplier effects. The key points below estimate the economic impact for Leeds and the Leeds City Region from 2019-2022:

- An estimated peak of 4,700 net additional FTE job roles in Leeds will be created over the four years through Leeds City Council capital expenditure generating over £1.189bn Gross Value Added (GVA) for the Leeds economy.

- In addition a further net additional 390 jobs and £74m GVA will be created in the wider Leeds City Region by our capital expenditure

- In total, it is therefore estimated that Leeds City Council capital expenditure between 2019-2022 will create a peak of 5,090 FTE jobs and generate £1.236bn GVA in the Leeds City Region.

3.4.2 The industry employment sector breakdown is set out below



3.4.3 In addition to the use of the Regional Econometric Model (REM) to determine the effect on the economy, further analysis is ongoing to assess the impact employment and skills obligations within Council contracts have on jobs and apprenticeships.

3.4.1. In deciding on the application of capital funding it is proposed that:

- Capital receipts are allocated firstly to the liabilities to be funded for the year in relation to PFI schemes. This will remove the need for MRP charges equal to the value of the capital receipts applied.

- For any remaining capital receipts, the Responsible Financial Officer (the Section 151 Officer) will determine annually the most appropriate use of these receipts, taking into account forecasts for future expenditure and the generation of further receipts.

- Any other general capital income will be allocated to those capital schemes which relate to the shortest lived assets.

3.4.2. The proposed MRP amendments to the Council's Minimum Revenue Provision (MRP) for 2018/19 and 2019/20 are included at 3.5 below and set out in detail at **Appendix D(i)** and **D(ii)** .

3.5. Capital Strategy - MRP

3.5.1. The MRP is an annual revenue charge for the repayment of borrowing and other capital financing liabilities. Local authorities are required by statute to determine each financial year what they consider to be a prudent amount of MRP, and are required by statutory guidance to approve an annual statement setting out their MRP policy. The policy should be approved by full council, and any subsequent revisions which are proposed to the approved policy should also be approved by full council.

3.5.2. In determining the level of a prudent MRP, local authorities are required to 'have regard' to statutory guidance issued by the government. This means that local authorities should not take a substantially different course from that set out in the guidance, but may deviate from its detailed requirements where they determine there is good reason to do so. The statutory guidance sets out that the broad aims of a prudent MRP policy should be to ensure that borrowing is repaid either over the life of the asset which the capital expenditure related to or, for supported borrowing, the period assumed in the grant determination. The guidance identifies four options for calculating MRP which would result in a prudent provision, but states that other approaches are not ruled out. Local authorities therefore have a level of freedom in determining their MRP policies, provided that they are in line with the broad aims set out in the statutory guidance.

3.5.3. It is proposed to make a minor change to its MRP policy for 2019/20, to cover the MRP approach for capitalised lifecycle costs of PFI schemes, and to make the same change to its 2018/19 policy. This change is needed as PFI lifecycle costs had been funded by an element of PFI grant rather than by borrowing in earlier years. The same broad approach of charging MRP via an annuity based asset life calculation will be applied. However as there is limited information to determine specific asset lives for lifecycle costs for the majority of PFI schemes, it is proposed to use an average asset life of 10 years.

3.5.4. Changes were made to the 2017/18 MRP policy, to recalculate the MRP on the tranche of debt which originated in 2007/08 and earlier on the basis of an annuity asset life calculation applied from 2008/09. This will mean that this element of debt will be repaid seven years earlier than previously planned, but also meant that more MRP had been set aside between 2008/19 and 2016/17 than the minimum required. Under the 2017/18 MRP policy, this overprovision is being applied firstly over a three year period in a way which limits the impact of any timing variations in the availability of capital receipts and reduces the MRP charge to revenue to £1.0m.

3.5.5. It is proposed that the Council's 2019/20 MRP policy should be :

- If capital receipts have been used to repay borrowing or to fund PFI liabilities for the year then the value of the MRP which would otherwise have been set aside will be reduced by the amounts which have instead been repaid from capital receipts.

- MRP for borrowing on capital expenditure incurred between 2007/08 and 2018/19 will be calculated on an annuity basis over the expected useful life of the assets (option 3 in the statutory guidance). For expenditure capitalised under statute where there is no identifiable asset, the lifetimes used for calculating the MRP will be as recommended in the statutory guidance.

- For earlier borrowing, MRP will be calculated on an asset life annuity basis. As data is not available to identify the individual assets which this borrowing related to, an average asset life relating to more recent borrowing will be used. It is considered that this is prudent as prior to 2008/09, the Council's capital spend, being largely determined by Government approval, was more dominated by spend on long term assets, whilst since 2008/09, greater flexibility has allowed borrowing to support investment in assets with a shorter life. The annuity calculation will be based on the position which would have been reached if this approach had been in place since 2008/09.

- For all outstanding borrowing (both pre and post 2007/08), the MRP charged to revenue will be adjusted by offsetting an element of the cumulative overprovision on pre 2007/08 borrowing, until this overprovision has been fully utilised. For 2018/19, the calculated MRP will be reduced by the allocation of approximately £22.4m of the overprovision on pre 2007/08 borrowing.

- For PFI liabilities, an MRP charge will be calculated on the basis of the expected life of the asset which has been acquired, using the same annuity basis as is used for borrowing.

- For PFI lifecycle costs, an MRP charge will be calculated on a 10 year asset life annuity basis, unless a more specific asset life is given in the contractor's financial model.

- For finance lease liabilities, an MRP charge will be made to match the value of any liabilities written down during the year.

3.6. Prudential Indicators

3.6.1. Under the current self-regulatory financial framework, CIPFA's prudential code for capital finance[1], 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 2019/20 to 2021/22 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 Appendix A of the Treasury Management Strategy Report elsewhere on the February agenda**.**

3.6.2. Any unsupported borrowing carried out must be affordable within the revenue budget (i.e. the cost of interest and debt repayments). For 2019/20, the debt cost of all schemes funded through borrowing have been provided for in the revenue budget, approval for which is contained within the revenue budget report elsewhere on this agenda.

[1] CIPFA – The Prudential Code for Capital Finance in Local Authorities (amended 2017)

4. Corporate Considerations

4.1. Consultation and Engagement

4.1.1. The Council's initial budget proposals, including capital programme, were set out in a report to Executive Board in December 2018.

4.1.2. The report was also used for wider consultation with the public through the Leeds City Council web-site, the results of this consultation are contained in the revenue budget report which is elsewhere on the agenda.

4.1.3. Members are asked to note that the Council is reviewing both revenue and capital financial decision making thresholds to meet legislative requirements, support the democratic mandate, provide appropriate check and challenge around the use of public money and secure openness and engagement with Members and the public whilst remaining agile and responsive. The outcome of this review will brought back to Members for approval.

4.2. Equality, Diversity, Cohesion and Integration Screening

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 F.**

4.3. Council Policies and Best Council Plan

4.3.1. Capital objectives were set out and agreed in the initial budget proposals report considered by Executive Board in December 2013. The capital programme attached to this report is structured to show schemes under these objectives.

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 Chief Finance Officer must be satisfied that spend in each year of the programme can be afforded. For 2019/20 the forecast of borrowing costs resulting from capital expenditure are budgeted for within the revenue budget. In the year following capital expenditure, as well as budgeting for interest costs, the revenue budget must make provision for the minimum revenue provision on borrowings which is accounted for over the life of the asset.

4.4.2. Forecasts for the debt budget beyond 2019/20 are dependent upon the interest rate assumptions, the likely level of capital spend and the Councils cash balances. The debt budget is currently forecast to increase by £2.1m in 2019/20. The interest rate assumptions and the borrowing requirement arising from the capital programme will be kept under review throughout 2019/20, before establishing the 2020/21 debt budget. The affordability of the capital programme is considered in more detail in the Treasury Management Strategy 2019/20 report elsewhere on the agenda. Beyond 2019/20 capital pressures of £168m have been identified but not yet injected into the programme and will be considered as business cases and firmer costs against priorities and affordability through the year.

4.4.3. In order to ensure that schemes meet Council priorities and are value for money, the Chief Finance Officer will continue 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; and

- the use of prudential borrowing by directorates is based on individual business cases and that revenue resources to meet the borrowing costs are identified.

4.5. Legal Implications, Access to Information and Call In

4.5.1. In accordance with the Council's Budget and Policy Framework, decisions as to the Council's capital programme are reserved to Council. In addition, statutory guidance requires that policies on Minimum Revenue Provision (see 3.5 and **Appendix D(i)** and **D(ii)**) are approved by Council. As such, the recommendations at 6.1 (a to c) are not subject to call in.

4.5.2. In accordance with the Budget and Policy Framework Rules, the Executive Board is required to make proposals to Council regarding the degree of in year changes which may be undertaken by the Executive. There are no proposed changes to these rules.

4.6. Risk Management

4.6.1. 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 City 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;
- The capital programme includes a central contingency of £10m to cater for any unforeseen circumstances; £1m of this is allocated for specific emergencies. In addition individual programmes and schemes contain a risk provision for unexpected circumstances;
- Compliance with Financial Procedure rules, Financial Regulations and Contract Procedure Rules to ensure the Council's position is protected.

4.6.2. The Chief Finance Officer will continue to work with service directors to ensure that capital schemes are properly developed and that a rigorous business case process is operated to demonstrate investment is aligned to capital objectives, meets the needs of the public and will deliver best value.

4.6.3. 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.

4.6.4. The Council recognises a number of pressures and development schemes that bring economic and wider benefits that have implications for the level of debt. The Council will look to manage these pressures and limit the impact on debt costs by ensuring where possible that new schemes are fully funded (either by external resources or departmental prudential borrowing), or are essential (under health and safety grounds or in order to ensure Council assets are maintained for continued service provision). A revised approach to ensuring that new capital schemes are prioritise and injected at two points in the year has been implemented. This strategy does however allow for spend to save schemes or those of an immediate health and safety nature to be injected throughout the year.

4.6.5. The Chief Finance Officer shall co-ordinate scheme reviews and the approval of schemes to ensure that they are brought forward in a timely way and can be afforded. Update reports on the overall capital programme will continue to be reported to Executive Board 3 times each year.

5. Conclusions

5.1. Over the four year period to 2021/22 the Council is seeking to deliver a total of £1,699.7m capital investment within the city.

5.2. This is funded through £894.3m specific or external funding and £805.4m of corporate resources.

5.3. Resources have been reprioritised and directed to pressures that have arisen and a number of schemes have been injected as set out in Appendix A(iii) and further detailed at Appendix A(iv). These pressures have been contained within the existing funding envelope for 2019/20. There remain, however, a number of pressures in 2019/20 and beyond that will be addressed as the business cases for capital investment are developed.

5.4. Forecasts for the general fund debt budget beyond 2019/20 are dependent upon the interest rate assumptions, the likely level of capital spend and the Councils cash balances. These will be kept under review throughout 2019/20, before establishing the 2020/21 debt budget. Funding is available to meet the level of HRA investment.

5.5. The Chief Finance Officer will continue to ensure adequate resources are available to meet the planned level of investment through continued and regular review of profiling, priorities and resources within the programme.

6. Recommendations

6.1. Executive Board is asked to recommend to Council:

a) the capital programme for 2019-2022 totalling £1,699.7m including the revised projected position for 2018/19, as presented in **Appendix G**;

b) the MRP policy statements for 2018/19 and 2019/20 as set out in **Appendix D(i)** and **D(ii);** and

c) The new Capital and Investment Strategy as set out in **Appendix E**.

6.2. Executive Board are asked to approve:

a) that the list of land and property sites shown in **Appendix B** will be disposed of to generate capital receipts for use in accordance with the MRP policy

b) the following injections into the capital programme:

- £194.0m, of annual programmes as set out in **Appendix A(iii)** funded by £90.5m LCC borrowing, £77.5m of HRA specific resources and £26.0m of general fund specific resources ;

- £90.9m, of Council Housing Growth Programme Phase 2 as set out in **Appendix A(iii)** funded by £67.8m of HRA borrowing supported by revenue, £23.1m of HRA specific resources ;

- £51.7m, of bid pressures as set out in **Appendix A(iii) and listed at Appendix A(iv)** funded by LCC borrowing.

- £127.6m, of other priority pressures as set out in **Appendix A(iii)** funded by £54.8m of LCC borrowing and £72.8m of general fund specific resources.

  The above decision to inject funding within this report of £464.2m will be implemented by the Chief Officer (Financial Services).

Appendices
A – Capital Programme Statement 2018/19-2021/22
A(i) & A(ii) – Annual Programmes & Major Programmes & other schemes
A(iii) & A(iv) – Net Injections since Q2 and Capital Bid Pressures
B – Capital Receipts - Sites scheduled for disposal 2018/19 to 2022/on
C –Annual & Major Schemes by Objective 2019/20 – 2021/2022 (Pie Chart)
C(i) –Annual & Major schemes within each objective 2019/20–2021/2022 (narrative)
D(i) & D(ii) – Statement of Policy on the Minimum Revenue Provision 18/19 & 19/20
E – Capital and Investment Strategy
F – Equality, Diversity, Cohesion and Integration Screening Document
G – Capital Programme – Scheme Details (Organised by Expenditure Objective)

7. Background documents[2] - None

[2] 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.

