

DECISION-MAKER:	CABINET		
SUBJECT:	CAPITAL FINANCIAL MONITORING FOR THE PERIOD TO THE END OF JUNE 2018.		
DATE OF DECISION:	18 SEPTEMBER 2018		
REPORT OF:	CABINET MEMBER FOR FINANCE & CUSTOMER EXPERIENCE		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

The purpose of this report is to inform Cabinet of any major changes in the overall General Fund and Housing Revenue Account (HRA) capital programme for the period 2018/19 to 2022/23, highlighting the changes in the programme since the last reported outturn position to Council in July 2018. The report also notes the major forecast variances against the approved estimates.

RECOMMENDATIONS:

It is recommended that Cabinet:

	(i)	Notes the revised General Fund Capital Programme, which totals £166.75M (as detailed in paragraph 31) and the associated use of resources.
	(ii)	Notes the revised HRA Capital Programme, which totals £184.90M (as detailed in paragraph 31) and the associated use of resources.
	(iii)	Notes that the overall forecast position at Quarter 1 is £143.54M, resulting in a potential underspend of £10.91M, as detailed in paragraph 10, table 3, and appendix 1.
	(iv)	Notes that the capital programme remains fully funded up to 2022/23 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 and the use of prudent assumptions of future government grants to be received.
	(v)	Notes the addition of £0.41M to the programme since the last reported position in July 2018, approved at March 2018 Cabinet, as detailed in paragraph 5 and table 2.

	(vi)	Notes the virements of £1.28M within the programme since the last reported position in July 2018, under delegated powers, as detailed in paragraph 7.
	(vii)	Notes that this report assumes that approval has been given for the addition and spend of £0.30M in 2018/19 to the Transport and Public Realm Portfolio Capital Programme; to be funded from Community Infrastructure Levy contributions, as detailed in paragraph 8 and table 2.

REASONS FOR REPORT RECOMMENDATIONS

1.	The capital programme is 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.
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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.
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DETAIL (Including consultation carried out)

	CONSULTATION
3.	Service Directors, Service Leads and Project Managers have been consulted in preparing the reasons for variations contained in this report. The General Fund and HRA capital programme monitoring report summarises additions to the capital programme and slippage and rephasing since the last approved programme reported in July 2018. Each addition has been subject to the relevant consultation process which reflects the role played by Council Capital Board. The content of this report has been subject to consultation with Finance Officers for each service.

THE 5 YEAR CAPITAL PROGRAMME

4.	Table 1 shows a comparison of the latest capital expenditure for the period 2018/19 to 2022/23 compared to the previously reported programme, and shows an increase of £0.71M
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Table 1 – Programme Comparison

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	Total £M
Latest Programme	141.91	77.02	67.75	64.93	0.04	351.65
Previous Programme	153.75	66.20	67.49	63.50	0.00	350.94
Variance	(11.84)	10.82	0.26	1.43	0.04	0.71

CHANGES TO THE OVERALL PROGRAMME

	Table 2 below details the changes to the individual portfolio programmes.
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<u>Table 2 – Changes in Portfolio Programmes</u>				
	Latest Programme	Previous Programme	Total Change	
	£M	£M	£M	
	Aspiration, Schools and Lifelong Learning	92.79	92.38	0.41
	Clean Growth & Development	12.10	12.10	0.00
	Community Wellbeing	5.60	5.60	0.00
	Finance and Customer Experience	7.42	7.42	0.00
	Homes and Culture	2.42	2.42	0.00
	Transport and Public Realm	46.42	46.12	0.30
	Total GF Capital Programme	166.75	166.04	0.71
	Total HRA Capital Programme	184.90	184.90	0.00
	Total Capital Programme	351.65	350.94	0.71
5.	The increase of £0.41M within the Aspiration, Schools and Lifelong Learning programme relates to an addition to the Bitterne Park Autism Resource Base (ARB) project funded by government grant approved at 20 th March 2018 Cabinet.			
6.	A Delegated Decision Notice on virements of £1.28M in 2018/19 between schemes within the Decent Homes programme of the HRA has been approved since the previous programme.			
	<u>Transport and Public Realm</u>			
7.	<u>Anti-Terrorist Measures (Addition of £0.30M in 2018/19)</u> To ensure safety within the city centre a range of anti-terrorist measures, including concrete blockades, are being considered. Approval has been sought, as a separate report on this meeting agenda, for the addition of £0.30M in 2018/19 to the Transport and Public Realm Portfolio Capital Programme and approval to spend this sum funded by Strategic Community Infrastructure Levy contributions.			
	SLIPPAGE AND REPHASING			
8.	The proposed programme assumes £12.55M of net slippage and rephasing from 2018/19 into future years. £4.14M relates to the General Fund and £8.41M to the HRA.			
	2018/19 MONITORING POSITION			
9.	The forecast performance of individual capital programmes in 2018/19 is summarised in table 3 below.			

