

<b>DECISION-MAKER:</b>	CABINET COUNCIL		
<b>SUBJECT:</b>	THE GENERAL FUND AND HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME 2015/16 TO 2018/19		
<b>DATE OF DECISION:</b>	18 NOVEMBER 2015 18 NOVEMBER 2015		
<b>REPORT OF:</b>	CABINET MEMBER FOR FINANCE		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Mel Creighton	<b>Tel:</b> 023 8083 4897
	<b>E-mail:</b>	<a href="mailto:Mel.Creighton@southampton.gov.uk">Mel.Creighton@southampton.gov.uk</a>	
<b>Chief Financial Officer:</b>	<b>Name:</b>	Andrew Lowe	<b>Tel:</b> 023 8083 2049
	<b>E-mail:</b>	<a href="mailto:Andrew.Lowe@southampton.gov.uk">Andrew.Lowe@southampton.gov.uk</a>	
<b>STATEMENT OF CONFIDENTIALITY</b>			
N/A			

## **BRIEF SUMMARY**

The purpose of this report is to inform Cabinet and Council of any major changes in the overall General Fund Capital Programme for the period of 2015/16 to 2019/20, highlighting the changes in the programme since the last reported position following 2014/15 outturn.

The net result of the changes in this report is that the current overall programme has increased by £12.96M.

## **RECOMMENDATIONS:**

### **CABINET**

#### **Recommends that Full Council**

- i) Approve the revised General Fund Capital Programme, which totals £77.93M (as detailed in paragraph 4) and the associated use of resources.
- ii) Note that the revised General Fund Capital Programme is based on prudent assumptions of future Government Grants to be received.
- iii) Note the changes to the programme as summarised in Appendix 2 and described in detail in Appendix 3.
- iv) Note the slippage and re-phasing as described in detail in Appendix 3.
- v) Approve the revised Housing Revenue Account (HRA) Capital Programme, which totals £202.49M (as detailed in Appendix 4) and the associated use of resources.
- vi) Note that the level of Direct Revenue Financing available to fund the HRA Capital Programme will need to be reviewed, in the light of Government

proposals to reduce social rents over the next 4 years, and this may result in a reduction in planned capital expenditure when an updated programme is presented to Council in February 2016.

## **COUNCIL**

### **It is recommended that Council:**

- i) Approve the revised General Fund Capital Programme, which totals £77.93M (as detailed in paragraph 4) and the associated use of resources.
- ii) Note that the revised General Fund Capital Programme is based on prudent assumptions of future Government Grants to be received.
- iii) Note the changes to the programme as summarised in Appendix 2 and described in detail in Appendix 3.
- iv) Note the slippage and re-phasing as described in detail in Appendix 3.
- v) Approve the revised Housing Revenue Account (HRA) Capital Programme, which totals £202.49M (as detailed in Appendix 4) and the associated use of resources.
- vi) Note that the level of Direct Revenue Financing available to fund the HRA Capital Programme will need to be reviewed, in the light of Government proposals to reduce social rents over the next 4 years, and this may result in a reduction in planned capital expenditure when an updated programme is presented to Council in February 2016.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. The Capital Programme is now reviewed on a quarterly basis in accordance with the Council's Capital Strategy. The forecast position is reported to the Council Capital Board with any required programme update reported to Cabinet and Council for approval. This is required to enable schemes in the programme to proceed and to approve additions and changes to the programme.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. 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 in the light of the funding available and the overall financial position.

## **DETAIL (Including consultation carried out)**

### **CONSULTATION**

3. The General Fund Capital Programme update summarises additions to the capital programme since the position reported following Closedown 2014/15. Each addition to the capital programme has been subject to the relevant consultation process which now reflects the role played by Council Capital Board. The content

of this report has been subject to consultation with Finance Officers from each portfolio.

## THE FORWARD CAPITAL PROGRAMME

4. Table 1 below shows a comparison of the latest forecast planned capital expenditure for the period 2015/16 to 2019/20 compared to the previously reported programme.

Table 1 – Programme Comparison

	2015/16 £M	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M	Total £M
Latest Programme	59.51	17.61	0.71	0.10	0.00	<b>77.93</b>
Previous Programme	58.80	5.36	0.71	0.10	0.00	<b>64.97</b>
<b>Variance</b>	<b>0.71</b>	<b>12.25</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>12.96</b>

5. The above table shows that the General Fund Capital Programme has increased by £12.96M. Appendix 1 provides details of each portfolios latest forecast programme and the financing of that programme.

