

DECISION-MAKER:	CABINET		
SUBJECT:	CAPITAL FINANCIAL MONITORING FOR THE PERIOD TO THE END OF DECEMBER 2017.		
DATE OF DECISION:	13 FEBRUARY 2018		
REPORT OF:	CABINET MEMBER FOR FINANCE		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	
BRIEF SUMMARY	
<p>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 2017/18 to 2021/22, highlighting the changes in the programme since the last reported position to Cabinet in December 2017. The report also notes the major forecast variances against the approved estimates.</p>	
RECOMMENDATIONS:	
It is recommended that Cabinet:	
(i)	Notes the revised proposed General Fund Capital Programme, which totals £194.43M (as detailed in paragraph 36) and the associated use of resources.
(ii)	Notes the revised proposed HRA Capital Programme, which totals £216.89M (as detailed in paragraph 36) and the associated use of resources.
(iii)	Notes that the forecast position at Quarter 3 is £94.08M, resulting in a potential overspend of £0.72M, as detailed in paragraph 11 and Appendix 1.
(iv)	Notes that the capital programme remains fully funded up to 2021/22 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.
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.																												
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.	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 November 2017. 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 FORWARD CAPITAL PROGRAMME																													
4.	Table 1 shows a comparison of the latest capital expenditure for the period 2017/18 to 2021/22 compared to the previously reported programme.																												
	<p><u>Table 1 – Programme Comparison</u></p> <table border="1"> <thead> <tr> <th></th> <th>2017/18 £M</th> <th>2018/19 £M</th> <th>2019/20 £M</th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>Total £M</th> </tr> </thead> <tbody> <tr> <td>Latest Programme</td> <td>93.36</td> <td>121.90</td> <td>65.13</td> <td>67.44</td> <td>63.49</td> <td>411.32</td> </tr> <tr> <td>Previous Programme</td> <td>162.27</td> <td>78.87</td> <td>39.69</td> <td>44.22</td> <td>0.00</td> <td>325.05</td> </tr> <tr> <td>Variance</td> <td>(68.91)</td> <td>43.03</td> <td>25.44</td> <td>23.22</td> <td>63.49</td> <td>86.27</td> </tr> </tbody> </table>		2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	Total £M	Latest Programme	93.36	121.90	65.13	67.44	63.49	411.32	Previous Programme	162.27	78.87	39.69	44.22	0.00	325.05	Variance	(68.91)	43.03	25.44	23.22	63.49	86.27
	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	Total £M																							
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Variance	(68.91)	43.03	25.44	23.22	63.49	86.27																							
5.	The overall increase in the programme of £86.27M includes a decrease of £37.20M primarily due to budget allocations to alternative projects within the programme, which is offset by an increase of £123.47M relating to additions to the programme either approved under delegated powers, by Cabinet or will be requested for approval as part of the capital programme update by Council in February 2018.																												
6.	Table 2 below shows that the Capital Programme has increased by £86.27M, £52.26M within the General Fund and £34.01M in the HRA.																												

