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| DECISION-MAKER: | CABINET | | |
| SUBJECT: | FINANCIAL MONITORING FOR THE PERIOD TO THE END OF JUNE 2023 | | |
| DATE OF DECISION: | 15 AUGUST 2023 | | |
| REPORT OF: | CABINET MEMBER FOR FINANCE & CHANGE | | |
| <u>CONTACT DETAILS</u> | | | |
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STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

The report summarises the General Fund and Housing Revenue Account (HRA) capital programme for the period 2023/24 to 2027/28 financial position as at the end of June 2023 and informs Cabinet of any major changes since the last reported position.

The forecast underspend position for 2023/24 as outlined in this report is £1.18M, after accounting for £4.51M slippage. This position is likely to change as the year progresses, as at quarter 2 there is often slippage due to works which have not been undertaken during the Summer months which is unable to proceed in the Winter. Over the next quarter the capital programme will be reviewed to ensure that all projects meet the aim of being Purposeful Investment, as set out in the Medium Term Financial Strategy Update report to Council in July 2023.

RECOMMENDATIONS:

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| | Cabinet is recommended to: |
| i) | Note the revised General Fund Capital Programme, which totals £308.84M as detailed in paragraph 3. |
| ii) | Note the HRA Capital Programme is £255.70M as detailed in paragraph 3. |
| iii) | Approve the addition and spend of £0.68M to the Children & Learning programme in 2024/25, as detailed in paragraph 7 and Appendix 1. |
| iv) | Approve the addition and spend of £1.58M to the Place programme in 2023/24, as detailed in paragraphs 8 to 10 and Appendix 1. |
| v) | Accept the Local Authority Housing Fund grant of £1.713m from DLUHC, receivable in two tranches in March and September, as detailed in paragraph 11. |

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| vi) | Approve the addition and spend of £1.71M to the HRA programme in 2023/24, as detailed in paragraph 11 and Appendix 1. |
| vii) | Approve slippage of £4.51M within the General Fund programme, as detailed in paragraphs 12 to 14 and Appendix 3. |
| viii) | Note that the overall forecast position for 2023/24 at quarter 1 is £176.52M, resulting in a potential underspend of £1.18M, as detailed in paragraphs 15 to 17 and Appendix 2. |
| ix) | Note that the capital programme remains fully funded up to 2027/28 based on the latest forecast of available resources although the forecast can be subject to change; most notably regarding the value and timing of anticipated capital receipts and the use of prudent assumptions of future government grants to be received. It is also important to note that in times of rising interest rates, inflationary pressures and future budget shortfalls the capital programme needs to be kept under review. |

REASONS FOR REPORT RECOMMENDATIONS

1. To ensure that Cabinet fulfils its responsibilities for the overall financial management of the Council's resources.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. Not Applicable.

DETAIL (including consultation carried out)

3. Table 1 shows the changes to the individual directorate programmes. The updated programme for the General Fund is £308.84M and £255.70M for the HRA.
4. Due to the current financial environment, there is an ongoing need to review the programme, against the backdrop of rising inflation which is significantly increasing construction costs and rising interest rates which has seen the cost of borrowing increase dramatically.
5. Details of changes made since the start of the year, totalling a net increase of £4.12M can be found in Appendix 1. Net addition of £0.15M has been added to the programme by delegated decisions and £3.97M addition requires approval, as detailed in paragraphs 7 to 11.

6. Table 1 – Changes to Programmes

| | Latest Programme £M | Previous Programme £M | Total Change £M |
|-----------------------------------|------------------------|--------------------------|--------------------|
| Children & Learning | 59.82 | 59.00 | 0.83 |
| Corporate Services | 4.94 | 4.94 | 0.00 |
| Place | 239.35 | 237.77 | 1.58 |
| Strategy & Performance and CEO | 2.69 | 2.69 | 0.00 |
| Wellbeing & Housing | 2.04 | 2.04 | 0.00 |
| Total GF Capital Programme | 308.84 | 306.43 | 2.41 |
| Housing Revenue Account | 255.70 | 253.99 | 1.71 |
| Total Capital Programme | 564.54 | 560.42 | 4.12 |

