DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	THE GENERAL FUND CAPITAL STRATEGY AND PROGRAMME 2023/24 TO 2028/29
DATE OF DECISION:	5 MARCH 2024 (CABINET) 6 MARCH 2024 (COUNCIL)
REPORT OF:	COUNCILLOR LETTS CABINET MEMBER FOR FINANCE AND CHANGE

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STATEMENT OF CONFIDENTIALITY
Appendix 9 is exempt from publication by virtue of category 3 of rule 10.4 of the Council’s Access to Information Procedure Rules i.e. information relating to the financial or business affairs of any particular person. In applying the public interest test this information has been deemed exempt from the publication due to confidential sensitivity. It is not considered to be in the public interest to disclose this information as it would reveal information which would put the Council at a commercial disadvantage and prejudice the Council’s ability to achieve best value

BRIEF SUMMARY
The purpose of this report is to set out for Council significant changes in the overall General Fund (GF) Capital Programme for the period of 2023/24 to 2028/29. This includes highlighting the changes in the programme since the last reported position to Cabinet in February 2024. The net result of the changes since the previous report is an increase to the General Fund programme of £29.12M.
The capital budget proposals put forward in this report reflect the anticipated needs of the Council over the next five years. This provides certainty about future funding and enables capital spending to be prioritised including to deliver purposeful investment alongside service and council priorities.
RECOMMENDATIONS:

CABINET		
Cabinet is recommended to:		
	i)	Recommend to Council the Capital Strategy, as detailed in Appendix 1.
	ii)	Recommend to Council the Minimum Revenue Provision (MRP) Strategy as detailed in Appendix 2.
	iii)	Recommend to Council the Non-Treasury Investment Strategy as detailed in Appendix 3.
	iv)	Recommend to Council the Treasury Management Strategy as detailed in Appendix 4.
	v)	Recommend to Council the Flexible Use of Capital Receipts Strategy as detailed in Appendix 5.
	vi)	Recommend to Council the revised fully funded General Fund Capital Programme, that totals £264.81M (as detailed in paragraphs 18 to 21) and the associated use of resources.
	vii)	Recommend to Council the addition of £31.09M to the General Fund programme, with approval to spend. These additions are detailed in paragraphs 24 to 48 and Appendix 7.
	viii)	Recommend to Council the removal of schemes from the capital programme totalling £2.18M, set out in paragraphs 40 and 48 and detailed in Appendix 7.
	ix)	Recommend to Council the approval to spend £39.66M for the SEND Expansion Programme, as set out in paragraph 32.
	x)	Recommend to Council the approval to spend £27.03M for the Outdoor Sports Centre, as set out in paragraph 37.
COUNCIL		
Council is recommended to:		
	i)	Approve the Council's Capital Strategy detailed in Appendix 1.
	ii)	Approve the Council's MRP Strategy detailed in Appendix 2 and delegate authority to the Executive Director for Corporate Services (S151 Officer) to make any changes required following the outcome of the consultation on changes to the statutory guidance and regulations: Minimum Revenue Provision.
	iii)	Approve the Council's Non-Treasury Investment Strategy detailed in Appendix 3.
	iv)	Approve the Council's Treasury Management Strategy detailed in Appendix 4.
	v)	Approve the Council's Flexible Use of Capital Receipts Strategy detailed in Appendix 5.
	vi)	Approve the revised fully funded General Fund Capital Programme, which totals £264.81M (as detailed in paragraphs 18 to 21) and the associated use of resources.

	vii)	Approve addition and spend of £31.09M which has been added to the General Fund programme. These additions are detailed in paragraphs 24 to 48 and Appendix 7.
	viii)	Approve the removal of schemes from the capital programme totalling £2.18M, set out in paragraphs 40 and 48 and detailed in Appendix 7.
	ix)	Approve the spend of £39.66M for the SEND Expansion Programme, as set out in paragraph 32.
	x)	Approve the spend of £27.03M for the Outdoor Sports Centre, as set out in paragraph 37.
	xi)	Approve the delegated authority to the Executive Director for Place following consultation with the Cabinet Member for Communities and Leisure, Executive Director for Corporate Services (S151 Officer), Head of Supplier Management Services and Head of Corporate Estate and Assets to conclude all necessary negotiations on the Football Foundation Grant Terms and Conditions.
	xii)	Approval to delegate authority to the Head of Corporate Estate and Assets to conduct actions necessary to enable decisions required and enter contracts for the delivery of the Outdoor Sports Centre project.