Table 3 – Summary of the General Fund & HRA Capital Forecast 2018/19

Portfolio	Latest Programme	Forecast	Variance	
	£M	£M	£M	%
Aspiration, Schools and Lifelong Learning	26.74	23.50	(3.24)	(12.12)
Clean Growth & Development	12.10	12.96	0.86	7.11
Community Wellbeing	3.48	3.48	0.00	0.00
Finance and Customer Experience	6.85	6.85	0.00	0.00
Homes and Culture	2.42	1.92	(0.50)	(20.66)
Transport and Public Realm	36.81	37.18	0.37	(1.01)
General Fund Programme	88.40	85.89	(2.51)	(2.84)
HRA Programme	66.05	57.65	(8.40)	(12.72)
Total Programme	154.45	143.54	(10.91)	(7.06)
Funded by:				
*CR - GF Borrowing	(37.93)	(35.61)	2.32	6.12
*CR - HRA Borrowing	(23.21)	(17.63)	5.58	24.04
Capital Receipts	(21.05)	(18.47)	2.58	12.26
Contributions	(8.81)	(8.55)	0.26	2.95
Capital Grants	(28.91)	(29.24)	(0.33)	(1.14)
Revenue Financing	(14.78)	(14.28)	0.50	3.38
HRA – MRA	(19.76)	(19.76)	0.00	0.00
Total Funding	(154.45)	(143.54)	10.91	7.06
*CR – Council Resources				

10. The programme is currently forecast to be underspent by £10.91M in 2018/19. The reasons for the major forecast variances are detailed below and summarised in Appendix 1.

Aspiration, Schools and Lifelong Learning

11. Regent Park College Expansion (Slippage of £3.20M from 2018/19 to 2019/20)
Confirmation of the preferred option by the school governors was only provided to Southampton City Council (SCC) at the end of 2017/18. Further work throughout 2018/19 is required to complete many elements of the design stage and the project is due to start in April 2019. This delay will have a minimal service impact in terms of number of school places.
12. Springhill Primary Academy School - one modular building (Slippage of £0.04M from 2018/19 to 2022/23)
Stages 1, 2 and 3 of the project have been completed and there is a service need to keep the building for another 3 years. Stage 4 - decommissioning and removal of the modular building to another site - is planned for 2022/23.

	<u>Clean Growth & Development</u>
13.	<p><u>West Quay Phase 3 WWQ (Slippage of £0.33M from 2018/19 to 2019/20)</u></p> <p>The costs expected to be incurred this year are in respect of dealing with the final account and progression of phase 2. The development is having to be re-considered to take into account the changing retail market environment. A total amount of £0.33M will be slipped into 2019/20 as part of the current programme update for phase 2.</p>
14.	<p><u>Town Depot (Slippage of £0.13M from 2018/19 to 2019/20)</u></p> <p>The development is progressing well and the first phase legal agreements have now been completed and two blocks of it have been occupied. The next phase is due to start in the late summer and will continue into 2019/20.</p>
15.	<p><u>Royal Pier (Slippage of £0.31M from 2018/19 to 2019/20)</u></p> <p>The development proposals for this site are complex, involving 4 parties as well as requiring the relocation of the Red Funnel ferry terminal and the infrastructure for the docking of the ships. This is taking longer to resolve than originally anticipated requiring part of the budget to slip from 2018/19 to 2019/20.</p>
16.	<p><u>Southampton New Arts Centre (Studio 144) (£1.63M forecast over spend)</u></p> <p>The tenants formally took occupation of both the North and South buildings in 2017/18.</p> <p>The overspend to the scheme has been driven by the award by the Contract Administrator in regard to Extension of Time claims submitted by the fit-out Contractor. The award for the South Building is primarily referencing the substantial flooding and the consequences of the building contractor being on site at the same time as the fit-out contractor. The award for the North Building is primarily referencing the issues with the design of the Primary Containment and the subsequent impacts to the fit-out contractor. Further claims have been raised regarding the installation of lifts during the project and the Council are awaiting the particulars to be issued to the Contract Administrator for assessment.</p> <p>The final account and all claims were received by the Council in May 2018. These are currently being assessed by the Contract Administrator and the Council's Quantity Surveyor. Once this process is complete the amount of additional funding required to complete the scheme will be known. In June 2018 the Council received a grant payment from Arts Council England for the project which will be used to part fund remaining expenditure in 2018/19.</p>
	<u>Homes and Culture</u>
18.	<p><u>Art Gallery Improvements (Slippage of £0.50M from 2018/19 to 2019/20)</u></p> <p>The budget is part of the match funding for a bid to the Heritage Lottery Fund (HLF) for a scheme to redevelop the North Block of the Civic Centre into a central cultural hub. The bid to the HLF was put back because the proposal in its current state need to be improved. Initial plans have been developed but the bid to the HLF has been put on hold whilst plans are refined to maximise the potential of being successfully awarded funding from the HLF.</p>

