

Report of the Director of Corporate Services

Executive Board

Date: 17th February 2006

Subject: Capital Programme 2005 to 2009

<p>Electoral Wards Affected:</p> 	<p>Specific Implications For:</p> <p>Ethnic minorities <input type="checkbox"/></p> <p>Women <input type="checkbox"/></p> <p>Disabled people <input type="checkbox"/></p> <p>Narrowing the Gap <input type="checkbox"/></p>
<p>Eligible for Call In <input type="checkbox"/></p>	<p>Not Eligible for Call In (Details contained in the report) <input checked="" type="checkbox"/></p>

Executive Summary

This report sets out the latest expenditure and resources position in respect of the capital programme. The report outlines government support for capital expenditure of £153m announced recently, details of other resources available to fund the capital programme and also highlights the major expenditure programmes within the capital programme. Current expenditure plans exceed resources and the report proposes additional monitoring and controls are established to ensure that expenditure is contained within available resources.

1 Purpose Of This Report

- 1.1 This report sets out the updated capital programme for 2005/2009. The report includes details of forecast resources, a summary of the major capital schemes within service areas due to be delivered. It also details the changes to the capital programme since previously approved by Council in March 2005.
- 1.2 This report also asks the Executive Board to recommend the report to full Council.

2 Background Information

Methodology

- 2.1 In preparing the capital programme, a review of phasing of expenditure on existing capital schemes has been undertaken together with an up to date projection of capital resources. Where appropriate, cost estimates have been revised and provision made for anticipated commitments in relation to ongoing contractual issues.

3 Main Issues

3.1 Capital Programme 2006/07 to 2008/09

3.1.1 A summary of programme payments and resources is shown at appendices A and B and details of the proposed programme are given in the attached book. The capital programme, when approved, will also be available on the council's internet site.

3.1.2 A full list of new schemes over £250k, which have been included since the March 2005 programme is provided in appendices D and E (some of which were reported to Executive Board in the capital programme update report in November 2005). The appendix shows the full value of the relevant schemes which have been injected to the capital programme, normally up to 2009. Similarly, any schemes deleted from the programme since March 2005 are shown at appendix F together with the rationale behind the decision. In addition the following section highlights major schemes included in the programme by departments. Unless stated, the figures quoted are the gross costs included over the life of this programme.

3.2 Development Department

3.2.1 Over the life of the programme additional provision of £1m has been made for priority major maintenance schemes to meet asset management priority issues.

3.2.2 As part of the public realm strategy for the city centre, developments providing improvements to the environment and pedestrian access at Neville Street dark arches and river arches (£2.75m) is included in the programme. This scheme is funded by Yorkshire Forward and Spacia. In addition, to support the re-opening of routes for commuters £800k, funded by Yorkshire Forward, has been included for works to Sweet Street Bridge / Holbeck Urban Village.

3.2.3 As part of the street Leeds investment plan, refurbishment schemes are included for Lower and Mid Albion Street, Merrion Gardens, Assembly Street, Chancellor Court and Park Square at a cost of £2.39m. Work continues on the completion of phase 2 of Briggate and King Edward Street with a provision of £3.16m included. These schemes are mainly funded by Yorkshire Forward.

3.2.4 Continued provision is included in the programme for stage 7 of the inner ring road with support from the government office confirmed for 2006/07 at £26.3m (within a total project cost of £50.5m).

3.2.5 Support for the east Leeds link road (£34.1m) has now been ratified with the government office who have agreed to provide additional resources of £5.3m.

3.2.6 Work is ongoing to deliver the refurbishment and renovation of Leeds Grand Theatre through the Transformation project. The project, which includes the provision of accommodation for Opera North, has secured funding of £16m from the Arts Council and a further bid is being prepared to Heritage Lottery Fund for phase 2. A provision of £28.2m is included to deliver the scheme.

3.2.7 Provision of £3.04m is held in the council's capital programme, for the creation of an archive storage facility for the West Yorkshire Joint Services Committee (WYJSC). This is funded through unsupported borrowing, the revenue costs of which are met by the WYJSC.

3.3 City Services Department

3.3.1 Plans to re-organise waste management facilities across the city in support of the Council's priorities in relation to looking after the environment, include the provision of £1.35m for development of the east Leeds waste sorting site and £5m, funded through prudential borrowing, for an innovative recycling project.

3.3.2 Resources continue to be provided with a view to eliminating highways backlog maintenance in the period up to 2011. An additional provision for £7m in 2008/09 has been included, raising the total investment on highways maintenance, including the programme of private street works, to £45.2m.

3.4 Corporate Services Department

3.4.1 Information and communications technology (ICT) project development costs of around £6m per year are included reflecting the commitment to the continued development of the council's use of ICT systems to meet the challenge of the corporate plan and the ICT strategy.