Capital Programme Statement 2018/19 to 2021/22 **Appendix A**

	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	Total £000s
EXPENDITURE					
GENERAL FUND (GF)					
IMPROVING OUR ASSETS	107,699	125,182	106,614	87,119	426,614
INVESTING IN MAJOR INFRASTRUCTURE	52,999	123,513	140,229	66,705	383,445
SUPPORTING SERVICE PROVISION	51,809	47,144	62,456	10,666	172,075
INVESTING IN NEW TECHNOLOGY	10,055	15,328	12,035	10,902	48,320
SUPPORTING THE LEEDS ECONOMY	18,303	23,596	9,834	6,272	58,005.3
CENTRAL & OPERATIONAL EXPENDITURE	21,999	32,936	26,869	31,687	113,491
TOTAL ESTIMATED SPEND ON GF	**262,865**	**367,700**	**358,036**	**213,350**	**1,201,950**
HOUSING REVENUE ACCOUNT (HRA)					
IMPROVING OUR ASSETS - COUNCIL HOUSING	90,066	122,511	130,710	154,495	497,782
TOTAL ESTIMATED SPEND ON HRA	**90,066**	**122,511**	**130,710**	**154,495**	**497,782**
TOTAL ESTIMATED SPEND	**352,931**	**490,210**	**488,746**	**367,845**	**1,699,732**
RESOURCES					

GENERAL FUND (GF) **Specific Resources**	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	Total £000s
GOVERNMENT GRANTS	112,224	156,442	164,141	43,817	476,623
OTHER GRANTS/CONTRIBUTIONS	8,684	14,162	2,954	3,893	29,693
Corporate Resources					
BORROWING - Corporate	105,475	145,967	151,272	146,606	549,319
BORROWING - Departmental	36,483	51,129	39,669	19,035	146,316
CAP. RESOURCES REQD FOR GF	**262,865**	**367,700**	**358,036**	**213,350**	**1,201,950**
HOUSING REVENUE ACCOUNT (HRA)					
Specific Resources					
HRA SELF FINANCING	71,211	67,551	74,468	76,028	289,257
R.T.B. CAPITAL RECEIPTS	14,884	22,346	18,108	23,227	78,565
GOVERNMENT GRANTS	436	0	5,308	3,000	8,744
OTHER GRANTS/CONTRIBUTIONS	2,203	8,294	178	35	10,710
RCCO / RESERVES	750	0	0	0	750
BORROWING - Departmental	583	24,319	32,648	52,205	109,756
CAP. RESOURCES REQD FOR HRA	**90,066**	**122,511**	**130,710**	**154,495**	**497,782**
TOTAL CAP. RESOURCES REQD	**352,931**	**490,210**	**488,746**	**367,845**	**1,699,732**

BORROWING REQUIRED TO FUND THIS PROGRAMME	**142,541**	**221,415**	**223,589**	**217,846**	**805,391**
Average Interest rate (subject to change)	**0.50%**	**0.85%**	**1.00%**	**1.25%**	

Appendix A(i) - Annual Programmes

VAT	Best Council Plan Objectives for the Capital Programme	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
	Improving Our Assets					
	Highways Maintenance	9,420	14,457	13,000	13,000	49,877
	Highways Maintenance Capitalisations	4,600	4,600	4,600	4,600	18,400
	Highways Bridges and Structures	2,300	2,300	2,300	2,300	9,200
	Schools Capital expenditure	3,500	3,500	3,500	3,500	14,000
*	Heritage Assets	2,330	3,000	2,000	2,000	9,330
*	Corporate Property Maintenance	6,978	5,000	5,000	0	16,978
	C&F Priority Maintenance Injection	0	1,000	2,000	3,000	6,000
*	Demolition	1,651	1,000	1,000	1,000	4,651
*	Fire Risk Assessments - Remedial Works	1,873	1,400	0	0	3,273
	General Refurbishment Schools	505	1,021	1,000	1,000	3,526
	Library Books	700	700	700	700	2,800
*	Sports Maintenance	895	600	500	500	2,495
*	Sports Maintenance Note 1	500	0	0	0	500
	Traffic Management Programme	128	211	200	200	739
	Civic Hall Backlog Maintenance	499	250	0	0	749
	Additional Grant and External Income Support Note	6,136	105	0	0	6,241
	Improving our Assets adjustments	0	0	0	50	50
		42,015	39,144	35,800	31,850	148,809
	Supporting Service Provision					
	Adaptations - DFG LCC Funding	2,869	2,869	2,869	2,869	11,476
	Adaptations - Grant & External Note 1	6,163	4,649	4,649	4,649	20,110
	Telecare (ASC)	506	400	0	0	906
	Telecare (ASC) Injection		200	600	600	1,400
	Adaptation to Private Homes	400	400	400	0	1,200
	Adaptation to Private Homes Injection	0	70	70	470	610
	Childrens Centres	0	50	50	50	150
	Supporting Service provision adjustments	0.0	0	0	*149*	149
		9,937	8,638	8,638	8,787	36,000
	Investing In New Technology					
	Essential Services Programme	6,178	4,203	4,100	*36*	14,517
	Essential Services Programme Injection	0	2,060	1,040	*4,210*	7,310
	Digital Developments inc Aplications refresh	1,900	4,000	4,000	*0*	9,900
	Digital Developments injection	0	1,000	1,000	*5,000*	7,000
		8,078	11,263	10,140	9,246	38,727
	Supporting The Leeds Economy					
	Project Support Fund - Groundwork	70	70	70	*70*	280
		70	70	70	70	280
	Central & Operational Expenditure					
	General Capitalisation	3,500	4,500	3,512	*2,500*	14,012
	General Capitalisation Injection	0	0	988	*2,000*	2,988
	Vehicle Programme	8,183	6,557	2,542	1,222	18,505
	Vehicle Programme Injection	0	7,137	7,537	5,302	19,976
	Capital Programme Management	600	600	600	600.0	2,400
	Capitalisation Interest	404	500	500	147	1,552
	Capitalisation Interest Injection				*448*	448.3
		12,688	19,294	15,679	12,220	59,881
	Total Annual Programmes	**72,788**	**78,409**	**70,327**	**62,172**	**283,697**
	Total Annual Programme Injections this report	**0**	**16,517**	**20,585**	**58,068**	**95,170**

Note 1 - These lines are made up of additional grant funding £26,850.0k.

Appendix A(ii) - Major Programmes & Other Directroate Schemes

VAT		2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
	Improving our assets - Council Housing					
	HRA Housing Leeds Refurbishment & BITMO	81,790	81,735	81,735	95,373	**340,633**
	HRA Council Housing Growth Phase 1 and 2	8,276	40,776	48,975	59,122	**157,149**
	Improving our assets - General Fund					
	Childrens - Capital Maintenance	6,723.6	9,557.9	17,474.1	16,353.0	**50,109**
	Highways Maintenance & Transport Package Local Transport Plan	8,082.0	8,050.0	8,050.0	8,050.0	**32,232**
	Strategic Investment Fund	19,129.5	10,418.1	2,200.0	0.0	**31,748**
	Streetlighting Replacement	50.0	7,930.0	8,250.0	14,210.0	**30,440**
	Section 278 and Section 106 Highways schemes	2,683.1	3,958.3	3,959.8	3,750.0	**14,351**
	Bridges and Structures	3,953.0	3,767.5	2,900.0	2,700.0	**13,321**
	Changing the Workplace	2,071.6	9,909.1	0.0	0.0	**11,981**
	Highways Network Junction Improvements	2,228.5	7,820.4	720.0	0.0	**10,769**
	Challenge Fund Bids Highways	700.0	2,960.0	6,500.0	0.0	**10,160**
*	Town Hall Refurbishment	0.0	250.0	5,000.0	4,750.0	**10,000**
*	Community Hubs Phase 2&3	2,105.5	4,640.0	2,000.0	0.0	**8,746**
*	Whinmoor Nursery & Parks and Countryside	4,564.6	2,532.5	1,000.0	400.0	**8,497**
	Childrens Devolved Formula Capital	1,529.6	1,505.2	1,505.2	3,010.4	**7,550**
	Assisted Living Leeds	0.0	875.0	4,000.0	725.0	**5,600**
	Vehicle Access Restrictions	1,271.1	1,220.0	1,100.0	0.0	**3,591**
	Conversion of Refuse Collection Vehicles	0.0	1,000.0	1,584.0	0.0	**2,584**
	Adoption of Highways & Beckhils Estate	936.8	1,000.0	500.0	0.0	**2,437**
*	Aireborough Leisure Ctre Ph2	338.0	225.0	1,583.0	0.0	**2,146**
	Other smaller schemes within the objective	9,317	8,420	2,488	1,320	**21,544**
		155,750	208,549	201,524	209,763	**775,587**
	Investing in Major Infrastructure					
	East Leeds Orbital Ringroad Highways works	14,936	28,398	45,095	40,022	**128,451**
	Leeds Transport Public Investment Programme	6,321	44,600	55,883	0	**106,803**
	Flood Alleviation	7,689	22,511	27,751	22,925	**80,876**
	Clean Air Zone	2,046	14,680	11,237	0	**27,963**
	District Heating Network & Energy Efficiency	13,260	6,496	100	358	**20,214**
	Cycle City Ambition	8,243	4,207	0	0	**12,450**
	Leeds Station Masterplan & HS2 Fees	0	600	1,400	1,400	**3,400**
	Leeds Station Joint Venture	0	0	0	2,000	**2,000**
	Other smaller schemes within the objective	504	784	0	0	**1,288**
		52,999	122,276	141,466	66,705	**383,445**
	Supporting Service Provision					
	Childrens - Learning Places (Basic Need)	28,911	23,560	31,852	6	**84,328**
	Childrens - Social Emotional Mental Health (LCC borrowing)	5,186	192	0	0	**5,378**
	Social Care and Health Fund	1,751	4,172	18,189	413	**24,524**
	Private sector Renewal - Equity Loans	2,947	2,386	828	1,033	**7,193**
	Waste Depot	100	3,810	0	0	**3,910**
	Other smaller schemes within the objective	2,976	4,387	2,950	428	**10,741**
		41,872	38,506	53,818	1,880	**136,075**
	Investing in New Technology					
	Digital Information Service - Full Fibre Network	0	1,600	1,000	1,000	**3,600**
	Customer Access Phase 1 & 2	980	810	528	0	**2,318**
	ASC Care Act Implementation	333	995	0	0	**1,328**
	Other smaller schemes within the objective	664	660	367	656	**2,348**
		1,977	4,065	1,895	1,656	**9,593**
	Supporting the Leeds Economy					
	West Yorkshire Playhouse	7,378	6,575	890	0	**14,843**
*	Kirkgate Market Strategy	1,102	3,100	3,565	2,000	**9,767**
	Local Centres Programme and Townscape Heritage Initiative (THI)	585	4,551	2,772	1,574	**9,481**
	City Development Public Realm	2,106	2,509	610	500	**5,726**
	Southbank Regeneration	456	3,825	850	0	**5,131**
	Ward Based Initiative, ACW & CRIS	485	919	877	878	**3,159**
	Temple Works & Housing Infrastructure Fund	550	695	200	0	**1,445**
	Holbeck Group Repair	1,034	325	0	0	**1,360**
	Supporting Growth in Creative Sector	776	1,000	500	500	**2,776**
	Other smaller schemes within the objective	3,762	27	-500	750	**4,038**
		18,233	23,526	9,764	6,202	**57,725**
	Central & Operational Expenditure					
	PFI Lifecycle	7,937	10,316	9,389	8,678	**36,320**
	Contingency General	36	300	300	10,289	**10,926**
	Transformational Change	1,339	1,526	1,000	500	**4,365**
	Electric Vehicle Trial	0	1,500	500	0	**2,000**
		9,312	13,642	11,189	19,467	**53,610**
	Annual Programmes (See Appendix A(i))	**72,788**	**78,409**	**70,327**	**62,172**	**283,697**
	Total Annual & Major Programmes	**352,931**	**488,973**	**489,983**	**367,845**	**1,699,732**

Appendix A (iii) – Net Injections since Q2 Capital Programme Update

VAT	Net Injections since Q2 Capital Programme Update Report	Corporate Borrowing £000	Borrowing Supported by Revenue £000	Specific Resources £000	Total Resources £000
	Annual Programme Injections Note 1	90,521		4,649	95,170
	HRA Council House Growth Phase 2 Programme Injections		67,756	23,103	90,860
	2021/22 HRA Housing Leeds / BITMO Programme Injection Note 1			77,507	77,507
	Leeds Flood Alleviation Scheme Phase 2 Injections			61,883	61,883
	Capital Pressure Bid Injections. See appendix (Aiv)	49,982	1,764		51,746
	PFI Lifecycle Capitalisation	36,320			36,320
	2021/22 LTP Grant Injection Note 1			13,123	13,123
	Strategic Investment Fund Acquistion		10,922		10,922
	2021/22 School Condition Allocation (SCA) Injection Note 1			6,677	6,677
	DFT additional in year Highways Maintnenance Injection			3,857	3,857
	Flexible Use of Capital Receipts / ELI Transformational Change Injection	3,000			3,000
	Future S278 Developer Funding Injection	2,500			2,500
	WYCA Grant re City Connect Injection			2,204	2,204
	Leeds Station Joint Venture Injection	2,000			2,000
	Electric Vehicle Trial			2,000	2,000
	2021/22 Devolved Formula Capital (DFC) Grant Injection Note 1			1,505	1,505
	Additional Disabled Facilities Grant			845	845
*	Fire Insurance Receipt & Grant Roundhay Park Changing Room			800	800
	ERDF Grant Injection re External Wall insulation to Shakespeares MSFs			508	508
	Killingbeck Meadows Flood Mitigation			470	470
	Sovereign Square Greenspace Ph3 Access Rd			256	256
	Net Injections sought as part of this report	**184,323**	**80,441**	**199,388**	**464,151**
	Net Injections with approvals in place	-24,070	20,085	1,239	-2,745
	Total Net Injections since Q2 Report	**160,253**	**100,526**	**200,627**	**461,406**