## CHANGES TO THE OVERALL PROGRAMME

6. The change in individual portfolios' capital programmes is shown in Table 2.

Table 2 – Changes in Portfolio Programmes

	Latest Programme £M	Previous Programme £M	Total Change £M
Education and Childrens Social Care	19.49	11.59	7.90
Environment & Transport	20.52	20.07	0.45
Environment & Transport - City Services	1.61	0.45	1.16
Health & Adult Social Care	0.60	0.66	(0.06)
Housing & Sustainability	5.62	4.17	1.45
Leaders	24.82	21.88	2.94
Communities, Culture & Leisure	2.30	2.25	0.05
Finance	2.97	3.91	(0.94)
<b>Total GF Capital Programme</b>	<b>77.93</b>	<b>64.97</b>	<b>12.96</b>

7. Appendix 3 details the changes by individual portfolio programmes. This includes

new schemes and changes to existing schemes where approval has been previously given by Council, Cabinet or made under delegated authority to amend the programme. It further details those changes that still require approval to amend the programme for under or overspends and slippage or rephasing.

8. Funding for the Councils capital programme is a scarce resource therefore additions need to be considered in terms of the priorities and desired outcomes of the Council. Currently all additions that require Council resources are being funded from borrowing so it is essential other specific sources of funding can be identified.

## **CAPITAL RESOURCES**

9. The resources which can be used to fund the capital programme are as follows:
  - Council Resources - Borrowing
  - Council Resources - Capital Receipts from the sale of HRA assets
  - Council Resources - Capital Receipts from the sale of General Fund assets
  - Contributions from third parties
  - Central Government Grants and from other bodies
  - Direct Revenue Financing (DRF)
10. Capital Receipts from the sale of Right to Buy (RTB) properties are passed to the General Fund capital programme to support the Private Sector Housing schemes within the Housing & Sustainability Portfolio.

## **CHANGES IN AVAILABLE RESOURCES**

11. The additional spending within the Capital programme must be met from additional sources of finance. Table 3 shows the resource changes that have taken place:

Table 3 – Changes in Resource Requirements

	<b>£M</b>
Council Resources	2.83
Contributions	1.63
Capital Grants	8.88
Direct Revenue Financing (Portfolios)	(0.38)
<b>Total Change in Available Resources</b>	<b>12.96</b>

12. It should be noted that the revised General Fund Capital Programme is based on prudent assumptions of future Government Grants to be received. The majority of these grants relate to funding for schools and transport and are unringfenced. However in 2015/16 these grants have been passported to these areas.

13. It can be seen that the largest increase in available resources relate to Government capital grants and contributions, predominantly in relation to the schools programme and allocation of the Schools Basic Needs and Condition Grants in 2015/16.

**OVERALL CAPITAL PROGRAMME (GF ONLY)**

14. Table 4 and Table 5 show capital expenditure by portfolio and the use of resources to finance the General Fund Capital Programme up to and including 2019/20:

Table 4 – Capital Expenditure by Programme

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Total</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Education & Childrens Social Care	11.62	7.87	0.00	0.00	0.00	<b>19.49</b>
Environment & Transport	20.52	0.38	0.00	0.00	0.00	<b>20.52</b>
Environment & Transport – City Services	1.31	0.30	0.00	0.00	0.00	<b>1.61</b>
Health & Adult Social Care	0.60	0.00	0.00	0.00	0.00	<b>0.60</b>
Housing & Sustainability	5.33	0.29	0.00	0.00	0.00	<b>5.62</b>
Leaders	16.30	8.07	0.35	0.10	0.00	<b>24.82</b>
Communities, Culture & Leisure	2.17	0.05	0.08	0.00	0.00	<b>2.30</b>
Resources	1.66	1.02	0.29	0.00	0.00	<b>2.97</b>
	<b>59.51</b>	<b>17.61</b>	<b>0.71</b>	<b>0.10</b>	<b>0.00</b>	<b>77.93</b>

Table 5 – Use of Resources

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Total</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Council Resources	13.06	5.94	0.18	0.00	0.00	<b>19.18</b>
Contributions	8.46	0.24	0.08	0.00	0.00	<b>8.78</b>
Capital Grants	34.41	10.57	0.00	0.00	0.00	<b>44.99</b>
DRF from Portfolios	3.58	0.85	0.46	0.10	0.00	<b>4.98</b>
<b>Total Financing</b>	<b>59.51</b>	<b>17.61</b>	<b>0.71</b>	<b>0.10</b>	<b>0.00</b>	<b>77.93</b>

15. It can be seen from Table 4 that the significant programme spend relates to Education and Childrens Social Care Portfolio (Schools Programme); E & T Portfolio (Roads Programme); and Leaders Portfolio (Southampton New Arts Centre). It should be noted that beyond 2016/17 no grant assumptions have been built in; this will be reviewed in relation to the Medium Term Financial Strategy (MTFS) post Local Government Finance Settlement 2016/17 and the

Comprehensive Spending Review (CSR).

