

DECISION-MAKER:	CABINET COUNCIL		
SUBJECT:	THE GENERAL FUND CAPITAL PROGRAMME 2014/15 TO 2017/18		
DATE OF DECISION:	10 FEBRUARY 2015 11 FEBRUARY 2015		
REPORT OF:	CABINET MEMBER FOR RESOURCES AND LEISURE		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY			
Appendix 5 is confidential, the confidentiality of which is based on category 3 of paragraph 10.4 of Councils Access to Information Procedure Rules. It is not in the public interest to disclose this because doing so would prejudice the authority's ability to achieve best consideration for the disposal of land (the identify of preferred developer and the figures associated with the land transaction are commercially sensitive).			

BRIEF 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 17 September 2014. 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 £4,774k. The capital programme is fully funded based on the latest forecast of available resources although the forecast can be subject to change; most notably with regard to the value and timing of anticipated capital receipts.

RECOMMENDATIONS:

CABINET

Recommends that Full Council

- i) Approve the changes to the General Fund Capital Programme as set out in Council recommendations i- xii.

COUNCIL

It is recommended that Council:

- i) Approve the revised General Fund Capital Programme, which totals £101,932k (as detailed in paragraph 4) and the associated use of resources.
- ii) Note the changes to the programme as summarised in Appendix 2 and described in detail in Appendix 3.
- iii) Note the slippage and re-phasing as described in detail in Appendix 3.
- iv) Note that the revised General Fund Capital Programme is based on prudent assumptions of future Government Grants to be received, and that announcements made as part of the Comprehensive Spending Review for 2015/16 and the provisional local government finance settlement have been appropriately reflected in the proposed programme presented for approval.
- v) Note that additional temporary borrowing taken out in 2010/11 and 2011/12 due to cash flow issues, now totalling £3,650k is expected to be repaid by the end of 2016/17 when anticipated capital receipts are finally forecast to be received.
- vi) Add a sum of £6,704k to the Environment & Transport capital programme in 2015/16 for the Highways & Bridges Programme to be funded from Council Resources (£2,600k capital receipts), Local Highways Maintenance grant (£1,704k), Borrowing (£1,900k) and Revenue (£500k from the On-Street reserve).
- vii) Add a sum of £1,669k to the Environment & Transport capital programme in 2015/16 for the Integrated Transport Programme to be funded from Integrated Transport Block grant.
- viii) Add a sum of £2,300k to the Leader's capital programme in 2015/16 for the scheme set out in confidential Appendix 5
- ix) Add a sum of £240k to the Resources and Leisure (Leisure) capital programme in 2015/16 for the Bargate Monument repairs scheme to be funded from Council Resources (capital receipts). To give approval to spend up to this sum in 2015/16.
- x) To note the current position regarding the Council's Disposal programme as detailed in paragraph 21.
- xi) Note the financial and project issues which are set out in paragraphs 28 to 33 and detailed in Appendix 3 for each Portfolio.
- xii) Note that a review of the Council's capital strategy has been undertaken as detailed in Appendix 6.

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.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 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

- The General Fund Capital Programme update summarises additions to the capital programme since September 2014. Each addition to the capital programme has been subject to the relevant consultation process which now reflects the role played by Capital Boards and the use of the Councils project management system Sharepoint. The content of this report has been subject to consultation with Finance Officers from each portfolio.

THE FORWARD CAPITAL PROGRAMME

- The following table shows a comparison of the total planned expenditure for each year with the sums previously approved:

Table 1 – Comparison of total planned expenditure by year

	2014/15	2015/16	2016/17	2017/18	Later Years	Total
	£000	£000	£000	£000	£000	£000
Latest Programme	48,967	46,781	5,551	533	100	101,932
Sep 2014 Programme	62,555	29,028	4,362	0	1,213	97,158
Variance	(13,588)	17,753	1,189	533	(1,113)	4,774

- The above table shows that the General Fund Capital Programme has increased by £4,774K.
With the exception of changes requiring approval detailed in the recommendations within this report, all other changes have been previously approved by Council, Cabinet or made under delegated authority. Details of each portfolio's programme are shown in Appendix 1.
- The change in individual portfolios' capital programmes is shown in the following table and a summary of the major variations, together with the source of funding and the priorities to which they contribute, is detailed in Appendix 2:

