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Report of the Director of Resources

Executive Board

Date: 8th October 2008

Subject: Capital Programme Update 2008-2012

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In
(Details contained in the report)

EXECUTIVE SUMMARY

1. This report sets out the latest capital programme position for both the general fund and housing. The current economic climate is impacting on the Council's ability to generate capital receipts from the disposal of surplus land and buildings, to support the financing of the capital programme and without actions being taken; the current programme cannot be afforded. The report contains proposals on expenditure and resources which will bring the capital programme to a more manageable position.
2. The capital programme in February 2008 included the Strategic Development Fund, a sum of £100m phased over 5 years. This report makes high level proposals for the allocation of the Strategic Development Fund.

1.0 Purpose Of This Report

- 1.1 To provide Members with an updated financial position on the 2008 – 2012 Capital Programme. In view of a reduced level of resources, the report seeks to realign the programme through a combination of re-profiling of expenditure, scheme reductions and through allocating resources from the Strategic Development Fund to existing capital programme schemes. The report also details the action that is being taken in respect of individual capital schemes to ensure that the overall level of Capital Programme expenditure can be managed within the tolerances assumed for what is an ever changing resource position.

2.0 Background Information

- 2.1 The Capital Programme 2007/08 – 2011/12, approved by Council in February 2008, projected expenditure of £1,404.3m from 2007/08 to 2011/12. General Fund overprogramming over that period of £48.1m was assumed, which based on previous years was considered to be manageable.
- 2.2 Some of the resources to fund the capital programme are generated from the sale of assets. In light of the current economic climate the projected capital receipts from the sale of surplus land and buildings have fallen considerably resulting in insufficient resources to fund the general fund capital programme. This report sets out proposals in respect of expenditure and resources to bring the Capital Programme to a more acceptable resource position. Also included is an update on the HRA (including ALMOs) capital programme position.

3.0 General Fund Capital Programme

- 3.1 The Capital Programme approved by Council in February 2008, projected general fund expenditure of £752.5m from 2008/09 to 2011/12. Taking account of the projected resources available, there was an overprogramming position of £48.1m, which based on previous years and with close monitoring, was considered to be manageable.
- 3.2 Over the four year period to 2012 capital receipts of £154.1m were projected with an additional target over the period of £16m. Since the February Capital Programme was approved there has been a significant downturn in the economy and particularly in the property market. Some large disposal sites assumed within the forecast are now unlikely to deliver capital receipts within the timescale originally envisaged and a more pessimistic view on valuations generally has been taken on other sites.
- 3.3 The projected level of capital receipts over the four year period now stands at £122.5m and unless actions are taken, this will result in an overprogramming position of £88.3m. This level of overprogramming is not manageable and therefore proposals have been drafted to reduce it to a more acceptable level.
- 3.4 Details of the proposals for capital programme amendments set out in Appendix A, have been discussed with service directorates and are summarised in the table below. The proposals summarised below include:
- (i) Annual programmes - amendments to provisions which are made annually in the programme and tend to be for ongoing upgrade and replacement programmes etc
 - (ii) Asset management – sums made available to address backlog maintenance of existing buildings

- (iii) Scheme reductions and re-profiling – adjustments to existing sums in the programme either in total or on a year on year basis.
- (iv) Use of Strategic Development Fund - see paragraph 4 below
- (v) Other – calling on other resources, specifically HRA capital receipts and other receipts.

Proposed Amendments to the Capital Programme

Adjustment	2008 to 2012 £m	After 2012 £m	Total £m
Annual Programmes	-3.30		-3.30
Asset Management	-2.00	+2.00	Nil
Scheme reductions and re-profiling	-9.10	+3.00	-6.10
Allocation of the Strategic Development Fund to existing schemes	-24.00		-24.00
Use of Capital Receipts usually applied to the HRA/ALMOs programme	-11.50		-11.50
Other capital receipts	-2.00		-2.00
TOTAL ADJUSTMENTS	-51.90	+5.00	-46.90

- 3.5 After the above amendments the overprogramming to 2012 would reduce to £36.3m which is considered more manageable. It is important that tight control is maintained over capital spending and commitments and the Director of Resources will continue to exercise the controls necessary to ensure that the programme is affordable.
- 3.6 It should be noted also that due to the impact of the economic climate on the property market, further variations in capital receipts forecasts could arise in which case a further review of capital resources may be required.

4.0 Strategic Development Fund

- 4.1 The Capital Programme approved in February 2008 contained a £100m Strategic Development Fund. This fund is phased over 5 years and is funded through unsupported borrowing, the cost of which falls to be met by the revenue budget. The purpose of the fund was to provide additional capital resources for projects that lead to service delivery improvements, spend to save and efficiency and for investment in strategic infrastructure projects.
- 4.2 In accordance with these intentions it is proposed to sub divide the fund into specific investment types and these are outlined below:

Investment Type	Amount £m	Description	Potential Calls against these
Major Infrastructure	60.0	Investment to facilitate major city wide infrastructure. May include transport and road initiatives or contribute to such issues as flood alleviation	£24m as per Appendix A Land at Lowfields Rd approved at Exec. Board New Generation Transport Flood Alleviation Leeds Arena
Investment in delivery of Strategic Outcomes	20.0	Investment in projects that work towards delivering specific outcomes from the Strategic Plan	Capital investment strategies being developed by services setting out capital investment needs. An example would be investment in the healthy living agenda.
Business Transformation / Efficiency Projects	20.0	Business Transformation projects which are critical to changing our organisation in order to deliver many of the Business Plan objectives and Strategic Plan outcomes. Many of these projects will generate future revenue savings which can be reinvested in services.	The first tranche of projects are 'enabling' and will provide the basis to support the future business transformation programme

4.3 It should be noted that the proposals set out in paragraph 3.4 allocate £24m of the major infrastructure element of the fund to existing capital programme schemes. In addition, Executive Board at their meeting in July 2008 made an allocation from the fund for the acquisition of land at Lowfields Road.

