

ITEM NO: 10

DECISION-MAKER:	COUNCIL		
SUBJECT:	THE GENERAL FUND CAPITAL PROGRAMME 2008/09 - 2011/12		
DATE OF DECISION:	16 th SEPTEMBER 2009		
REPORT OF:	CABINET MEMBER FOR RESOURCES & WORKFORCE PLANNING PORTFOLIO		
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STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

SUMMARY

The purpose of this report is to inform Council of any major changes in the overall General Fund Capital Programme since it was last reported on 18th February 2009. This report also outlines the way in which the revised programme has been funded reflecting the changes in availability and usage of capital resources.

The net result of the changes in this report is that the current overall programme has increased by £17.75M.

RECOMMENDATIONS:

COUNCIL

It is recommended that Council

- (i) Approves the revised General Fund Capital Programme and use of resources;
- (ii) Approves the addition of new funding for the Southampton New Arts Centre.
- (iii) Approves the addition of the Relocation of Town Depot Scheme and financing.
- (iv) Approves the capital budgets and financing for Disabled Facilities Grants.
- (v) Approves the use of unsupported borrowing of £10.4M and £4.4M to help finance the Town Depot Relocation Scheme and the Guildhall Square Scheme respectively.
- (vi) Approves the addition of £440,000 to the Economic Development Capital Programme to finalise the Development Agreement for West Quay Phase 3.

- (vii) To approve the revised Prudential Indicators, reflecting the updated capital programme, as detailed in Appendix 4; and
- (viii) To note the revised position in respect of the deficit on the Capital Programme and the action that is being taken to address this.

REASONS FOR REPORT RECOMMENDATIONS

1. The update of the Capital Programme is undertaken twice a year in accordance with Council Policy and is required to enable schemes in the programme to proceed and to approve additions and changes to the programme.

CONSULTATION

2. The General Fund Capital Programme update summarises additions to the capital programme since February 2009. Each addition to the capital programme has been subject to the relevant consultation process at the time. The content of this report has been subject to consultation with Finance Officers from each portfolio.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. The update of the Capital Programme is undertaken within the resource constraints imposed on it. No new schemes can be added unless specific additional resources are identified. Alternative options for new capital spending are considered as part of the Budget setting process.

DETAIL

THE FORWARD CAPITAL PROGRAMME

4. The following table shows a comparison of the total planned expenditure for each year with the sums previously approved. The Latest Programme figures include additions to the programme which are subject to approval of the specific recommendations.

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	Later Years £000	Total £000
Latest Programme	47,126	70,101	59,641	27,566	27,293	231,727
Feb 2009 Programme	64,885	71,860	48,935	13,404	14,893	213,977
Variance	(17,759)	(1,759)	10,706	14,162	12,400	17,750

5. The above table shows that the General Fund Capital Programme has increased by £17.75M. With the exception of the major changes requiring approval detailed in this report's recommendations, all of the increase has been previously approved by Council, Cabinet or under delegated authority. The change in individual portfolios' capital programmes is illustrated in the following table:

	Latest Programme £000	Previous Programme £000	Total Change £000
Children's Services	63,305	64,517	(1,212)
Economic Development	20,525	19,790	735
Environment and Transport	59,307	46,352	12,955
Adult Social Care and Health	4,129	4,131	(2)
Housing and Local Services	27,887	28,069	(182)
Leaders Portfolio	0	0	0
Leisure, Culture & Heritage	27,807	22,183	5,624
Resources & Workforce Planning	28,767	28,935	(168)
TOTAL GENERAL FUND CAPITAL PROGRAMME	231,727	213,977	17,750

6. A summary of the major variations, together with the main source of funding and the main priorities to which they contribute, is detailed in Appendix 2.

CAPITAL RESOURCES

7. The resources which can be used to fund the capital programme are as follows:
- Supported Borrowing
 - Unsupported Borrowing
 - Capital Receipts from the sale of HRA assets
 - Capital Receipts from the sale of General Fund assets
 - Contributions from third parties
 - Central Government Grants
 - Grants from other bodies
 - Direct Revenue Financing raised from Council Tax payers or balances
8. Capital Receipts from the sale of Right to Buy (RTB) properties are passed to the General Fund capital programme to support private sector housing projects within the Housing and Neighbourhoods portfolio.