Note 1 - These lines are the annual programme injections which total £194.0m as referred to in recommendation 10b) & 6.2 (b)

Appendix A (iv) - Capital Bid Pressures

VAT	Capital Pressure Bid Injections	Corporate Borrowing £000	Borrowing Supported by Revenue £000	Specific Resources £000	Total Resources £000
*	Leeds Town Hall Restoration & Refurbishment	10,000.0			10,000.0
*	Markets - Refurbishment of block shops & 1875 roof	5,800.0			5,800.0
	Assisted Living Leeds	5,600.0			5,600.0
	Community Hubs Phase 3 year 2	4,840.0			4,840.0
	Asset Mgmt - HS2/LISM Staff Capitalisation	3,400.0			3,400.0
	General Contingencies	3,000.0			3,000.0
	Benton Park	3,000.0			3,000.0
	Active Leeds - Aireborough Phase II	1,808.0			1,808.0
	Vehicle Mitigation Ph2	1,755.0			1,755.0
	Telecare from analog to digital	1,600.0			1,600.0
*	Closed Church Yards	1,200.0			1,200.0
	Smartphone & Tablet replacement		1,163.6		1,163.6
*	Active Leeds - Middleton new gym	1,146.0			1,146.0
	Supporting Growth in Creative Sector	1,000.0			1,000.0
	Burley Park Childrens Centre	750.0			750.0
	Care Leaver Hub	750.0			750.0
	City Centre Enhancements	750.0			750.0
	CEL Equipment		600.0		600.0
	Transformational Public Realm Strategy	500.0			500.0
	Feasibility New Secondary Schools	500.0			500.0
*	Roundhay Park Changing Room	400.0			400.0
	Road Safety Play Temple Newsam	350.0			350.0
*	Markets - 1981 Hall Container Concept	330.0			330.0
	Seacroft Link Road	245.0			245.0
*	Active Leeds - Self Service reception refurbs	200.0			200.0
	Southbank Animation & Connectivity & Digital Platform	200.0			200.0
	Burmantofts Health Centre Redevelopment	200.0			200.0
	Dementia Intensive Therapy Unit (Feasibility)	150.0			150.0
*	Markets - Units on balcony/studios	100.0			100.0
	Kitchen Facilities Refurb	85.0			85.0
*	Kirkstall Abbey Car Park	80.0			80.0
*	Active Leeds Pudsey reception refurb	63.0			63.0
*	Active Leeds John Charles Complex 4 sites	60.0			60.0
*	Active Leeds Leisure centres CCTV 4 sites	60.0			60.0
	Env Imps Woodlesford Cycle Track & Footpath	60.0			60.0
		49,982.0	**1,763.6**	**0.0**	**51,745.6**

Appendix B

Capital Receipts - Sites Scheduled for Disposal

Capital Receipts - Sites Scheduled for Disposal

Completion 2018/2019

Acre Mount
Acre Terrace 17, Middleton
Ash Tree Primary School, Kippax
Cherry Tree PH, Former, Cherry Row, Lincoln Green
Easel Site 6 , Gipton-Overage Payments
Elland Road (Land for Planet Ice)
Ellar Ghyll 1, Cottage at, Bradford Road, Otley
Hedley Chase, New Wortley, Former Liberal Club site
Hume House, Land adjacent
Hunslet Mill, land at
Kentmere Avenue, Land off, Seacroft, LS14
Low Fold, South Accommodation Road, Leeds LS9
Potternewton Lane 114B
Primrose Hill HOP, Boston Spa
West Leeds Family Centre, Former, Whingate Road, Leeds
Wykebeck Avenue- Mount West, Osmondthorpe DPP, Seacroft DPP
Yew Tree Farm, Colton Road East

Still to complete 2018/19

Bodmin Road, Land at No. 2 & 4. Middleton
Cardigan Road Library
Kippax Kabin, Cross Hills, Kippax
Leonardo/Thoresby/2 Great George Street Disposals
Lisbon Street, 34
Low Whitehouse Row & Glasshouse Street, Lane, Hunslet
Micklefield House Annexe & Caretakers Lodge
Quarry Hill (Plot 6)
Richmond Hill Leisure Centre
Roseville Enterprises Building
Roundhay Road Area Office, (Chaco)
Roundhay Road Area Office, (Unity)
Sissons Drive, Acre Road, Land at, Middleton LS10
Sovereign Street/Plot C, Overage Payment(final Payment)
St Francis Of Assisi Catholic Primary School - Caretakers House

2019/20 Disposals
Ashfield Works, Otley
Asket Hill Primary, Seacroft DPP
Bishop's Way, Seacroft DPP
Bramham House, Bramham, Freely Lane, Phase 1
Brooklands Avenue, Site B, Seacroft , DPP
Buckingham House
Clarence Road, Land at

Grafton Centre, Craven Road
Grange Farm (Land)
Green Road 74, Leeds LS6 4LD
Harehills Park Cottages & Development site.
Hark to Rover PH, former, Spen Lane
Hill Crest 32, land adj, Swillington (self build)
Holdforth Place, Wortley
Holt Park District Centre, ASDA
Kirkland House, Queensway, Yeadon
Kirkstall District Centre K54
Land at Elland Road, Land at (disposal)
Lea Farm Road, Lea Park Road, Kirkstall (Self Build)
Micklefield House , New Rd Side, Rawdon
Micklefield School, Former, Micklefield
Middleton Park Avenue, Middleton
Middleton Park Complex
Miles Hill Primary School & The Beckhill Approach, Phase
Otley Civic Centre
Oulton Golf Course Disposal
Park Court
Park Farm, Colton, Leeds, LS15 9AJ
Rosemont Flats, Bramhope, Breary Lane
Seacroft Hospital
Sovereign Street/Plot B
Stanks Gardens, Land at, Swarcliffe, St Gregorys School
Swarcliffe Avenue
Thornes Farm co-ordination (Surrender & Regrant Gregory
Well Lane, Land at, Yeadon
Wortley High School former, land at Swallow Crescent

2020/21 Disposals
Abbey Mills, Kirkstall Road, LEEDS 4
Armley Grange
Burley road Shops & Car Park
Carr Manor Cottages 1 & 2
Clarence Road, Land at, Second payment
Colton Road East
Eastmoor School (Former)
Kendall Drive, Halton Moor DPP
Park Lees site, St Anthony's Road, Beeston, LS11
Pinfold Childrens Home - disposal
Quarry Hill Car Parking Payment
Rathmell Road, Halton Moor, LS15, DPP
Redhall
Rothwell One Stop Area Office, Marsh Street
Sissons Farm, Middleton

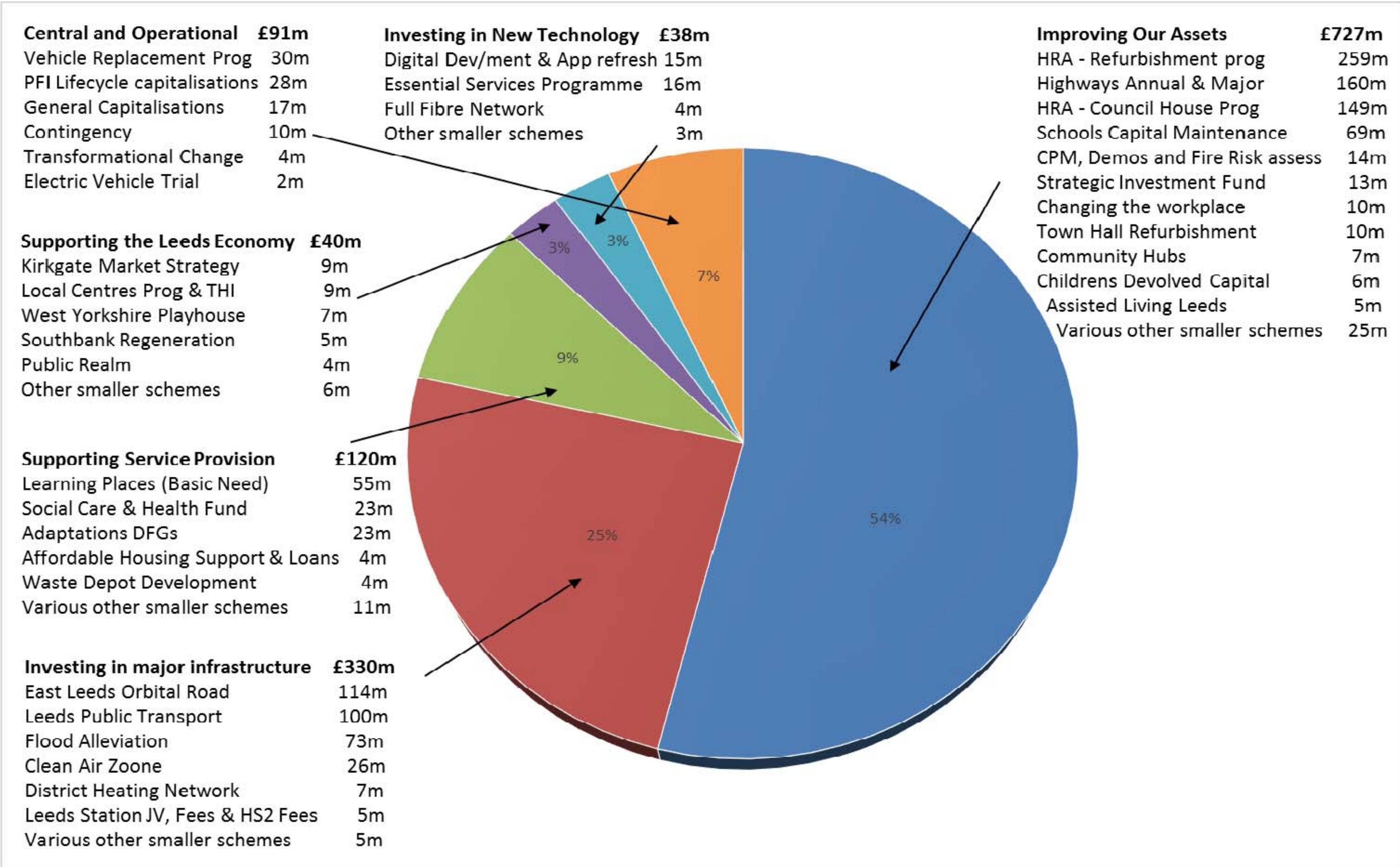
2021 onwards Financial Year

All Saints Road, Rothwell (Self Build)
Arena Development Site
Bath Road (site D)
Bath Road/Derwent Place (Site B)

Bramley Grange Farm
Brooklands Drive, Seacroft DPP
Burley Willows Care Home
Clarence Road Industrial Units
Copperfields College
Easel Site 3
Eastgate & Harewood
Elland Road (Site B Car Park), Leeds
Healey Croft Hostel, Westerton Road, Tingley
Holt Park District centre (residential sites)
Kenneth Street, Land at Holbeck
Leeds Bradford Airport (Site 3)
Leeds International Pool
Main Street, Carlton
Manor Farm Rise, Middleton
Manor Street Industial Estate
Matthew Murray High School
Middle Quadrant East Leeds Extension
Middleton Marauders Clubhouse
Mistress Lane, Armley
Otley LIDO, Farnley Lane
Parkway Close, Seacroft DPP
Peckfield Colliery, Plots 4, 5 and 6
Seacroft Crescent North, Seacroft DPP
Seacroft Crescent South BLP
Southern Quadrant East Leeds Extension
St Ann's Mills
Summerfield Gardens, Rodley (Self Build)
Sweet Street 38/47 Marshall Street
Thornes Farm, Land at, (Mercado)
Throstle Mout, Middleton (Wades)
Western Flatts Park, Cliff Cottage off Fawcett Lane

Appendix C

Major Schemes (over £3m) by Objective Future 3 year programme 2019/20-2021/22



Appendix C(i)

Major schemes contained within each objective 2019/20 - 2021/2022

1. Improving our Assets

Housing Revenue Account (HRA)

Council Housing Growth Programme – On 30th October 2018, the Government abolished the cap on borrowing within the HRA. This means that local authorities are now able to borrow for housebuilding in accordance with the Prudential Code, and can therefore build their future generations of council homes at a scale and pace which would not have previously been possible.

We currently have 87 units in development, including the authority's first modern methods of construction scheme. The programme also secured Executive Board approval for its 2019-22 programme of new build general needs council housing on 21st November 2018 – which will deliver ~358 units over 7 sites by the end of December 2021. The homes will all be built to very high standards in terms of space quality and design and will offered at below mark affordable rents.

As well as this general needs housing the programme will also deliver around 440 extra care homes across the City over the same period. 4 of these are being delivered via partnerships with private developers, 3 will be built, owned and managed by the council.