3.4.2 The main element of this is the transforming our services priority (service transformation programme), delivering increased efficiencies through use of technology (Gershon programme) and delivering ICT developments in support of other major council priorities (e.g. children's services).

3.4.3 As part of the council's commitment to improve the services to the customer, the ICT development programme will support the delivery of the customer services strategy. The development of the technology supporting the contract centre will enable information on all customer contact, whether this is by phone, internet or e-mail, to be stored and used to support our ability to resolve customer enquiries. This work will aim to lower transaction costs and improve our response and service delivery times to customers by joining up the people, process and technologies required.

3.4.4 The Gershon programme looking at driving efficiencies will require the further development of council systems and ICT infrastructure to deliver efficiencies such as home working and improvements in accounting and procurement systems.

3.4.5 ICT will support the information management agenda which involves solutions for electronic document management storage and retrieval as well as establishment of technologies to integrate and share information between all council people and property ICT systems. These technologies will be essential to meet the requirements of the children's services agenda.

3.4.6 The programme will also deliver, where possible, other departmental service improvements across the council through the exploitation and enhancement of existing departmental systems e.g. housing developments.

3.5 Learning and Leisure

3.5.1 The council is delivering a new swimming and diving centre adjacent to the south Leeds stadium and a provision of £16.2m is included in the programme.

3.5.2 Additional funding from the Department for Education and Skills (DfES) of £7.3m is included for the creation of integrated children's centres throughout the city in accordance with the early years strategy.

3.5.3 Work is ongoing to specify the requirements for the development of the east Leeds family learning centre aiming to complement the development of the David Young city academy on the adjacent site and a provision of £6.5m is included for the scheme.

3.5.4 Provision for the extension to the Technorth Family Learning Centre of £2.67m, funded through Yorkshire Forward and Objective 2, is included.

3.5.5 A sum of £3.4m has been included as the council's support towards the construction on a site at Quarry Hill, of a dance facility for Northern Ballet and Phoenix Dance.

3.5.6 The Council is delivering a new city museum in the Leeds institute building and the Discovery Centre on land at Clarence Dock funded from £20m from the Heritage

Lottery Fund. The total cost of the proposed projects is estimated at £27m with a council match funding requirement of £6.7m.

3.5.7 £5.5m has been included in the programme for purchase of land to extend the cemetery at Lawnswood.

3.5.8 A further provision of £0.58m has been made to replace parks and countryside equipment to ensure compliance with safety guidelines.

3.6 Neighbourhood and Housing Department

3.6.1 The council's housing stock is currently managed by the six arms length management organisations (ALMOs) who are delegated the responsibility for delivering the capital programme in their respective areas.

3.6.2 The Leeds ALMOs, having secured funding of £359m of additional capital funding to meet decency standards are awaiting confirmation of additional government funding to in line with the Office of the Deputy Prime Minister (ODPM) building cost models.

3.6.3 In addition, since April 1st 2005 the ALMOs deliver work to address specific tenant needs. £11m of council funding in 2006/07 has been made available to deliver non decency related works.

3.6.4 The existing ALMO programmes reflect a level of works to seek to achieve housing decency by 2010/11. Their forward years programmes and funding plans currently assume additional funding will be forthcoming from the ODPM from a further submission of building cost models in summer 2006.

3.6.5 Investment in private sector renewal activity will continue to seek to improve poor housing conditions across the city. Funding from the Regional Housing Board has been secured for three projects targeting key areas of deprivation. The schemes are Beeston (£1m), Ashley/St.James' (£2.5m) and Cross Green (£0.5m). The council continues to pursue additional funding from the Housing Corporation to deliver these initiatives.

3.7 Social Services

3.7.1 Continued provision of £967k is made for the development of a family resource centre in south Leeds.

3.8 Department of the Chief Executive

3.8.1 The implementation of the corporate contact centre is supported in the programme with a provision of £2.8m

3.9 Strategic Accounts

3.9.1 A sum of £4.5m per year has been included to reflect the correct accounting treatment of expenditure that is currently in the revenue budget, but should more appropriately be treated as capital expenditure.

3.9.2 The programme includes £20m for equipment purchase and renewal and £20m for a programme of vehicle purchase and renewal and these schemes are funded through unsupported borrowing.

3.9.3 Provision of £10m has been included, to provide for the economic regeneration of town, village and district centres in Leeds. £2.5m of this amount is set aside to provide funding for parks renaissance schemes.

3.10 Education

3.10.1 The capital programme reflects the latest formulaic allocations for 2006/07 to 2007/08 of modernisation funding (£16.2m), new pupil places (£3.7m), devolved

formula capital (an indicative allocation of £19.6m) and schools access initiative (£2.5m).