CHANGES IN AVAILABLE RESOURCES

9. The additional spending within the Capital programme must be met from additional sources of finance. The following table shows the resource changes that have taken place since February 2009:

	£000
Supported Borrowing	(194)
Unsupported Borrowing	14,344
Capital Receipts	(147)

Contributions	1,355
Capital Grants	(2,702)
Car Parking Surplus	161
Direct Revenue Financing from Balances	(94)
Direct Revenue Financing from Portfolios	550
Total Change in Available Resources	13,273

10. The main reasons for the resource changes are detailed in Appendix 3.

OVERALL USE OF RESOURCES

11. The following table shows capital expenditure by portfolio and the use of resources to finance the General Fund Capital Programme:

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	Later Years £000	Total £000
Children's Services	11,750	19,985	19,052	8,084	4,434	63,305
Economic Development	7,824	9,428	1,549	400	1,324	20,525
Environment and Transport	16,461	20,164	18,107	4,575	0	59,307
Adult Social Care and Health	890	2,283	956	0	0	4,129
Housing and Local Services	7,190	7,591	8,223	4,883	0	27,887
Leaders Portfolio	0	0	0	0	0	0
Leisure, Culture & Heritage	1,046	4,249	4,308	1,289	16,915	27,807
Resources & Workforce Planning	1,965	5,911	7,860	8,355	4,676	28,767
TOTAL GF CAPITAL PROGRAMME	47,126	69,611	60,055	27,586	27,349	231,727

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	Later Years £000	Total £000
Financing:						
Supported Borrowing	7,286	8,763	6,840	6	0	22,895
Unsupported Borrowing	12,709	19,464	10,623	600	4,070	47,466
Capital Receipts	14,934	5,280	9,578	4,650	19,030	53,472
Contributions	1,844	3,423	3,300	952	2,600	12,119
Capital Grants	14,201	22,683	22,136	9,555	9,102	77,677
Car Parking Surplus	161	0	200	200	0	561
Direct Revenue Financing from Balances	411	1,791	964	0	0	3,166
Direct Revenue Financing from Portfolios	1,335	3,017	2,137	124	0	6,613
Total Financing	52,881	64,421	55,778	16,087	34,802	223,969
Surplus/(Deficit)	5,755	(5,190)	(4,277)	(11,499)	7,453	(7,758)

12. The table above shows that the current estimated deficit in the Capital Programme has risen to £7.8M from £3.3M as reported to Council in February. Following the Capital Outturn report presented to Council in July, it was agreed that a review of the capital programme would be undertaken in order to mitigate the deficit and produce a strategy for dealing with the over programming that

occurs in individual years of the programme, taking into account aspirations for moving some major schemes forward.

13. An analysis of all schemes in the capital programme that were not yet fully committed and were being financed from Council Resources was produced and reviewed by Officers. This showed that the bulk of schemes that could potentially be halted were in the following areas :-
 - Highway and bridge maintenance (£6.4M)
 - Housing Association Schemes (£2.2M)
 - Planned Repairs to Civic Buildings (£0.7M)
14. Based on this analysis and following discussions with the Cabinet Member for Resources and Workforce Planning on the overall position of the Capital Programme, it was not felt appropriate to put forward delays or reductions in these schemes at this time but to look for alternative ways of managing the deficit.
15. The proposed capital programme in this report contains five major items for approval :-
 - The addition of a further £440,000 to finalise the development agreement for West Quay Phase 3 which will generate a substantial capital receipt for the Council and deliver a high quality scheme in the City Centre.
 - The addition of £13.6M for the full Town Depot Relocation Scheme (including the previous Council approvals for land acquisition etc) with the balance of funding on the scheme being met by prudential borrowing of £10.4M.
 - Prudential borrowing to fund the Guildhall Square scheme following the withdrawal of £4.4M SEEDA grant (the Council is contractually committed to this scheme as part of the development of the Regional Business Centre)
 - The addition of extra funding for Disabled Facility Grants (DFGs) which is being funded from Right to Buy receipts and Government Grant for which bids have been submitted.
 - Adding new funding for the Southampton New Arts Centre scheme, following the revised development bids that were received for the site, the funding for which was set out in a confidential appendix to Cabinet on 7th September.
16. The phasing of the prudential borrowing means that revenue costs of £0.483M in 2010/11 and £1.053M in 2011/12 will need to be taken into account in setting the budgets for those years.
17. Taking all of these issues in to account, in particular the additional £15.3M of prudential borrowing means that the biggest individual deficit is £11.5M in 2011/12.
18. However, analysis of previous programmes has shown that there has been on average a minimum level of slippage of £15M per annum and therefore based on the current profile of the programme it is anticipated that the over

programming can be contained.