Beyond this, the programme has committed to delivering a minimum of 300 new council homes a year going forward on an ongoing basis as part of our direct contribution to an overall affordable housing target of 1,230 homes p.a. from 2019. This will be achieved via a combination of both new build and property acquisition, utilising both privately owned and council land where available.

With a capital investment of around ~£50m per annum the programme represents an opportunity to drive regeneration in some of the city's most deprived wards over the coming years, providing employment and skills opportunities and also helping to address derelict / problem sites and potentially supporting the re-configuration of existing /problematic stock holdings.

Council Housing Refurbishment Programme – Housing Leeds and BITMO are projecting to spend £259m over the coming 3 year period 2019-22. This investment will fulfil a number of LCCs key priorities; Fire Safety and compliance making additional funding available to fund further sprinkler installations in our high rise blocks, improving health and affordable warmth, low carbon and energy efficiency including completing District heating network programme, improvements to the environment through reduced carbon emissions and supporting more people to live safely in their own homes.

New capital investment proposals will be prioritised according to the following, with works that contribute to legislative requirements, the health, safety or wellbeing of residents taking precedence over others:

- Top priority – legislative requirements, health, safety and wellbeing (e.g. fire safety, asbestos, DDA, heating and insulation, lifts, aids and adaptations etc.);

- High priority – Maintain the decency standard of our stock, structural works and key building components (e.g. structural, remedials , concrete repairs, roofs, chimneys, pointing, damp proof courses, windows and doors etc.); and

- Medium Priority – Prioritise investment to support the High Rise Strategy, internal works and non-key building components (e.g. kitchens, bathrooms internal communal areas in blocks, environmental and estate improvements (e.g. garages, fencing, paths etc.).

The HRA Investment Plan is reviewed by Executive Board annually, alongside the HRA Business Plan. This will allow scrutiny of newly arising investment needs and proposals at the same time as making decisions around the resources made available to fund it.

General Fund

Highways Annual Maintenance Programme – The Highways annual maintenance programmes over the next 3 years provides for £160m to address backlog maintenance on district roads/streets.

Schools Capital Maintenance and Devolved Formula Capital – These Programmes currently include estimated future grant allocations up to 2021/22 of £6.7m and £1.5m respectively based on 2018/19 funding allocations. The next schools capital funding announcement is expected in March 2019 at the earliest, and funding estimates that are already included in the programme will be updated as necessary.
The Capital Maintenance Programme has been enhanced by the addition of an annual programme funded from Leeds resources to address backlog maintenance across the schools estate (£1m 19/20, £2m 20/21, £3m 21/22). It also includes provision for a £20-25m major rebuild at Benton Park HS. This scheme will provide an additional 55 learning places for September 2021 (see separate report included within this Executive Boards agenda on the outcome of the statutory notice) whilst addressing the significant existing condition issues of the school. Discussions continue with the Education & Skills Funding Agency (ESFA) to seek additional central government funding.

CTW & Workspace Rationalisation programme – New Ways of Working is the programme though which Leeds City Council has delivered asset rationalisation across its city centre estate whilst modernising the way we work, delivering transformational service change and improved service provision. We have reduced our city centre office accommodation from 17 buildings to the 4 we have today.

The programme of workspace rationalisations needs to be defined for the period 2019-2022, all of which will require affected staff to adopt new or different ways of working. Stage 1 moves are being driven forward through Strategic Asset Management and include the Middleton Complex and Micklefield House, both are due to be vacated in 2019.

Stage 2 of the rationalisation programme is still to be determined, and moves will be programmed on a phased basis.

Town Hall Refurbishment - As a significant heritage asset the Leeds Town Hall is in need of essential restoration and upgrading. There are a number of issues that need addressing including wind and weather tight repairs, heating system renewal, access issues, organ repairs and upgrades to ancillary services to ensure that the Town Hall remains a premier event destination. The programme allows for the Council to address some of these issues whilst it undertakes more detailed feasibility works.

Community Hubs – This programme is fully funded by Leeds Resources. Community Hubs have brought together all existing community based one stop centres, libraries and housing management offices to be managed as a single set of front-of-house services, whilst providing integration with other partners including police, health, credit union and the third sector. It has addressed essential backlog maintenance, provided new ICT infrastructure and equipment to enable new ways of working, whilst facilitating asset rationalisation. Phase 3 Year 1 schemes, a £3.03m phase of schemes approved by Executive Board in February 2018, continue to progress. The programme now includes a new injection of £4.84m for Phase 3 Year 2 schemes which will deliver Community Hubs at Crossgates, Beeston, Farsley and Wetherby (and will be the subject of a future report to Executive Board

Assisted Living Leeds & Dementia Intensive Therapy Unit - The Council's plans for the development of the South Bank of the city requires that an alternative location and property be found for the Assisted Living Service currently located in Clarence Road. The move also provides a significant opportunity for the Assisted Living Service to pursue further development of the service including the creation of a Smart House and a Retail offer, supporting a greater number and range of people with equipment to assist with daily living and quality of life.

The City currently has a shortage of dementia care and the demand for dementia services is continuing to increase. The Council has agreed to undertake a feasibility study to evaluate a proposal to develop an intensive therapy based approach to supporting individuals with dementia. The proposal will draw upon learning from elsewhere, including the Community based recovery facilities recently provided for elderly people in partnership with Leeds Community Healthcare under contract with the Clinical Commissioning Group.

2. Investing in Major Infrastructure

East Leeds Orbital Road - East Leeds Orbital Road - The Council has made good progress in bringing forward the package of transport measures that will be essential to support the development of the East Leeds Extension strategic growth area. The 7km road would unlock the potential to build up to 5000 new homes in the East Leeds Extension and support the wider housing and economic growth of East Leeds. The scheme has 2 distinct phases with Phase 1 the improvements to the Outer Ring road junctions having receiving full approval and is now on site with an expected completion date of November 2019. Work continues towards Phase 2, the procurement, build of the main ELOR route and the Outer ring road enhancements and is on target for start date in mid 2019. A business case for part funding of the scheme through the West Yorkshire Transport Fund has received approval from WYCA for the Phase 1 ORR. For Phase 2, a full Business Case is to be submitted and approved by WYCA by the mid 2019, seeking support to move through to the tender stage and procurement. The Council is continuing to assume prudential borrowing to meet the initial gap between the available funding and capital cost of the scheme, to be eventually reimbursed through contributions from house builders as dwellings are completed.

Leeds Public Transport Investment programme – The programme comprises of a package of public transport improvements that, taken together, will deliver a major step change in the quality and effectiveness of our transport network. Headline proposals include:

- A new Leeds High Frequency Bus Network – over 90% of core bus services will run every 10 minutes between 7am and 8pm.
- Additional investment of £71m by First group to provide 284 brand new, Comfortable and environmentally clean buses with free wi-fi and contact-less payments which will achieve close to a 90% reduction in NOx emissions by 2020.
- Development of three new rail stations for key development and economic hubs serving Leeds Bradford Airport, Thorpe Park and White Rose.
  2000 additional park and ride spaces with the first new site opening at Stourton.
- A 1000 more bus stops with real time information.
- Making three more rail stations accessible at Cross Gates, Morley and Horsforth.
- Creating 21st Century interchanges around Vicar Lane, the Headrow and Infirmary Street and improved facilities in our district centres.

Funding from Leeds and the West Yorkshire Combined Authority (WYCA) of £8.8m and £1m respectively will increase the funding to £183.3m. In addition Private Sector finance including expenditure on more environmentally friendly buses by bus operators could bring the total investment to over £270m.

Flood Alleviation – Capital programme funding primarily relates to Phase 2 of the Leeds Flood Alleviation Scheme, which is the subject of a separate report included within this Executive Boards agenda. The scheme will deliver of a 1 in 200 year level of protection and makes use of a range of flood defence measures including natural flood management, conveyance improvements, flood attenuation and linear defences. The scheme would better protect 1,048 residential properties and 370 businesses, unlock housing land for 1,613 new homes and help create an additional 1,669 jobs. The capital programme currently includes £76.9m of funding to progress the scheme but this is insufficient to deliver it in its entirety. Therefore a two-step approach is proposed; the first step will be the delivery of a scheme which provides a 1 in 100 year standard of protection to the area upstream of the train station through the promotion of all the defences identified with the exception of a flood attenuation area at Calverley. Then subject to available funding, the second step will be the attenuation work required to provide a 1 in 200 year standard to all areas of Leeds along the River Aire. Detailed design and build tenders and planning applications are now progressing with an anticipated start on site date of summer 2019.

Clean Air Zone – The council has received confirmation that its air quality proposal for a Clean Air Zone, category B (requiring buses, coaches, HGVs, taxi and private hire vehicles to meet pre-determined emission standards) has been approved by government. It has also secured over £29 million in grant funding to deliver the Clean Air Zone. This funding is split between £6.3 million to deliver the required infrastructure and the balance will be used to provide grants/ loans to the impacted sectors.

District Heating Network – Construction is now well underway on both projects all underground pipes installed, works in communal areas within the blocks 75% complete and both energy centres commencing fit-out. We remain on track for heat on in April 2019.

The project team is now focussing on customer acquisition and is making good progress with 3 additional sizable connections. The project team is also exploring the business case for a phase 2 extension into the city centre, to link into planned LPTIP works on the Headrow, and utilising HNIP grant funding. HNIP has now been launched and the project team aims to submit an application in March, with a report to Executive Board in April. If successful, construction would start summer 2019 and complete by summer 2020.

Leeds Station JV & Fees – The Council seeks to support the redevelopment of Leeds railway station, which is the busiest in the north of England, to meet the projected increase in capacity of 49% by 2023 and 135% by 2043. To do this it is working in partnership with Network Rail, Northern Powerhouse Rail (NPR), HS2, West Yorkshire Combined Authority (WYCA) and London & Continental Railways (LCR). This redevelopment is critical to supporting the Inclusive Strategy call for 21st century infrastructure to support the growth of the city and region. The proposed Joint Venture Arrangements between the Council and LCR would provide the structure to enable regeneration and station redevelopment investment opportunities to be progressed

3. Supporting Service Provision

Learning Places (Basic Need) – Basic Need Grant allocations for 2019/20 and 2020/21 have previously been confirmed at £28.7m and £130k respectively, along with Special Educational Needs and Disability (SEND) Special Provision Fund allocations for 19/20 and 20/21 of £1.45m pa. The next schools capital funding announcement is expected in March 2019 at the earliest, and a funding injection for 2021/22 Basic Need Grant together with any adjustments to previously announced allocations will be updated as necessary.

The funding deficit is currently estimated at £74.8m, with the deficit projected to first arise in 2020/21. This takes into account the injection of £25m of LCC Borrowing and Community Infrastructure Levy funding that was injected as part of the 2018/19 Capital Programme approved by Executive Board in February 2018. Discussions continue with the Education & Skills Funding Agency (ESFA) to seek additional central government funding. This funding gap is the largest significant pressure that the capital programme faces. Strategic Investment Board is being regularly updated on this position and Executive Board will be kept updated via future Learning Places Programme and Capital Programme update reports.

Adaptations – The adaptations programme has funding of £23m across the next 3 years. This supports in the region of 800+ grants for adaptations per year. A further £400k is provided as an annual programme for adaptations to private homes to support more people to remain independently in their own homes.

Affordable Housing & Loan Support – The Council is considering an innovative, collaborative approach between the Council, St George's Crypt and LATCH (Leeds

Action to Create Homes) to seek loan funding of £3.03m from the Council for the provision and development of new supply affordable, supported housing. Housing related support services are integral to the Council's aims to help support vulnerable individuals and families maintain their accommodation and to help those at risk of and threatened by homelessness to access suitable accommodation.

4. Investing in New Technology

Digital Development and Applications refresh - The Applications Portfolio Programme is focussed on ensuring that the council's application estate is compliant with GDPR, PSN and PCI requirements. The programme scope also includes the removal of Access Databases (due to compliance issues) and the development of a long-term plan for the rationalisation, replacement and management of the Council's 500+ systems.

The Application Portfolio Programme in DIS is working across the Council's 500+ applications on the estate. We are working to ensure we are safe, secure and compliant by meeting statutory and regulatory requirements, driving savings and efficiencies by standardising, simplifying and modernising our portfolio of applications.

Full Fibre Network Programme for Leeds - LCC has set out an ambition for all premises across the district both residential and commercial, to be able to access gigabit capable services. The scheme will provide full fibre connectivity to schools, council flats and CCTV point from which fibre providers will expand their networks into localities. It also has the potential to provide Leeds with the largest full scale fibre gigabit network in the UK outside of London and will assist in attracting new business to the area, increasing regional GDP, reducing the City's carbon footprint and helping to address issues of digital and social exclusion. The next stage of the process is to seek approval for a new procurement process for a partner to build and deliver full fibre connectivity to ensure the provision of the greatest amount of coverage, coupled with the opportunity to extend connectivity further with commercial investment.