Table 2 – Change in individual portfolio capital programmes

	Latest Programme £000	Previous Programme £000	Total Change £000
Children's Services	17,512	17,402	110
Environment & Transport (E&T)	41,576	32,584	8,992
Environment & Transport (City Services)	1,008	998	10
Health & Adult Social Care	959	1,035	(76)
Housing & Sustainability	5,547	12,159	(6,612)
Leaders	26,441	24,097	2,344
Resources & Leisure (Resources)	4,925	5,470	(545)
Resources & Leisure (Leisure)	3,964	3,413	551
Total GF Capital Programme	101,932	97,158	4,774

7. Further detail of the changes to each portfolio capital programme is contained in Appendix 3 which sets out both additions and slippage and re-phasing for schemes.

CAPITAL RESOURCES

8. The resources which can be used to fund the capital programme are as follows:
- 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 and from other bodies
 - Direct Revenue Financing (DRF)
9. Capital Receipts from the sale of Right to Buy (RTB) properties are passed to the General Fund capital programme to support the Housing Association schemes within the Housing Portfolio.

CHANGES IN AVAILABLE RESOURCES

10. 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 September 2014:

Table 3 – Resource Changes since September 2014

	£000
Unsupported Borrowing	1,355
Capital Receipts	5,352
Contributions	(6,565)
Capital Grants	4,022
Direct Revenue Financing (Portfolios)	610
Total Change in Available Resources	4, 774

11. The main reasons for the resource changes are detailed in Appendix 4. It should be noted that the revised General Fund Capital Programme is based on prudent assumptions of future Government Grants to be received, and that announcements made as part of the Comprehensive Spending Review for 2015/16 and the provisional local government finance settlement have been appropriately reflected in the proposed programme presented for approval. This affects areas such as the schools programme within the Children's Services Capital Programme which is heavily reliant on grant funding from government each year.
12. The largest increases in available resources relate to Government capital grants and contributions.

OVERALL USE OF RESOURCES

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

Table 4 – Capital Expenditure by Portfolio

	2014/15	2015/16	2016/17	2017/18	Later Yrs	Total
	£000	£000	£000	£000	£000	£000
Children's Services	9,190	6,734	1,588	0	0	17,512
Env & Transport (E&T)	25,502	16,074	0	0	0	41,576
Env & Transport (CS)	708	300	0	0	0	1,008
Health & Adult Social Care	456	503	0	0	0	959
Housing & Sustainability	2,471	2,776	300	0	0	5,547
Leaders	6,055	16,815	3,301	170	100	26,441
Resources & Leisure (Res)	2,025	2,303	312	285	0	4,925
Resources & Leisure (Leis)	2,560	1,276	50	78	0	3,964
	48,967	46,781	5,551	533	100	101,932

Table 5 Resources to Finance the General Fund Capital Programme

	2014/15	2015/16	2016/17	2017/18	Later Yrs	Total
	£000	£000	£000	£000	£000	£000
Unsupported Borrowing	1,303	1,944	0	0	0	3,247
Capital Receipts	7,589	11,457	350	3	0	19,399
Contributions	4,227	4,043	245	75	0	8,590
Capital Grants	30,919	26,674	4,288	0	0	61,881
DRF from Balances	1,489	1,040	113	0	0	2,642
DRF from Portfolios	3,440	1,623	555	455	100	6,173
Total Financing	48,967	46,781	5,551	533	100	101,932

14. The table above shows that following the latest update, the capital programme continues to be fully funded based on the latest forecast of available resources although the forecast can be subject to change as it was in September 2014.
15. Funding for the capital programme is heavily reliant on capital receipts from the sale of Council properties. These receipts have always had a degree of uncertainty regarding their amount and timing, but the changes in the economic climate have increased the Council's risk in this area.
16. This was recognised in 2008 and in the event therefore that there was a

temporary deficit in the funding of the capital programme due to delays in receiving capital receipts, delegated authority was given by Council to the Chief Financial Officer, following consultation with the Cabinet Member for Resources, to undertake additional borrowing in order to provide cover for any delays in the timing of capital receipts.

