



Leicester
City Council

**OVERVIEW & SCRUTINY MANAGEMENT BOARD
CABINET
COUNCIL**

**4 MARCH 2010
8 MARCH 2010
25 MARCH 2010**

REVIEW OF CORPORATE CAPITAL PROGRAMME 2010/11

Report of the Chief Finance Officer

1. Purpose of Report

- 1.1 The purpose of this report is to present a “corporate” capital programme for 2010/11.
- 1.2 The corporate programme is that part of the Council’s capital programme which can be spent at our own discretion, and is chiefly funded from property sales. These sales have reduced substantially in the economic downturn.
- 1.3 Significant programmes exist for housing, education and transport, funded by earmarked government resources. These programmes have been, or are being, reported separately to Cabinet and Council.

2. Summary

- 2.1 The Council approved a new financial strategy in February 2009. The financial strategy supports the Council’s vision for Leicester, and forms the strategic context for the capital programme.
- 2.2 In March, 2009, the Council departed from its usual practice of approving multi-year capital programmes, and approved a one year programme. This was due to the economic downturn and our inability to forecast future capital receipts. It is proposed that a one year programme be prepared again for 2010/11.
- 2.3 In practice, the programme only includes a programme of minor works, together with works continuing from 2009/10; and a development of the New Business Quarter which is a major, externally funded, regeneration project.

- 2.4 An assessment of the property market will take place in Autumn 2010, with a view to establishing whether or not normal levels of activity are returning. Dependent on this, a one year or multi-year programme will be prepared from 2011/12.
- 2.5 Through adopting a short-term outlook, the Council has avoided having to review, and make cuts to, a multi-year capital programme.
- 2.6 The programme also envisages a longer term project to redevelop the market, and the creation of a capital reserve to “save up” for this purpose.

3. Recommendations

- 3.1 Overview and Scrutiny Management Board is asked to give its comments on the proposed corporate capital programme to help inform Cabinet's recommendation to the Council.

- 3.2 Cabinet is asked to:

- (a) recommend to Council:
 - (i) that the schemes identified in Appendix A, as described in paragraph 5 be the corporate capital programme for 2010/11;
 - (ii) the split between schemes in block A which can proceed without further approval and schemes in block B which require a report to Cabinet;
- (b) designate the following as service resources for the purposes of this programme (being resources which fall outside the scope of the corporate programme):
 - (i) housing capital receipts;
 - (ii) housing, education and transport supported capital expenditure (borrowing and grant) allocations;
 - (iii) any other supported capital expenditure allocations awarded by central government for specific purposes;
 - (iv) profits made by the Housing Maintenance DSO;
 - (v) third party contributions for specific purposes;
 - (vi) divisional revenue contributions;

- (c) In connection with Financial Procedure Rules:
 - (i) recommend to Council a “higher limit” of £10m, being the amount below which the Cabinet can make changes to the programme. This “higher limit” of £10m is subject to no more than £2m of the funding in total of any scheme being financed from corporate resources.
 - (ii) approve a “lower limit” of £250,000 below which directors can vire resources;
- (d) note that the above limits apply to the capital programme as a whole, not just the corporate capital programme.
- (e) to approve the creation of an earmarked reserve for the development of the market.

4. Resources

4.1 This section of the report describes the resources available to the Council for the entirety of its capital spending, how these are allocated between programmes, and the amount made available in the Government’s 2010/11 Capital Settlement.

4.2 Types of Capital Resources

4.2.1 Capital resources are sources of funding for capital projects. They include borrowing, capital grants, and the proceeds of the sale of property (capital receipts). The Council has divided capital resources into 2 categories: “Service” resources and “Corporate” resources.

4.2.2 “Service” resources are those resources ringfenced to a particular service or scheme by government or local policy (although local policy usually follows government expectation). Capital grants fall into this category as they are provided for a specific purpose. By local policy, receipts from the sale of HRA property are ringfenced to the housing programme.

4.2.3 “Corporate” resources are those resources that can be spent at the Council’s discretion and hence are available for the corporate programme. Corporate resources may be “supported” (i.e. funded by central government) or “unsupported” (borrowed by the Council, and paid for out of the revenue budget).

They include:-

- supported borrowing for unrestricted purposes

- capital receipts from non-housing sources
- unsupported borrowing for specific projects
- corporate (non-divisional) revenue contributions.

