

THE CAPITAL STRATEGY & GENERAL FUND PROGRAMME 2020/21 TO 2025/26																																							
	INTRODUCTION																																						
1.	The purpose of this report is to update the Capital Strategy and to inform Council of any major changes in the overall General Fund (GF) Capital Programme for the period of 2020/21 to 2025/26, highlighting the changes in the programme since the last reported position to Cabinet in February 2021. The net result of the changes since the previous report is a decrease to the General Fund programme of £195.27M.																																						
2.	The additional investment, detailed within this report, has been limited to high priority, fully-funded or health and safety related schemes due to a future period of uncertainty as a result of the COVID-19 pandemic. Borrowing to fund this additional investment has been restricted where possible.																																						
3.	The capital programme and potential further investment will be reviewed in July 2021 as part of the intended in-year budget update. Previously the capital programme has been set to include proposals to reflect the anticipated needs of the Council over the next 5-year period. Service managers should therefore still have the ability to respond to changing demands in their services within their approved budgets.																																						
	THE FORWARD CAPITAL PROGRAMME																																						
4.	Table 1 shows a comparison of the latest capital expenditure for the period 2020/21 to 2025/26 compared to the previously reported programme.																																						
	<p><u>Table 1 – Programme Comparison</u></p> <table border="1"> <thead> <tr> <th>Reported Programme</th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26 £M</th> <th>Total £M</th> </tr> </thead> <tbody> <tr> <td>Latest</td> <td>83.53</td> <td>117.46</td> <td>198.88</td> <td>44.83</td> <td>17.92</td> <td>3.82</td> <td>466.43</td> </tr> <tr> <td>Previous</td> <td>133.86</td> <td>259.83</td> <td>201.44</td> <td>44.83</td> <td>21.74</td> <td>0.00</td> <td>661.70</td> </tr> <tr> <td>Variance</td> <td>(50.33)</td> <td>(142.37)</td> <td>(2.56)</td> <td>0.00</td> <td>(3.83)</td> <td>3.82</td> <td>(195.27)</td> </tr> </tbody> </table> <p style="text-align: right;"><i>NB: Table include rounded figures</i></p>							Reported Programme	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	Total £M	Latest	83.53	117.46	198.88	44.83	17.92	3.82	466.43	Previous	133.86	259.83	201.44	44.83	21.74	0.00	661.70	Variance	(50.33)	(142.37)	(2.56)	0.00	(3.83)	3.82	(195.27)
Reported Programme	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	Total £M																																
Latest	83.53	117.46	198.88	44.83	17.92	3.82	466.43																																
Previous	133.86	259.83	201.44	44.83	21.74	0.00	661.70																																
Variance	(50.33)	(142.37)	(2.56)	0.00	(3.83)	3.82	(195.27)																																
5.	Table 2 below details the General Fund Capital Programme by portfolio and shows the decrease of £195.27M to a total of £466.43M.																																						
6.	Paragraphs 14-24 and annex 2.1 summarise the new schemes and changes to existing schemes by individual portfolio programmes.																																						

CHANGES TO THE PROGRAMME			
7.	<u>Table 2 – Changes in Portfolio Programmes</u>		
		Latest Programme £M	Previous Programme £M
			Total Net Change £M
	Children & Learning	109.16	107.16
	Culture & Homes	20.36	19.96
	Customer & Organisation	21.38	20.30
	Finance & Income Generation	1.27	201.27
	Green City & Place	305.08	303.14
	Health & Adults	0.62	0.62
	Stronger Communities	8.57	9.25
	Total GF Capital Programme	466.43	661.70 (195.27)
	<i>NB: Table include rounded figures</i>		
8.	New additions total £6.52M and are offset by reductions to the programme of £201.79M. Details of the major projects are given in paragraphs 14-24.		
9.	Approval is sought for the addition and spend of £6.52M to the General Fund programme to be funded as set out in annex 2.1.		
10.	Approval is sought for the reduction of £201.79M to the General Fund capital programme, as set out in annex 2.1. The usable funding from these schemes will be used to finance the new additional projects.		
11.	Approval to spend is sought for £2.50M already added to the programme in February 20 for the Special Educational Needs and Disabilities review budget of £39.00M budget. Details of this spend are shown in paragraph 14.		
12.	Approval is sought to accept government grant funding of £1.68M from the Department of Business, Energy & Industrial Strategy under the Public Sector Decarbonisation Scheme awarded following a bid made by the Green City & Place portfolio.		
13.	As part of the appraisal process, all projects were assessed to ensure that they meet the objectives of the Council and align the 5 key programme areas. Table 3 summarises the items of major spend by programme.		