5. Supporting the Leeds Economy

Kirkgate Markets Strategy - The market is currently building three new units in the popular market kitchen area, two are pre let as part of a current tenants business expansion, the other to support the relocation of a business as part of the George Street development. Plans are being developed for a short stay car park on the rear of the outdoor market to help support market tenants following the loss of a surface level car park to Victoria Gate, this is due to go to planning early 2019. Initial roof surveys will be taking place in 2019 which will involve stripping back two block shop structures to enable a plan of works to be developed moving forward to stop the water ingress into this historic part of the market and to ensure the structures are of sound construction. A concept is being developed to utilise the balcony space storage units and an area that will sit in front of the finished hotel scheme to the lower end of the market. This is looking at the need for incubation space for office/creative businesses within the city that could sit alongside retail.

Local Centres & Townscape Heritage Initiative (THI) Programmes - The £5m Local Centres Programme (LCP) aims to help create viable local centres that are accessible, safe, resilient and fit for the 21st century. On 21 March 2018 Executive

Board approved capital projects to support these aspirations in 12 town and local centres. A total of £1,125,500 was allocated from LCP, with £2,057,000 from other sources, including HRA – albeit prices are subject to refinement during project development. The projects are in development and the first schemes are expected on site in Spring 2019. In addition to the initial 12 centres, officers have been engaging with ward members, local businesses and communities across the city to support and refine emerging project ideas.

West Yorkshire Playhouse - Executive Board at its meeting in July 2017 authorised a Stage 2 grant application to Arts Council England (ACE) for the refurbishment and reconfiguration of the West Yorkshire Playhouse and approved an injection and authority to spend of £13.04m subject to the Stage 2 bid being successful. The Stage 2 Grant Application was submitted to (ACE) on 16 August 2017 and it is anticipated that ACE will make their decision in mid-December 2017. On the assumption that the Council is successful in its application to ACE, the works will commence on site at the end of March 2018.

Southbank Regeneration - LCC are scoping further projects and will look to utilise some of the funding for project feasibility/ some detailed design.

The City Centre Public Realm Strategy – Our Spaces - Engaging and quality public realm is critical to the continued success and robustness of the city centre; creating a welcoming city which has the wow factor. To achieve this there is multi-layered approach, delivering immediately on punchy high visibility pop-up projects whilst working on the longer-term larger schemes. In terms of the larger schemes, feasibility work will commence mid-late 2018 following stakeholder engagement on City Square and the funding for Quarry Hill works have been agreed with an anticipated start on site late 2018, for completion in September 2019. Work to improve the public realm around Merrion House is ongoing and will complete in May 2018.

The summer of 2017 saw a range of temporary/pop-up initiatives such as Cookridge Street pop-up Park, Park Here & Play, Town Hall Forecourt Park. These were well received by the public and consideration is being given to how to develop these schemes and locations in future years. Family Friendliness is high on the agenda, with the Child Friendly Leeds competition drawing hundreds of entries, a new playscape being developed at Queens Square and a range of projects being devised based on the competition winners' suggestions. The parklet initiative supports 'the best city to grow old in' with the placement of seating and rest points in previously 'impractical' locations. Largely these schemes are delivered through the £100k 'Public Realm' and 'Enhancement' pots in the capital programme.

6. Central and Operational

Fleet Replacement and Improvement Plan – The council's fleet replacement and improvement plan places us at the forefront of new technology and shows that as a council we are prepared to show environmental leadership.

The electric vehicle scheme and all the planned electric vehicle infrastructure present an exciting opportunity for the city to establish itself at the forefront of electric vehicle growth, helping local businesses to adopt to the latest technologies whilst supporting further improvements in air quality.

PFI Lifecycle Costs – Prior to 2018/19 the council chose to fund its capital expenditure on lifecycle costs by applying an element of PFI grant to capital to fund them rather than treating them as funded by borrowing. From 2018/19, instead of applying PFI grant to capital, the Council will fund its PFI lifecycle costs by borrowing and will apply appropriate MRP charges, based on useful life of capital spend. In 2019/20 the benefit to the Council will be £8.1m. Full details are explained within the revenue report elsewhere on this agenda.

Appendix D (i)

Revised Statement of Policy on the Minimum Revenue Provision for 2018/19

1. Introduction

1.1. The Council is required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.

1.2. Since 2008/09, the legislation has simply required local authorities to make a prudent level of MRP provision, and the government has issued statutory guidance, which local authorities are should 'have regard to' when setting a prudent level of MRP. The guidance says that the broad aim of a prudent MRP policy should be to ensure that debt is repaid over the life of the asset which the capital expenditure related to (or, for supported borrowing, the period assumed in the original grant determination). Within this overall aim, the guidance gives local authorities considerable freedom to determine what would be a prudent level of MRP.

1.3. The statutory guidance recommends that local authorities draw up a statement of their policy on the MRP, for approval by full council in advance of the year to which it applies.

2. Details of MHCLG Guidance on MRP

2.1. The statutory guidance identifies four options for calculating MRP and recommends the circumstances in which each option should be used, but states that other approaches are not ruled out.

2.2. The first two options are based on the old statutory method of a 4% reducing balance, and the third and fourth options are based on asset lives. For capital schemes acquiring new assets which take more than one year to complete, application of Options 3 and 4 allows councils to delay charging MRP until the year after the new asset becomes operational. Under the statutory guidance, it is recommended that local authorities do not use Options 1 or 2 for prudential borrowing, or for borrowing to fund capitalised expenditure (such as capital grants to other bodies and capital expenditure on IT developments).

2.3. For balance sheet liabilities relating to finance leases and PFI schemes, the guidance recommends that one prudent approach would be for local authorities to make an MRP charge equal to the element of the annual rental which goes to write down the balance sheet liability. This would have the effect that the total impact on the bottom line would be equal to the actual rentals paid for the year. However the guidance also states that Option 3 could be used for this type of debt.

3. Implications for the application of capital receipts

3.1. One of the implications of the more flexible arrangements for MRP is that it is now necessary to identify which individual schemes have been funded by borrowing and which have been funded by non-specific capital income (e.g. capital receipts and grants), rather than treating the balance of the capital funding requirement after specific capital funding has been applied as being met from a general receipts and borrowing pool.

3.2. In the case of capital receipts, statute gives local authorities the option to apply these to fund the payment of any liabilities relating to finance leases and PFI schemes. This is a reflection of the fact that such schemes are being treated in accounting terms as the acquisition of fixed assets, and the liability represents the amount being paid towards the purchase of the asset itself, rather than interest or service charges payable.

3.3. Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years. Applying capital receipts to redeem borrowing would reduce the level of MRP which the council needs to set aside from revenue as a prudent provision.

3.4. The general principle adopted will be to allocate capital receipts firstly to fund the liabilities to be written down for the year in relation to PFI schemes. This will remove the need for MRP charges equal to the value of the capital receipts applied.

3.5. For any remaining capital receipts, the options are for these to be retained in the Usable Capital Receipts Reserve, used to redeem debt, or used to fund capital expenditure on short life assets. The Responsible Financial Officer (the Section 151 Officer) will determine annually the most appropriate use of these receipts, taking into account forecasts for future expenditure and the generation of further receipts.

4. 2018/19 MRP Policy

4.1. In it's 2018/19 MRP policy, the Council is required to decide how MRP will be calculated for borrowing undertaken for the 2017/18 capital programme and earlier years. It is proposed that Leeds adopts the following MRP policies for 2018/19. This proposal contains an addition to the policy originally approved in February 2018 to cover the MRP approach for PFI lifecycle costs which are funded by borrowing :

- If capital receipts have been used to repay borrowing or to fund PFI liabilities for the year then the value of the MRP which would otherwise have been set aside will be reduced by the amounts which have instead been repaid from capital receipts.

- MRP for borrowing on capital expenditure incurred between 2007/08 and 2017/18 will be calculated on an annuity basis over the expected useful life of the assets (option 3 in the statutory guidance). For expenditure capitalised under statute where there is no identifiable asset, the lifetimes used for calculating the MRP will be as recommended in the statutory Guidance.

- For earlier borrowing, MRP will be calculated on an asset life annuity basis. As data is not available to identify the individual assets which this borrowing related to, an average asset life relating to more recent borrowing will be used. The annuity calculation will be based on the position which would have been reached if this approach had been in place since 2008/09.

- For all outstanding borrowing (both pre and post 2007/08), the MRP charged to revenue will be adjusted by offsetting an element of the cumulative overprovision on pre 2007/08 debt, until this overprovision has been fully utilised.

- For PFI liabilities, an MRP charge will be calculated on the basis of the expected life of the asset which has been acquired, using the same annuity basis as is used for borrowing.
- For PFI lifecycle costs, an MRP charge will be calculated on a 10 year asset life annuity basis, unless a more specific asset life is given in the contractor's financial model.
- For finance lease liabilities, an MRP charge will be made to match the value of any liabilities written down during the year.

4.2 These policies will ensure that the Council satisfies the requirement to set aside a prudent level of MRP. The arrangements for allocating capital funding set out in paragraphs 3.3 to 3.5 above will help to ensure that the level of MRP is not excessive.

Appendix D (ii)

Statement of Policy on the Minimum Revenue Provision for 2019/20

3. Introduction

3.1. The Council is required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.

3.2. Since 2008/09, the legislation has simply required local authorities to make a prudent level of MRP provision, and the government has issued statutory guidance, which local authorities are should 'have regard to' when setting a prudent level of MRP. The guidance says that the broad aim of a prudent MRP policy should be to ensure that debt is repaid over the life of the asset which the capital expenditure related to (or, for supported borrowing, the period assumed in the original grant determination). Within this overall aim, the guidance gives local authorities considerable freedom to determine what would be a prudent level of MRP.

3.3. The statutory guidance recommends that local authorities draw up a statement of their policy on the MRP, for approval by full council in advance of the year to which it applies.

4. Details of MHCLG Guidance on MRP

4.1. The statutory guidance identifies four options for calculating MRP and recommends the circumstances in which each option should be used, but states that other approaches are not ruled out.

4.2. The first two options are based on the old statutory method of a 4% reducing balance, and the third and fourth options are based on asset lives. For capital schemes acquiring new assets which take more than one year to complete, application of Options 3 and 4 allows councils to delay charging MRP until the year after the new asset becomes operational. Under the statutory guidance, it is recommended that local authorities do not use Options 1 or 2 for prudential borrowing, or for borrowing to fund capitalised expenditure (such as capital grants to other bodies and capital expenditure on IT developments).

4.3. For balance sheet liabilities relating to finance leases and PFI schemes, the guidance recommends that one prudent approach would be for local authorities to make an MRP charge equal to the element of the annual rental which goes to write down the balance sheet liability. This would have the effect that the total impact on the bottom line would be equal to the actual rentals paid for the year. However the guidance also states that Option 3 could be used for this type of debt.

4. Implications for the application of capital receipts

4.1. One of the implications of the more flexible arrangements for MRP is that it is now necessary to identify which individual schemes have been funded by borrowing and which have been funded by non-specific capital income (e.g. capital receipts and grants), rather than treating the balance of the capital funding requirement after specific capital funding has been applied as being met from a general receipts and borrowing pool.

4.2. In the case of capital receipts, statute gives local authorities the option to apply these to fund the payment of any liabilities relating to finance leases and PFI schemes. This is a reflection of the fact that such schemes are being treated in accounting terms as the acquisition of fixed assets, and the liability represents the amount being paid towards the purchase of the asset itself, rather than interest or service charges payable.

4.3. Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years. Applying capital receipts to redeem borrowing would reduce the level of MRP which the council needs to set aside from revenue as a prudent provision.

4.4. The general principle adopted will be to allocate capital receipts firstly to fund the liabilities to be written down for the year in relation to PFI schemes. This will remove the need for MRP charges equal to the value of the capital receipts applied.

4.5. For any remaining capital receipts, the options are for these to be retained in the Usable Capital Receipts Reserve, used to redeem debt, or used to fund capital expenditure on short life assets. The Responsible Financial Officer (the Section 151 Officer) will determine annually the most appropriate use of these receipts, taking into account forecasts for future expenditure and the generation of further receipts.

5. 2019/20 MRP Policy

5.1. In its 2019/20 MRP policy, the Council is required to decide how MRP will be calculated for borrowing undertaken for the 2018/19 capital programme and earlier years. It is proposed that Leeds adopts the following MRP policies for 2019/20 :

- If capital receipts have been used to repay borrowing or to fund PFI liabilities for the year then the value of the MRP which would otherwise have been set aside will be reduced by the amounts which have instead been repaid from capital receipts.

- MRP for borrowing on capital expenditure incurred between 2007/08 and 2018/19 will be calculated on an annuity basis over the expected useful life of the assets (option 3 in the statutory guidance). For expenditure capitalised under statute where there is no identifiable asset, the lifetimes used for calculating the MRP will be as recommended in the statutory Guidance.

- For earlier borrowing, MRP will be calculated on an asset life annuity basis. As data is not available to identify the individual assets which this borrowing related to, an average asset life relating to more recent borrowing will be used. The annuity calculation will be based on the position which would have been reached if this approach had been in place since 2008/09.

- For all outstanding borrowing (both pre and post 2007/08), the MRP charged to revenue will be adjusted by offsetting an element of the cumulative overprovision on pre 2007/08 debt, until this overprovision has been fully utilised.

- For PFI liabilities, an MRP charge will be calculated on the basis of the expected life of the asset which has been acquired, using the same annuity basis as is used for borrowing.

- For PFI lifecycle costs, an MRP charge will be calculated on a 10 year asset life annuity basis, unless a more specific asset life is given in the contractor's financial model.

- For finance lease liabilities, an MRP charge will be made to match the value of any liabilities written down during the year.