REASONS FOR REPORT RECOMMENDATIONS	
1.	The Constitution requires the Executive to recommend its budget proposals for the forthcoming year to Full Council. The recommendations contained in this report set out the various elements of the budget that need to be considered by Cabinet and recommended to Full Council for approval.
2.	The Prudential Code for Capital Finance in Local Authorities requires authorities to produce a capital strategy, which Full Council must also approve.
3.	The Council's Capital Programme is reviewed on a quarterly basis in accordance with the Council's Capital Strategy. Programme updates are reported to Cabinet and Council for approval. This is to enable new schemes in the programme to proceed and to approve additions and changes to the programme. Major capital projects are delivered over several years so by setting a clear five-year programme, works are scheduled over their estimated delivery period and can be funded accordingly.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
4.	No alternative options, given the requirements outlined in paragraphs 1 and 2.
DETAIL (Including consultation conducted)	
5.	**CAPITAL STRATEGY**
6.	The Council needs to have a fit for purpose Capital Strategy to ensure that all the Council's priorities are considered in the allocation of resources to the capital programme. Appendix 1 details the Capital Strategy 2024/25. The capital strategy provides an overview of how capital expenditure, capital financing and treasury management each contribute to the provision of local public services. It sets out how associated risk is managed, the implications for future financial sustainability and criteria for Purposeful Investment, which is applied to all capital programme items. This is to ensure investment is focused

	on delivering the optimum value for money for the council and its benefits are fully considered against current financial challenges. The Purposeful investment criteria is as follows: 1. Does it reduce revenue expenditure/increase income in the current year or future years? 2. Does it stop a potential financial pressure in future years? 3. Does it have a significant impact on the lives of residents? Considering affordability, given the current financial challenges and limitations. Taking account of the following considerations: a) Solid Return on Investment (e.g. generating significant external funding/investment or inward returns from the investment to the council) b) Is it a major element necessary for the achievement of the Corporate Plan? c) A key commitment of the Administration
7.	The Prudential Code for Capital Finance in Local Authorities requires authorities to produce a capital strategy. The guidance outlines the key factors which they recommend be included, as follows: • The strategy should be formally approved by Council, • The strategy clearly sets out the forthcoming capital expenditure of the Council, • There should be a clear link to the treasury management strategy, therefore including prudential indicators, • There should be a focus on commercial activity and associated risks, • The long-term impact and liabilities of decisions being undertaken should be included and • The knowledge and skills of responsible officers should be articulated.
8.	Prudential Indicators are to show that capital investment planning and the council's borrowing decisions are prudent and sustainable. The prudential indicators have been set for the forthcoming period and comprise of three main components, as follows: • Capital Expenditure – Estimates of Capital Expenditure and Capital Financing, Current and Estimated Movement in the Capital Financing Requirement i.e. the Authority's underlying need to borrow, • External Debt – Current and Estimated Movement in Gross Debt. Authorised limits for Borrowing set by the Authority and the Operational Boundary for Total External Debt (excluding investments) and separate identification for borrowing against debt and other long-term liabilities. Other indicators outline the estimated movement in borrowing requirement and loans over the forthcoming five-year period, and • Affordability – the Ratio of Financing Costs to Net Revenue Stream – this indicates the revenue implications of capital expenditure required to meet borrowing costs.
9.	In setting the indicators, the Authority will also consider Minimum Revenue Provision (MRP). This is to set aside amounts for repayment of debt over the loan period or an equitable amount in line with Capital Regulations. The Council's MRP policy is shown in Appendix 2 and requires approval as part of this report.

10.	In preparing the capital strategy, the Authority has also considered the Treasury Management Strategy 2024/25, (Appendix 4) to be approved as part of this report.. The strategy considers the impact of the Council's proposed revenue budget and capital programme on the balance sheet position, the treasury prudential indicators and the current and projected treasury position. It includes the economic background and outlook for interest rates (Annex 4.2) The strategy highlights an increasing CFR due to the impact of the capital programme and a decreasing working balance surplus and will therefore need to borrow up to £243.7M over the next five years.
11.	The Council's Non-Treasury Investment Strategy meets the requirements of statutory guidance issued by the government in January 2018. The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Non-Treasury Investment Strategy 2024/25 set out in Appendix 3 and requires approval as part of this report.
12.	**FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY**
13.	Appendix 5 details the flexible use of capital receipts strategy for approval. The Secretary of State issued a Direction in March 2016, giving local authorities greater flexibilities to use capital receipts to finance revenue expenditure. This has now been extended until 2024/25. This allows local authorities to treat qualifying expenditure on transformation projects as capital expenditure and to fund it from capital receipts received after April 2016. To use the Direction, the Council must maintain a Flexible Use of Capital Receipts Strategy and include this as part of the annual budget setting report.
14.	The Council is establishing a comprehensive Transformation Programme as part of its plans to address the structural budget deficit. An element of this funding may be from Capital Receipts Flexibility.
15.	The Asset Development & Disposal Programme (ADDP) was initiated in 2023/24 with the vision to drive Southampton's growth through the retention, development, or disposal of SCC's corporate, operational and investment portfolio. It is a capital transformation programme, with capital receipts secured from the disposal of assets funding future transformation activity across the council, including ADDP resources. Along with the securing of capital receipts, ADDP is seeking to achieve wider financial benefits through development and disposal activity. This includes achieving additional council tax revenue and business rates, as well as other revenue savings through reductions in utilities and maintenance costs. One of the early activities within the ADDP is reviewing investment and operational assets to assess whether they should be retained, disposed, or redeveloped in the future. The ADDP is seeking to generate capital receipts over a number of years. These receipts will meet the costs of the transformation programme through flexible use of capital receipts and, if there is sufficient available, consideration will be giving to using receipts to fund the capitalisation direction instead of borrowing.