17. Due to anticipated delays in the receipt of funding from the sale of capital assets an additional £9,160k had to be borrowed to fund the programme in 2011/12 and £2,800k in 2010/11, which was in line with delegated powers approved in September 2008. Repayments of £2,560k and £5,750k were made during 2012/13 and 2013/14 leaving the outstanding balance at £3,650k. The additional revenue costs associated with undertaking this prudential borrowing have been built into future budget forecasts.
18. Despite the ongoing economic difficulties, which have reduced and delayed capital receipts from the sale of land and property, the Council's capital programme is fully funded and based on the latest forecast of capital receipts the outstanding balance of temporary borrowing undertaken to date of £3,650k will be repaid by the end of 2016/17. The figures shown in the table above do not reflect this planned repayment and only relate to the financing of the current programme rather than adjustments anticipated to the financing of prior years.
19. The funding and cashflow position of the overall capital programme is susceptible to changes in the estimated value of future capital receipts and their timing. This has arisen due to the approval of schemes based on future estimates of receipts and the fact that the reserve of receipts has been exhausted. This situation was exacerbated by the recession but is a risk which needs to be considered in the future approach adopted for capital additions.

It is intended to move to a position where schemes are only approved when receipts are received or certain and when a sufficient reserve of receipts has been built up to protect against volatility in the timing and level of uncertain future receipts.
20. The forecast of capital receipts includes a risk factor calculated by Valuation Services that reduces some receipt values to take account of the uncertainty inherent in these estimated values. This should mitigate the impact of any individual changes in receipts and also ensure that an appropriately realistic forecast is presented. Capital receipts are actively monitored throughout the year and this will continue.
21. The current disposal programme, used to inform the capital receipts assumptions in this programme update, mainly consists of Investment properties. This disposal programme was agreed in 2011 as a 5 year plan. However, the programme is now on hold whilst a formal decision is taken to agree the Council's disposal strategy going forward. The revision to the current programme significantly reduces the assumed level of capital receipts available to fund the capital programme. A further Service Property Review is also being undertaken. Any additional capital receipts identified as a result of this review will be taken into account in future programme updates.

CHANGES TO THE PROGRAMME

22. Given the lack of spare resources in the programme and the lack of available capital resources over the past three to four years, additions to the programme are only considered in very exceptional circumstances.
23. A number of changes to the overall programme have been approved at Capital Boards and via separate reports and a series of recommendations are included in this report to approve a number of additions to the programme.
24. There are recommendations included in this report (vi to vii) to increase the unapproved section of the Environment & Transport Capital Programme in 2015/16 by a total of £8,373k. This sum is split between the Highways and Bridges Programme (£6,704k) and the Integrated Transport Programme (£1,669k) as follows.

Southampton will receive £1,704k of Local Highways Maintenance government grant in 2015/16. From this sum, £1,300k has been allocated to the Roads Programme and has been supplemented by £2,600k of Council Resources, £1,900k of Borrowing and £500k of Revenue (On-Street Reserve). The Roads Programme (Principal, Classified & Unclassified), which totals £6,300k, continues to reflect the need to maintain the structural integrity of the citywide highways network. The programme is designed in line with the Transport Asset Management Plan (TAMP). The remaining £404k of government grant will be used to fund bridges maintenance and other highway projects, as described in Appendix 3. There is an opportunity to bid for further government grant through the Local Highways Maintenance Challenge Fund. All bids will need to have local contributions of at least 10%.

Southampton will also receive £2,124k of Integrated Transport Block government grant in 2015/16. From this sum, £455k has already been allocated as match funding for schemes within the approved capital programme. The remaining £1,669k is provisionally allocated in this report to deliver a range of transport improvement schemes. These include public transport, improved safety, road safety, cycling and pedestrian schemes and public realm enhancements. The integrated transport allocation has had over 40% of its value diverted to the Single Local Growth Fund, which is administered by the Local Enterprise Partnership (LEP). The LEP will allocate this funding to growth initiatives but the funding will not be ring fenced for transport.