4.2.4 The most significant “service” programmes are housing, transport and education.

4.3 The Government's Capital Settlement

4.3.1 Table 1 shows the main elements of the Government's capital settlement for 2010/11. These are almost entirely service resources.

Table 1 - MAIN CAPITAL RESOURCES

	<u>Supported Borrowing</u> £000s	<u>Grants</u> £000s	<u>Total</u> £000s
<u>Transport</u>			
Integrated Transport Package	3,703	1,851	5,554
Road safety grant		79	79
Transport – Maintenance	2,189		2,189
Maintenance – A563/A6030 schemes		380	380
Total transport	5,892	2,310	8,202
<u>Education</u>			
New Pupil Places	4,227		4,227
Schools Access Initiative	612		612
L.A. Devolved Formula		3,362	3,362
Targeted Capital Fund			0
Primary Capital			0
Modernisation	266		266
Harnessing technology grant		1,090	1,090
Extended Schools		316	316
Total Education	5,105	4,768	9,873
Social Care	79	304	383
Housing (HRA)	5,500	0	5,500
TOTAL	16,576	7,382	23,958

4.3.2 Housing

The housing allocation for 2010/11 support of £5.5m will be the same as last year. However, 2010/11 is expected to be the last year of funding for the decent homes programme, and it is considered unlikely that there will be an equivalent funding stream in 2011/12 onwards.

4.3.3 Social Care

There is a total allocation of £383,000 in 2010/11. This comprises of £79,000 supported borrowing allocated on a formulaic basis available for the corporate programme, and grants of £304,000 allocated for social care and mental health.

4.3.4 Transport

The allocation for transport has increased from £8.158m in 2009/10 to £8.202m in 2010/11, which is in line with expectations.

4.3.5 Education

The allocation for Education in 2010/11 has decreased overall from £19.573m to £9.873m. However, the main reason for this reduction is that £12.078m of funding allocated by central government was brought forward into 2009/10 from 2010/11 to counter the effects of the recession.

4.4 Other Funding

4.4.1 Most of the funding for the corporate capital programme has traditionally come from capital receipts. Usual levels are some £5m pa. The economic downturn has substantially reduced the potential for capital receipts given their current market values. The anticipated level of receipts for 2009/10 is £500k and for 2010/11 is £500k. All these receipts are committed to funding the 2009/10 programme (the latter are, in fact, receipts which have slipped from 2009/10).

4.4.2 Due to shortfalls in capital receipts, it is currently estimated that the 2009/10 capital programme will be underfunded by £0.7m. This has been carried forward to be met from 2010/11 resources.

4.4.3 Cabinet has however agreed that £2m of general reserves can be used to fund the corporate capital programme. This decision was taken in June 2009. As part of the budget for 2010/11 a further £2m was set-aside, making £4m in total. It is recommended that £0.9m be set-aside to ensure we have some resources for a capital programme in 2011/12 (which will hopefully be supplemented by capital receipts).

4.4.4 The total amount of resources available for 2010/11 for general purposes is £1.4m.

4.4.5 In addition, the Council continues to use unsupported borrowing for specific schemes which meet the requirements of the financial strategy. No new schemes are proposed for unsupported borrowing in 2010/11, although it is possible that a few relatively small scale “spend to save” schemes may be proposed in future. Such “spend to save” schemes by definition should not affect available capital resources or net revenue budgets.

4.5 Corporate Capital Resources

4.5.1 The estimated funding sources for the corporate capital programme are detailed in the table below:

Table 2 - FUNDING SOURCES

	<u>2010/11</u> £m
Supported Borrowing	0.1
Revenue Contribution	4.0
Less over-programming in 2009/10	(0.7)
TOTAL	3.4
Proposed new programme	(2.5)
Carry forward for 2011/12	0.9

5. Capital Programme

5.1 The proposed programme is shown at Appendix A. This includes schemes which are continuing from 2009/10 plus proposed schemes for 2010/11. The proposed schemes are generally schemes which require on-going annual contributions to allow for programmed maintenance, to refurbish and/or improve existing assets.

Table 3 - PROGRAMME COSTS

	<u>2009/10</u> £m	<u>2010/11</u> £m	<u>Later Years</u> £m	<u>Total</u> £m
2009/10 Programme	10.3	1.9		12.2
2010/11 Programme	0	2.5		2.5
TOTAL	10.3	4.4		14.7

In addition the Council has previously approved a £29.9m scheme for the centrally located administrative buildings review, which predates the 09/10 programme and is happening over a number of years.

