Leeds
CITY COUNCIL

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Report of the Director of Resources

Executive Board

Date: 4th November 2009

Subject: Capital Programme Update 2009-2013

Electoral Wards Affected:	**Specific Implications For:**	
	Equality & Diverstity	☐
	Community Cohesion	☐
☐ Ward Members consulted (referred to in report)	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. Overprogramming on the general fund programme has increased compared to that reported in July 2009. Forecast expenditure within the ALMO programmes can be contained within available resources however, further work is required with one ALMO to reduce the level of overprogramming.
2. The report seeks approval to a small number of spending releases and the earmarking of a capital receipt for the BSF programme.
3. The report concludes that a further review of the programme will be required prior to the next Executive Board report in February 2010 to ensure that expenditure plans can be contained within available resources.

1.0 Purpose Of This Report

1.1 To provide Members with summary financial details of the 2009/10 month 6 Capital Programme position. The report seeks a small number of scheme specific approvals which have arisen since the 2008/09 – 2012/13 Capital Programme was approved in February 2009 and the previous update report to Executive Board in July 2009. 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 approved by Council in February 2009, projected expenditure of £1,214.7m from 2008/09 to 2012/13. General Fund overprogramming over that period of £25.1m was assumed which based on previous years was considered to be manageable. The position approved in February also included a reserved programme of £30.6m. Some transfers from the reserved programme were reported to Executive Board in July 2009. For HRA, overprogramming of £32.3m was included and ALMOs are expected to manage this throughout the year and constrain their expenditure within resources available.

2.2 Some of the resources to fund the capital programme are generated from the sale of assets. In the current economic climate, projected capital receipts from the sale of surplus land and buildings have fallen and the capital receipts forecast incorporated within the capital programme in February reflected the latest position. Changes to the capital receipts position are included within this report. Also included is an update on the HRA (including ALMOs) capital programme position.

2.3 Since July some spending and resource issues have arisen or have been further clarified and these are set out in this report.

3.0 General Fund Capital Programme

3.1 The Capital Programme approved by Council in February 2009, projected 2009/10 expenditure for the general fund of £267.6m. Due to slippage from 2008/09 to 2009/10, resources assumed to fund this expenditure have also slipped. Since February 2009 there have been a number of Capital Programme injections some of which have been funded by external and other resources. A schedule of these schemes, showing those injections above £100k, is included at **Appendix A.**

3.2 Included within Appendix B are two items of capitalisation, (where charges to the revenue account should more correctly be treated as capital expenditure). These relate to expenditure of £1m on highways maintenance and £1.6m of BSF development costs. In recent years the costs of developing and managing the extensive design and build BSF programme have been charged to the capital programme at year end but have not been budgeted for within the capital programme. Costs during 2009/10 have now been confirmed as £1.6m and have now been included within the 2009/10 capital programme; £0.9m was also previously capitalised at the end of 2008/09. As part of the review of the capital programme in February 2010, costs for future years will be considered further and built into the programme accordingly. These items of capitalisation have increased the overprogramming by £3.5m since February 2009.

3.3 The level of overprogramming in February 2009 over the period 2008/09 to 2012/13 was projected at £25.1m. In July 2009 it was reported that this had increased to

£28.4m. At month 6 overprogramming stands at £34.9m, an increase of £9.8m on February 2009. The main reasons for this increase are:

- capitalisation of £3.5m referred to in paragraph 3.2 above,
- reduced borrowing of £2.4m funded by car parking income due to a reduction in the forecast car park income from the former International Pool site,
- a lower than assumed additional Local Transport Plan allocation of £1.9m over three years.
- £600k on City Varieties as detailed below in paragraph 3.7.4.
- other minor capital receipt variations.

3.4 The capital receipts position continues to be a difficult one. The forecast receipts from disposal of land and buildings during the current year stands at around £6m and in the current climate this is unlikely to improve.

3.5 The estimated expenditure for 2009/10 now totals £322.5m whilst resources are projected at £316.2m. The resulting overprogramming of £6.3m is considered to be within usual tolerances for this stage of the year. Currently, in the following 3 years, overprogramming stands at £16.9m, £17.7m and £23.7m. This will need careful management to ensure the programme is affordable. It should be noted also that in year 5 of the programme (2013/14), no capital expenditure is currently forecast whilst capital receipts of £29.9m are assumed. The current forecast position is set out in **Appendix B.**

3.6 The programme will continue to be closely monitored with a view to ensuring that the programme that can be delivered within available resources whilst minimising the service related impact of any delay in delivering schemes. An updated programme will be reported Executive Board in February 2010.