Table 3 – Capital Spend by Programme

Programme	Major Project	2020/ 2021 £M	2021/ 2022 £M	2022/ 2023 £M	2023/ 2024 £M	2024/ 2025 £M	2025/ 2026 £M
Communities Culture & Homes	Community Safety	1.40	4.76	0.00	0.00	0.00	0.00
	City of Culture	0.00	0.50	0.00	0.00	0.00	0.00
	Arts & Heritage	0.18	1.52	0.00	0.00	0.00	0.00
	Estate Improvements	0.09	1.26	0.00	0.00	0.00	0.00
	Sport & Recreation	0.74	0.00	0.00	0.00	0.00	0.00
	Outdoor Leisure	0.10	0.00	12.70	4.10	0.05	0.00
	Other	0.43	1.03	0.19	0.00	0.00	0.00
Green City	Green City Charter	0.08	4.41	5.97	4.08	4.00	3.83
	Open Spaces	1.34	1.06	0.25	0.00	0.00	0.00
	Play Area Improvements	0.52	0.41	0.00	0.00	0.00	0.00
	Parks Development Works	0.03	0.00	0.00	0.00	0.00	0.00
	Solar Powered Compactor Bins	1.00	0.00	0.00	0.00	0.00	0.00
	Other	0.68	0.02	0.00	0.00	0.00	0.00
Place Shaping	Bridges Programme	1.23	0.03	0.00	0.00	0.00	0.00
	Highways Programme	11.29	7.11	7.80	7.80	7.80	0.00
	Integrated Transport	16.89	9.18	16.38	0.00	0.00	0.00
	Fleet Investment	7.02	2.36	2.00	2.00	2.00	0.00
	Flood Risk Management	0.97	0.00	0.00	0.00	0.00	0.00
	Connected Southampton	13.04	29.40	45.84	22.00	1.50	0.00
	Pavements Programme	0.50	0.50	0.50	0.50	0.50	0.00
	Bitterne Community Hub	0.18	0.00	30.00	0.00	0.00	0.00
	Heart of the City	0.34	1.41	0.00	0.00	0.00	0.00
	Other	0.46	0.59	0.00	0.00	0.00	0.00
Successful, sustainable business	Digital & IT	5.64	5.06	1.52	1.31	1.02	0.00
	City Regeneration	1.32	0.23	26.70	0.00	0.00	0.00
	The Way we Work	0.56	3.29	1.00	1.00	1.00	0.00
	Other	0.12	1.08	0.00	0.00	0.00	0.00
Wellbeing	Early Years Expansion	0.16	0.34	0.24	0.00	0.00	0.00
	Primary Review & Expansion	1.39	0.10	0.00	0.00	0.00	0.00
	School Capital Maintenance	2.32	3.36	2.00	1.36	0.00	0.00

	Secondary Review & Expansion	12.39	30.97	8.09	0.56	0.00	0.00
	Newlands Hearing Centre	0.05	0.60	0.43	0.03	0.00	0.00
	SEND Review & Expansion	0.04	5.16	36.51	0.00	0.00	0.00
	Residential/Assessment Units	0.44	1.41	0.67	0.00	0.00	0.00
	Adult & Health	0.15	0.20	0.10	0.10	0.05	0.00
	Other	0.45	0.12	0.00	0.00	0.00	0.00
	TOTAL	83.53	117.46	198.88	44.83	17.92	3.83