These policies will ensure that the council satisfies the requirement to set aside a prudent level of MRP. The arrangements for allocating capital funding set out in paragraphs 3.3 to 3.5 above will help to ensure that the level of MRP is not excessive.

Appendix E

Capital and Investment Strategy

1. Introduction and Requirements

1.1 This report sets out the Council's Capital and Investment strategy. From 2018/19 there are new requirements for local authorities to have both a Capital Strategy and an Investment Strategy, with the option to produce one strategy document covering both of these areas. The council has opted to produce an overall Capital and Investment Strategy, given that there is a significant overlap between the two areas.

1.2 The requirement for a Capital Strategy is included in the revised Prudential Code for Capital Finance in Local Authorities 2017. The Prudential Code was developed by CIPFA (Chartered Institute of public Finance and Accountancy) as a professional Code to support Councils in taking their decisions. Councils are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local government Act 2003.

1.3 In financing capital expenditure Councils also have to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

1.4 The capital strategy sets out the principles that support the Councils 3 year capital programme and as such how it supports corporate priorities and objectives.

1.5 The requirement for councils to publish an annual Investment Strategy is included in the latest edition of the government's Statutory Guidance on Local Government Investments.

2. Objectives

2.1 The Capital Strategy sets the framework for all aspects of the Council's capital expenditure and capital investment decisions. It will support: strategic planning, asset management and proper option appraisal.

2.2 The capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

2.3 The keys aims of the strategy are to:

- To ensure that decisions are made within the framework, CIPFA codes and statutory legislation;
- Prioritise and deploy capital resources in line with corporate priorities;
- Support service plans;
- Address major infrastructure investment;
- Support the review of the Council's estate and provide investment to ensure that it is fit for purpose;
- Enable investment on a spend to save basis;
- Create sustainable income streams through capital investment;
- Support the revenue budget and assist in the delivery of budget decisions;
- Support economic growth and outcomes; and

- Attract investment in the City through third party, grants or private matched funding.

2.4 Capital investment decisions should be undertaken with regard to:

- Service objectives;
- Proper stewardship of assets;
- Value for money – through option appraisal;
- Prudence and sustainability;
- Affordability; and
- Practicality – achievability of the forward plan.

2.5 The Investment Strategy brings together information on all of the council's investment activities, covering its Treasury Management investments, other service related loans and investments and non-financial investment activity such as the acquisition of investment properties.

2.6 The aim of the strategy is to enhance transparency and accountability by presenting a clear picture of all of the council's investment activity, including the contribution made by investments to the council's objectives, the decision-making process for entering into investments, the exposure to risk, and the risk management arrangements in place.

3. Governance of the Capital Programme

3.1 The 3 year capital programme is established in February of each year together with the Treasury Management strategy and the revenue budget. Quarterly capital update reports are provided to Executive Board.

3.2 The affordability of the capital programme is considered within the Treasury Management report and the funding requirements are set within the revenue budget planning process and with the framework of the medium term financial strategy.

3.3 The Council has a process to ensure that effective decision making takes place that includes:

Democratic decision-making and political approval:

- The Council set the corporate priorities;
- The Council approves the Capital programme, the Treasury Management Strategy and the revenue budget together;
- The Council has an approved scheme of delegation to effect and support efficient decision making (See Annex XX);
- The scheme of delegation enables Executive Board to approve subsequent scheme injections and authority to spend and changes to the capital programme;
- Directors and the Council Chief Officer Financial Services also have delegated powers to inject and provide authority to spend on schemes;
- All schemes progress subject to the Council's constitution, scheme of consultation, financial regulations and procurement requirements;
- The Chief Officer Finance services will report on the affordability and sustainability and risk of capital investment decisions;

- Audit and Governance provide scrutiny on the treasury management framework; and
- The Chief Officer – Financial Service provide assurance on the sustainability and affordability of the Councils financial affairs

Officer Groups:

- Officers, through the Council's Asset Management Board (AMB), Strategic Investment Board (SIB) and Corporate Leadership Team (CLT) are able to influence any investment decision before political approval is sought at Cabinet and Executive Board;
- SIB has the overall responsibility for the strategic development of the capital programme.
- Directorate management teams consider the scheme business cases before submission to SIB and CLT
- Directorate teams mange the monthly forecast spend of their schemes
- Specific project boards are represented by appropriate skilled officers from within the Council and with external specialist engagement as appropriate;
- Monthly reporting of the capital programme to Directorates and the Council's Financial Reporting Group (FRG).
- Monthly reporting of the updated projection of treasury management cost of debt covering the reporting MTFP period is made to the FRG

4. Project Initiation

4.1 In previous years capital schemes could be injected at any point through the year with the cost of additional borrowing managed within treasury management. The strategy adopted for 2019/20 onwards has sought to ensure that the revenue impact of capital investment decisions are taken at the same time that the revenue budget is set for the following year.

4.2 Directorates now submit their capital programme proposals in advance of the new financial year. Scheme proposals must be underpinned by a clear business case with robust costings and projections of income, where appropriate, that will stand up to scrutiny. The Business case and report must be prepared in accordance with corporate guidelines.

4.3 These submissions are ranked in terms of:

- Priority 1 - essential health and safety, protecting revenue budgets and business critical/corporate priority;
- Priority 2 - departmental priority; and
- Priority 3 - further business case development required

4.4 In addition to the prioritisation of individual proposals and programmes the whole programme will be assessed for:

- Achievability – Does the Council have the resources and technical expertise to deliver within the timescales?
- Prudence & Affordability – To ensure that the revenue cost of debt remains affordable within the Medium Term Financial Plan;
- Non-monetary benefits – Social well-being, health and environmental benefits; and

- Impact upon the Council's 5% partial VAT calculation.

4.5 These new investment programmes are appraised in conjunction with a review of the priorities within the existing programme. This process allows for check and challenge with peer review of scheme proposals before the overall affordability of the programme is considered. This review is overseen by the Council Strategic Investment Board, a report that receives themed investment proposals throughout the year.

4.6 In the appraisals of schemes the Council will make use of internal officer experience together with support as required from external professional advisors to ensure that investment decisions are robust and will stand up to subsequent scrutiny.

5. Project Monitoring

5.1 Where appropriate project boards are established comprising suitably experienced and qualified staff with relevant expertise to assist decision making. Board representation would normally consist of: the project sponsor, programme managers, finance, legal, property, support staff and if appropriate HR, communication and external specialist expertise.

5.2 Monitoring of individual schemes and programmes takes place on a monthly basis with financial status reports of actual spend against forecast reports prepared and reported to Directorates. A monthly summary position is taken to the Council's Financial Reporting Group.

5.3 Quarterly monitoring reports are taken to the Council's Executive Board. These highlight actuals spend against forecast, progress on schemes, injections, deletions and the impact on future years.

5.4 As required by the CIPFA code of practice on Treasury Management the Council reports on the strategy for the forthcoming year before the start of the year (usually in February to Executive board and full Council. Additionally a half year update report is submitted to Executive board in November during the year with a final report on the previous year being submitted in June/July following the close of the financial year.

6. Capital and Capital Investment Priorities

6.1 The Council has a significant estate to maintain but is also undertaking and facilitating large scale infrastructure development that will underpin the Council's best plan objectives. It remains focused on delivering these ambitions but recognises the financial pressures that the Council is facing. The Council will continue to seek to secure funding for the major infrastructure needs of the city.

6.2 The Council's capital investment objectives are centred on the Council's best plan ambition to be a strong economy and a compassionate City. The priorities cover:

- Addressing housing inequalities;
- Health and wellbeing;
- Creating 21st century infrastructure;
- Creating a child friendly city;
- Having safe and strong communities;
- Ensuring inclusive growth; and

- Increasing the Cultural offer.

Housing

6.3 Significant investment in the Council's housing estate ensuring that it meets decency standards, fire safety compliance, improving health and affordable warmth, low carbon and energy efficiency including a District heating network programme, improvements to the environment through reduced carbon emissions and supporting more people to live safely in their own homes.

6.4 New capital investment proposals will be prioritised according to the following, with works that contribute to legislative requirements, the health, safety or wellbeing of residents taking precedence over others:

- Top priority – legislative requirements, health, safety and wellbeing (e.g. fire safety, asbestos, DDA, heating and insulation, lifts, aids and adaptations etc.);
- High priority – structural works and key building components (e.g. structural remedials, concrete repairs, roofs, chimneys, pointing, damp proof courses, windows and doors etc.).
- Medium Priority – internal works and non-key building components (e.g. kitchens, bathrooms, internal communal areas in blocks etc.).
- Low priority – environmental and estate improvements (e.g. garages, fencing, paths etc.)

6.5 The Council is targeting council housing growth funding from within the overall programme to support the delivery of extra care housing. In addition the empty homes programme continues to bring empty homes back into use and is delivering Council owned extra care apartments with the intention that this investment acts as catalyst to promote the wider development of extra care across the city.

Health and Wellbeing

6.6 Demographic factors form a key element of the strategic context; people are living longer and with a higher level of needs. As a result of these increased demands the way care is delivered needs to change and there is a move towards more people being supported to live at home. There is a changing focus from providing help to helping people help themselves. In terms of capital investment needs the main issues are:

- Investment in opportunities for vulnerable adults to access universally provided services;
- Investment in changing analogue telecare to digital, equipment and adaptations to support people living at home; and
- Investment in appropriate technology and business systems to enable the personalisation and direct access by people to health and social care support leading to improved outcomes including adaptation to homes and assisted living initiatives.

6.7 In contrast there will be a significant reduction in directly provided residential and day care provision in response to reducing demands for these services. This move could release assets for disposal but there is also a need to ensure that the remaining facilities, required for more specialised and re-abling services, are fit for purpose. Initiatives include Health centre redevelopment and dementia intensive therapy unit.

6.8 Work continues with colleagues from the Health sector the city to bring forward schemes designed to fulfil requirements and £25m has been set aside to further develop initiatives at the local level.

Creating 21st century infrastructure

6.9 **Public Realm Strategy -** Engaging and quality public realm is critical to the continued success and robustness of the city centre; creating a welcoming city which has the wow factor.

6.10 **HS2/Southbank** – The Council is taking a lead with partners in delivering HS2 and Southbank infrastructure. The aim is to double the size of the city Centre.

6.11 **Major highways and bridge** works including LTP and developer contributions to address backlog maintenance on district roads/streets. The Leeds Public Transport Investment programme comprises a package of public transport improvements that, taken together, will deliver a major step change in the quality and effectiveness of our transport network. In addition the Council has made good progress in bringing forward the package of transport measures that will be essential to support the development of the East Leeds Extension strategic growth area. Central to these is the East Leeds Orbital Route.

6.12 **Essential Information and Technology Infrastructure –** There are a number of major essential IT investments and associated programmes of work that are required over the next few years. These include upgrades to Windows 10, continuing the rollout of the new collaboration and telephony, replacement of hundreds of old PC's and laptops, investment in a range of cyber security measures, refresh and future proofing our server and storage estate and provide services across the city, upgrade, replace or consolidate applications to be compliant with external Public Service Network (PSN) and General Data Protection Regulations (GDPR).

6.13 **Full Fibre Network Bids –** Commitment to full fibre connectivity to all schools, council flats and CCTV point from which fibre providers will expand their networks into localities. Depending on the outcome of the bid a more detailed report will come to Executive Board relating to the implementation of the scheme.

6.14 Major projects include enhancing flood alleviation resilience continuing to build a cycling network, establishing a **District Heating Networ**k, creating a compressed Natural Gas Station and the conversion of the Council's fleet to the latest emission standards including Conversion of Refuse collection vehicles to compressed gas. The Council is also introducing a congestion zone and will provide support to licenced taxis to convert to greener vehicles.

Children's Services

6.15 Demographic change also places a significant pressure on Children's Services in the need to provide additional primary school places to meet the demand resulting from rising birth rates. The focus is now moving the provision of secondary places. There is a significant funding gap that the Council will look to the government to fund but provide shortfall solutions through the use of CIL, provision of free schools and borrowing. In addition there are significant backlog maintenance requirements within the estate that will use **Capital Maintenance and Devolved Formula Capital** plus local resources.

Communities

6.16 The next phase of Community Hubs will allow the continued roll out of the Community Hubs with fully integrated services across the city including, asset rationalisation, co-location of housing back offices, essential backlog maintenance and new ICT infrastructure and equipment to enable new ways of working over the next 3 years.

6.17 The Local Centres Programme (LCP) through engagement with ward members, local businesses and communities create viable local centres that are accessible, safe, resilient and fit for the 21st century. The town heritage initiative will provide further investment key heritage assets in the City.

Growth

6.18 There are a number of initiatives aimed at supporting business growth in the city. These include: the Digital Business Incubator (Leeds Tech Hub) - The Leeds Tech Hub Fund was introduced as a catalyst for growth and expansion in the city's fast-growing digital sector; Workspace Development and Investment Fund - This fund is designed to support providers of affordable specialist space to small start-up business particularly in the creative and manufacturing sectors that have found difficulty in finding premises as the Leeds property market continues to boom; and Innovation District - This collaboration with Leeds Teaching Hospitals NHS Trust and the University of Leeds seeks to develop a Leeds Innovation District to the north of the city centre. Initial work has scoped out potential development sites. This fund will contribute to public realm and early stage development activities.

