



Report of the Director of Resources

Executive Board

Date: 25th August 2010

Subject: Capital Programme Update 2010-2014

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality & 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. During the first quarter of 2010/11, announcements on Government cuts and clawback of grants have resulted in reductions to the programme.
2. Following Executive Board in February 2010, a detailed programme of vehicle replacements has been drawn up and a similar programme for equipment replacements is in progress.
3. A review of all Leeds funded capital schemes has commenced with a view to reducing borrowing costs. The outcome of this will be reported to Executive Board at a later date.

1.0 Purpose Of This Report

- 1.1 To provide Members with an updated financial position on the 2010 – 2014 Capital Programme. The report sets out the implications of the recent cuts to capital grants announced by central government and reports on a review of uncommitted schemes which has taken place.
- 1.2 The report also includes details of a small number of capital projects for which specific approvals are sought.

2.0 Background Information

- 2.1 The Capital Programme 2009/10 – 2013/14, approved by Council in February 2010, projected expenditure of £1,105.5m from 2009/10 to 2013/14. General Fund overprogramming over that period of £40.2m was assumed, which whilst higher than the previous year was considered to be manageable. The position approved in February also included a reserved programme of £49m which can only be progressed if additional resources become available.
- 2.2 Since June 2010 the new coalition government have announced a number of in year capital grant cuts which for Leeds currently total £10.1m. The resources available to local authorities over the coming four years will become clearer in the Comprehensive Spending Review to be announced on 20th October 2010 but indications are that reductions of 25% over the period could be expected.
- 2.3 In addition to cuts in grants funding specific capital projects and programmes, the reductions in revenue grant are expected to be significant. Many of our schemes are funded through borrowing, the costs for which are met by the Council. In view of the expected reductions in revenue resources going forward a review has commenced of all uncommitted projects funded by the Council and this is further described in section 3.4.
- 2.4 In February 2010 it was reported that detailed work was to take place on the vehicle and equipment programmes and progress on this is set out in section 3.2.

3.0 Main Issues

3.1 Changes to Capital Funding 2010/11

- 3.1.1 As part of the £6bn government cuts package announced in early June, £6.53m of capital grant due to be received in 2010/11 was cut. Since this, further grant reductions and clawbacks have been instigated by Government departments. A summary of the latest position is shown in Table 1.

Table 1 – Cuts in Capital Funding 2010/11

Grant Area	£m
Integrated Transport Block	1.95
Primary Route Network funding	1.06
Road Safety Capital (note 1)	0.27
Additional Regional Transport Funding (see para 3.1.3)	
LAA Reward Grant	3.25
Extended Services Grant (54% reduction)	0.35
Children's Centres and Quality & Access Grants – subject to review and awaiting confirmation of reduction	
Youth Capital Grant (50% reduction)	0.21
Youth Hub funding (My Place DfE Big Lottery funding, clawback of the uncommitted balance)	1.15

'Pot 4' Free Swimming Grant (Aireborough & Kirkstall)	1.91
Total confirmed funding cuts /clawback to date:	10.15

Note 1: £0.7m cut for West Yorkshire, Leeds element is £265k

- 3.1.2 Consideration has been given to the impact these reductions will have on the highways and transportation capital plans. Slippage in earlier years on the Integrated Transport Block meant that resources of £2.8m had already been slipped back to later years. To compensate for the reductions above, £1.4m of this slippage has now been brought forward to 2010/11 which will bring the 2010/11 programme of works back on track. In terms of the Primary Route Network, the cut in grant means that some elements of the programme will need to be deferred to later years.
- 3.1.3 During 2009, the Regional Transport Board agreed to devolve part of the regional budget down to authorities by means of a 20% uplift to Local Transport Plan funding, in order to partly address an underspend on the Regional Budget. The first instalment of £10.983m in 2009/10 was paid directly to authorities and Leeds received £2.957m. For 2010/11 and 2011/12 the remaining £24.272m was allocated to the WY Integrated Transport Authority and prioritised for a programme of 'reserve' schemes which had not previously secured funding from the RTB. Of this funding £4m was to be allocated to the Leeds Inner Ring Road Tunnel in 2011/12 (no funding was allocated to Leeds in 2010/11). As part of the government reductions, this uplift funding has been reduced by 50% and the WY Local Transport Partnership will need to discuss how this reduction will impact on individual planned projects. It should be noted that £2m of the work on the Leeds Inner Ring Road Tunnel is considered essential for safety reasons.
- 3.1.4 In addition to the reductions above, Government have announced that for some grants the ringfence has been removed. Table 2 shows the balance of the uncommitted element of these grants. By removing the ringfence, there is now scope to use these grants for other priorities.

