

DECISION-MAKER:	CABINET COUNCIL		
SUBJECT:	THE GENERAL FUND CAPITAL PROGRAMME 2012/13 TO 2015/16		
DATE OF DECISION:	5 FEBRUARY 2013 13 FEBRUARY 2013		
REPORT OF:	CABINET MEMBER FOR RESOURCES		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY			
N/A			

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 12 September 2012. 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 £23.3M. 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.

In addition to the forecast capital receipts that are assumed as a key element of funding the capital programme presented for approval, there will be additional receipts which will flow from the enhanced sale of assets programme as this comes to fruition. Towards the end of 2013/14 it should be possible to better estimate the amount and timing of these forecast additional receipts.

RECOMMENDATIONS:

CABINET

Recommends that Full Council

- i) Approve the revised General Fund Capital Programme, which totals £140.3M (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 the transfer of the Southampton New Arts Complex (SNAC) scheme from Housing & Leisure Services Capital Programme to the Leader's Capital Programme.
- v) Add £400,000 to the Children's Services Capital Programme in 2013/2014, to be funded by Council Resources, to ensure that the expansion of Bassett Green Primary school achieves the BREEAM (Building Research Establishment's Environmental Assessment Method) rating of excellent, in accordance with the Council's planning policy.
- vi) Add £480,000 to the Resources Capital Programme in 2013/14 for the demolition of Oaklands school to be funded by direct revenue financing.
- vii) Delegate authority to the Chief Financial Officer, following consultation with the Cabinet Member for Resources to add a further £100,000 to the Resources Capital Programme for the demolition of Oaklands school if required to be funded by direct revenue financing, bringing the total scheme up to a maximum of £580,000.
- viii) Add £2,821,000 to the Environment & Transport Capital Programme in 2013/2014 for the Roads Programme to be funded by direct revenue financing.
- ix) Add £1,616,000 to the Environment & Transport Capital Programme in 2013/2014 for Integrated Transport schemes to be funded by government grants.
- x) Add £1,701,000 to the Environment & Transport Capital Programme in 2013/2014 for Highways Maintenance schemes to be funded by government grants.
- xi) Note that additional temporary borrowing taken out in 2010/11 and 2011/12 due to cash flow issues, totalling £11.9M, is expected to be repaid by the end of 2013/14 when anticipated capital receipts are finally forecast to be received.
- xii) Note that the revised General Fund Capital Programme takes into account the Comprehensive Spending Review (CSR) for 2011/12 and future years as updated by the provisional Local Government Finance Settlement announced in December 2012.
- xiii) Note that in addition to the forecast capital receipts that are assumed as a key element of funding the capital programme presented for approval, there will be additional receipts which will flow from the enhanced sale of assets programme as this comes to fruition. Towards the end of 2013/14 it should be possible to better estimate the amount and timing of these forecast additional receipts.
- xiv) Note the financial and project issues which are set out in paragraphs 31 to 36 and detailed in Appendix 3 for each Portfolio.

COUNCIL

It is recommended that Council:

- i) Approve the revised General Fund Capital Programme, which totals £140.3M (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 the transfer of the Southampton New Arts Complex (SNAC) scheme from Housing & Leisure Services Capital Programme to the Leader's Capital Programme
- v) Add £400,000 to the Children's Services Capital Programme in 2013/2014, to be funded by Council Resources, to ensure that the expansion of Bassett Green Primary school achieves the BREEAM (Building Research Establishment's Environmental Assessment Method) rating of excellent, in accordance with the Council's planning policy.
- vi) Add £480,000 to the Resources Capital Programme in 2013/14 for the demolition of Oaklands school to be funded by direct revenue financing.
- vii) Delegate authority to the Chief Financial Officer, following consultation with the Cabinet Member for Resources to add a further £100,000 to the Resources Capital Programme for the demolition of Oaklands school if required to be funded by direct revenue financing, bringing the total scheme up to a maximum of £580,000.
- viii) Add £2,821,000 to the Environment & Transport Capital Programme in 2013/2014 for the Roads Programme to be funded by direct revenue financing.
- ix) Add £1,616,000 to the Environment & Transport Capital Programme in 2013/2014 for Integrated Transport schemes to be funded by government grants.
- x) Add £1,701,000 to the Environment & Transport Capital Programme in 2013/2014 for Highways Maintenance schemes to be funded by government grants.
- xi) Note that additional temporary borrowing taken out in 2010/11 and 2011/12 due to cash flow issues, totalling £11.9M, is expected to be repaid by the end of 2013/14 when anticipated capital receipts are finally forecast to be received.
- xii) Note that the revised General Fund Capital Programme takes into account the Comprehensive Spending Review (CSR) for 2011/12 and future years as updated by the provisional Local Government Finance Settlement announced in December 2012.
- xiii) Note that in addition to the forecast capital receipts that are assumed as a key element of funding the capital programme presented for approval, there will be additional receipts which will flow from the enhanced sale of assets programme as this comes to fruition.