16.	**<u>THE FORWARD GENERAL FUND CAPITAL PROGRAMME</u>**
17.	The capital budget proposals put forward as part of this report reflect the anticipated needs of the Council over the next five years with investment to deliver the aims within the agreed Corporate Plan. The capital programme is kept under regular review, both in terms of future affordability and delivery.
18.	The proposed changes to the General Fund capital programme from the last reported monitoring position to Cabinet in February 2024 have increased the programme by £29.12M. There has been a comprehensive capital review undertaken, considering the financial pressures the council faces. Economic factors are taking their toll on the delivery of the capital programme, such as rising inflation increasing the cost of construction and interest rate rises making it sustainable to continue the small levels of borrowing to fund the programme. It is still important for the Council to continue making purposeful investment to ensure a sustainable future.
19.	Table 1 shows a comparison of the latest capital expenditure for the period 2023/24 to 2028/29 compared to the previously reported programme.
20.	<u>Table 1 – Programme Comparison</u>

Reported Programme	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M	Total £M
Latest	78.93	98.24	44.30	35.93	6.41	1.00	264.81
Previous	86.40	86.11	32.66	28.82	1.71	0.00	235.69
Variance	(7.47)	12.14	11.64	7.11	4.70	1.00	29.12

NB: Table include rounded figures

21.	Table 2 below details the General Fund Capital Programme by directorate and shows the increase of £29.12M to a total of £264.81M.
22.	Appendix 7 summarises the new schemes and changes to existing schemes by individual directorate programmes.
23.	**CHANGES TO THE PROGRAMME**
24.	<u>Table 2 – Changes in Directorate Programmes</u>

	Latest Programme £M	Previous Programme £M	Total Net Change £M
Children & Learning	65.12	60.72	4.40
Corporate Services	16.49	4.15	12.35
Place	168.86	158.64	4.22
Strategy & Performance	9.59	3.59	6.00
Wellbeing & Housing	10.75	8.60	2.15
Total GF Capital Programme	**264.81**	**235.69**	**29.12**

NB: Table include rounded figures

25.	The total net change to the programme is £29.12M. New additions total £31.30M, of which £0.21M was approved under delegated powers and are offset by reductions to the programme of £2.18M. Details of the major projects are set out below.

26.	**MAJOR PROGRAMME CHANGES**
27.	**Children & Learning – £4.40M Increase plus approval to spend existing budget of £39.66M for the SEND Programme**
28.	An extensive prioritisation exercise has been undertaken of the full Children & Learning capital programme. Several projects have seen significant construction cost increases since setting the original budgets, making it unaffordable to proceed as originally intended. Therefore, the review has led to a significant re-phasing of projects, particularly within Schools Condition Works.
29.	St George Catholic College (£1.00M addition) Works required as part of the secondary expansion programme had been put on hold due to increasing construction costs and funding pressures. An additional £1M of funding is now available and works will now be completed within a budget of £3.02M. This will be fully funded by Government grant.
30.	Early Years & Childcare Capital Expansion Programme (£0.41M addition) The childcare expansion capital grant funding has been provided to local authorities to support the provision of new places to support the expansion of 30-hours entitlement places for children aged 9-months to 3-year-olds. Work has already started in 2023/24 and further plans are being developed to ensure that places are supported where there is a need across the city. The project will be fully funded by Government Grant, £0.20M in 2024/25, £0.15M in 2025/26 and £0.06M in 2026/27.
31.	Condition Works (£2.98M addition) As part of the routine condition surveys performed on the education property portfolio several projects have been identified as requiring progression in 2024/25. The works relate to roofing and pipework and detailed in Appendix 7. £0.56M will be added to the programme for contingency to allow for emergency projects that may occur in year. This allows project managers to take swift action to deal with any health and safety concerns without the need to wait for budget approval. This will be fully funded by Government grant.
32.	SEND Expansion Programme (no addition – approval to spend existing budget £39.66M) Work is progressing to complete RIBA stage 2 (concept design) and is scheduled to complete in Spring 2024. The programme was set out in the report presented to Cabinet in March 2023, and will consist of three projects as described below. Green Lane Refurbishment and re-purposing / use of additional areas in the existing buildings on the site to support the already increased pupil numbers. There is an urgent need to make this space fit for purpose and to ensure delivery for September 2024, it is recommended that a grant of £1M is given to Great Oaks School in 2024/25, who will manage and deliver the project. This will allow the school great power over the phasing to ensure that the school can continue to operate safety over the summer term.

St Monica's Infant School Site

Refurbishment and new transport loop are proposed to accommodate Vermont School and will create 20 new school places.

Vermont Close

This will involve the demolition of the existing school with the development of new buildings The phasing will be dependent on the Vermont School move to the St Monica site and how the risks and constraints are dealt with in managing a construction site within a school environment that would need to operate business / teaching as usual activities for the duration of the construction works. This will provide 150 new school places.

Early high-level estimates suggest that the budget split will be as shown in the table below. Once RIBA stage 4 is complete, the budgets will be updated.