3.7 Following a review with service directorates, some capital pressures have been identified and these are detailed below:

3.7.1 **New Generation Transport Scheme (NGT)**. The capital programme makes provision for meeting a share of the development costs on the NGT project. Due to the need to progress the development of the scheme further than originally assumed, a further £844k will be required in 2009/10. Members will recall that a proportion of the Strategic Development Fund was allocated to this scheme and it is proposed to use some of these resources to meet the additional costs this year.

3.7.2 **Accelerated Development Zone – Development Costs**. The council is working with government on a new policy framework and funding mechanism for infrastructure investment to support development, known as accelerated development zones (ADZ). The council has submitted a pilot proposal for an ADZ to be established in the Aire Valley, to allow the development of large areas of brownfield land for jobs and homes. A £100k contribution from private land owners to the development costs of this have been secured and requires a council contribution of £50k. It is proposed that this is released from the capital contingency scheme. It should be noted that if the pilot bid is successful, further costs will need to be met in future.

3.7.3 **Wortley High School Capital Receipt**. The closure of Wortley High School formed part of the BSF schools development programme in West Leeds. The BSF funding package assumes that the capital receipt generated from disposal of the site will be used to support re-provision, however, approval has not previously been sought to earmark the capital receipt for this purpose. It is proposed that the capital receipt from the disposal of the Wortley High School site be earmarked to the BSF programme.

3.7.4 **City Varieties – additional costs.** This scheme is in the existing capital programme and is funded by a combination of Heritage Lottery grant, council resources and contributions from City Varieties. The scheme costs have increased by £600k as a result of changes to design as the scheme has progressed to contract. Whilst there are sufficient funds to award a contract at this time, the level of contingency that would be provided is not deemed sufficient for a building of this kind and officers would not recommend an award on this basis. In order that a contract can be awarded with a more acceptable level of contingency, it is proposed to make an injection of £600k to the capital programme. A further report to Executive Board will be considered in December detailing revised costs and funding solutions.

3.7.5 If Members are minded to agree the above proposals the overprogramming in 2009/10 will remain at £6.3m which is considered manageable with careful monitoring. Over the 5 year programme, overprogramming will increase to £34.9m which is higher than would normally be acceptable. In the current economic conditions with few capital receipts and pressure on revenue budgets limiting borrowing opportunities, this will need to be monitored carefully to ensure the programme is affordable.

4.0 Housing Revenue Account Programme

4.1 The approved February 2009 Capital Programme reported an overall HRA programme of £321.3m for 2008/9 through to 2012; this included an additional programme of £32.3m for which resources were not available. The 2009/10 programme was £64.1m (gross, including £12.8m overprogramming), significantly reduced from the 2008/09 outturn position of £116.8m.

4.2 The reduction in the overall value of the ALMO programmes for 2009/10 is a result of 2008/09 being the final year in which the government has provided funding to the ALMOs via supported borrowing in order to progress all HRA properties towards meeting Decency standards by March 2011. The ALMOs are now reliant on their annual Major Repairs Allowance (MRA) grant funding as their main source of funds for tackling Decency.

4.3 The 2009/10 forecast spend now stands at £63.1m including overprogramming of £5.2 m. This will be managed within available resources with the likelihood that some schemes will slip to later years.

4.4 In the forward years through to 2012, forecast spend stands at £137.2m, a reduction of £6.7m compared to February 2009 (£2.8m of the reduction has been slipped into 2013 on). This reflects a more prudent assessment by the ALMOs of their levels of funding in the forward years which at this stage are indicative as allocations beyond 2010/11 have still to be confirmed.

4.5 Further work will be undertaken with the Director of Environment & Neighbourhoods and the ALMOs to address the overprogramming and deliver a programme within the available resources.

4.6 Monitoring of the individual ALMO programmes indicates that current levels of overprogramming in the 2009/10 programmes can be managed down within the available resources by March 2010. The current position for each ALMO is summarised below:

Belle Isle and Aire Valley Homes(AVH) – Both organisations have realistic programmes and the 2009/10 month 6 expenditure is in line with projections. Belle Isle are currently projecting £33k surplus resources on a projected expenditure of £2.163m; expenditure at month 6 is £580k. AVH have a balanced programme with projected expenditure of £11.221m; expenditure at month 6 is £4.513m. Their current programmes are realistic for being delivered within the available resources.