NB: Table includes rounded numbers

MAJOR PROGRAMME CHANGES

Children & Learning - £2.00M Increase

14. SEND Review (£2.00M addition)
 The Children's and Families Act 2014 introduced Education, Health and Care Plans, £39.00M was added to the programme budget in February 2020, to review and expand the Special Educational Needs and Disabilities (SEND) provision within the City. An additional £2.00M budget is required to meet the immediate and significant pressure in increased capacity demand as an interim arrangement until a full business case for this scheme is reported to Executive Management Team and Cabinet. This will be funded by capital receipts. Approval to spend £4.50M on these interim arrangements is also sought.

Culture & Homes - £0.40M Increase

15. Libraries Extended Opening Hours (£0.25M addition)
 The extension of library opening hours will be achieved by offering an unstaffed self-service option within the city's libraries this allows for better value in the use of the buildings. Control system will need to be installed such as CCTV, door mag locks, lighting, audio systems, intruder alarm systems, computers to open and close the building, which make the library functional without staff needing to be present. This will be funded by council resources and capital receipts.
16. Heritage Assets Repairs Programme (£0.20M addition)
 Pending the completion of the business case for repairs to the city's heritage assets, an initial year one budget has been added to the programme to ensure that the physical deterioration of assets doesn't impact on public safety, the reputation of the Council and the City of Culture bid. This will be funded by capital receipts.

Customer & Organisation - £1.08M increase

17. Client Case Management System (£1.06M addition)

	Further enhancements to improve usability and navigation are required to ensure the system is fit for purpose and achieve best value for the funds that have been spent to date on this scheme. These additions will allow a go-live date later in 2021. Additional detail of this scheme is provided in annex 2.1(a). This will be funded by direct revenue financing.
	<u>Finance & Income Generation - £200.00M decrease</u>
18.	Property Investment Fund (£200.00M reduction) This scheme was intended to maximise the yield of council borrowing through the purchase of investment property using that funding. Recent updated guidance from the Public Works Loans Board (PWLB), the main lenders to local authorities, has made it no longer possible to borrow to invest for yield in the same way.
	<u>Green City & Place - £1.94M Increase</u>
19.	Mayflower Park Revetments (£0.50M addition) Essential repairs to the revetments are needed to protect Mayflower park from damage from the waterways. This is a necessary health and safety requirement and protects against the inability to use the park for major events in future. This will be funded by a combination of S106 contributions, capital receipts and council resources.
20.	Green Flag Park Improvements (£0.22M addition) Capital works will improve Green Flag parks within the city to enable bid a multi-park approach to the Green Flag award and support the City of Culture bid. This will be funded by S106 contributions.
21.	COVID 19 Depot Improvements (£0.25M addition) Improvements to City Depot meeting rooms as well as additional external buildings are required to maintain adequate social distancing and remain COVID safe ensuring staff welfare. This will be funded by capital receipts.
22.	Purchase of Vehicles (£0.50M reduction) In an effort to reduce the cost of borrowing, reviews have taken place throughout the year of capital schemes funded by borrowing. The purchase of vehicles scheme has now been streamlined to reduce these costs.
23.	<u>Decarbonisation (£1.68M addition, Green City - Salix Clean Growth Fund reduction £0.31M)</u> This scheme is designed to fund energy efficiency and heat decarbonisation projects within non-domestic buildings and will be used on measures across the Council's non-domestic property portfolio to create cost and carbon savings. This addition will be funded by government grant. The bid for this grant under the Public Sector Decarbonisation Scheme provides an alternative source of funding for works originally planned under the Green City - Salix Clean Growth Fund scheme therefore reducing the need for Council borrowing. The reduction was to be funded by a combination of council resources and external contributions.