Table 3 SEND Programme Capital Budget Phasing

Project	Additional Places	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	Total £M
Green Lane	-	1.00	0.00	0.00	0.00	1.00
St Monica Site	20	1.00	4.00	6.00	0.00	11.00
Vermont Close Site	150	2.71	4.78	19.82	0.71	28.02
Total	**170***	**4.71**	**8.78**	**25.82**	**0.71**	**40.02**

*Overall programme to provide 252, 82 already provided at Great Oaks

A total of 252 additional SEND places will be provided across the city over the entire programme and will reduce the number of pupils having to travel out of the city, avoiding high-cost placements and transport costs. The additional places already provided have saved nearly £6M in placement costs, based on the average out of city placement cost and the further 170 places are expected to avoid further school costs of £12.18M.

Table 4 Annual Cost - Expansion vs No Expansion

School	Places	In city (Expansion) £M	Out of city (No Expansion) £M	Difference Cost Saving £M
Great Oaks	150	3.08	13.93	10.85
Vermont	20	0.53	1.86	1.33
Total	**170**	**3.60**	**15.78**	**12.18**

The measures to reduce the costs will primarily affect the ring-fenced Schools Budget and help to manage the Dedicated Schools Grant (DSG) deficit. The DSG deficit is subject to a statutory override which means that the deficit does not impact on the wider council services or council taxpayers. The statutory override is in place until March 2026, having recently been extended by 3 years. So, at present this cost reduction does not impact the GF revenue position but the deficit could transfer to the GF balance from April 2026.

There is a General Fund revenue cost of borrowing to fund £30.7M of the

	programme, which is £2M per annum and is built into the Medium-Term Financial Strategy. If any future capital grants become available for schools and education (including underspend on current projects), over and above the Schools Condition programme, this will be applied to the programme and reduce the need to borrow. Approval to spend is sought for the full budget of £39.66M. £0.36M in 2024/25 already has approval to spend to fund the ongoing RIBA stage 2 (concept design) works. This additional approval will allow the programme to proceed with developed and technical design, which will complete by the end 2024. At this time there will be a gateway review and consideration of the final phasing by Council Capital Board, with a view to start construction in 2025/26 and ensuring the project is financially on track.
33.	**<u>Corporate Services - £12.35M Increase</u>**
34.	<u>Client Case Management System (£5.00M addition)</u> The council has been notified that the current provider has taken the decision to withdraw from the market in 2025. Therefore, it will be necessary to start procurement for a new system in 2024/25 to ensure it will be operational by the time support for the current software ceases. Based on previous experience, budget is anticipated to be £5.00M (£2.00M in 2024/25, £1.50M 2025/26 and 2026/27). This will be funded by council resources.
35.	<u>IT Investment (£7.14M addition)</u> Work is ongoing to produce an updated Digital Strategy, which may result in changes to this budget, but high-level indications show that the need is £8.50M over the next 4 years. The previous strategy was only until 2024/25 and had a budget of £1.36M, requiring an addition of £7.14M. This will support work on core hardware elements (network / security, equipment refresh), system rationalisation and transformation. This will be funded by council resources and phases £1.50M in 2024/25, £3.50M in 2025/26 £2.00M in 2026/24 and £1.50M in 2026/27. Invest in IT is essential to ensure the council continues to provide an effective service to residents and offer digital solutions to enhance their experience, as well as being a key enabler to support budget savings and service improvements across the authority. The deliverables of the current IT Strategy consist of five themes: i) IT Capability and Infrastructure. Continuing to build strong foundations for our IT enabled services and ensuring the move to a modern, cloud infrastructure continues. ii) IT Tools and services. Ensuring that staff and councillors have the right tools for the job. iii) Smarter working. Helping the workforce have the right skills to make the most of the technology available. iv) A Culture of Innovation. Investigating and embracing modern technologies and how these can be used to meet the aims of the council whilst driving innovation and creativity in designing new digital services. v) Catalyst for city-wide growth. Ensuring that partnerships are explored, expanded, and identifying any potential commercial

	opportunities. Spend will be agreed following a robust business case process that demonstrates value for money.
36.	**<u>Place - £2.22M Increase</u>**
37.	<u>Outdoor Sport Centre (£0.06M addition)</u> On the 6th of February 2024, Cabinet approved the update design proposals and current budget position at the end of RIBA Stage 3 design. This approval has allowed the project to progress with RIBA Stage 4 design as part of the Pre-Construction Service Agreement (PCSA). The scheme's programme has been affected by the Levelling Up Fund (LUF) announcement delay and subsequent detailed enquiries required by Department of Levelling Up, Housing and Communities (DLUHC) and confirmation of the successful application to enable the project to progress with Contractor engagement. In addition, the VE process has taken time to develop the design, engage with key stakeholders, price, and agree the design approvals process. there is a need to move forward with a programme at pace and DHULC awarded each authority in receipt of a levelling up grant and additional grant to accelerate delivery, for Southampton this was £60,000 in 2023/24. This addition to the budget will support the extra costs of the VE process. Approval to spend had previously been given to progress through the PCSA, whilst awaiting confirmation of external funding and finalising the full business case. Therefore, approval is sought for the spend of £27.03M (£12.70M in 2024/25 and £14.33M 2025/26) to progress the project to completion. The programme budget is currently phased, as per the table below, but will be subject to change once the final programme phasing has been agreed with the contractor. This will be reported as part of the in-year capital monitoring report. Table 5 <table><tr><td>2022/23 Actual £M</td><td>2023/24 Budget £M</td><td>2024/25 Budget £M</td><td>2025/26 Budget £M</td><td>Total £M</td></tr><tr><td>0.94</td><td>1.15</td><td>13.73</td><td>14.33</td><td>30.15</td></tr></table>
38.	<u>Highways Budgets (£0.76M net reduction)</u> Following a review of the programme there has been a budget alignment as detailed in the table below, as the previous budgets were allocated 2 years ago and were high-level estimates. In 2024/25 there has been a £5.88M reduction in borrowing to support the highways programme, to enable an on-going revenue saving of £0.48M. This has been offset by an addition contribution from the On-Street parking reserve and grant funding. Previously there was no budget in 2025/26, but to ensure that projects can be planned for in advance, there has been an