- 3.10.2 The schools capital programme continues to make provision for the primary school review. In total, schemes valued at £37.1m are currently provided for in the programme. This includes a new two form entry primary school, including a children's centre, at new Bewerley community primary school and a 1.5 form entry primary school at Bracken Edge primary school to be constructed around the existing building used by the organisation Space@. Funding for the primary schools review is provided through grant, supported borrowing from the government, capital receipts and unsupported borrowing. The review will remove surplus places and ensure schools are sustainable for the future.
- 3.10.3 Provision of £3.9m is also made for payments required under the primary school PFI contract, with a further £5m in relation to the combined secondary schools project contract. In addition, a further £2m has been included for authority works in relation to the primary school PFI and £4m for combined secondary schools project. These commitments are funded through capital receipts generated from the disposal of surplus school sites.
- 3.10.4 The council has been successful in securing funding under the first wave of building schools for the future. An initial sum of £42.25m of supported borrowing has been provided by the government. For the first phase of the wave one schemes, PFI credits of £140m is supporting the schemes at Allerton Grange and Allerton high schools, Pudsey Grangefield and Rodillian high schools. In addition, schemes at Temple Moor and Cockburn will be delivered utilising supported borrowing. For the phase one schemes £19.1m of unsupported borrowing is assumed which includes ICT costs. To support the first phase schemes, a sum of £6.9m of council funding has been included to cover elements of expenditure not covered by DfES funding.
- 3.10.5 Other secondary schools investment opportunities are being made possible at Garforth Community College, where £1.6m is included to deliver an accommodation improvement plan, including completion of improved sports facilities and at Otley Prince Henry's Grammar School where work includes investment in the science accommodation and other facilities at the school.

4 Implications For Council Policy And Governance

4.1 Risk Assessment

- 4.2 In developing the capital programme, risk assessments are carried out both in relation to individual projects and in formulating the overall programme. The main risk in developing and managing the overall programme is that insufficient resources are available to fund the programme. A number of measures are in place to ensure that this risk can be managed effectively:
- monthly updates of capital receipt forecasts prepared by the Director of Development;
 - the use of a risk based approach to forecasting of capital receipts;
 - a target for additional capital receipts for 2008/09 has been assumed, sites or other funding for which is still to be confirmed. Work will progress in 2006/07 to identify suitable disposals, however, should receipts not be forthcoming, schemes will not be able to progress as planned;
 - 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 that written confirmation of external funding is received prior to contractual commitments being entered into;
- provision of a contingency within the capital programme to deal with unforeseen circumstances;
- promotion of best practice in capital planning and estimating to ensure that scheme estimates and programmes are realistic;
- compliance with both financial procedure rules and contract procedure rules to ensure that the Council's position is protected;
- consideration of additions to schemes or the introduction of new or reserved schemes into the capital programme will only be made in the context of available resources.

4.3 A review of the governance arrangements for project development and management is being conducted. This seeks to enhance the effective control and delivery of capital projects in support of the council's priorities.

5 Legal And Resource Implications

5.1 Capital Expenditure and Resources 2005/06

The latest forecast expenditure and resources for 2005/06 is £343.6m and £332.5m respectively. As reported to Executive Board in November 2005, there has been slippage in general land and property disposals assumed to fund the 2005/06 capital programme. In order to compensate for this, the general fund revenue budget now makes provision for the cost of additional, temporary, unsupported borrowing of £10m in 2005/06.

5.2 Capital Resources 2006/07

In December 2005, announcements were made by government departments of support for local authority capital expenditure. From 2006/07 this support is provided in the form of revenue support to fund borrowing costs or capital grants to fund capital expenditure. Details of these capital settlements are included at Appendix C and summarised below:

2006/07 Support for Borrowing

	<u>£000's</u>
Housing - HRA	7,616
Housing - General Fund	-
Highways & Transportation	32,111
Education	16,830
Social Services	752
Other scheme specific	4,000
ALMO two star support for borrowing	91,648
Total Supported Borrowing	152,957

5.3 Government Grants

5.3.1 In addition to the resources above, the government also provides grants for particular schemes and programmes. For 2006/07 grants of £73.8m are included in respect of grants such as the schools devolved formula capital, transport supplementary grant and major repairs allowance.

5.4 Other Grants and Contributions

- 5.4.1 Some schemes in the capital programme are funded from contributions from external bodies, including the lottery distributors and private sector developers, and these can be used in full to fund the relevant capital scheme. For 2006/07 contributions of £34.7m are forecast. Schemes proposed by private sector developers which are supported by agreements under Section 278 of the Highways Act are now funded through the council's own capital receipts. The private sector contributions for these schemes are used to support the council's revenue budget.
- 5.4.2 Resources of £5m, secured through planning contributions (section 106) are assumed as a contribution to support the overall capital programme. Work is currently underway to match these contributions to specific existing expenditure proposals.