Culture

6.19 The Council will continue to support the Channel 4's relocation to Leeds and work with the creative and digital sectors and other to provide to expand the film and televisions talent and expertise within the region.

6.20 The Council continues to expand the cultural offer within the city and is providing together with the Arts Council and the Leeds Playhouse significant investment in the redevelopment of the Leeds Playhouse.

Other initiatives

6.21 There are a number of other significant initiatives that are based upon sustainable business plans:

- Rationalisation of the Council's estate;
- Reduction in backlog property maintenance;
- Measures to maintain income and reduce costs through spend to save business cases;
- Investment in sporting facilities;
- Invest in heritage assets on a sustainable basis; and
- Invest in initiatives that support the revenue budget

7. Capital Programme Priority and Corporate Links

7.1 The capital programme links into wider processes and plans across the Council and should not stand alone. In setting, monitoring and reviewing individual schemes/programmes and the overall capital programme consideration should be given to:

- Council best plan;
- Asset management plan;
- Medium term financial strategy;
- Treasury management strategy including prudential indicators; and
- Internal and External audit.

8. Revenue implications

8.1 The revenue implication of capital investment should be considered alongside revenue budgets. Capital investment decisions should consider:

- The costs of borrowing (interest and Minimum revenue provision);
- Future whole life asset planning including capital (future capital maintenance requirements and revenue implications (running costs and maintenance costs);
- Realisation of cashable and non-cashable benefits; and
- Impact upon the economy and the generation or support of Council tax and business rates.
- Proportionality

9. Funding Strategy

9.1 A range of options are available for the Council to fund its capital expenditure requirements. This capital investment must be in line with the CPFA Prudential Code for Capital Finance in Local Authorities. The level of borrowing that the Council undertakes must be within the code and its management is covered with in the Treasury management strategy.

9.2 The Council will seek to maximise external funding sources before it undertakes borrowing, whilst ensuring that borrowing remains affordable and within the medium term financial strategy.

9.3 The main sources of funding available are:

- Government grants;
- Match funding;
- City region funding including the LEP;
- European funding;
- Developer funding through CIL, S106 and S278 contributions;
- Private sector funding;
- Capital receipts; subject to funding repayment of existing debt, PFI liabilities etc.;
- Generation of income streams or the avoidance of costs though robust business case that pay for the costs of borrowing;
- Corporate borrowing where the funding is a bottom line revenue cost;
- Lease finance; and
- Revenue funding.

9.4 In addition the Council may also choose to grant fund capital expenditure to third parties or provide loans – covered in the investment strategy.

10. Risks

10.1 The risks associated with this strategy should be considered in the context of the Councils risk and governance reporting framework and the methods for monitoring and escalation.

11. Knowledge and Skills

11.1 The Capital and treasury management function is managed by a number of experienced and qualified staff. They all follow a continuous professional development plan that forms part of the Council's appraisal process. The section is headed up by a CIPFA qualified accountant and reports to the S151 Officer who is also a CIPFA qualified accountant.

11.2 Individual capital schemes are undertaken by professional qualified staff in appropriate disciplines. External support and advice is also sought through a framework contract as and when required.

11.3 Members are consulted in early stages of project development and provide approval of schemes at Executive Board and full Council when the capital programme is set Members are provided with training on treasury and capital management.

12. Investment Strategy

12.1 The Council's investment activities cover three broad areas – treasury management investments, other financial investments such as loans and equity investments which are made to achieve service objectives, and non-financial investments such as in property.

12.2 Treasury management investments

12.2.1 The council makes investments on an ongoing basis as required for the purposes of efficient treasury management. The scale of these investments, the investment policy and the risk management approach are all covered in the Treasury Management Strategy which is published alongside this document.

12.3 Contributions made by non treasury financial investments

12.3.1 The statutory guidance requires councils to identify and disclose the range of contributions which its existing non treasury management investments make to its objectives.

12.3.2 The following table outlines the contributions made to service objectives made by the non treasury financial investments which the council held at 31st January 2019.

Investment	Investment Category	Value at 31st March 2018 £k	Cost of Acquisition £k	Nature of contribution made	Valuation Basis
Shareholding in Merrion House LLP	Equity	37,000	29,198	Efficient procurement of accommodation	Fair value
Leeds City Region Revolving Investment Fund LP	Equity	4,579	4,579	Promotion of economic development	Cost less provision
Loan to Leeds City Credit Union	Loan	1,190	1,190	Financial inclusion	Cost less provision
Assisted Homebuy Scheme (equity loans)	Loan	1,007	861	Access to affordable housing	Fair value
Equity loans to householders	Loan	360	360	Various including health and wellbeing, and low carborn.	Cost less provision
Council house mortgages	Loan	259	259	Access to affordable housing	Cost less provision
Loans to housing associations	Loan	176	176	Access to affordable housing	Cost less provision
Loans to Leeds Community Ventures Ltd	Loan	130	130	Efficient procurement of accommodation	Cost less provision
		44,701	36,753		

12.3.3 The table also identifies those loans and investments which are held at fair value and those which are held at cost less any appropriate provision for non-payment. It should be noted that the values shown are as at 31st March 2018 and that a change in accounting standards will require a change from 31st March 2019 in the method of evaluation of provisions for non-payment of loans to an “expected credit loss” basis. It is not anticipated that there will be any significant changes to carrying values as a result of this.

12.4 **Investment priorities, decision making and risks for non-treasury financial investments**

12.4.1 As regards their treasury management investment policies, councils are required to prioritise security and liquidity, and to only consider the yield that can be obtained within appropriate levels of security and liquidity. However different priorities apply when considering non treasury investments. The council will only enter into financial investments which are outside of its treasury management activities where it is seeking to achieve a service objective. This means that the requirements to prioritise security and liquidity which would apply to treasury management investments do not carry the same level of weight in considering such investments. Further, whilst the council’s non treasury financial investments do in some cases generate a return, any such yield is incidental to the reasons for entering into these loans and investments.

12.4.2 Prior to making loans or other financial investments, the council carries out a thorough financial evaluation and due diligence of the risk against the return, including the intended service outcome. In addition to expected cash flows, this will take into account any borrowing costs arising and, where investments fall within the definition of capital expenditure and are funded by borrowing, the requirement to fully fund the investment via the Minimum Revenue Provision over an appropriate number of years. A business case should be produced, to cover :

- Which Council objectives are being supported;
- Financial business case including sensitivity;
- Financial due diligence;
- Legal Powers for the acquisition and legal due diligence;
- State Aid implications;

- Tax treatment;
- Type and value of security
- Procurement issues;
- Know your customer;
- Political, environmental and social factors; and
- Accounting treatment.

12.4.3 Where necessary and dependent on the value of the proposed investment, external advice will be sought by officers before entering into financial investments.

12.4.4 Where possible, the council obtains appropriate security such as a legal charge on property before making loans. It should be noted that a number of these investments are funded by grants or other third party contributions, and thus carry no risk of loss to the council as a result of entering into them.

12.4.5 Of the £44.7m of current financial investments shown in the table in 12.3.2 above, £38.6m (86.4%) are either secured on property or relate to an underlying property asset.

12.4.6 As regards liquidity, the council does not set any maximum policy limit for the duration of such investments, with each being judged on a case-by-case basis. Indeed, equity loans to homeowners, which are partly funded by grants and other contributions, have no set maturity date. When making non-financial loans and investments the council does so with the understanding that it will not be able to prematurely access the funds which have been committed to these investments.

12.4.7 All decisions to enter into non treasury financial investments are taken within the council's overall delegated decision framework, with the added requirement included in Financial Regulations for the decision maker to consult with the Chief Finance Officer before entering into such a contract. The requirement to consult the Chief Finance Officer ensures that the available knowledge and expertise within the council for assessing such contracts is applied to each such decision.

12.4.8 Under the new requirements for investment strategies, the council is required to set a limit on the total value of non-treasury management loans which it is willing to make. The council proposes to set this limit for 2019/20 at £40m. From the table at 12.3.2 it can be seen that the total value of such loans made at 31st January 2019 is £2.9m. This limit does not relate to financial investments other than loans.

12.4.9 Once loans and financial investments have been made, the relevant service will be responsible for ongoing monitoring and for ensuring that amounts due to the council are recovered.

12.5 Commercial Property Investment Strategy

12.5.1 The Council's holds a mixed property portfolio spread across the following headings:

- Operational assets that are need to operate front line and back office functions;

- Investment portfolio that provide an income stream to the Council, which is split into the
    - i) Prime Investment Portfolio comprising high yielding investment properties such as office blocks, the Arena, large modern industrial units and multi storey car parks,
    - ii) Commercially let properties including a portfolio of small industrial estates, offices, shops and pubs,
    - iii) Community assets such a sports clubs and community groups,
    - iv) Economic Development properties held for supporting innovation and job creation.
    - v) investment properties that have been earmarked to raise Capital Receipts,
    - vi) agricultural land and property held for long term strategic expansion of the city or protection of the countryside
    - vii) miscellaneous properties which include substations and other statutory utilities on Council land

      ;
- Regeneration and growth – assets that are acquired to enable transformation of areas, provide confidence to the market where particular projects have stalled and generate growth;
- Heritage assets – that's are of historic importance to the city; and
- Community assets - that are held to support initiates across the public and third sectors to the benefit of local communities.

12.5.2 The Council has held a number of investments assets that have generated an income stream. These assets cover commercial property and a small industrial portfolio as set out above and together with various other rights for example covenants, access rights and mineral rights.

12.5.3 On 21 October 2015 Executive Board considered a report from the Chief Executive entitled 'Strong Economy, Compassionate City' which was a response to the White Paper motion passed at July 2015 Council on sharing economic success in the city. The report advised how the Council had played a pivotal role in the economic recovery of Leeds having intervened proactively to kick-start development and regeneration projects, support businesses to grow and invest, and to help people to work. The Council had used its powers for land assembly at the Trinity and Victoria Gate schemes; brought forward its land at Sovereign Street; constructed the First Direct Arena; and pump primed the delivery of manufacturing and logistics space in the Leeds Enterprise Zone, amongst a few. The ambition for Leeds to have a strong economy and to be a compassionate city has now embedded in the Best Council Plan, with a council priority being to support economic growth and access to economic opportunities.

12.5.4 One of the main aims of the Council is to bring about economic regeneration in Leeds. The Council has been involved in bringing forward the development of buildings at a time when the market was stalling and their acquisition will further the Council's involvement and financial benefits. With the Council's ambition to become the best city in the UK, with an economy that is both prosperous and sustainable, further acquisitions offer the opportunity to further boost the performance of the Council's property investment portfolio with substantial rental income.

12.5.5 The Council will ensure that there is a proactive maintenance strategy in place to preserve the income that investment assets generate.

12.5.6 At the present time this strategy paper concentrates on the purchase of new assets. It is envisaged that a disinvestment strategy will be added at a later date to set the strategy for the sale / release of non performing low quality assets that the Council do not wish to retain.

12.5.7 In the longer term it is envisaged that the Council will put in place an active Asset Management strategy where none performing assets are either "engineered" to perform or traded out of the portfolio and replaced with others.

12.5.8 The Council will put in place a strategy to manage and make the best use of historic assets that will be retained by the Council. This is part of the Council's desire to have a managed efficient estate.

12.5.9 The opportunistic disposal of properties may also be considered to capitalise on market movements and situations where the return available is above market value such as special purchaser and marriage value situations. In addition certain acquisitions may be held on a short/medium term basis where a resale in the next few years might enable the Council to obtain an enhanced value before the asset value might start to fall e.g. to sell the investment before the remaining lease term becomes unattractive to the market.

12.5.10 Once the portfolio is in place it is recommended that the Investment Management Strategy is reviewed on a quarterly basis, and if required it will be amended to reflect changing Council priorities or changes to market conditions.

12.5.11 In addition the Property Manager or external Property Adviser will on a day to day basis be actively monitoring market conditions and the management strategy adopted will be adjusted to reflect changes in the market. The monitoring of market conditions is seen as essential if the Council is to capitalise on opportunities thrown up by changes in the commercial property sector. Further an important part of the long term strategy as the portfolio matures will be to look at portfolio weighting to ensure that the Council is not under or overexposed to one or more sectors of the market. To do this a summary of the value of the properties and the income generated will be produced. This data will also be provided in a pie chart format for easy identification of holdings and returns in the various commercial property sectors.

12.5.12 The Council will use borrowing to fund property acquisitions. Borrowing will be sourced as outlined in the Treasury Management Strategy but could include the Public Works Loan Board. The rental income generated must as a minimum provide a surplus over and above the costs of borrowing.

12.5.13 Investment Criteria

When looking at investment properties the Council will have regard, in order, for security liquidity and then yield. The Council should consider the following factors as part of the selection criteria:

- Covenant Strength – A full financial appraisal of the ability of the tenant(s) to continue to pay rent to service the Council's debt obligations will be undertaken. This may in some cases require external independent advice. Only tenants of good financial standing will be considered.
- Unexpired terms: For let properties the Council must consider the unexpired length of the lease and break clause to determine the risk to

future income assumptions. In addition the Council will consider the costs of a tenant vacating in future income assumptions.