addition of £1.00M contribution from the on-street parking reserve and £2.40M of government grant. The final programme is detailed in Appendix 7.

Project	2024/25 £M	2025/26 £M	Total £M
Carriageways	(3.25)	2.25	(1.01)
Essential Highways Minor Works	0.01	0.10	0.11
Footways	(0.96)	0.45	(0.51)
Highways Drainage Investigations	0.35	0.30	0.65
Road Restraint Systems	(0.15)	0.15	0.00
Structures	(0.15)	0.15	0.00
Total	**(4.15)**	**3.40**	**(0.76)**

39. Northam Rail Bridge (£2.92M addition)

The council has been developing a scheme to replace and enhance the existing ageing single lane A3024 Northam Rail Bridge in Southampton for several years, which has been reliant of government funding from the Major Road Network programme, due to the size and nature of the project.
In January 2024 DfT awarded funding to support the development of the Outline Business Case. The spend will be phased £0.10M in 2023/24, £2.32M in 2024/25 and £0.50M in 2025/26 and will be funded by government grant.

40. Play Areas (net nil movement)

It is proposed to move the budget from the S106 Youth Provision project to increase the budget at Weston Shore. There were no plans for this project, only that it needed to be for youth provision in the vicinity of the Centenary Quay development. Currently no other play areas within this area need upgrading. Consultation and design are currently underway for the Weston Shore play area and this additional budget will enable a destination play area.

41. St Mary's Leisure Centre (£2.00M addition)

The Council needs to urgently resolve the future use of St Mary's leisure centre. Such future use needs to have regard to strategies currently being developed around transformation, use of assets, and multi-agency preventative services. Emerging consideration points towards the continued use of the building as an important part of these inter-related agendas. To enable this to be progressed it is recommended that provision is made in the capital budget to secure the on-going use of the building whilst future occupancy and viability is determined.

This investment is subject to a viable business case demonstrating value for money, being presented to Council Capital Board. This will be funded by council resources; the revenue impact has been included into the MTFS update.

42. **Strategy & Performance - £6.00M Increase**

43. Transformation Programme (£6.00M addition)

The Council is establishing a comprehensive Transformation Programme as part of its plans to address the structural budget deficit. The scope of the programme is currently in development but is likely to include service review

	and re-design, new service operating models, technology enabled change and efficiency, asset rationalisation (ADDP), procurement and third party spend, income generation and partnership working (including with health and the voluntary sector). This will be funded in part by capital receipts and forms the basis of the Flexible Use of Capital Receipts Strategy (Appendix 5). The capitalisation direction allows for up to £10.62M of transformation costs, as and when additional budget is required this will be added to the programme.
44.	**<u>Wellbeing & Housing - £2.15M Increase</u>**
45.	<u>Affordable Homes (£0.79M addition)</u> This addition is for the S106 contributions which have collected over the last 2 years for the specific purpose of providing affordable homes. Throughout 2023/24 significant work was undertaken on the Affordable Housing Framework and this addition will increase the budget to £1.92M to support future provision in the City. This is fully funded by S106 Contributions.
46.	<u>Warm Homes (£1.65M addition)</u> The Southampton Healthy Homes project is an affordable warmth service providing fuel poverty and energy efficiency advice for the residents of Southampton. The primary aim is to reduce the number of households in the city from being in or at risk of fuel poverty and to work to support the cities ambitions to reduce the carbon footprint of Southampton by helping and facilitating the move to greener energy usage in the city's private residential homes. The project is currently being run by the Environment Centre, a local charity in partnership with Southampton City Council. The project has been running for over 10 years and the proposed project is extend for a further 3 years; £0.55M per annum. This will be funded by a contribution from the Better Care Fund, S106 contributions for Carbon Management and capital receipts.
47.	<u>Telecare Equipment (£0.28M addition)</u> The telecare service is an established service, delivering cost effective support to residents of the city. Not only is it proven to be a cost-effective way to deliver care to people with needs. It is also a valuable tool in supporting independence and preventing escalation of need, which improves people's quality of life and saves significant sums of money in cost avoidance of care packages. The UK's telecommunications providers are currently transitioning their telephone services from analogue to digital networks, and this will require updated equipment to ensure compatibility and services to continue and expand in the future. The budget required is £0.16M in 2024/25 and £0.12M in 2025/26 to be funded by Council resources.
48.	<u>Holcroft House (£0.57M reduction)</u> Following the decision to relocate residents from Holcroft House in September 2023, in part due to the significant fire safety works that were required on the aging building, this budget is not longer required to continue works. This project was funded by council resources.
49.	As part of the appraisal process, all projects are assessed to ensure that they meet the objectives of the Council. Table 3 summarises the items of major spend by programme.