	<u>Stronger Communities - £0.68M Decrease</u>																														
24.	<p>Warm Homes (£0.68M reduction)</p> <p>The Warm Homes scheme is intended to reduce fuel poverty and emissions in private sector housing. Due to the COVID-19 pandemic, one of the Council's contractors has pulled out of the project, resulting in a subsequent loss of grant funding. This has reduced the scope of the project and the budget has been reduced accordingly. This reduction was to be funded by government grants and S106 contributions.</p>																														
	CAPITAL RESOURCES																														
25.	<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 ; and • Direct Revenue Financing. 																														
26.	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 Stronger Communities portfolio.																														
27.	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 non-ring fenced. However, in 2020/21 those grants have been passported to these areas. These assumptions will be monitored closely and any updates reported as part on the monthly monitoring process; should any grants not materialise then the projects affected will need to be reconsidered.																														
28.	Table 4 shows the current level of available resources.																														
	<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 2020/21 £M</th> <th>Allocated to Current Programme £M</th> <th>Available Funding £M</th> <th>Anticipated Receipts 2020/21 £M</th> </tr> </thead> <tbody> <tr> <td>Capital Receipts</td> <td>(9.31)</td> <td>(0.07)</td> <td>11.52</td> <td>2.14</td> <td>(1.99)</td> </tr> <tr> <td>CIL</td> <td>(15.60)</td> <td>(0.65)</td> <td>5.49</td> <td>(10.76)</td> <td>(0.78)</td> </tr> <tr> <td>S106</td> <td>(7.73)</td> <td>(2.69)</td> <td>8.11</td> <td>(2.31)</td> <td>(0.58)</td> </tr> <tr> <td></td> <td><u>(32.64)</u></td> <td><u>(3.41)</u></td> <td><u>25.12</u></td> <td><u>(10.93)</u></td> <td><u>(3.35)</u></td> </tr> </tbody> </table>	Resource	Balance B/Fwd. £M	Received to Date 2020/21 £M	Allocated to Current Programme £M	Available Funding £M	Anticipated Receipts 2020/21 £M	Capital Receipts	(9.31)	(0.07)	11.52	2.14	(1.99)	CIL	(15.60)	(0.65)	5.49	(10.76)	(0.78)	S106	(7.73)	(2.69)	8.11	(2.31)	(0.58)		<u>(32.64)</u>	<u>(3.41)</u>	<u>25.12</u>	<u>(10.93)</u>	<u>(3.35)</u>
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29.	Table 4 shows that the largest resource currently available is Community Infrastructure Levy (CIL) funding. There are a number of potential large scale infrastructure projects in the future that could utilise this funding, for example flood defence infrastructure.																														

30.	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 and the response to COVID-19 has increased the Council's risk in this area. To reduce this risk properties that are not yet on the market have been removed from the assumptions of what is available to fund the programme and a small contingency is being held to alleviate pressures from any reductions to sales value.																																																																																																																
31.	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.																																																																																																																
32.	<p>Table 5 – General Fund Capital Receipts Estimates</p> <table border="1" data-bbox="331 689 954 913"> <thead> <tr> <th>Forecast</th> <th>B/Fwd. £M</th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>Total £M</th> </tr> </thead> <tbody> <tr> <td>Latest</td> <td>9.31</td> <td>2.06</td> <td>0.25</td> <td>11.62</td> </tr> <tr> <td>Previous</td> <td>9.31</td> <td>2.06</td> <td>0.25</td> <td>11.62</td> </tr> <tr> <td>Variance</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> </tbody> </table> <p data-bbox="975 831 1369 891">*No further receipts from 2022/23 to 2025/26</p>	Forecast	B/Fwd. £M	2020/21 £M	2021/22 £M	Total £M	Latest	9.31	2.06	0.25	11.62	Previous	9.31	2.06	0.25	11.62	Variance	0.00	0.00	0.00	0.00																																																																																												
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33.	Tables 6 and 7 show capital expenditure by portfolio and the use of resources to finance the General Fund Capital Programme up to and including 2025/26. Annex 2.2 provides details of each portfolios latest programme and the financing of that programme.																																																																																																																
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	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	Total £M																																																																																																										
*CR - GF Borrowing	(20.28)	(35.78)	(128.00)	(16.97)	(12.75)	(1.91)	(215.69)																																																																																																										
Capital Receipts	(6.61)	(3.37)	(1.55)	0.00	0.00	0.00	(11.52)																																																																																																										
Contributions	(9.06)	(4.79)	(8.95)	(3.50)	(2.50)	(1.91)	(30.70)																																																																																																										
Capital Grants	(45.96)	(72.06)	(60.37)	(24.36)	(2.67)	0.00	(205.43)																																																																																																										