19. It is therefore proposed at this stage to manage the deficit in individual years through slippage in the programme, which will be monitored carefully throughout the year although delegated powers do exist to prudentially borrow in the event of a deficit in any particular year. The overall deficit of £7.8M in the programme will be met from new resources that will become available in future years or by the use of prudential borrowing, the costs of which will have to be built into future budget forecasts.
20. The main changes in the capital programme are outlined in paragraph 15 above, and most of these schemes have been subject to separate reports to Cabinet or Council in recent months. However, changes in respect of Disabled Facility Grants (DFGs) have been made in this programme which require further explanation, which is set out in the following paragraphs.
21. The number of referrals for DFGs has increased since additional resources were invested in the Council's Occupational Therapy (OT) Service. This has resulted in a substantial increase in the number of referrals received each month which reflects the growing demand for adaptations because of an ageing population and the desire for people to continue living independently at home. The budget for DFG's in 2009/10 has therefore been increased by £580,000 to £1,942,000. This has been funded by removing the provision of £180,000 for Warm Front top up grants (funding is no longer needed for this purpose because of the increase in the maximum amount of grant available from the Government), and bringing forward DFG budget from later years (£200,000 from each of 2010/11 and 2011/12).
22. It is difficult to forecast whether demand for adaptations will continue to increase. It is considered that demand in future years will give rise to expenditure of at least similar levels to 2009/10. The budget has therefore been increased to £2M for 2010/11 and 2011/12. To fund spending at this level it has been necessary to redirect all uncommitted Right-To-Buy receipts and also to anticipate an increase in government grant (there is an annual bidding process for government grant this is specifically for helping to fund DFG's).
23. It is important to recognise that the Council has no control over the demand for DFG's. DFGs are mandatory grants and have to be approved if applicants meet the eligibility criteria. There is therefore a real possibility that demand will exceed even a budget of £2M. The bid to government for grant support is based on a spending level of £3.5M which is the current assessment of potential spending based on current patterns of demand. This position is being closely monitored and an updated assessment will be provided in the budget report to council in February 2010 when the budget for 2010/11 will need to be confirmed.
24. **PRUDENTIAL INDICATORS**
The Prudential Code recommends that Prudential Indicators should be updated when the capital programme is revised. Appendix 4 contains the updated Prudential Indicators on the assumption that the revised capital programme is approved. The updated indicators show that the Council's borrowing

requirement is well within the limits set. Council are asked to approve the revised indicators.

25. Upper Limit for Total Principal Sums Invested for Periods Over 364 Days

One of the Prudential Indicators for Treasury Management sets an upper limit on the maximum that can be invested over 364 days. The Council's core funds, which consist of General Fund and Housing Revenue Account balances, Schools balances and PFI reserves, are invested with a longer-term strategic focus and are currently invested mainly in one year deposits. Based on the forward projections for its investment balances and its budgeted income requirement, the Council will evaluate and consider investment opportunities to earn an optimum return, to build in consistency of return over the medium term and to diversify and manage risk.

26. During the past two years, the Council has worked with its Treasury Management advisers to build a rolling investment programme of 1 year cash deposits. This programme has achieved enhanced investment returns and improved both certainty and stability, whilst retaining liquidity. The primary focus is always on the conservation of capital.

27. Further information on Prudential Indicators can be found in Appendix 4.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

29. As set out in the report details.

Revenue

30. This report principally deals with capital. However, the revenue implications arising from borrowing to support the capital programme are considered as part of the annual revenue budget setting meetings.

Property

31. There are no specific property implications arising from this report other than the schemes already referred to within the main body of the report.

Other

32. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

33. The General Fund Capital Programme update is prepared in accordance with the Local Government Acts 1972 – 2003.

Other Legal Implications:

34. None directly, but in preparing this report, the Council has had regard to the Human Rights Act 1998, and the Race Relations (Amendment) Act 2001 and other associated legislation.

POLICY FRAMEWORK IMPLICATIONS

35. The update of the Capital Programme forms part of the overall Budget Strategy of the Council.

SUPPORTING DOCUMENTATION

Appendices

1.	General Fund Capital Programme – Scheme Details
2.	Major Variations since February 2009 Capital Update
3.	Major Reasons for Changes in Capital Resources
4.	Prudential Indicators

Documents In Members' Rooms

1.	None
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Background Documents

Title of Background Paper(s)

Relevant Paragraph of the
Access to Information
Procedure Rules / Schedule
12A allowing document to be
Exempt/Confidential (if
applicable)

1.	The General Fund Capital Programme 2008/09 to 2011/12 as approved by Council on 18th February 2009.	
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Background documents available for inspection at:

FORWARD PLAN No:

KEY DECISION?

YES

WARDS/COMMUNITIES AFFECTED:

The Capital Programme affects all wards in the City.