50.

Table 3 – Capital Spend by Programme

Programme	Major Project	2023/ 2024 £M	2024/ 2025 £M	2025/ 2026 £M	2026/ 2027 £M	2027/ 2028 £M	2028/ 2029 £M
Children & Learning	Early Years Expansion	0.25	0.47	0.15	0.06	0.00	0.00
	School Capital Maintenance	2.72	6.78	0.31	0.34	0.00	0.00
	Secondary Review & Expansion	2.83	3.17	0.00	0.00	0.00	0.00
	SEND Review & Expansion	3.17	4.77	8.78	25.82	0.71	0.00
	Childrens Services - Residential/Assessment Unit	0.91	3.28	0.60	0.00	0.00	0.00
Corporate Services	Digital & IT	2.89	3.60	5.00	3.50	1.50	0.00
Place	Bridges Programme	1.53	4.35	0.15	0.00	0.00	0.00
	Highways Programme	11.98	4.72	3.25	0.00	0.00	0.00
	Integrated Transport	8.23	7.38	0.70	0.00	0.00	0.00
	Transforming Cities	21.52	14.36	0.00	0.00	0.00	0.00
	Future Transport Zone	5.36	7.13	0.44	0.00	0.00	0.00
	Outdoor Leisure	1.15	15.73	14.33	0.00	0.00	0.00
	Corporate Assets Decarbonisation Scheme (CADS)	1.48	2.54	0.71	0.00	0.00	0.00
	Materials Recycling Facility	0.00	0.00	3.45	0.00	0.00	0.00
	Fleet Investment	3.28	0.60	1.00	1.00	0.00	0.00
	Arts & Heritage	2.44	6.47	0.89	0.15	0.00	0.00
	River Itchen Flood Alleviation Scheme (RIFAS)	0.00	0.00	0.50	4.50	4.20	1.00
	Parks Development Works	1.80	1.42	0.00	0.00	0.00	0.00
	Play Area Improvements	0.03	0.70	0.35	0.00	0.00	0.00
	Coastal Erosion Measures	0.25	0.15	0.00	0.00	0.00	0.00
	Corporate Council Buildings	0.48	0.00	0.00	0.00	0.00	0.00
	Property Portfolio Enhancements	0.46	0.00	0.00	0.00	0.00	0.00
	Other	0.26	0.09	0.35	0.00	0.00	0.00
Strategy & Performance	Transformation Programme	2.68	6.90	0.00	0.00	0.00	0.00
Wellbeing & Housing	Disabled Facilities Grants	0.45	0.55	0.55	0.55	0.00	0.00
	Adult Social Care Projects	0.21	0.16	0.12	0.00	0.00	0.00
	Community Safety	1.60	1.80	1.89	0.00	0.00	0.00
	Estate Improvements	0.96	1.12	0.79	0.00	0.00	0.00
	TOTAL	**78.93**	**98.24**	**44.30**	**35.93**	**6.41**	**1.00**

NB: Table includes rounded numbers

51.	**CAPITAL RESOURCES**
52.	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, and • Direct Revenue Financing.
53.	It should be noted that the revised General Fund Capital Programme is based on prudent assumptions of future Government Grants to be received. Most of these grants relate to funding for schools and transport and are non-ring fenced. However, in 2023/24 and 2024/25 those grants have been passported to these areas. These assumptions will be monitored closely, and any updates reported as part on the monthly monitoring process; should any grants not materialise then the projects affected will need to be reconsidered.
54.	The forecast for borrowing costs in 2023/24 is £20.20M, of which £6.15M relates to the HRA. This is expected to rise to £33.05M (£10.49M HRA) by 2027/28 to accommodate the capital programme, utilisation of reserves and refinancing of borrowing. More information can be found at section 2.4.10 of the Capital Strategy. The proportion of the revenue budget allocated to capital financing will increase from 9.09% for 2023/24 to 9.32% for 2027/28. The increase relates to investment in the HRA; the GF reduces from 9.50% for 2023/24 to 8.74% for 2027/28, reflecting the reductions to the programme taken in the July and November 2023 MTFS updates.
55.	Table 4 shows the current level of available resources.
56.	Table 4 – Available Capital Funding

Resource	Balance B/Fwd. £M	Received to Date 2023/24 £M	Allocated to Current Programme £M	Available Funding £M	Anticipated Receipts 2023/24 £M
Capital Receipts	(3.12)	(0.25)	10.77	0.00	12.75
CIL	(6.11)	(0.73)	10.26	0.00	(0.27)
S106	(8.56)	(0.44)	7.77*	(1.23)	(0.04)

*Includes allocation for revenue purposes (mainly TRO's)