NEW SPENDING PRIORITIES PUT FORWARD BY CABINET

25. Given the lack of spare resources in the programme and the lack of available capital resources over the past three to four years, additions to the programme are only considered in very exceptional circumstances.
26. A recommendation is included to add a sum of £2,300k to the Leader's portfolio capital programme for the scheme set out in the confidential Appendix 5 to be funded by capital receipts.
27. It is further recommended that a sum of £240k is added to the Leisure portfolio capital Programme, to be funded by capital receipts, for repairs to the Bargate Monument. Approval is also sought to give authority to spend this sum in 2015/16. It should be noted that a direct revenue financing contribution will be payable from the service budgets of £40,000 per annum for a period of 6 years.

DELIVERY OF PROGRAMME

28. In the past, there have been issues with regard to delivery of schemes in the light of which a review of project management within the Council was undertaken and a project management system, (Sharepoint), developed and implemented. Following a period to establish the efficient and effective use of Sharepoint across the Council this report includes an assessment of all facets affecting the delivery of the Capital Programme.
29. Within Sharepoint, projects are allocated a RAG status based on the following broad criteria:
- **RED – Significant Concern** - Low level of confidence that the project can be delivered to the originally agreed Time, Cost and / or Quality specified at Gateway 3 (project initiation). Any significant risks or issues should be noted under 'Highlighted Risks and Issues' on the Highlight Report and a Red RAG status selected where the Project Manager believes that the risk and/or issue may lead to significant slippage or impact cost and / or quality.
 - **AMBER – Some Concern** - Medium level of confidence that the project can be delivered to the originally agreed Time, Cost and / or Quality specified at Gateway 3. Any medium risks or issues should be noted under 'Highlighted Risks and Issues' on the Highlight Report and an Amber RAG status selected where the Project Manager believes that the risk and/or issue may lead to some slippage or impact cost and / or quality.
 - **GREEN – On Track** - High level of confidence that the project can be delivered to the originally agreed Time, Cost and / or Quality specified at Gateway 3. Any minor risks or issues can be noted under 'Highlighted Risks and Issues' on the Highlight Report. The RAG status would remain 'Green' unless the risk and/or issue is likely to lead to some or significant slippage or impact cost and / or quality.
30. It is timely to review the use of Sharepoint now that it has been in use for some time to ensure that it is being used consistently and to best effect. Work is underway to establish a Programme Management Office (PMO) with an agreed project management framework, a pool of project managers and ongoing training for relevant staff. This compliments work to review the use of Sharepoint which will be progressed once the PMO is further developed.
31. Appendix 3 contains detail about financial and project issues within each Portfolio Capital Programme which need to be brought to the attention of Cabinet and Council.
32. Only one scheme has been highlighted with a significant financial issue and this is shown in the table below:

Table 6 – Schemes with a Significant Financial Issue

Key Adverse Financial Variances

Portfolio	Scheme	Adverse Forecast £000's	Appendix 3 See Reference
Resources & Leisure	Sea City Phase 2	358	3 / LS4

33. There are no schemes where there is a significant project issue to report at this stage.

CAPITAL STRATEGY

34. The Council needs to have a fit for purpose Capital Strategy to ensure that all the priorities within the Council Strategy are accounted for in the allocation of resources to the capital programme. A review has therefore been undertaken to update the Capital Strategy for the period 2015/16 to 2019/20 and this is attached as Appendix 6.

RESOURCE IMPLICATIONS

Capital

35. As set out in the report details.

Revenue

36. 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

37. 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

38. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

40. 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

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

KEY DECISION? Yes

WARDS/COMMUNITIES AFFECTED:	All
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SUPPORTING DOCUMENTATION

Appendices

1.	General Fund Capital Programme – Scheme Details
2.	Major Variations Since the September 2014 Capital Update
3.	Key Issues – February 2015 Programme Update
4.	Major Changes in Capital Resources Since the September 2014 Update
5.	Confidential Appendix
6.	Capital Strategy 2015/16 to 2019/20

Documents In Members' Rooms

1.	None
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Equality Impact Assessment

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

1.	The General Fund Capital Programme 2013/14 to 2016/17 as approved by Council on 17 September 2014.	
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