- 5.2 The rationale for the proposed schemes in 2010/11 (ie those shown in Appendix A) is detailed below. In cases where the sum proposed is lower than in previous years, this is generally due to previous years' under spends and a smaller allocation in 2010/11 will provide an opportunity to catch up.

5.2.1 Children's Residential Homes - £100,000

This is a continuing programme of improvements and modernization of children's homes including residential facilities and modernizing external play areas.

5.2.2 DDA Improvements – £40,000

This is towards the end of a rolling programme to improve access to buildings / signage and lift refurbishment in line with the requirements of the Disabilities Discrimination Act. More urgent needs are now complete.

5.2.3 Watercourse Maintenance and Improvements – £50,000

This scheme will carry out urgent repairs and improvements to watercourses in the City reducing the risk of flooding to properties. This includes maintaining the free flow of water throughout the watercourse network and maintains the upkeep of the city's flood retention areas. The sum assigned is in line with recent spending levels and previous years' allocations.

5.2.4 Local Environmental Works - £600,000

This scheme will enable a programme of local works to be developed improving lighting conditions of footways and verges reducing delays to public transport and improving untidy land areas. The sum assigned is £200,000 greater than previous years' allocations. In addition, members will recall that additional funding has also been approved within the Housing capital programme for other environmental works which are set to increase by £870,000 to £1.67 million in 2010/11 compared to a total of £800,000 in the current financial year.

5.2.5 Elderly People's Homes Refurbishment - £60,000

This is part of a rolling programme to maintain and improve existing premises. This is in line with the past two years' spending levels.

5.2.6 Bridge Refurbishment - £150,000

This is a programme to improve the condition and appearance of bridges, which don't come within the ambit of the integrated transport plan. The sum assigned is equivalent to the provision in previous years.

5.2.7 Property Schemes to fit block sum allocated (Including Water Hygiene) - £1,000,000

These are individual schemes relating to improvements, renovation or Health and Safety of Council properties and remedial work to reduce the risk to employees, customers and public of infection due to contaminated water in Council buildings. It is also expected that a review of fire precautions will result in a programme of additional works being required. The total allocated is slightly lower than for 2009/10 (i.e. £1,045,000), but reflects the reduced availability of resources.

5.2.8 New Business Quarter £11.75m

£11.75m has been added to the proposed capital programme subsequent to a decision of Cabinet on 25th January in respect of the New Business Quarter. This is a major development, entirely funded by external sources (principally EMDA) which is intended to facilitate the continued regeneration of the city and unlock development of around £100m. It is further proposed to include a contingency of £0.5m in the corporate programme to deal with risk associated with the VAT treatment of this transaction. If this is not required, it will be available for the 11/12 capital programme.

5.2.9 Pedestrian / Cycle Way

This is a grant funded scheme to complement the science Park.

5.2.10 Science Park

This is a grant funded development of a science park near the national space science centre, proposed to be approved by Cabinet on 8th March, to create cutting edge business units.

5.2.11 Leicester Market

The Council has a long-term ambition to redevelop the market in pursuit of its regeneration aims. Whilst no specific funding is included in this programme, the creation of an earmarked reserve is recommended in order to save any funds which may become available during the course of the year. This will be considered in more detail as part of next year's capital programme.

5.3 Impact of Capital Programme on Later Years

The proposed one-year capital programme for 2010/11 like that for the previous year is essentially a limited programme of minor works that takes into account of the paucity of expected capital receipts in the near future.

It should be noted however that there are two overhangs to the available resources which have to be taken into account. Both are as a result of previous years' programme decisions. Firstly, the capital programme for 09/10 relied upon slippage of £2m to be recouped when the property market recovered. This will therefore be a first call on future years' receipts. Secondly, as part of the review of the capital programme undertaken in 2008/09 when the economic downturn took hold, a sum of £2.4 million was "borrowed" from Education provision for new school provision. This provision will not be required to be repaid until new housing developments come on stream, and thus should be linked to additional capital receipts available in future. However, the liability to repay this sum does need to be considered in planning for future programmes.