57.	Table 4 shows that the largest resource is Community Infrastructure Levy (CIL) funding. There is currently more allocated to the programme than receipts to date, but this is based on prudent assumptions about future developments within the city and therefore CIL receipts.
58.	Capital receipts are currently being used to fund transformation projects which are being capitalised as per the Council's Flexible Use of Capital Receipts Strategy, which is include for approval as part of this report in appendix 5. Under the guidance, '*expenditure on a project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce* costs and/or transform service delivery in a way that reduces costs or demand for services in future *years for any of the public*

	sector delivery partners' may be funded by capital receipts.
59.	Table 5 below shows the previous and current capital receipt assumptions, together with the actual receipts received in year for the General Fund. There has been £87.79M movement since the last reported position due to the formation of the ADDP Programme. The value of future receipts will be updated as the programme progresses and there is confirmation of which assets will be disposed of and currently consists of a very high-level estimate of what could be achieved. Appendix 9 (confidential) details properties which are being considered for disposal.
60.	Table 5 – General Fund Capital Receipts Estimates

Forecast	B/Fwd. £M	2023/ 2024 £M	2024/ 2025 £M	2025/ 2026 £M	2026/ 2027 £M	2027/ 2028 £M	2028/ 2029 £M	Total £M
Latest	(3.12)	(12.79)	(15.00)	(15.00)	(15.35)	(15.00)	(15.00)	(91.24)
Previous	(3.12)	0.00	0.00	0.00	(0.35)	0.00	0.00	(3.47)
0.00	0.00	(12.79)	(15.00)	(15.00)	(15.00)	(15.00)	(15.00)	(87.79)

61.	**OVERALL CAPITAL PROGRAMME**
62.	Tables 6 and 7 show capital expenditure by directorate and the use of resources to finance the General Fund Capital Programme up to and including 2028/29. Appendix 8 provides details of each directorate's latest programme and the financing of that programme.
63.	Table 6 – General Fund Capital Expenditure by Programme

Programme	2023/ 2024 £M	2024/ 2025 £M	2025/ 2026 £M	2026/ 2027 £M	2027/ 2028 £M	2028/ 2029 £M	Total £M
Children & Learning	9.88	18.47	9.84	26.22	0.71	0.00	65.12
Corporate Services	2.89	3.60	5.00	3.50	1.50	0.00	16.49
Place	60.26	65.64	26.11	5.65	4.20	1.00	162.86
Strategy & Performance	2.68	6.90	0.00	0.00	0.00	0.00	9.59
Wellbeing & Housing	3.21	3.63	3.35	0.55	0.00	0.00	10.75
Total	**78.93**	**98.24**	**44.30**	**35.93**	**6.41**	**1.00**	**264.81**

Table 7 – Use of Resources

Capital Grants	(44.42)	(63.21)	(16.70)	(0.65)	0.00	0.00	(124.98)
Contributions	(9.26)	(7.15)	(4.33)	(0.05)	0.00	0.00	(20.79)
Revenue Financing	(2.06)	(1.59)	(1.00)	0.00	0.00	0.00	(4.65)
Capital Receipts	(2.79)	(7.16)	(0.58)	(0.25)	0.00	0.00	(10.77)
CR – Borrowing	(20.40)	(19.13)	(21.69)	(34.97)	(6.41)	(1.00)	(103.61)
Total	**(78.93)**	**(98.24)**	**(44.30)**	**(35.93)**	**(6.41)**	**(1.00)**	**(264.81)**

*CR – Council Resources NB: Table includes rounded figures

64.	Table 7 demonstrates that the most significant amount of funding for the

	general fund programme is provided by grants, as noted above predominately relating to schools and transport/highways. Council resources is the next main source of funding, which at present, will be through borrowing. Borrowing costs are in the main met within a central provision, which is detailed within the revenue budget.
65.	Every effort will be made to explore external funding opportunities to reduce the need for borrowing. On average every £1M borrowed will incur revenue financing charges (interest and MRP) of £0.08M. Should grants or contributions be made available to the Council in the future, these will be reported as part of the routine financial monitoring process.
66.	**<u>Exceptional Financial Support (EFS)</u>**
67.	An application has been made to Government seeking Exceptional Financial Support (EFS) to help balance the budget for 2024/25 and provide for other costs and potential liabilities. The Government has now confirmed that it is minded to support the council by providing an EFS facility. A Ministerial Statement on 29 February has confirmed the this for Southampton City Council, and for several other local authorities.
68.	The government has previously agreed to provide a small number of local authorities with support via the Exceptional Financial Support framework, following requests from these councils for assistance to manage financial pressures that they considered unmanageable and was likely to mean the requirement to agree a balanced budget could not be achieved. The support is provided on an exceptional basis, and often requires that each local authority be subject to an external assurance review on their financial position.
69.	The EFS is in the form of a ‘Capitalisation Direction’. Capitalisation is how the government permits local authorities to treat revenue costs as capital expenditure. It is a relaxation of the rules that require revenue costs to be met from revenue resources only and that councils should not “borrow” to fund revenue expenditure. Obviously, a local authority does not have to borrow to fund the capitalised expenditure as it can legitimately use capital receipts to do so. EFS is only available in 2024/25 to give the council time to develop further savings and transformation plans to reduce the structural budget deficits in future years.
70.	The EFS is that the council can use up to £121.58M of capital resources to fund revenue expenditure and other potential liabilities. The Council is not obliged to use the full value of the EFS, and this should be seen as a facility to use rather than permission to spend. EFS is not additional funding, and it must be repaid either through capital receipts or borrowing. The use of the EFS facility should therefore be kept to the minimum necessary. If the capitalisation direction is utilised, then a budget will be added to the capital programme in due course.
71.	Any use of EFS will require the generation of capital receipts to create the necessary funding or will need to be funded by new borrowing. Any new borrowing will attract a premium of 1% on the prevailing PWLB rates and removes the entitlement for us to borrowing using certainty rates, so will be