	<u>Transport and Public Realm</u>
19.	<p><u>Integrated Transport (Re-phasing of £0.37M from 2019/20 to 2018/19)</u></p> <p>The rephasing is to ensure the integrated transport budget matches the funding profile of National Productivity Investment Fund grant from the Department of Transport for the Bursledon Road project. The rephasing increases the budget for 2018/19 by £0.37M and decreases 2019/20 a corresponding amount, in line with the actual funding that will be received each year.</p>
	<u>HRA</u>
20.	<p><u>ECO-Thornhill Heating (£5.57M Slippage to 2019/20)</u></p> <p>Following the Grenfell disaster, significant staff resources have been redirected to Fire Safety and Sprinkler schemes. As a result, there has been a reprioritisation of the programme to improve sprinklers in our tower blocks. This has impacted on other projects within the HRA Capital Programme including the ECO – Thornhill Heating Project.</p> <p>Additionally, British Gas have withdrawn from the project, as previously reported, which has required a re-evaluation of options.</p>
21.	<p><u>Future Decent Neighbourhood Schemes (Slippage of £2.83M: £1.14M to 2019/20, £0.26M to 2020/21 & £1.43M to 2021/22)</u></p> <p>The Future Decent Neighbourhoods Scheme has an anticipated spend of £0.25M in 2018/19, which is below the budgeted £3.08M. This is due to 14 projects in the scheme which have required substantial design work and due to resourcing issues with internal Landscape Architects resulting in a delay to the start of the project. The work has now been outsourced for the design aspect of the project. This has resulted in a slippage of £2.83M over all years of the project.</p>
22.	<p>The capital programme is being monitored on a monthly basis. Identified under and overspends are reported to the Council Capital Board. Programme changes for these will not be made until the outturn position is known and will be reported as part of the outturn report in June 2019, with approval to update the programme for these being sought at that time.</p>
23.	<p>Any over spends on individual schemes are financed from identified additional funding or from savings elsewhere in the programme. Portfolios are required to balance their capital programmes within the resources available to them and this may result in reduced outputs where an over spend results in reductions being made elsewhere in the programme.</p>
	<u>CAPITAL RESOURCES</u>
24.	<p>The resources which can be used to fund the capital programme are as follows:</p> <ul style="list-style-type: none"> • Central Government Grants and from other bodies • Contributions from third parties • Council Resources - Capital Receipts from the sale of HRA assets • Council Resources - Capital Receipts from the sale of General Fund assets

	<ul style="list-style-type: none"> • Revenue Financing • Council Resources - Borrowing 																																
25.	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 Sustainability Portfolio.																																
26.	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 2018/19 these grants have been passported to these areas.																																
27.	<p>Table 4 shows the current level of available resources.</p> <p><u>Table 4 – Available Capital Funding</u></p> <table border="1"> <thead> <tr> <th>Resource</th> <th>Balance B/Fwd £M</th> <th>Received to Date 2018/19 £M</th> <th>Allocated To Current Programme £M</th> <th>Available Funding £M</th> <th>Anticipated Receipts 2018/19 £M</th> </tr> </thead> <tbody> <tr> <td>Capital Receipts</td> <td>(11.28)</td> <td>0.00</td> <td>10.14</td> <td>(1.14)</td> <td>(6.61)</td> </tr> <tr> <td>CIL</td> <td>(9.43)</td> <td>(0.85)</td> <td>2.07</td> <td>(8.21)</td> <td>(1.50)</td> </tr> <tr> <td>S106</td> <td>(10.63)</td> <td>(0.32)</td> <td>5.02</td> <td>(5.93)</td> <td>(0.79)</td> </tr> <tr> <td></td> <td>(31.34)</td> <td>(1.17)</td> <td>17.23</td> <td>(15.28)</td> <td>(8.90)</td> </tr> </tbody> </table>	Resource	Balance B/Fwd £M	Received to Date 2018/19 £M	Allocated To Current Programme £M	Available Funding £M	Anticipated Receipts 2018/19 £M	Capital Receipts	(11.28)	0.00	10.14	(1.14)	(6.61)	CIL	(9.43)	(0.85)	2.07	(8.21)	(1.50)	S106	(10.63)	(0.32)	5.02	(5.93)	(0.79)		(31.34)	(1.17)	17.23	(15.28)	(8.90)		
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	(31.34)	(1.17)	17.23	(15.28)	(8.90)																												
28.	The table shows that the largest resource currently available is Community Infrastructure Levy (CIL) funding. A review has been undertaken of all S106 and CIL monies to ensure that programmes of work are matched to the appropriate funding and to identify areas where business cases are required for new projects. This work will be ongoing as part of the monitoring process.																																
29.	Funding for the capital programme has previously been 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 economic climate has increased the Council's risk in this area.																																
30.	Table 5 below shows the previous and current capital receipt assumptions, together with the actual receipts received in year for the General Fund. The movement since the last reported position of £0.75M is due to higher sales values and two additional properties now on market. It should be noted that both the previous and latest forecast positions have been adjusted to remove receipts for properties not yet on the market.																																
	<p><u>Table 5 – General Fund Capital Receipts Estimates</u></p> <table border="1"> <thead> <tr> <th></th> <th>B/Fwd £M</th> <th>2018/19 £M</th> <th>2019/20 £M</th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> <th>Total £M</th> </tr> </thead> <tbody> <tr> <td>Latest Forecast</td> <td>11.28</td> <td>5.94</td> <td>0.67</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>17.89</td> </tr> <tr> <td>Previous Forecast</td> <td>11.28</td> <td>5.86</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>17.14</td> </tr> <tr> <td>Variance</td> <td>0.00</td> <td>0.08</td> <td>0.67</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>0.75</td> </tr> </tbody> </table>		B/Fwd £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	Total £M	Latest Forecast	11.28	5.94	0.67	0.00	0.00	0.00	17.89	Previous Forecast	11.28	5.86	0.00	0.00	0.00	0.00	17.14	Variance	0.00	0.08	0.67	0.00	0.00	0.00	0.75
	B/Fwd £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	Total £M																										
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Variance	0.00	0.08	0.67	0.00	0.00	0.00	0.75																										