5.5 Capital Receipts

- 5.5.1 The generation of capital receipts to support the capital programme has become a significant element of the total resources available. For 2006/07, the following forecasts of usable capital receipts have been made:

	<u>£m</u>
Land, property and other disposals	18.9
Sale of Council Houses	16.0
Additional target	10.0
	<hr/> 44.9

- 5.5.2 The above forecast is based on the latest capital receipts regulations under which the majority of receipts from land sales are now usable at 100%. For council house sales, 75% of receipts generated are pooled nationally and used by government to fund new initiatives such as the decency policy. The remaining 25% can be used by the council to finance new capital expenditure.
- 5.5.3 In order for the capital programme to be affordable it is proposed to set a target to bring forward £10m of capital receipts from future years, to be delivered in 2006/07. It will be necessary to ensure that uncommitted schemes are not released for spend until these resources are received.
- 5.5.4 In forecasting the level of capital receipts to be generated from land and property disposals, account is taken of the risks associated with each individual site and these risks are reflected in the forecasts shown above.
- 5.5.5 For 2007/08 and 2008/09 the capital receipts forecasts from sites already identified continues to decline.

5.6 Prudential Indicators

- 5.6.1 With effect from 1st April 2004, central government controls over the amount that local authorities can borrow changed. Local authorities now have more freedom to borrow within a framework of self regulation provided by CIPFA's prudential code for capital finance.
- 5.6.2 Under the new financial framework each authority is required to set a number of prudential indicators and limits for its capital plans which include affordability, the impact of capital investment plans on council tax and housing rents, capital expenditure levels, external debt and treasury management indicators. A number of these indicators relate specifically to treasury management operations and for 2006/07 these are included in the treasury management strategy report elsewhere on this agenda. In relation to capital expenditure, and in accordance with the prudential code, this report indicates future levels of capital expenditure, forecast resources and the resulting borrowing requirement (before providing for the

statutory charge to revenue for past capital expenditure, known as minimum revenue provision). Details are set out in appendices A and B.

- 5.6.3 Any unsupported borrowing carried out must be affordable within the revenue budget (i.e. the cost of debt repayments). For 2006/07, all schemes funded through unsupported borrowing have been provided for in the revenue budget approval for which is dealt with elsewhere on this agenda.

5.7 Capital Expenditure 2006/07

General Fund Services

- 5.7.1 There are insufficient resources available to fund the general fund expenditure plans in 2006/07. Expenditure is programmed at £236.8m whilst resources are forecast of £213.1m. It is considered that this level of overprogramming £23.7m is too high to be managed through normal slippage on schemes. It is proposed that as well as setting the target of £10m for capital receipts noted above, additional controls will be exercised on schemes requiring council resources. Until further council resources can be identified and are delivered, it is proposed that no further commitments are entered into. This position will be monitored throughout the year as capital receipts are achieved.
- 5.7.2 For the majority of the council's activities, it is able to reclaim all VAT incurred on its inputs (purchases of supplies and services). However, some activities are classed by HM Revenue and Customs as exempt and for local authorities these activities include crematoria, insurance, training services (including sports coaching and lessons), letting / hiring out of space e.g. public halls, sports halls and pitches, industrial units and the provision of pre-school nursery care.
- 5.7.3 For these activities there is a restriction as to the amount of VAT the council can reclaim. It is anticipated that eligibility to full VAT recovery can be retained during 2006/07, however the position will continue to be monitored throughout the year.

Housing Revenue Account

- 5.7.4 For 2006/07, forecast expenditure and resources of £141.5m as shown in appendix C. In addition, the ALMOs have submitted their updated building cost models to the ODPM so that changes in costs and other factors since the original bids for two star funding can be taken into account. Only two of the ALMOs have so far received confirmation of the expected additional 20% above the original bids. A response from ODPM is expected shortly and until approval is granted this expenditure is shown as a supplementary programme and will be released if resources are confirmed.

6 Conclusions

- 6.1 The council is seeking to deliver a total of £1,300.5m in capital expenditure through the capital programme between 2005 and 2009. Current expenditure plans exceed the resources available to deliver these plans and the council will seek to attract funding and to deliver capital receipts to enable the programme to be delivered.
- 6.2 In addition, progress on uncommitted schemes in the programme requiring council resources will be closely monitored to ensure that the delivery of the capital programme is sustainable. It is proposed to provide quarterly reports on the progress the capital programme to the Executive Board.

7 Recommendations

- 7.1 Members are asked to:
- a) recommend to full Council that the attached capital programme be approved;

- b) recommend to full Council that schemes not already committed and reliant on council funding should be held pending identification of additional resources and to delegate to the Director of Corporate Services the arrangements for managing this process;
- c) agree to receive quarterly monitoring reports on the capital programme.

Background papers

Capital programme 2005/2009