Towards the end of 2013/14 it should be possible to better estimate the amount and timing of these forecast additional receipts.

- xiv) Note the financial and project issues which are set out in paragraphs 31 to 36 and detailed in Appendix 3 for each Portfolio.

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

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.

DETAIL (Including consultation carried out)

CONSULTATION

3. The General Fund Capital Programme update summarises additions to the capital programme since September 2012. Each addition to the capital programme has been subject to the relevant consultation process which now reflects the key role played by Capital Boards and the developing 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

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

	2012/13	2013/14	2014/15	2015/16	Later Years	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Latest Programme	63,558	47,034	23,666	4,282	1,790	140,330
Sep 2012 Programme	65,677	27,146	18,661		5,512	116,996
Variance	(2,119)	19,888	5,005	4,282	(3,722)	23,334

5. The above table shows that the General Fund Capital Programme has increased by £23.3M. 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.
6. 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:

	Latest Programme £000's	Previous Programme £000's	Total Change £000's
Adult Services	3,251	2,973	278
Children's Services	51,361	47,837	3,524
Environment & Transport	41,645	23,125	18,520
Housing & Leisure	10,814	28,527	(17,713)
Leader's	22,100	3,725	18,375
Resources	11,159	10,809	350
Total GF Capital Programme	140,330	116,996	23,334

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:
 - Supported Borrowing
 - Unsupported Borrowing
 - Capital Receipts from the sale of HRA assets
 - Capital Receipts from the sale of General Fund assets
 - Contributions from third parties
 - Central Government Grants
 - Grants from other bodies
 - Direct Revenue Financing (DRF) raised from Council Tax payers or balances
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 2012:

	£000's
Capital Receipts	1,226
Contributions	2,447
Capital Grants	16,603
Direct Revenue Financing from Portfolios	3,058
Total Change in Available Resources	23,334

11. The main reasons for the resource changes are detailed in Appendix 4. It should be noted that the programme takes into account the outcome of the Comprehensive Spending Review for 2011/12 and future years as updated by the provisional Local Government Finance Settlement announced in December 2012. This affects areas such as the roads programme within the Environment & Transport Capital Programme which is heavily reliant on grant funding from government each year.
12. The largest increase in available resources relates to Government capital grants. This is largely for expenditure on schemes within the Environment & Transport Capital Programme.

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:

	2012/13	2013/14	2014/15	2015/16	Later Years	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Adult Services	3,031	220				3,251
Children's Services	28,513	17,364	1,980	2,004	1,500	51,361
Environment & Transport	18,365	19,061	4,219			41,645
Housing & Leisure Services	3,959	3,604	2,529	507	215	10,814
Leader's	2,300	3,016	14,938	1,771	75	22,100
Resources	7,390	3,769				11,159
Total GF Capital Programme	63,558	47,034	23,666	4,282	1,790	140,330

	2012/13	2013/14	2014/15	2015/16	Later Years	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Unsupported Borrowing	7,443	1,198	141			8,782
Capital Receipts	8,310	8,201	9,940	526	168	27,145
Contributions	4,144	2,560	2,473	1,416	20	10,613
Capital Grants	36,978	30,946	10,762	2,100	1,527	82,313
DRF from Balances	2,552	359				2,911
DRF from Portfolios	4,131	3,770	350	240	75	8,566
Total Financing	63,558	47,034	23,666	4,282	1,790	140,330

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 2012.
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 £9.2M had to be borrowed to fund the programme in 2011/12 and £2.8M in 2010/11, which was in line with delegated powers approved in September 2008. 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 sales of land and property, the Council's capital programme is fully funded and based on the latest forecast of capital receipts the temporary borrowing undertaken to date of £11.9M will be repaid by the end of 2013/14. The figures shown in the table above do not reflect this repayment and only relate to the financing of the current programme rather than adjustments 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. Last year the Council reviewed its property portfolio with a view to selling those assets that are surplus to requirements, thus potentially realising a significant level of capital receipts. It should be noted that the exact total and timing of such receipts is still very much unknown and will be subject to change however it should allow the Council to build up a reserve of receipts in future years. The use to which any additional receipts are put will be considered in the light of the Council's priorities.