5.0 Housing Capital Programme

5.1 The February 2008, capital programme projected HRA expenditure of £273.4m between 2008/09 and 2012. Over this period there was overprogramming of £18m. Since that time the forecast of Right to Buy capital receipts has fallen significantly due to the situation in the property markets. The revised projected position is for expenditure to 2012 of £289.3m with overprogramming of £19.7m.

5.2 An updated position with regard to the achievement of the decent homes standard has been established. Using the Government's definition of decency (on which Government funding for decency was based) the latest position is that there are surplus resources available of £30m. The proposals on the General Fund capital programme in 3.4 above includes using capital receipts of £11.5m which in the past have been used to support the HRA capital programme. If this is agreed, this plus other resources adjustments would reduce this surplus of resources to £18m.

5.3 In order to put this proposal into context, it should be noted that the level of capital receipts used to support the ALMO capital programmes since 2003 has been significantly in excess of those originally envisaged. Since 2003/04 capital receipts of £41m have been or are planned to be used to support the HRA and ALMO programmes. This compares to the original business plan which only required capital receipts of £7.7m, an increase of £33.3m.

- 5.4 In addition, ALMOs currently have net reserves available of £14m (after retaining working balances) and there are HRA reserves of £5.85m earmarked for decency which can more than compensate for the £11.5m capital receipt reduction.
- 5.5 Whilst in overall terms there are sufficient resources to deliver the decent homes standard across the city, there are some significant variations between the ALMOs with Aire Valley Homes and East North East Homes showing that they can achieve the Decent Homes standard by 2010/11, whilst West North West Homes are projecting a shortfall. WNWH have not revised their investment requirement since it was presented in January 2008. Therefore once updated to reflect capital spend incurred in 2007/2008 this position could change.
- 5.6 Whilst there are sufficient resources within the HRA to fund the Government's definition of decency, it must be recognised that there are capital investment needs in respect of mandatory and essential non-decency works. The mandatory element of this is adaptations and DDA work. Further work needs to take place to establish which non-decency works are essential so that consideration can be given to possible funding options.

6.0 Implications for Council Policy and Governance

- 6.1 As reported in February 2008, following the approval of the Strategic Plan and Business Plan, service directorates have reviewed schemes within the programme in relation to the new strategic outcomes, and have started to develop plans for the capital investment which will be required if these outcomes are to be achieved.
- 6.2 These plans are being developed into a capital investment strategy which will also highlight strategic infrastructure investment for the city. These plans will be used to inform the detailed allocation of the Strategic Development Fund referred to in section 4.

7.0 Legal and Resource Implications

- 7.1 Due to the reduction in the forecast level of capital receipts, the existing capital programme cannot be afforded. If the adjustments proposed in this report are made, the overprogramming on the general fund programme to 2012 will stand at £36.3m. To manage this overprogramming, the Director of Resources will continue to closely monitor expenditure, resources and commitments.
- 7.2 It is proposed that the control measures currently in place for managing the capital programme will continue. These are:
- All Leeds funded schemes are subject to individual review at the point at which the client service seeks spending approval
 - No new injections to the programme can be made without first identifying additional resources or substituting for an existing scheme
 - No capital receipts assumed to fund the programme can be diverted to other projects or initiatives without identifying alternative resources that will be available within the same year.

8.0 Conclusions

- 8.1 Over the four year period of 2008/09 to 2011/12, the council is seeking to deliver a total of £817.5m general fund capital investment within the city. Current expenditure plans exceed the resources available to deliver these plans. After making the adjustments detailed in Appendix A, overprogramming is reduced to £36.3m which for the size of the programme is considered manageable with careful monitoring and control. However, the council will continue to seek to maximise the external funding sources and to deliver capital receipts to ensure the programme can be delivered.
- 8.2 A number of measures are taken to ensure that the programme remains affordable as outlined in 7.2. The Director of Resources will continue to work with service directors to ensure that capital schemes are properly developed and that a business case process is operated to demonstrate investment is aligned to corporate objectives, meets the needs of the public and will deliver best value.
- 8.3 In managing the overall funding for the programme particular emphasis is placed on ensuring that contractual commitments are only made when there is reasonable certainty that the appropriate resources are available. The Director of Resources will co-ordinate the approval of schemes to ensure that they are brought forward in a timely way and are affordable. Update reports on the overall capital programme position will be reported to Executive Board 3 times each year.

9.0 Recommendations

- 9.1 Members are requested to approve:
- a) The adjustments to capital programme expenditure and resources as detailed in Appendix A.
 - b) That the Strategic Development Fund be sub-divided into 3 investment areas as set out in section 4.

Appendices

A – Proposals for realigning the capital programme

Background Documents

Capital Programme 2007 -2012, Executive Board and Full Council February 2008