- Guide Price: In order to avoid over exposure to large lot sizes and to avoid the purchase of low price and therefore low return investments that are uneconomical to manage it is recommended that the Council invest in properties within a value range of £5 to £65 million.
- Target Yield Range: The target return should as a minimum be higher than the cost of borrowing but also be in excess of returns that could be received on bank deposits. However appropriate adjustments for risk and growth should be factored in. An appropriate Yield minimum is currently 4% the present time under the current low interest rates. Lower initial yields should of course be considered for investments offering asset management or redevelopment opportunities or long term guaranteed rental growth i.e. linked to annual RPI or CPI increases which will give higher returns in the long term.
- Risk: concurrent with the rate of return the risk of the acquisition/tenant strengths and lease conditions should be evaluated.
- Location: Based upon knowledge of the local area and the regeneration requirement only properties in the geographical area of the Council’s jurisdiction will be considered.
- Market Sector: Investments across all sectors will be considered. Particular emphasis should be placed upon investments that complement regeneration or job creation in the Council area which may involve the Council entering into Joint Venture arrangements.
- Capital Growth: The property should afford revenue and /or capital growth. Where at all possible properties selected should offer opportunities by asset management, change of use, reconfiguration or redevelopment to enable Leeds to produce future returns that will increase in real terms above inflation.
- Tenant Line up: In order to minimise the risk of tenant failure and property voids single occupancy properties should be avoided unless covenant strength is exceptional (institutional single covenants or strong local firms e.g. banks or local legal firms) and there is a significant unexpired term. In terms of multi-occupied properties preference should be given to investments with a variety of uses / trades but ensure the number of tenants is manged to covenant strength.
- Vacant Properties: In certain circumstances such properties should be considered particularly if they adjoin existing Council holdings, or offer opportunities by asset management, change of use, reconfiguration or redevelopment. Vacant properties will also be considered where they are in areas of strong growth and investment activity such as the Aire Valley where it is anticipated there will be interest from occupiers and therefore good prospects of letting. The advantage of such properties is that they can be usually purchased at a discount to the market and are a way of adding value by letting to strong covenants. Such properties will also provide inward investment opportunities for the City as ready-made sites for new occupiers.

- Property Condition: for let acquisitions the age and condition must be sufficiently factored into the price to ensure that the Council is in a position to let or sell the property in the future and that appropriate surveys are undertaken prior to the purchase of the property. The Council should also consider the costs of refurbishment/demolition in the acquisition value.
- Market Sector: the Council should ensure that it has a balanced portfolio mix spread across the commercial property sector.
- Prime / Edge of Prime High Street Retail Uses: It is essential that any retail investments considered should meet the strict tenant covenant strength test. With the rise of internet shopping this has become a high risk of tenant failure sector. Care should be taken to avoid over exposure (say over 50% of uses) of the investment to any single use category. In particular Class A2 retail (banking and professional services) with break clauses or short unexpired lease terms should be avoided as there is a growing trend for banking and financial services companies to pull away from the high street.
- Car Parks: Consideration should be given to the acquisition of car parks as these provide a strong and guaranteed rental growth. Further in the case of lease expiry, or restructuring or tenant failures there is the opportunity for the Council to gain full control and take over the operation of the car park.
- Development Opportunities Adjoining / Abutting Existing Council Holdings: Opportunities where the Council has an interest in a site or owns adjoining land should be considered.
- Lease Re-gearing, Unlocking of Marriage Value and Purchase of Freehold opportunities: It is possible to unlock latent value or create new value and income by the extinguishment variation or extension of long leasehold terms such an example would be the restructuring of the lease on the offices at Merrion House. The other example is the redevelopment of the George Street shops whereby the existing rental is cannibalised to enhance the future of the site and obtain an increased asset value. Consideration should also be given to buying in the freehold of council leased in properties where prudential loan repayments are lower than contractual rental payments.
- Maintenance Programme: The revenue and capital implications of maintenance the assets should be considered and reflected in budget assumptions and an adequate budget is set aside to cover future maintenance that is not recoverable through a service charge and potential future refurbishment costs..

Property Criteria that should be avoided.

When appraising potential investments the following property types / situations should be avoided.

- Leasehold: Due to management issues relating to superior landlords plus diminishing returns such investments should be avoided unless there is a significant lease term remaining normally in excess of 100 years or the opportunity to renegotiate the lease term as part of the acquisition.

- Speculative Development sites: Commercial development is a high risk / high return industry and given the need for an immediate income return on investment it is not recommended that the Council invest in this area unless adequate pre lets are in place unless there is a good regeneration criteria linked to the purchase of such an asset.
- High Risk Complex Joint Ventures: Such opportunities can present good returns by sharing the risk with others. Such opportunities should be considered carefully and considered in the context of their regenerative benefits in the longer term.
- MEES Compliance: From the 1 April 2018 under the energy efficiency requirements of the MEES compliance all commercial properties offered to let must have a minimum EPC rating of "E" or above. Therefore any properties not meeting this criteria should be avoided unless the seller undertakes the necessary enhancement works to make the property MEES compliant.
- Shopping Centres: Such investments require intensive management and frequently impose future cash calls for refurbishment etc. upon their owners. In addition, Leeds has a very comprehensive retail offer at present and investment in to this market is likely to exceed the funds available. The sector is likely to be competitive with other investors such as commercial property companies and funds therefore entry costs could be high with yields lower. Therefore investment in this sector is not recommended. It should be noted that other Local Authorities have acquired retail shopping centres but these tend to be acquired either to support the town centre or the regeneration of an area of the city.
- Retail Parks: In a similar fashion to shopping centres such investments carry intensive management obligations and the frequent need to put extra investment into the asset. The retail market has been adversely affected by the way people buy goods and through online purchases of goods and the viability of such retail sites have to be very carefully assessed. The DIY sector is also being hit by the rise in "trade park" operators such as Screwfix who can operate from such parks at rents nearer industrial rates than those higher rents seen at retail parks.

12.6 Commercial Property Investment Activity to date

12.6.1 As at 31st January 2019 the council has acquired a number of investment properties. The total acquisition cost of these properties was £78.6m, and the carrying value at the most recent valuation was £83.9m. The fair value of these assets will be revalued as part of the 2018/19 closedown process and any resulting reduction in fair value below the level of capital invested would be reported to full council as required by the statutory guidance on investments, along with mitigating actions proposed. The following table provides details of individual asset values:

Asset	Purchase Price / Build Cost £	Stamp Duty & Other Fees £	Total Cost £	Latest Valuation £
Harper Street Car Park	10,025,000	503,600	10,528,600	12,000,000
Sovereign Square (offices)	43,993,350	1,262,750	45,256,100	50,000,000
Thorpe Park (offices)	7,020,000	530,900	7,550,900	7,020,000
Logic Leeds (industrial unit)	6,250,000	444,500	6,694,500	6,400,000
Apex View (offices)	8,003,323	524,715	8,528,038	8,437,018
Total	**75,291,673**	**3,266,465**	**78,558,138**	**83,857,018**

12.6.2 In addition to making a financial return, all of the above investment properties were acquired with a view to stimulating economic development in the city, and the Harper Street Car Park makes a further contribution in providing a parking service to residents and visitors.

12.6.3 The following table identifies the projected net yield from these assets for 2018/19 :

	2018/19 Estimated Outturn				
Asset	**Annual Prudential Borrowing Charge £**	**Gross Income £**	**Net Income £**	**Yield %**	**Return on Investment %**
Harper Street Car Park	510,000	(664,085)	(154,085)	6.31	1.46
Sovereign Square (offices)	1,401,000	(1,923,000)	(522,000)	4.25	1.15
Thorpe Park (offices)	234,000	(418,238)	(184,238)	5.54	2.44
Logic Leeds (industrial unit)	207,000	(452,704)	(245,704)	6.76	3.67
Apex View (offices)	331,000	(572,000)	(241,000)	6.71	2.83
Total	**2,683,000**	**(4,030,027)**	**(1,347,027)**	**5.13**	**1.71**

12.6.4 An assessment of current values against acquisition values shows that for some assets there has been a small loss in capital values. However the assets were acquired with the aim of medium to long term income generation, rather than with the aim of generating a capital return via a disposal in the short term. As regards liquidity, the council took into account the inherently illiquid nature of property assets in its business cases for the acquisition of these investments, and does not anticipate being forced to dispose of them under disadvantageous market conditions. This view is based on the soundness of the council's overall financial governance arrangements, which minimise the risk of any unexpected need to realise funds from the properties. However, the council will continue to monitor the property market to ensure that it identifies any opportunities which do arise to generate a capital gain from the disposal of the assets.

12.7 **Proportionality**

12.7.1 The statutory guidance on investment strategies requires the council to disclose the extent to which it is dependent on profit generating investment activity as a source of income to balance its budget.

12.7.2 The council's income from non treasury financial investments is negligible in the context of its overall income, and therefore the potential for failure to generate the expected level of investment income presents no risk to the council's overall financial standing.

12.7.3 Similarly, the council is not dependent on the generation of income from its investment property assets to any great extent, and thus the potential for a reduction in the income generated from them does not represent a significant risk to its overall financial standing.

Equality, Diversity, Cohesion and Integration Screening

Appendix F

As a public authority we need to ensure that all our strategies, policies, service and functions, both current and proposed have given proper consideration to equality, diversity, cohesion and integration.

A **screening** process can help judge relevance and provides a record of both the **process** and **decision.** Screening should be a short, sharp exercise that determines relevance for all new and revised strategies, policies, services and functions. Completed at the earliest opportunity it will help to determine:

- the relevance of proposals and decisions to equality, diversity, cohesion and integration.
- whether or not equality, diversity, cohesion and integration is being/has already been considered, and
- whether or not it is necessary to carry out an impact assessment.

Directorate: Resources	**Service area: Resources and Housing**
Lead person: Bhupinder Chana	**Contact number: 51332**

1. Title: Capital Programme Update
Is this a: [X] **Strategy / Policy** [ ] **Service / Function** [ ] **Other** **If other, please specify**

2. Please provide a brief description of what you are screening
The report presents an updated capital programme including the overall financial position and a progress report on major schemes and programmes.

3. Relevance to equality, diversity, cohesion and integration

All the council's strategies/policies, services/functions affect service users, employees or the wider community – city wide or more local. These will also have a greater/lesser relevance to equality, diversity, cohesion and integration.

The following questions will help you to identify how relevant your proposals are.

When considering these questions think about age, carers, disability, gender reassignment, race, religion or belief, sex, sexual orientation. Also those areas that impact on or relate to equality: tackling poverty and improving health and well-being.

Questions	**Yes**	**No**
Is there an existing or likely differential impact for the different equality characteristics?		X
Have there been or likely to be any public concerns about the policy or proposal?		X
Could the proposal affect how our services, commissioning or procurement activities are organised, provided, located and by whom?		X
Could the proposal affect our workforce or employment practices?		X
Does the proposal involve or will it have an impact on • Eliminating unlawful discrimination, victimisation and harassment • Advancing equality of opportunity • Fostering good relations		 X X X

If you have answered **no** to the questions above please complete **sections 6 and 7**

If you have answered **yes** to any of the above and;

- Believe you have already considered the impact on equality, diversity, cohesion and integration within your proposal please go to **section 4.**
- Are not already considering the impact on equality, diversity, cohesion and integration within your proposal please go to **section 5.**

4. Considering the impact on equality, diversity, cohesion and integration

If you can demonstrate you have considered how your proposals impact on equality, diversity, cohesion and integration you have carried out an impact assessment. Please provide specific details for all three areas below (use the prompts for guidance).
• **How have you considered equality, diversity, cohesion and integration?** (**think about** the scope of the proposal, who is likely to be affected, equality related information, gaps in information and plans to address, consultation and engagement activities (taken place or planned) with those likely to be affected)
• **Key findings** **(think about** any potential positive and negative impact on different equality characteristics, potential to promote strong and positive relationships between groups, potential to bring groups/communities into increased contact with each other, perception that the proposal could benefit one group at the expense of another)
• **Actions** **(think about** how you will promote positive impact and remove/ reduce negative impact)

5. If you are **not** already considering the impact on equality, diversity, cohesion and integration you **will need to carry out an impact assessment**.	
Date to scope and plan your impact assessment:	
Date to complete your impact assessment	
Lead person for your impact assessment (Include name and job title)	

6. Governance, ownership and approval

Please state here who has approved the actions and outcomes of the screening		
Name	**Job title**	**Date**
Bhupinder Chana	Head of Finance –Technical Resources and Housing	24th January 2019
Date screening completed		

7. Publishing	
Though **all** key decisions are required to give due regard to equality the council **only** publishes those related to **Executive Board**, **Full Council, Key Delegated Decisions** or a **Significant Operational Decision.** A copy of this equality screening should be attached as an appendix to the decision making report: • Governance Services will publish those relating to Executive Board and Full Council. • The appropriate directorate will publish those relating to Delegated Decisions and Significant Operational Decisions. • A copy of all other equality screenings that are not to be published should be sent to equalityteam@leeds.gov.uk for record. Complete the appropriate section below with the date the report and attached screening was sent:	
For Executive Board or Full Council – sent to **Governance Services**	Date sent: 25th January 2018
For Delegated Decisions or Significant Operational Decisions – sent to appropriate **Directorate**	Date sent:
All other decisions – sent to equalityteam@leeds.gov.uk	Date sent:

Appendix G

Capital Programme – Scheme Details (Organised by Expenditure Objective)

SEE ATTACHED PDF