NB. there may be small arithmetic variations in the table as figures have been rounded

| 7. | Approval is sought for the addition and spend of £0.68M to the Children & Learning programme, in 2024/25 to refurbish and repurpose Westwood House. The project will create a short-term assessment and residential unit for children with learning disabilities and Autism. This is a jointly funded project with the Integrated Care Board (previously CCG). This amount is the external contribution toward the project. | | | | | | | | | | | | |
|-----------------------------------|--|---------|----|---------------|------|-----|------|--------------------------|------|-----------------------------------|------|--------------------------|------|
| 8. | Approval is sought for the addition and spend of £0.88M to the Place programme for Safer Streets, in 2023/24. The council was awarded grant funding from the Department for transport (DFT) for improved safety works on the A3025 Portsmouth Road. | | | | | | | | | | | | |
| 9. | Approval is sought for the addition and spend of £0.48M to the Place programme for Active Travel Fund, in 2023/24. The council was awarded grant funding from DFT towards the existing cycling scheme on Bitterne Road East. | | | | | | | | | | | | |
| 10. | <p>Approval is sought for the addition and spend of £0.23M to the Place programme for a number of smaller projects in 2023/24, detailed in the table below. These projects are as a direct result of S106 planning conditions and are therefore fully funding from S106 contributions.</p> <table border="1" data-bbox="209 846 949 1137"> <thead> <tr> <th data-bbox="209 846 818 891">Project</th> <th data-bbox="818 846 949 891">£M</th> </tr> </thead> <tbody> <tr> <td data-bbox="209 891 818 943">Accessibility</td> <td data-bbox="818 891 949 943">0.06</td> </tr> <tr> <td data-bbox="209 943 818 987">ITS</td> <td data-bbox="818 943 949 987">0.11</td> </tr> <tr> <td data-bbox="209 987 818 1039">Bus Corridor Minor Works</td> <td data-bbox="818 987 949 1039">0.01</td> </tr> <tr> <td data-bbox="209 1039 818 1084">Highways Improvements (Developer)</td> <td data-bbox="818 1039 949 1084">0.03</td> </tr> <tr> <td data-bbox="209 1084 818 1137">Transforming Cities Fund</td> <td data-bbox="818 1084 949 1137">0.02</td> </tr> </tbody> </table> | Project | £M | Accessibility | 0.06 | ITS | 0.11 | Bus Corridor Minor Works | 0.01 | Highways Improvements (Developer) | 0.03 | Transforming Cities Fund | 0.02 |
| Project | £M | | | | | | | | | | | | |
| Accessibility | 0.06 | | | | | | | | | | | | |
| ITS | 0.11 | | | | | | | | | | | | |
| Bus Corridor Minor Works | 0.01 | | | | | | | | | | | | |
| Highways Improvements (Developer) | 0.03 | | | | | | | | | | | | |
| Transforming Cities Fund | 0.02 | | | | | | | | | | | | |
| 11. | <p>Approval is sought for the addition and spend of £1.71M to the HRA capital programme, in 2023/24 to provide additional housing in the City.</p> <p>In January 2023 DLUHC introduced a £500 million capital fund for selected LAs to provide accommodation for families in need who have arrived in the UK under Ukrainian and Afghan resettlement and relocation schemes. Southampton City Council was provisionally identified as eligible for capital grant funding. As with other affordable housing provisions, grant funding was expected to be matched by a contribution from the authority's own capital programme.</p> <p>The proposed funding was made up of £1.14M for Ukrainian Households, and £0.573M for bridging accommodation. The main housing element was expected to provide a minimum of 12 homes. The government funding equates to 40% of total capital costs (Average £72,000 grant per property) plus £20,000 per property. The bridging funding was to provide a minimum of 3 larger 4+bed homes to be allocated to households currently residing in bridging accommodation. For 'bridging element' housing, Government funding equates to 50% of total capital costs (Average £171,199 grant per property) plus £20,000 per property.</p> <p>Due to the short mobilisation period of this scheme, and the lack of available funds in the HRA capital programme to match fund, and under emergency delegated decision, discussions with registered providers took place and Society of St James (SSJ), a Registered Provider in the city, agreed to work with SCC to deliver the requirements of the scheme by 30 November 2023. SCC signed a memorandum of understanding (MOU) between DLUHC and SCC and similarly we have a MOU in place between</p> | | | | | | | | | | | | |

SCC and Society of St James (SSJ).