CHANGES TO THE OVERALL PROGRAMME					
<u>Table 2 – Changes in Portfolio Programmes</u>					
		Latest Programme £M	Previous Programme £M	Total Change £M	
	Communities, Culture & Leisure	2.56	2.19	0.37	
	Education & Children's Social Care	99.79	33.69	66.10	
	E&T - City Services	5.43	5.15	0.28	
	Finance	7.21	6.01	1.20	
	Health & Community Safety	1.35	1.33	0.02	
	Housing & Adult Care	2.72	4.12	(1.40)	
	Leaders	15.98	42.93	(26.95)	
	Sustainability	4.22	4.22	0.00	
	Transport - E&T	55.17	42.53	12.64	
	General Fund Programme	194.43	142.17	52.26	
	HRA Programme	216.89	182.88	34.01	
	Total Capital Programme	411.32	325.05	86.27	
7.	It should be noted that approval for future year's additions to the programme, along with all other changes to the programme will be sought as part of the capital update being reported to Council on 21 st February 2018.				
SLIPPAGE AND REPHASING					
8.	The proposed programme assumes £34.30M of net slippage and rephasing from 2017/18 into future years. £19.16M relates to the General Fund and £15.14M to the HRA.				
9.	Approval will be sought for all slippage and rephasing as part of the capital update being reported to Council on 21 st February 2018.				
2017/18 MONITORING POSITION					
10.	The forecast performance of individual capital programmes in 2017/18 is summarised in table 3 below.				
11.	The latest programme position shown assumes all proposed additions and slippage or rephasing will be approved by Council on 21 st February.				
<u>Table 3 – Summary of the General Fund & HRA Capital Forecast 2017/18</u>					
	Portfolio	Latest Programme £M	Forecast £M	Variance £M	%
	Communities, Culture & Leisure	0.61	0.61	0.00	0.00
	Education & Children's Social Care	12.19	10.80	(1.39)	(11.40)
	E&T - City Services	2.37	2.36	(0.01)	(0.42)
	Finance	2.44	2.44	0.00	0.00
	Portfolio	Latest	Forecast	Variance	%

	Programme £M	£M	£M	
Health & Community Safety	1.17	1.16	(0.01)	(0.85)
Housing & Adult Care	1.22	1.22	0.00	0.00
Leaders	6.74	10.87	4.13	61.28
Sustainability	3.14	3.13	(0.01)	(0.32)
Transport - E&T	18.56	18.55	(0.01)	(0.05)
General Fund Programme	48.44	51.14	2.70	5.57
HRA Programme	44.92	42.94	(1.98)	(4.41)
Total Programme	93.36	94.08	0.72	0.77
Funded by:				
*CR - GF Borrowing	(14.51)	(17.05)	(2.54)	(17.51)
*CR - HRA Borrowing	(14.10)	(14.10)	0.00	0.00
Capital Receipts	(7.55)	(6.80)	0.75	9.93
Contributions	(5.26)	(5.24)	0.02	0.38
Capital Grants	(18.70)	(18.84)	(0.14)	(0.75)
Revenue Financing	(13.29)	(13.34)	(0.05)	(0.38)
HRA – MRA	(19.95)	(18.71)	1.24	6.22
Total Funding	(93.36)	(94.08)	(0.72)	(0.77)
12.	The programme is currently forecast to be overspent by £0.72M in 2017/18.			
	<u>Education & Childrens Social Care</u>			
13.	<u>Primary Review (£0.18M Forecast Underspend)</u> The scheme has now been completed and the retention payment has been paid. Therefore the £0.18M is not required.			
14.	<u>Building for Excellence (£1.00M Forecast Underspend)</u> This programme was delayed due to the finalisation of the overall Schools Expansion programme. A programme of immediate Works has been agreed with forecast expenditure now established and this has identified an underspend of £1M.			
15.	<u>Portswood Primary Expansion (£0.13M Forecast Underspend)</u> The scheme has been completed, with residual issues resolved, giving a forecast underspend on the scheme of £0.13M.			
	<u>E&T - City Services</u>			
16.	<u>Southampton Common Play Area (£0.04M Forecast Overspend)</u> The overspend is due to a number of small additions to the contracted works including £10,000 for top soil and £13,000 for additional surfacing around the centre nest feature. This will help to reduce future top up costs of bark chips. The funding will be sourced from the Play Area Section 106.			