OVERALL CAPITAL PROGRAMME

31. Table 6 and 7 show capital expenditure by portfolio and the use of resources to finance the General Fund Capital Programme up to and including 2022/23, including amendments that will be requested as part of the budget update.

Table 6 – Capital Expenditure by Programme

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	Total £M
Aspiration, Schools and Lifelong Learning	23.50	19.03	20.74	29.48	0.04	92.79
Clean Growth & Development	11.33	0.77	0.00	0.00	0.00	12.10
Community Wellbeing	3.48	1.57	0.55	0.00	0.00	5.60
Finance and Customer Experience	6.85	0.27	0.30	0.00	0.00	7.42
Homes and Culture	1.92	0.50	0.00	0.00	0.00	2.42
Transport and Public Realm	37.18	7.03	2.21	0.00	0.00	46.42
General Fund Programme	84.26	29.17	23.80	29.48	0.04	166.75
HRA Programme	57.65	47.85	43.95	35.45	0.00	184.90
Total Capital Programme	141.91	77.02	67.75	64.93	0.04	351.65

Table 7 – Use of Resources

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	Total £M
*CR - GF Borrowing	(33.98)	(8.39)	(17.83)	(29.48)	0.00	(89.68)
*CR - HRA Borrowing	(17.63)	(21.79)	(10.09)	0.00	0.00	(49.51)
Capital Receipts	(18.47)	(1.14)	(1.22)	(2.84)	0.00	(23.67)
Contributions	(8.55)	0.00	0.00	(0.26)	0.00	(8.81)
Capital Grants	(29.24)	(20.00)	(5.70)	0.00	(0.04)	(54.98)
Revenue Financing	(14.28)	(2.22)	(10.44)	(11.25)	0.00	(38.19)
HRA - MRA	(19.76)	(23.48)	(22.47)	(21.10)	0.00	(86.81)
Total Financing	(141.91)	(77.02)	(67.75)	(64.93)	(0.04)	(351.65)

*CR – Council Resources

32. Table 7 demonstrates that the most significant amount for funding for the General fund programme is provided by Council Resources, which at present, will be mainly through borrowing. Borrowing costs are in the main met within a central provision. The HRA programme is primarily funded by Major Repairs Allowance (direct revenue contribution).

RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
33.	This report principally deals with capital and the implications are set out in the main body of the report. However, the revenue implications arising from borrowing to support the capital programme are considered as part of the General Fund revenue budget. In addition any revenue consequences arising from new capital schemes are considered as part of the approval process for each individual scheme.
<u>Property/Other</u>	
34.	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	
<u>Statutory power to undertake proposals in the report:</u>	
35.	Financial reporting is consistent with the Chief Financial Officer's duty to ensure good financial administration within the Council. The Capital Programme update is prepared in accordance with the Local Government Acts 1972 – 2003.
<u>Other Legal Implications:</u>	
36.	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.
RISK MANAGEMENT IMPLICATIONS	
37.	None.

POLICY FRAMEWORK IMPLICATIONS	
1.	The update of the Capital Programme forms part of the overall Budget Strategy of the Council.
KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	NONE
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	GF & HRA Forecast Variances as at June 2018.
Documents In Members' Rooms	
1.	
2.	
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.	Yes/No

Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/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)
1.		
2.		