6. Other Issues

- 6.1 There is a revenue budget of £3m p.a. from 2010/11 onwards which has been provided to cover potential increased borrowing costs from additional capital expenditure required on centrally located administrative buildings, less any which needs to be spent on the revenue implications of the programme.
- 6.2 The recommendations to this report propose an increase in the amount Cabinet can add to the programme from £5m to £10m. This, however, is caveated by a new restriction (consistent with the revenue budget) that only £2m can be added from corporate resources. The purpose of this increase is to ensure we can comply with funding bodies' timescales for large (externally funded) projects.

7. Financial / Legal Implications

- 7.1 This report is exclusively concerned with financial issues.
- 7.2 There are no specific legal implications arising from this report. Peter Nicholls, Legal Services has been consulted as Legal Advisor and has confirmed that there are no legal issues arising from the report.

8. Equality Impact Assessment

Items of the capital programme for Children's Residential Homes, DDA Improvements and Elderly People's Homes will benefit disadvantaged groups.

9. Other Implications

Other Implications	Yes/No	Paragraph References
Equal Opportunities	No	
Policy	Yes	The programme has been

		formulated with reference to the approved financial strategy.
Sustainable & Environment	No	
Crime & Disorder	No	
Human Rights Act	No	
Elderly people on low income	No	

10. Background Papers – Local Government Act 1972

11. Consultations

- 11.1 All services have been consulted on the programme. The public has been consulted on capital priorities.

12. Report author

Mark Noble
Chief Finance Officer
x297401
19 January 2010

Key Decision	Yes
Reason	Is significant in terms of its effect on communities living or working in an area comprising more than one ward
Appeared in Forward Plan	Yes
Executive or Council Decision	Executive (Cabinet)

Appendix B

CORPORATE CAPITAL PROGRAMME 2009/10 – 2010/11

2009/10 PROGRAMME	<u>2009/10</u> £000s	<u>2010/11</u> £000s	<u>Total</u> £000s
1. New Parks Library & Community Centre (Earmarked funding)	388 (388)	0	388 (388)
2. Children's Residential Homes	100	0	100
3. Property Maintenance	1,000	0	1,000
4. DDA Improvements	40	0	40
5. Meynells Gorse	20	0	20
6. Intermediate Care	3,500	0	3,500
7. Gilroes Cemetery – Burial land extension	100	320	420
8. Water courses	50	0	50
9. Water Hygiene (up to a maximum of £345k)	345	0	345
10. Tree Planting	200	0	200
11. City Centre Youth & Children's HUB	1,500	0	1,500
12. Procurement of combined Heat & Power	300	0	300
13. Local Environment Works	400	0	400
14. EPH Refurbishments	250	0	250
15. Bridge Refurbishment	150	0	150
16. Property Schemes to fit block sum	700	0	700
17. Community Centre	200	0	200
18. Development of Amateur Football Facilities	1,400	1,600	3,000
19. City Gallery (Earmarked funding)	230 (230)	1,830 (1,830)	2,060 (2,060)
2010/11 PROGRAMME – Block A			
1. Children's Residential Homes	0	100	100
2. DDA Improvements	0	40	40
3. New Business Quarter (Earmarked funding)	0	11,750 (11,250)	11,750 (11,250)
4. Pedestrian/cycleway link (Earmarked funding)	0	271 (271)	271 (271)
5. Science Park (Earmarked funding)	0	4,814 (4,814)	4,814 (4,814)
2010/11 PROGRAMME – Block B Funding Approval Subject to Further Information			
1. Water courses	0	50	50
2. Local Environmental Works	0	600	600
3. EPH Refurbishment	0	60	60
4. Property schemes	0	1000	1000
5. Bridge Refurbishment	0	150	150
TOTAL	10,255	4,420	14,675

Appendix B

RISK ASSESSMENT MATRIX

No.	Risk	Likelihood (L/M/H)	Severity Impact (L/M/H)	Control Actions (if necessary / or appropriate)
1	The Corporate Programme is not affordable	L	H	Robust management and monitoring of the funding streams, primarily Capital Receipts. Cautious assumptions of receipts.
2	Overspending on a scheme	M	M	Robust financial management of the outturn of schemes. Review and stop, if possible, any non-essential works on schemes.
3	Slippage	H	L	Robust profiling of expenditure on schemes where possible. Monthly progress meetings and regular reports to Members through the Capital Monitoring reports.
4	Accuracy of Estimates	L	L	As most programmes are minor works, work can usually be contained within a total sum, and can be slowed down or expedited as necessary.