East North East Homes (ENEH) – the 2009/10 programme is currently £20.973m with available resources of £15.423m reflecting a significant overprogramming of £5.550m. The expenditure position at month 6 is £6.595m and further work on reprofiling schemes and revising start dates for work is essential to ensure the programme is managed effectively within available resources. It should be noted there are currently discussions taking place between the Director of Environment and Neighbourhoods, the Director of Resources and ENEH to clarify funding approvals and responsibilities relating to the acquisition and demolition of privately owned properties within the area. Clarification is being sought as to which properties have been acquired as part of the ALMOs stock rationalisation process (and consequently represent a cost to be met by the ALMO) and those relating to site assembly for transfer to the EASEL project. Some of the overprogramming within the ENEH capital programme relates to this issue.

West North West Homes (WNWH) – the 2009/10 programme at £24.911m is currently the largest of the three ALMOs. The projected resources are £25.249m giving a current surplus of £0.338m to be reprofiled to support expenditure in the forward years. The Month 6 spend position is £7.763m and the programme is realistic for delivery within available resources.

5 Implications For Council Policy and Governance

5.1 The main risk 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 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;
- provision of a contingency within the capital programme to deal with unforeseen circumstances;
- promotion of best practice in capital planning and estimating to ensure that scheme estimates and programmes are realistic;

- compliance with both financial procedure rules and contract procedure rules to ensure the Council's position is protected;
- the use of unsupported borrowing by directorates based on individual business cases and in the context of identifying the revenue resources to meet the borrowing costs;
- 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;

6 Legal and Resource Implications

6.1 The resource implications of this report are detailed in section 3 above. For the capital programme to be sustainable, the Director of Resources must be satisfied that spend in each year of the programme can be afforded. A level of overprogramming is suitable for the capital programme to take account of the nature of capital schemes where timing is not always easy to predict.

6.2 The economic downturn is continuing to have a significant effect on our ability to resource investment in our strategic priorities. If the proposals outlined in section 3 are accepted, the overprogramming over the life of the capital programme will increase to £34.9m which is £9.8m higher than reported in February 2009. This is not sustainable in the long term and whilst the position in 2009/10 can be managed, a further review of the programme will be required prior to the February 2010 capital programme report to Executive Board.

6.3 For HRA, the position outlined in section 4 shows that in the main, expenditure by the ALMOs can be managed within resources available. Further work needs to take place with ENEH as referred to in paragraph 4.6 above.

6.4 In the February 2009 capital programme report Members agreed that no further injections can be made to the capital programme without a corresponding reduction or identification of additional resources. In light of the current resources position and the economic climate in general it is imperative that this principle is maintained.

7 **Conclusions**

7.1 The general fund overprogramming of £6.3m in 2009/10 can be managed through to the end of the year. The overprogramming over the life of the programme, £34.9m is higher than normal tolerances and due to the current economic conditions, is unlikely to improve in the near future.

7.2 For HRA, with the exception of ENEH, ALMO forecast expenditure can be contained within available resources in 2009/10. Further work will take place with ENEH to resolve the outstanding issues.

7.3 A number of spending pressures have been identified by directorates and these are outlined in section 3.7.

8 Recommendations

8.1 Executive Board are requested to:

a) note the latest position on the general fund and HRA capital programmes and that further work will take place with ENEH to clarify funding responsibilities.

b) note the general fund capital programme now takes account of £1m of additional highways maintenance costs and £1.6m of BSF development costs in 2009/10.

c) approve the release of £844k from the Strategic Development Fund already earmarked for NGT to meet the council's share of development costs in 2009/10.

d) approve the transfer of £50k from the capital contingency scheme to meet the development costs on the ADZ pilot scheme.

e) approve the earmarking of the Wortley High School capital receipt to the BSF programme.

f) Approve the injection of additional spend of £600k on the City Varieties.

<u>Associated Documents</u>

a) Capital Programme 2008/09-2012/13 – Executive Board 13th February 2009

b) Capital Programme Update 2009-2013 – Executive Board 22nd July 2009