Under Financial Procedure Rules the Council is required to accept the funding to build in the contribution to SSJ into the HRA Capital programme.

SLIPPAGE AND REPHASING

12. Slippage occurs where works are not expected to take place according to the provisions agreed in the capital programme. Re-phasing of capital expenditure is due to works being carried out sooner than anticipated, budget and funding is brought forward from future years to match the expenditure.

The programme is continually reviewed to ensure that all projects are accurately profiled, and budgets are suitably aligned to anticipated works and spend. As a result there is £4.51M of General Fund anticipated work in 2022/23 where work has slipped into later years. Details of schemes with major slippage and where any rephasing has been applied are provided in appendix 3.

13. Table 2 below summarises resulting net slippage and rephasing by individual capital programmes. There is zero net effect to the budgets over the 5-year capital programme. Approval is sought for the slippage of £4.51M from 2023/24 into later years.

| 14. | Table 2 – Net Slippage | Movement in 2023/24 £M | Appendix 3 Ref |
|-----|--------------------------------|------------------------------|-------------------|
| | Children & Learning | (0.88) | 1-3 |
| | Corporate Services | (0.30) | 6 |
| | Place | (3.33) | 4-5 |
| | Strategy & Performance and CEO | 0.00 | - |
| | Wellbeing & Housing | 0.00 | - |
| | Total General Fund | (4.51) | |
| | Housing Revenue Account | 0.00 | - |
| | Total Capital Programme | (4.51) | |

NB. there may be small arithmetic variations in the table as figures have been rounded

2023/24 MONITORING POSITION

15. The forecast performance of individual capital programmes in 2023/24 is summarised in table 3 below.

16. Table 3 – Summary of the General Fund & HRA Capital Forecast 2023/24

| | Revised Programme £M | Forecast £M | Forecast Variance £M | Forecast Variance % |
|--------------------------------|----------------------------|----------------|----------------------------|---------------------------|
| Children & Learning | 14.40 | 13.22 | (1.18) | (8.21) |
| Corporate Services | 3.62 | 3.62 | 0.00 | 0.00 |
| Place | 101.02 | 101.02 | 0.00 | 0.00 |
| Strategy & Performance and CEO | 2.69 | 2.69 | 0.00 | 0.00 |
| Wellbeing & Housing | 0.92 | 0.92 | 0.00 | 0.00 |
| Total General Fund | 122.65 | 121.47 | (1.18) | (0.96) |
| Housing Revenue Account | 55.05 | 55.05 | 0.00 | 0.00 |

| | | | | | |
|-----|--|---------------|---------------|---------------|---------------|
| | Total Capital Programme | 177.70 | 176.52 | (1.18) | (0.67) |
| | Financed by | | | | |
| | *CR - GF Borrowing | (35.63) | (35.67) | (0.04) | 0.12 |
| | *CR - HRA Borrowing | (20.86) | (20.86) | 0.00 | 0.00 |
| | Capital Receipts | (7.40) | (7.40) | 0.00 | 0.00 |
| | Contributions | (13.79) | (13.79) | 0.00 | 0.00 |
| | Capital Grants | (70.83) | (69.60) | (1.23) | (1.78) |
| | Direct Revenue Financing | (3.30) | (3.30) | 0.00 | 0.00 |
| | HRA – MRA | (25.89) | (25.89) | 0.00 | 0.00 |
| | Total Funding | 177.70 | 176.52 | (1.18) | (0.67) |
| | *CR – Council Resources NB there may be small arithmetic variations in the table as figures have been rounded | | | | |
| 17. | The forecast spend for 2023/24 is £176.52M, giving a total forecast favourable variance of £1.18M. The reasons for the major forecast surplus/deficit variances are detailed in Appendix 2. | | | | |
| | CAPITAL RESOURCES | | | | |
| 18. | The resources which can be used to fund the capital programme are as follows: <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 • Revenue Financing • Council Resources – Borrowing | | | | |
| 19. | 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. | | | | |
| 20. | It should be noted that the revised General Fund Capital programme is based on prudent assumptions of future government grants to be received. Most of these grants relate to funding for schools and transport and are un-ringfenced. However, in 2023/24 these grants have been passported to these areas. | | | | |
| 21. | Appendix 4 details the current level of available resources. This shows that the largest resource currently un-earmarked is S106 developer contributions. This relates to receipts in the latter part of 2022/23 for which the works are still being scoped and will be added to the programme during 2023/24. | | | | |
| | OVERALL CAPITAL PROGRAMME AND FINANCING | | | | |
| 22. | The revised overall programme by year, including amendments that are being requested as part of this report and use of resources, can be found in Appendix 5. | | | | |
| 23. | The most significant amount of funding for the General Fund programme is provided by capital grants. There has been a drive to reduce borrowing costs, due to increasing interest rates, to avoid an unbudgeted pressure on the GF revenue account. The HRA programme is primarily funded by Major Repairs Reserve (direct revenue contribution). | | | | |
| | RESOURCE IMPLICATIONS | | | | |