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. A recommendation is included to add a sum of £400,000 to the Children's Services capital programme to ensure the expansion of Bassett Green Primary School achieves a BREEAM rating of excellent in line with Council's planning policy to be funded from Council Resources. A report was approved by Cabinet on 18 September 2012, detailing the need to provide an additional 90 primary school places in and around the city centre. This included a proposal to expand Bassett Green Primary School by 1FE (one form entry). It is envisaged that this scheme will be delivered via a 7-classroom new build extension. In accordance with Planning Policy, this would require the scheme to achieve a BREEAM rating of 'Excellent'. Councillors have agreed that, in such instances, the Council will fund the difference between achieving BREEAM 'Very Good' (i.e. the level at which the EFA funds projects) and BREEAM 'Excellent'. In the case of Bassett Green, it is anticipated that this additional cost will be £400,000.
25. The lease of the Oaklands school was formally handed back to the Council in September 2012. Confirmation has been received from the Department for Education (October 2012) in relation to the de-classification of the property for education use. Pending a formal decision on the future of the site interim security measures have been put in place in an attempt to mitigate vandalism and deterioration of the property. The ongoing costs associated with the site will

be significantly reduced if the redundant buildings are demolished.

26. A feasibility study has estimated that the costs of demolition plus associated site security, is within the range of £480,000 to £580,000. The addition to the Resources Capital Programme is at the lower end of this range and Council is asked to delegate authority to the Chief Financial Officer, following consultation with the Cabinet Member for Resources to add a further £100,000 to the capital programme for the demolition of surplus redundant buildings at the Oaklands school site if required, to be funded from revenue, bringing the total scheme up to a maximum of £580,000.
27. A recommendation is included to add sums of £2,821,000 to be funded by DRF and £1,701,000 to be funded by government grants to the Environment & Transport Capital Programme for the Roads Programme and Highways Maintenance schemes respectively. The Roads programme continues to reflect the need to maintain the structural integrity of the City wide highway network. The programme has been designed in line with the Transport Asset Management Plan (TAMP) principles. There is also additional investment in footways across the city in response to public demand to improve their condition, assist less mobile pedestrians and improve safety.
28. A recommendation is included to add a sum of £1,616,000 to the Environment & Transport Capital Programme for Integrated Transport funded from government grants. This funding will be used to deliver a range of transport improvement schemes as identified in the Local Transport Plan 3. This includes public transport, road enhancements, road safety, cycling and pedestrian schemes and public realm enhancements.
29. In addition, the transfer of the Southampton New Arts Complex (SNAC) scheme from Housing & Leisure Services Capital Programme to the Leader's Capital Programme has been included as part of this report.

NEW SPENDING PRIORITIES PUT FORWARD BY CABINET

30. Due to the current lack of additional funding, no new initiatives, other than those outlined above as consistent with previous policy decisions are being proposed.

FINANCIAL & PROJECT ISSUES

31. 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.
32. 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.
33. 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.
34. Two schemes have been highlighted but there is only one schemes where a material financial risk is being forecast and these are shown in the table below:

Key Adverse Variances

Portfolio	Scheme	Adverse Forecast £000's	Appendix 3 See Reference
Children's Services	Bitterne Park 6 th Form	0	CS 9
Leisure & Culture	SeaCity Phase 2	358	LS 3

35. The current forecast over spend in relation to SeaCity Phase 2 is largely down to additional work required with regards to asbestos works and the associated additional work and delays that this caused. Every effort is being made to identify whether it is possible to still deliver the scheme on budget and this will be finalised in the coming months. Provision was approved by Council in July 2012 for additional DRF funding of up to £300,000 as a prudent response to this likely pressure as part of the revenue outturn.
36. There are no schemes where there are corporate project issues to report at this stage, over and above the scheme referenced in the table above.

RESOURCE IMPLICATIONS

Capital

37. As set out in the report details.

Revenue

38. 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

39. 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

40. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

42. 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

43. 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 2012 Capital Update
3.	Key Issues – February 2013 Programme Update
4.	Major Changes in Capital Resources Since the September 2012 Update

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 2011/12 to 2013/15 as approved by Council on the 12 September 2012.	