Table 2 Un-ringfenced Grants

Grant Description	Balance still uncommitted £000
Fair Play Playbuilders	600.0
Capital Investment for Transformation in Adult Social Care	426.0
Social Care IT Infrastructure	241.0
Detrunking	745.0
Total Unringfenced grants	2012.0

It should be noted that subsequent to the announcement of the ring fence being removed from Fair Play Playbuilder grant, the DfE on 15 July 2010 instructed all authorities not to commit any further Playbuilder funding until further guidance is issued .

3.2 Vehicle and Equipment Programmes 2010/11

- 3.2.1 In February 2010 it was reported that detailed work was to take place on the vehicle and equipment programmes with a view to extending the life of assets and thereby reducing the cost of these programmes. In relation to vehicles, a detailed review has taken place of service operational requirements, fuel and maintenance costs and developments in safety and environmental impacts and operational requirements, to arrive at a recommended vehicle replacement programme for 2010/11. Due to the

need to provide the vehicles necessary to support business needs, this replacement programme, totalling £3.051m has commenced. Any proposals for new vehicles will require a business case to be considered and funding to be identified before purchase.

- 3.2.2 Similarly, a review has commenced of the equipment programme to determine priorities for equipment purchases and replacements. This work is still in progress but £3.138m of equipment purchases have been approved to date. Business cases are being assessed to determine priorities for allocating the remaining provision and it is anticipated that priorities will be contained within the budget level set in February.

3.3 Capital Programme Resources Position

- 3.3.1 The capital grant cuts shown in Table 1 have now been substantially reflected in the General Fund capital programme. For 2010/11 the forecast capital spend stands at £344.2m with forecast resources of £325.2m leaving overprogramming of £19m. Over the 4 year period to 2013/14, forecast capital spend stands at £699m with forecast resources of £647.9m leaving overprogramming of £51.1m.
- 3.3.2 To fund the current capital programme (excluding overprogramming) will require unsupported borrowing of £215.7m, the cost of which is met by the Council. As referred to in paragraph 3.4, a review has commenced of all uncommitted Leeds funded schemes with a view to making reductions to save borrowing costs and this process is explained further below.
- 3.3.3 For the Housing Revenue Account, forecast spend in 2010/11 stands at £73.9m with resources of £65.6m leaving overprogramming of £8.3m. Over the 4 year period to 2013/14, spend of £181.1m is forecast with resources of £163m leaving overprogramming of £18.1m.

3.4 Review of General Fund Uncommitted Schemes

- 3.4.1 Many of the schemes funded wholly or partly by the Council are funded from borrowing, the costs of which fall to the revenue budget. Each £1m of capital spend results in annual borrowing costs of £85k. Reducing capital schemes funded by borrowing will save money in the revenue budget and in light of the expected reductions to revenue funding in future years a review has commenced of all uncommitted Leeds funded schemes. In addition, any projects seeking to utilise the now un-ringfenced grants shown in Table 2 are also preparing business cases for consideration.
- 3.4.2 To focus this review it was necessary to determine some high level priority areas and these are:
- **Invest to Save** – does the scheme save revenue costs in the future or generate additional income? Is the business case robust?
 - **Avoidance of Future Costs** – does the investment mean that costs will be avoided in future?
 - **Protecting our assets** – does the investment protect our existing assets and/or meet compliance/regulatory requirements
 - **Adult and Children's Social Care** - Following the principles above in terms of sound business case, does the investment support improvements in Adult or Children's Social Care?

- **Environmental Impacts** – Does the investment reduce energy costs and/or carbon emissions?

3.4.3 A group of Chief Officers across the Council are re-considering business cases and proposals for all the schemes in relation to the above priorities. The group will consider how existing schemes meet the above priorities, whether business cases and proposals are well defined and robust, whether the current scope of projects is appropriate and necessary and whether schemes could be deferred to a later date. Recommendations from the group will be drawn up and reported to Executive Board at a later date. In the meantime, all projects are on hold.

3.5 Specific Project Issues

3.5.1 **Relocation of services to Adams Court** – Education services currently carried out at sites at Blenheim and Elmete are due to relocate to Adams Court from October 2010 onwards; this will free up the Elmete site for disposal. Some works need to be carried out at Adams Court to facilitate this move and these are funded from unsupported borrowing the cost of which will be met by the savings from the two sites vacated. Refurbishment and relocation costs of £300k are anticipated and approval is sought to these works.

3.5.2 **City Card Leisure and Arts** - In light of the constraints placed on the capital programme this project is no longer considered a priority and it is proposed to remove the scheme from the capital programme resulting in a saving of £1.3m.