	<u>Health & Community Safety</u>
17.	<p><u>Estate Parking Improvements (£0.01M Forecast Underspend)</u></p> <p>There is a forecast underspend of £0.01M on the Estate Parking Improvements project within the Support to RSL's scheme. Elements of the scheme have not progressed due to difficulties in getting agreement with owner/occupiers on the proposed works.</p>
	<u>Leaders</u>
18.	<p><u>Southampton New Arts Complex (Studio 144) (£4.65M Overspend)</u></p> <p>The overspend to the scheme has been driven by the recent 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 of the South Building 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. While the council is challenging this, a 2.5% contingency on the forecast value of the fit out works (£0.43M) has been included in the forecast overspend. This sum is based on the 20th December 2017 Cost and Programme report following practical completion of both sections of the works on the 28th November 2017. Also included within the forecast overspend position is a pressure of £0.23M which has arisen from confirming the funding arrangements for an element of the project.</p> <p>In November 2016, the Chancellor announced an additional £1.6M in government grant funding for the scheme, as part of the Autumn Statement. This has not yet been added to the scheme and the remaining balance of £3.00M will need to be funded from Council resources.</p>
19.	<p><u>Southampton New Arts Complex – Developer Payments (£0.10M Underspend)</u></p> <p>On 20 November 2013 Council delegated authority to the Chief Financial Officer to draw down a sum of up to £0.10M from Contingencies should funding be required for either of two issues set out in a report on the Southampton New Arts Centre.</p> <p>An additional £0.01M relating to a sewer issue was not needed, the other issue was related to a new clause in the Development Agreement providing a rent guarantee of up to £0.09M to the Developer, thereby picking up some of the pre-let risk exposure. Agreement has been reached with the developer where by this payment is not now required along with the final lease premium payment of £0.10M.</p>
	<u>Sustainable Living</u>
20.	<p><u>Priory Road - Property Level Protection (£0.01M Forecast Underspend)</u></p> <p>There is a forecast underspend of £0.01M on the Priory Road - Property Level Protection project within the Flood Risk Management scheme due to the costs for the DEFRA funded flood defence equipment coming in less than anticipated. Therefore the project is unlikely to require the full budget.</p>

	<u>HRA</u>
21.	<p><u>Fire Safety / Sprinkler Project (£4.24M Forecast Overspend)</u></p> <p>This is the result of need to install sprinkler systems in all tower blocks to make them safer based on advice from Hampshire Fire and Rescue Service and specialist fire safety consultants. Additional costs were not factored into the budget. Funding for this overspend is under review but may result in the need to fund from reserves.</p>
22.	<p><u>ECO City Energy Scheme (£4.24M Forecast Underspend)</u></p> <p>The ECO Project work was put on hold for this year as British Gas have withdrawn from contract. No further work is planned.</p>
23.	<p><u>Communal Building Services (£0.12M Forecast Underspend)</u></p> <p>There is a reduction in the level of work expected.</p>
24.	<p><u>Communal Heating Systems (£0.04M Forecast Underspend)</u></p> <p>There is a reduction in the level of work expected.</p>
25.	<p><u>External Windows and Doors (£0.86M Forecast Underspend)</u></p> <p>There is a reduction in the level of work expected.</p>
26.	<p><u>Programme Management Fees (£0.67M Forecast Underspend)</u></p> <p>The full programme budget is not required in 2017/18.</p>
27.	<p><u>Electrical Heating Systems (£0.25M Forecast Underspend)</u></p> <p>There is a reduction in the level of work expected.</p>
28.	<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 2018, with approval to update the programme for these being sought at that time.</p>
29.	<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>
	CAPITAL RESOURCES
30.	<p>The resources which can be used to fund the capital programme are as follows:</p> <ul style="list-style-type: none"> • 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 • Revenue Financing
31.	<p>Capital Receipts from the sale of Right to Buy (RTB) properties are passed</p>