	Revenue Financing	(1.62)	(1.46)	0.00	0.00	0.00	0.00	(3.08)
	Total Financing	(83.53)	(117.46)	(198.88)	(44.83)	(17.92)	(3.83)	(466.43)
	*CR – Council Resources			NB: Table includes rounded figures				
34.	Table 7 demonstrates that the most significant amount of 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, which is detailed within the revenue budget.							
35.	Every effort will be made to explore external funding opportunities to reduce the need for borrowing. Should grants or contributions be made available to the Council in the future, these will be reported as part of the routine financial monitoring process.							
	CAPITAL STRATEGY							
36.	The Council needs to have a fit for purpose Capital Strategy to ensure that all the Council's priorities 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 2020/21 to 2025/26 and this is attached in annex 2.3.							
37.	<p>The Prudential Code for Capital Finance in Local Authorities requires authorities to produce a capital strategy. The guidance outlines a number of key factors which they recommend be included in a capital strategy:</p> <ul style="list-style-type: none"> • The strategy should be formally approved by Council; • Clearly sets out the forthcoming capital expenditure of the Council; • There should be a clear link to the treasury management strategy, therefore including prudential indicators; • Focus on commercial activity and associated risks; • Long term impact and liabilities of decisions being undertaken; • Knowledge and skills of responsible officers. 							
38.	<p>Prudential Indicators are an indication that capital investment planning and the Authority's borrowing decisions are prudent and sustainable.</p> <p>HRA prudential indicators by statute are ring-fenced and are calculated separately.</p> <p>The prudential indicators have been set for the forthcoming period and comprise of three main components relating to: -</p> <ul style="list-style-type: none"> • Capital Expenditure – Estimates of Capital Expenditure and Capital Financing, Current and Estimated Movement in the Capital Financing Requirement i.e. the Authority's underlying need to borrow; • External Debt – Current and Estimated Movement in Gross Debt. Authorised limits for Borrowing set by the Authority and the Operational Boundary for Total External Debt (excluding investments) and separate identification for borrowing against debt and other long-term liabilities. Other indicators outline the estimated movement in borrowing requirement and loans over the forthcoming five-year period; and 							

	<ul style="list-style-type: none"> • Affordability – the Ratio of Financing Costs to Net Revenue Stream – this indicates the revenue implications of capital expenditure required to meet borrowing costs.
39.	In setting the indicators, the Authority will also take into account Minimum Revenue Provision (MRP) to set aside amounts for repayment of debt over the loan period or an equitable amount in line with Capital Regulations. The Council’s MRP policy is detailed in Annex 2.3(a), and requires approval as part of this report.
40.	In preparing the capital strategy, the Authority will also take into account: <ul style="list-style-type: none"> • The Council’s Treasury Strategy, to be approved by Governance on 15th February 2021; • The Council’s Investment Strategy which is detailed in Annex 2.3(b) and requires approval as part of this report.

Annexes	
2.1.	Variations to the General Fund Capital Programme Since Q3
	2.1(a) Client Case Management Addition
2.2.	General Fund Capital Programme – Scheme Details
2.3.	Capital Strategy 2020/21 – 2025/26
	2.3(a) MRP Strategy
	2.3(b) Investment Strategy