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| <u>Capital/Revenue</u> | |
| 24. | There is a revenue cost of providing the capital programme, through the interest cost of borrowing and the minimum revenue provision (MRP). MRP is the calculated annual charge to the revenue account of provision to repay debt incurred in respect of capital expenditure financed by borrowing or other long term credit arrangements (such as PFI) over a period that is commensurate with that over which the capital expenditure provides benefits. The cost of the current capital programme is including in the Medium Term Financial Strategy and is monitored and reported as part of the revenue financial monitoring. |
| 25. | A key indicator is the ratio of Capital Financing to the Net Revenue Budget of the council. Following the highly publicised over borrowing of some local authorities it is expected that CIPFA and central government will propose a strengthening to prudential limits by including upper limits on the level of borrowing. The council has introduced a ceiling for the above indicator, prior to any change to the Prudential Code, and set the General Fund at a maximum of 11% of Net Revenue Budget. It also needs to be in keeping with approach adopted of 'purposeful investment' i.e. does the investment reduce revenue expenditure/increase income: does it offset a future financial pressure: does it have a significant impact on the lives of residents? |
| 26. | The capital implications are contained within the report. |
| <u>Property/Other</u> | |
| 27. | There are no specific property implications arising from this report other than the schemes already referred to within the report. |
| LEGAL IMPLICATIONS | |
| <u>Statutory power to undertake proposals in the report:</u> | |
| 28. | Financial reporting is consistent with the Section 151 Officer's duty to ensure good financial administration within the council. |
| <u>Other Legal Implications:</u> | |
| 29. | None. |
| RISK MANAGEMENT IMPLICATIONS | |
| 30. | The council maintains a financial risk register which details the key financial risks that face the council at a given point in time and is reported as part of the Revenue Financial Monitoring report. It is from this register that the level of balances and reserves is determine, including a small reserve for capital funding. The main risks effecting the capital programme are: <ul style="list-style-type: none"> • Interest rates are underestimated, resulting in a higher cost of borrowing to fund the programme, • Slippage in capital receipts or grants are not secured, resulting in a funding gap, • Inflation, impacting on construction costs and availability of suppliers. |
| POLICY FRAMEWORK IMPLICATIONS | |
| 31. | The update of the Capital Programme forms part of the overall Budget Strategy of the Council. |
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KEY DECISION? No

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| WARDS/COMMUNITIES AFFECTED: | All |
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SUPPORTING DOCUMENTATION

Appendices

| | |
|----|---|
| 1. | GF & HRA Programme Changes Since Last Reported Position |
| 2. | GF & HRA Major Forecast Variances as at June 2023 |
| 3. | GF & HRA Slippage & Rephasing as at June 2023 |
| 4. | GF Capital Resources Available as at June 2023 |
| 5. | GF & HRA Revised 5 Year Programme and Use of Resources |
| 6. | GF HRA Revised 5 Year Programme by Portfolio |

Documents In Members' Rooms

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| 1. | None |
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Equality Impact Assessment

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| Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out? | No |
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Privacy Impact Assessment

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| Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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 Revenue Budget 2023/243, Medium Term Financial Strategy and Capital Programme (Council 22 February 2023) |