

DECISION-MAKER:	CABINET COUNCIL		
SUBJECT:	THE GENERAL FUND CAPITAL PROGRAMME 2013/14 TO 2016/17		
DATE OF DECISION:	4 FEBRUARY 2014 12 FEBRUARY 2014		
REPORT OF:	CABINET MEMBER FOR RESOURCES		
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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 18 September 2013. 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 £20.1M. 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 may be additional receipts which will flow from the sale of assets. It was anticipated that towards the end of 2013/14 it would be possible to better estimate the amount and timing of any forecast additional receipts but this cannot be completed until the disposal programme which is currently under review is finalised.

RECOMMENDATIONS:

CABINET

Recommends that Full Council

- i) Approve the revised General Fund Capital Programme, which totals £132.5M (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) Add £2,652,000 to the Environment & Transport Capital Programme in 2014/15 for the Roads Programme, funded by direct revenue financing.
- v) Add £350,000 to the Environment & Transport Capital Programme in 2014/15 for the purchase of compact sweepers, funded by Council Resources.
- vi) 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.
- vii) Note that additional temporary borrowing taken out in 2010/11 and 2011/12 due to cash flow issues, now totalling £9.4M, is expected to be repaid by the end of 2014/15 when anticipated capital receipts are finally forecast to be received.
- viii) 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 may be additional receipts which will flow from the sale of assets. It was anticipated that towards the end of 2013/14 it would be possible to better estimate the amount and timing of any forecast additional receipts but this cannot be completed until the disposal programme which is currently under review is finalised.
- ix) Note the financial and project issues which are set out in paragraphs 29 to 34 and detailed in Appendix 3 for each Portfolio.

COUNCIL

It is recommended that Council:

- i) Approve the revised General Fund Capital Programme, which totals £132.5M (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) Add, £2,652,000 to the Environment & Transport Capital Programme in 2014/15 for the Roads Programme, funded by direct revenue financing.
- v) Add £350,000 to the Environment & Transport Capital Programme in 2014/15 for the purchase of compact sweepers, funded by Council Resources.
- vi) 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.

- vii) Note that additional temporary borrowing taken out in 2010/11 and 2011/12 due to cash flow issues, now totalling £9.4M, is expected to be repaid by the end of 2014/15 when anticipated capital receipts are finally forecast to be received.
- viii) 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 may be additional receipts which will flow from the sale of assets.
It was anticipated that towards the end of 2013/14 it would be possible to better estimate the amount and timing of any forecast additional receipts but this cannot be completed until the disposal programme which is currently under review is finalised.
- ix) Note the financial and project issues which are set out in paragraphs 29 to 34 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 in the light of the funding available and the overall financial position.

DETAIL (Including consultation carried out)

CONSULTATION

3. The General Fund Capital Programme update summarises additions to the capital programme since September 2013. 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

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

	2013/14	2014/15	2015/16	2016/17	Later Years	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Latest Programme	55,151	56,491	20,308	568		132,518
Sep 2013 Programme	67,658	29,280	14,957		557	112,452
Variance	(12,507)	27,211	5,351	568	(557)	20,066

5. The above table shows that the General Fund Capital Programme has increased by £20.1M. 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
Children's Services	31,517	31,194	323
Economic Development & Leisure			
- Economic Development	28,144	21,144	7,000
- Leisure	3,931	3,510	421
Environment & Transport			
- A E&T	43,443	39,985	3,458
- B City Services	3,656	3,285	371
Health & Adult Social Care	1,627	1,627	
Housing & Sustainability	14,193	5,700	8,493
Resources	6,007	6,007	
Total GF Capital Programme	132,518	112,452	20,066

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 2013:

	£000's
Capital Receipts	2,680
Contributions	7,046
Capital Grants	7,613
Direct Revenue Financing	2,727
Total Change in Available Resources	20,066

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. These are largely for expenditure on schemes within the Economic Development Capital Programme and the Housing & Sustainability Capital Programme respectively.

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:

	2013/14	2014/15	2015/16	2016/17	Total
	£000's	£000's	£000's	£000's	£000's
Children's Services	21,584	5,169	4,764		31,517
Economic Development & Leisure					
- Economic Development	5,451	9,573	12,796	324	28,144
- Leisure	984	2,686	144	117	3,931
Environment & Transport					
- A E&T	18,919	23,897	627		43,443
- B City Services	2,541	1088	27		3,656
Health & Adult Social Care	859	768			1,627
Housing & Sustainability	2,051	10,615	1,400	127	14,193
Resources	2,762	2,695	550		6,007
Total GF Capital Programme	55,151	56,491	20,308	568	132,518

	2013/14	2014/15	2015/16	2016/17	Total
	£000's	£000's	£000's	£000's	£000's
Unsupported Borrowing	3,417	430	550		4,397
Capital Receipts	4,218	7,666	8,394	117	20,395
Contributions	3,704	12,777	395	0	16,876
Capital Grants	37,158	32,038	10,131	127	79,454
DRF from Balances	2,159	717	6	113	2,995
DRF from Portfolios	4,495	2,863	832	211	8,401
Total Financing	55,151	56,491	20,308	568	132,518

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 2013.
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. A repayment of £2.6M was made during 2012/13 leaving the outstanding balance at £9.4M. 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 £9.4M will be repaid by the end of 2014/15. 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 Council has 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 both as the disposal programme is reassessed and in light of market conditions, 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 £2,652,000 to the Environment & Transport Capital Programme (A E&T) in 2014/15 for the Roads Programme funded from direct revenue financing. The Roads Programme (Principal, Classified and Unclassified) continues to reflect the need to maintain the structural integrity of the city wide highways network. The programme is designed in line with the Transport Asset Management Plan (TAMP) principles.
25. A recommendation is included in this report to add a sum of £350,000 to the Environment & Transport Capital Programme (B City Services) in 2014/15 for the purchase of compact sweepers funded from Council Resources (capital receipts). This will re-equip Southampton City Council's mechanised street sweeping fleet for 2014/15, and ensure the continued provision of an effective and economic street cleansing service for the city that meets citizen, business and visitor expectations.

NEW SPENDING PRIORITIES PUT FORWARD BY CABINET

26. 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.
27. Due to the current lack of additional funding, no new initiatives, other than those outlined above are being proposed.

FINANCIAL & PROJECT ISSUES

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. Four schemes have been highlighted with corporate financial issues and these are shown in the table below.

Key Adverse Financial Variances

Portfolio	Scheme	Adverse Forecast £000's	Appendix 3 See Reference
Children's Services	Newlands Primary Rebuild	229	CS 6
Children's Services	Pupil Referral Unit	470	CS 7
Economic Development & Leisure	Sea City Phase 2	358	LEIS 4

33. The current forecast over spend in relation to SeaCity Phase 2 is largely down to costs relating to asbestos in respect of 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.

Key Favourable Financial Variances

Portfolio	Scheme	Favourable Forecast £000's	Appendix 3 See Reference
Resources	Office Accommodation	500	RES 4

34. There is one scheme where there is a corporate project issue to report at this stage as shown in the table below.

Portfolio	Scheme	Appendix 3 See Reference
Children's Services	Bitterne 6 th Form	CS 8

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 2013 Capital Update
3.	Key Issues – February 2014 Programme Update
4.	Major Changes in Capital Resources Since the September 2013 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)
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1.	The General Fund Capital Programme 2012/13 to 2015/16 as approved by Council on the 18 September 2013.	
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