3.5.3 **Home Insulation Scheme** – The Council is working towards drawing up proposals for the introduction of a Home Insulation scheme within the city. To commence an initial phase of this it is proposed to make available the funding released from the above project.

3.5.4 **Fire Risk in Adult Social Care (ASC) buildings** – There is currently £1.7m funding remaining on this scheme that will not be required in full to address fire risk issues in ASC buildings. The Chief Officer, Corporate Property Management is therefore seeking amendment to the original £3.1m funding approval given by Executive Board as part of the February 2008 Capital Programme report, to enable this funding to be used to address fire safety issues in all the Council's operational buildings wherever those risks are identified. Individual schemes making a call on this funding will require the requisite financial approvals to be obtained.

3.6 Housing Capital Programme

3.6.1 The approved February 2010 Capital Programme reported an overall HRA programme of £235.4m for 2009/10 through to 2013; this included an additional programme of £16.4m for which resources were not available. The 2010/11 programme approved in February 2010 was £64.9m (gross, including £2.2m overprogramming); by comparison the 2009/10 outturn position was £54.1m.

3.6.2 The reduction in the overall value of the ALMO programmes for 2010/11 and the forward years reflects 2008/09 having been the final year in which the government provided funding to the ALMOs via supported borrowing in order to progress to all HRA properties 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.

3.6.3 In addition on the 14th July 2010, full Council approved the proposals for the use of the £4.6m HRA subsidy refund which will provide added value to the Council over and above planned works. The funding will be allocated across the 3 ALMOs, BITMO and the Strategic Housing function specifically targeted to work additional to mainstream decency work. The detailed schemes include fire safety and security works at multi storey blocks, additional adaptations, tackling non traditional housing, energy efficiency work and support for the Council's key regeneration schemes.

4.0 Implications For Council Policy and Governance

4.1 The economic downturn is continuing to have a significant effect on our ability to resource investment in our strategic priorities. In addition central government cuts and grant clawbacks are also limiting capital investment. As reported in section 5, a review of all uncommitted schemes funded by Leeds resources has commenced, the outcome of which will be reported to Executive Board at a later date.

4.2 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 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;
- 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.

5 Legal and Resource Implications

5.1 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. The capital

programme approved in February 2010 was overprogrammed by £40.2m over a 5 year period. The latest position shows overprogramming of £51.1m on general fund which is considered manageable with careful monitoring. For HRA, ALMOs will realign their programmes within the funding available and therefore any overprogramming will be contained.

- 5.2 In the February 2010 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.
- 5.3 Given the current and increasing financial constraints placed on the Council with regard to the delivery of the capital programme, this may require the Director of Resources to exercise his statutory Section 151 financial responsibilities to ensure the overall capital programme position remains affordable.

6 **Conclusions**

- 6.1 The latest general fund forecast expenditure for 2010/11 is £344.2m with resources available of £325.2m resulting in overprogramming of £19m. This forecast expenditure level is considered optimistic and will be addressed by departments reviewing and adjusting the spending profiles for their schemes to ensure they are realistic and achievable. Overprogramming for the general fund programme through to 2013/14 stands at £51.1m which is higher than reported in February 2010. This is largely due to variations in funding used to resource the 2009/10 capital programme.
- 6.2 For HRA, resources available in 2010/11 are £65.6m and expenditure plans will be contained within this total. HRA resources through to 2013/14 stand at £163m.
- 6.3 In light of reductions in local government funding in future, a review of all uncommitted schemes funded by Leeds resources has commenced with a view to reducing the level of borrowing required to fund the programme. This in turn will reduce debt costs in the revenue budget.

7 **Recommendations**

- 7.1 Executive Board are requested to:
- a) Confirm approval to spend of £3.051m on the vehicle replacement programme.
 - b) Give authority to spend of £3.138m on the equipment replacement programme.
 - c) Note the capital review process currently underway which will be reported back to Executive Board at a later date.
 - d) Approve an injection of £300k to the capital programme funded through unsupported borrowing and give authority to spend in respect of the relocation of services from Blenheim and Elmete to Adams Court.
 - e) Approve the removal of the remaining funding of £1.3m for the City Card scheme.
 - f) Approve an injection to the capital programme of £1.3m to implement the first phase of the Home Insulation scheme, details of which will be presented to a future meeting of Executive Board for approval.

- g) Approve the use of the balance of ASC fire safety funding to address identified fire safety risks across all operational buildings within the Corporate Property Management portfolio.

Associated Documents

- a) Capital Programme 2009/10-2013/14 – Executive Board 12th February 2010