16. Table 5 demonstrates that after allowing for Capital Grants, a significant amount for funding is provided by Council Resources. In this financial year this will be mainly through borrowing.

**CAPITAL RECEIPTS**

17. Capital receipts funding assumptions have been previously based on an estimated value of the receipt, in the year of disposal. The estimate was further risk adjusted depending on where in the process the disposal had progressed i.e. 'On Market', 'Contract Under Negotiation' etc.
18. In future, capital receipts will be monitored based on the agreed sale price and expected year of receipt in order to achieve certainty around the level of useable receipts within each financial year.
19. The Revenue Budget report to Cabinet in August 2015 detailed changes to the Councils MRP policy including utilising capital receipts to repay debt enabling a revenue MRP holiday. This allows a significant non recurrent saving to be made. This was the methodology used in in 2014/15, and it is proposed to continue this strategy for 2015/16 and 2016/17. The impact of this will be that capital expenditure is currently planned to be funded from capital receipts will need to be funded from borrowing in these financial years. The impact of this is an increase in borrowing costs, however as borrowing is based on cash need it is unlikely that new borrowing will occur in the short term.
20. It should be noted that this proposal is currently being reviewed in light of the level of actual capital receipts now expected to be received in 2015/16. Whilst there are several significant land disposals currently being actioned it is now expected that the receipt for these disposals will now be received in 2016/17 due to the complexity of the disposals.
21. Table 6 shows the previous and current capital receipt assumptions based on either original sale price or where known the actual sale price in the year that the receipt is expected rather than the year of disposal.

Table 6 – Capital Receipt Assumptions

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Total</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Estimated Receipts	7.50	4.10	1.10	0.00	0.00	<b>12.70</b>
Forecast Receipts	2.48	17.11	7.22	0.00	0.00	<b>26.81</b>
<b>Change</b>	<b>(5.02)</b>	<b>13.01</b>	<b>6.12</b>	<b>0.00</b>	<b>0.00</b>	<b>14.11</b>

22. It can be seen that there is likely to be an overall increase in the level of capital receipts, due to the change in methodology from the estimated assumptions to the forecast assumptions, which now looks at total receipts rather than risk adjusted

receipts, and assumed year of receipt rather than disposal year. It should be noted that if alternative options to disposal are considered this will affect the overall level of receipts. Further work is being undertaken on capital receipts to ascertain disposal methods and timing to ensure the Council receives best value.

## **HOUSING REVENUE ACCOUNT**

23. The latest Housing Revenue Account (HRA) Capital Programme for the period 2015/16 to 2019/20, as detailed in Appendix 4, has increased by £0.75M compared to the previously reported programme. Appendix 5 details this change, which is due to the approved addition of a new social housing scheme funded from Right To Buy receipts. It also sets out the slippage and rephasing relating to existing schemes.
24. The sources of finance used to fund the latest HRA Capital Programme are detailed in Appendix 4. In overall terms, there is no material change in the resources needed to fund the programme. The HRA Business Plan assumes that part of the annual revenue income will be used to fund capital expenditure. However, the Government outlined proposals, in the July 2015 budget, to reduce social rents charged by Local Authorities to their tenants by 1% per annum for a 4 year period from 2016 to 2020. This will necessitate a review of HRA revenue expenditure, including the Direct Revenue Financing of capital, which may result in a reduction in planned capital expenditure when the next update of the HRA Capital Programme is presented to Council in February 2016.

## **RESOURCE IMPLICATIONS**

### **Capital**

25. As set out in the report details.

### **Revenue**

26. 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. In addition any revenue consequences arising from new capital schemes are considered as part of the approval process for each individual scheme.

### **Property**

27. 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**

28. None

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

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

### **Other Legal Implications:**

30. None directly, but in preparing this report, the Council has had regard to the Human Rights Act 1998, the Equality Act 2010, the duty to achieve best value and statutory guidance issued associated with that, and other associated legislation.

### **POLICY FRAMEWORK IMPLICATIONS**

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

**KEY DECISION?** Yes

<b>WARDS/COMMUNITIES AFFECTED:</b>	All
------------------------------------	-----

### **SUPPORTING DOCUMENTATION**

#### **Appendices**

1.	General Fund Capital Programme – Scheme Details
2.	Major Variations Since the Outturn 2014/15 Capital Update
3.	Key Issues – September 2015 Programme Update
4.	HRA Capital Programme – Scheme Details
5.	HRA Key Issues – September 2015 Programme Update

#### **Documents In Members' Rooms**

1.	
2.	

#### **Equality Impact Assessment**

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
--	----

#### **Privacy Impact Assessment**

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
--	----

#### **Other Background Documents**

**Equality Impact Assessment and Other Background documents available for inspection at:**

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule
------------------------------	--



	12A allowing document to be Exempt/Confidential (if applicable)
--	--