	closer to 1.2% above the rate we would have borrowed at. The repayments will add to the financial pressures the Council faces.
72.	The Asset Disposal and Development Programme will generate capital receipts over a number of years and these receipts will be used to meet the costs of the transformation programme and, if there is sufficient available, consideration will be giving to using receipts to fund the capitalisation direction instead of borrowing, which is likely to be at a 1% premium.
RESOURCE IMPLICATIONS	
Capital/Revenue	
73.	There is a revenue cost of providing the capital programme, through the interest cost of borrowing and the minimum revenue provision (MRP). MRP is the calculated annual charge to the revenue account to repay debt incurred in respect of capital expenditure financed by borrowing or other long term credit arrangements (such as PFI). It is charged over a period that is commensurate with the benefits of capital expenditure. The cost of the current capital programme forms part of the Medium-Term Financial Strategy and is monitored and reported as part of the revenue financial monitoring.
74.	A key indicator is the ratio of Capital Financing to the Net Revenue Budget of the council. Following the highly publicised over borrowing by some local authorities it is expected that CIPFA and central government will propose a strengthening of the prudential limits by including upper limits on the level of borrowing. The council has introduced a ceiling for the above indicator, prior to any change to the Prudential Code, and set the General Fund at a maximum of 11% of Net Revenue Budget. It also now needs to be in keeping with 'purposeful investment' i.e. does the investment reduce revenue expenditure/increase income? Does it offset a future financial pressure? Does it have a significant impact on the lives of residents?
75.	The capital implications are detailed within the report.
Property/Other	
76.	There are no specific property implications arising from this report other than the schemes already referred to within the main body of the report.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
77.	The General Fund Capital Programme update is prepared in accordance with the Local Government Acts 1972 – 2003.
78.	It is important that Members are fully aware of the full legal implications of the entire budget and council tax making process when they consider any aspect of setting the council's Budget. Formal and full advice to all Members of the council protects Members, both in their official and personal capacity, as well as the council. If Members have received the appropriate professional legal and financial advice and act reasonably, generally the courts will not interfere in their decisions.
79.	The first and overriding legal duty on Members is their fiduciary duty to weigh the needs of service users against the interests of local taxpayers. In planning the budget, Members are under a fiduciary duty to act prudently, responsibly,

	in a business-like manner and in their view of what constitutes the best interests of the general body of local taxpayers. In deciding upon expenditure, the council must fairly hold a balance between recipients of the benefits of services provided by the council and its local taxpayers. Members should note that their fiduciary duty includes consideration of future local taxpayers as well as present local taxpayers.
80.	It is appropriate for Members to consider their own position as some Members may have expressed support publicly for policies/projects that are not policies of the council. Political documents do not represent a legal commitment on behalf of the council. To treat any political document as a legal commitment by the council would be illegal. Where there is a valid choice before Members, then, at that stage and only at that stage, Members may take political documents into account.
<u>Other Legal Implications</u>:	
81.	The Medium-Term Financial Strategy and the Budget are key parts of the Policy Framework of the Council and a budget and council tax for 2024/25 must be proposed by Cabinet for consideration by the full Council under the Constitution. The update of the Capital Programme forms part of the overall Budget Strategy of the Council.
RISK MANAGEMENT IMPLICATIONS	
82.	The council maintains a financial risk register which details the key financial risks that face the council at a given point in time and is reported via the Revenue Financial Monitoring report. It is from this register that the level of balances and reserves is determine, including a small reserve for capital funding. The main risks effecting the capital programme are: • Interest rates underestimated, resulting in a higher cost of borrowing to fund the programme, • Slippage in capital receipts or grants not secured, resulting in a funding gap, • Inflation, impacting on construction costs and availability of suppliers.
POLICY FRAMEWORK IMPLICATIONS	
83.	The update of the Capital Programme forms part of the overall Budget Strategy of the Council.
84.	

KEY DECISION?	**Yes/No**
WARDS/COMMUNITIES AFFECTED:	All
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Capital Strategy 2024/25
2.	Minimum Revenue Provision (MRP) Strategy 2024/25
3.	Non-Treasury Investment Strategy 2024/25
4.	Treasury Management Strategy 2024/25

5.	Flexible Use of Capital Receipts Strategy 2024/25
6.	Asset Development & Disposal Programme (ADDP) Principles & Governance
7.	Variations to the General Fund Capital Programme Since Q3
8.	General Fund Capital Programme – Scheme Details
9.	Investment Assets

Documents In Members' Rooms

1.	Updated SEND FBC
2.	
3.	

Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	**Yes/No**
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	**Yes/No**

Other Background Documents
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)**
1.	SEND Programme (Cabinet 14 March 2023)	
3.	Outdoor Sports Centre (Cabinet 6 February 2024)	