	to the General Fund capital programme to support the Private Sector Housing schemes within the Sustainability Portfolio.																																
32.	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 2017/18 these grants have been passported to these areas.																																
	<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 2017/18 £M</th> <th>Allocated To Current Programme £M</th> <th>Available Funding £M</th> <th>Anticipated Receipts 2017/18 £M</th> </tr> </thead> <tbody> <tr> <td>Capital Receipts</td> <td>(13.54)</td> <td>0.00</td> <td>12.60</td> <td>(0.94)</td> <td>(4.16)</td> </tr> <tr> <td>CIL</td> <td>(5.84)</td> <td>(3.77)</td> <td>2.80</td> <td>(6.81)</td> <td>(2.23)</td> </tr> <tr> <td>S106</td> <td>(9.24)</td> <td>(1.85)</td> <td>6.13</td> <td>(4.96)</td> <td>(0.25)</td> </tr> <tr> <td></td> <td>(28.62)</td> <td>(5.62)</td> <td>21.53</td> <td>(12.71)</td> <td>(6.64)</td> </tr> </tbody> </table>	Resource	Balance B/Fwd £M	Received to Date 2017/18 £M	Allocated To Current Programme £M	Available Funding £M	Anticipated Receipts 2017/18 £M	Capital Receipts	(13.54)	0.00	12.60	(0.94)	(4.16)	CIL	(5.84)	(3.77)	2.80	(6.81)	(2.23)	S106	(9.24)	(1.85)	6.13	(4.96)	(0.25)		(28.62)	(5.62)	21.53	(12.71)	(6.64)		
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	(28.62)	(5.62)	21.53	(12.71)	(6.64)																												
33.	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.																																
34.	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.																																
35.	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 no movement since the last reported position. 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.																																
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	B/Fwd £M	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	Total £M																										
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Variance	0.00	0.00	0.00	0.00	0.00	0.00	0.00																										
	OVERALL CAPITAL PROGRAMME																																
36.	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 2021/22, including amendments that will be requested as part of the budget update.																																

Table 6 – Capital Expenditure by Programme						
	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£M	£M	£M	£M	£M	£M
Communities, Culture & Leisure	0.61	1.95	0.00	0.00	0.00	2.56
Education & Childrens Social Care	12.19	21.57	15.81	20.74	29.48	99.79
E&T - City Services	2.37	0.41	2.65	0.00	0.00	5.43
Finance	2.44	4.20	0.27	0.30	0.00	7.21
Health & Community Safety	1.17	0.18	0.00	0.00	0.00	1.35
Housing & Adult Care	1.22	0.50	0.50	0.50	0.00	2.72
Leaders	6.74	9.24	0.00	0.00	0.00	15.98
Sustainability	3.14	1.08	0.00	0.00	0.00	4.22
Transport – E&T	18.56	29.65	4.75	2.21	0.00	55.17
General Fund Programme	48.44	68.78	23.98	23.75	29.48	194.43
HRA Programme	44.92	53.12	41.15	43.69	34.01	216.89
Total Capital Programme	93.36	121.90	65.13	67.44	63.49	411.32
Table 7 – Use of Resources						
	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£M	£M	£M	£M	£M	£M
*CR - GF Borrowing	(14.51)	(29.71)	(4.37)	(17.79)	(29.48)	(95.86)
*CR - HRA Borrowing	(14.10)	(16.35)	(16.21)	(10.09)	(0.00)	(56.75)
Capital Receipts	(7.55)	(17.56)	(0.00)	(0.96)	(1.66)	(27.73)
Contributions	(5.26)	(5.95)	(0.00)	(0.00)	(0.00)	(11.21)
Capital Grants	(18.70)	(24.20)	(19.31)	(5.65)	(0.00)	(67.86)
Revenue Financing	(13.29)	(14.29)	(1.76)	(10.48)	(11.25)	(51.07)
HRA – MRA	(19.95)	(13.84)	(23.48)	(22.47)	(21.10)	(100.84)
Total Financing	(93.36)	(121.90)	(65.13)	(67.44)	(63.49)	(411.32)
<i>*CR – Council Resources</i>						
37.	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 funding by MRA.					
RESOURCE IMPLICATIONS						
<u>Capital/Revenue</u>						
38.	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>	
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.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
40.	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>	
41.	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	
42.	None.
POLICY FRAMEWORK IMPLICATIONS	
43.	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.	Forecast Variances
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.	