SOUTHAMPTON CITY COUNCIL
CAPITAL STRATEGY
2018/19 TO 2022/23

FEBRUARY 2019

Capital Strategy 2018/19 to 2022/23

Contents

SECTION 1 - THE SOUTHAMPTON CAPITAL STRATEGY

Aims of the Strategy and its links to the Council’s budget framework

The overarching aim of the Southampton Capital Strategy is to provide a framework within which the council’s Capital Investment plans will be prioritised and delivered. These plans are driven by the Southampton City Council Strategy, the City Strategy and the City Vision - “Southampton - a city of opportunity where everyone thrives”

Reflecting the ambition and vision above the council’s priority outcomes are:

These objectives reflect the on-going commitment to ensure the council puts residents and the customers at the heart of everything we do, reflecting the city’s diversity. Strong leadership is essential if the council is to meet the immediate and the medium term challenges in sustainable way and make the most of future opportunities.

We have moved to outcomes based planning and budgeting as an approach and as a result, to manage our resources effectively to deliver these priority outcomes, we have allocated resources against each of them. We have considered what is being achieved from the services provided and focused on what makes the most difference to residents, customers and businesses. Under each outcome, we then identified proposals to reduce costs in the following areas:

- Business as usual - being more efficient in how we manage and deliver our services on a day-to-day basis
- Digital savings - changing and improving how we deliver services, making better use of online channels
- Service delivery changes - redesigning, sharing, stopping, reducing or changing services

We expect the shape of the council, including the types of services we deliver and how we will deliver them, will be very different over the coming years. The council Strategy sets out that this will be achieved through:

- Taking personal responsibility
- Working through and with others
- Embracing change
- Balancing commercial demands
- Being customer orientated

The Capital Strategy

The council's Capital Strategy is to ensure the council is able to plan and allocate the available resources for capital projects and programmes that contribute to the delivery of priority outcomes in the council Strategy and sets out the long term vision giving consideration to risk and reward. In order to demonstrate that that the council takes capital and investment decisions in line with its strategic priorities, and to ensure that it takes account of stewardship of assets, value for money , prudence, affordability and sustainability the council is committed to fully appraising the capital investment process. The Capital Strategy is also intended to how both capital expenditure, capital financing and treasury management contribute towards service potential and how the associated risk is managed effectively. The principles of the strategy are as follows:

- The Council Capital Board (CCB), chaired by the Cabinet Member for Finance, leads on the strategic direction of capital investment for the council. The CCB operates on a commissioning basis. This will enable funding to be better aligned with other partners and funding sources and ensure a city wide approach is taken.

  The commissioning approach will be of greater importance with the increased requirement for links to regional and sub-regional strategies and programmes and the need to apply for funds on a regional basis. As a result, the council must also ensure that its Capital Strategy reflects the vision set out by the LEP, PUSH, and Transport for South Hampshire. These partnerships aim to work together with other stakeholders to secure a more prosperous and sustainable future for the Solent area.

- The first call on capital resources will always be the financing of any over programming from previous years. In addition, all projects already approved in the capital programme or contractually committed will be supported and sufficient resources will be provided to enable them to proceed or complete.

- A capital project sponsor must also be able to demonstrate that a rigorous process of options appraisal has been followed, requiring evidence of need, cost, risk, outcomes and methods of financing. Capital investment proposals which will result in a revenue cost saving or efficiency are encouraged.

- All capital investment decisions will be made with reference to council outcomes, priorities, Executive commitments and regional strategies and, only after a positive contribution to one or more of the objectives has been demonstrated, will a project be considered for resource allocation.

- The CCB will ensure that the council can take full advantage of the increased freedom and flexibility afforded by the removal of ring fencing from most funding allocations to facilitate the achievement of the council's priority outcomes. This funding will be allocated as the CCB feel is appropriate to achieve these outcomes, following receipt of a robust business case. Regard will however be had to obligations around the transport agenda, and asset management plans for schools and corporate assets, particularly around health and safety issues.

- The non-ring fenced and corporate resources will managed by the CCB and it will review all capital bids for resources, evaluate them and then agree on the prioritisation of resources accordingly. A proposal will be prioritised in accordance with criteria set out in Section Four of this Strategy.

- The CCB will also review the use of any ring fenced resources to ensure alignment with other spending plans and the maximisation of benefits to the council and achievement of council outcomes, priorities and Executive commitments.

- The CCB will recommend the use of both non-ring fenced and ring-fenced resources and also the general prioritisation of resources so that Cabinet/council can make well informed final decisions on the utilisation of resources, as per the timeline set out in Section Five.

- There will be no ring-fencing of capital receipts to specific projects unless the use of the receipt is governed by legislation or by a specific agreement. For example, the council signed an agreement on the use of retained Right to Buy (RTB) receipts in June 2012 (amended in June 2013) which stipulates that any receipts held by the council under the agreement, which are not used for the specific purpose of providing replacement affordable housing, must be returned to Ministry of Housing, Communities and Local Government.

- New reforms such as the HRA removal of the borrowing cap announced by the MHCLG on the 29th October, 2018 will give the council greater freedoms surrounding HRA borrowing for building homes. A dedicated task group has been created in order to respond to this opportunity. The Capital Programme is currently being updated to 2022/23 with levels of voluntary 'Minimum Revenue Provision' (MRP) under review. This will be reported in the Medium Term Financial Strategy at full council in February 2019.

- There will be an annual review of the individual capital schemes undertaken to:
    a) Ensure that schemes still meet strategic priorities and outcomes via a capital appraisal process;
    b) Review their continued relevance in the context of a dynamic and constantly developing organisation;
    c) Consider the progress of schemes including any reasons for delayed starts or variations to approved budgetary allocations and re-phasing of planned expenditure; and
    d) Identify any unutilised or underutilised resources.
    e) Consider any reallocation of resources.

- All applications/bids for external capital grant funding will be presented to the CCB prior to submission to ensure they are in line with agreed priorities and outcomes and that all capital and revenue consequences have been considered. The council is conscious that the Government is likely to introduce a range of grant funding opportunities for which bids must be submitted at short notice, some of which may have a matched funding requirement. The council's strategy will be to respond as it considers appropriate to these in line with priorities and outcomes.

The Wider Region

Solent Local Enterprise Partnership (LEP) Update

The Solent is a unique place with unique challenges and opportunities. This update has set out some of the key challenges and opportunities that the Solent LEP faces. The Solent area is an internationally recognised key economic hub anchored around the Southampton, Portsmouth, the Isle of Wight, the M27 corridor and the Solent waterway.

The Solent Local Enterprise Partnership (LEP) was formed after the Government offered local areas the opportunity to take control of their future economic development. It is a locally-owned partnership between businesses and local authorities and plays a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs.

A number of additional, supplementary documents have been published in the interim period from 2015, including impact assessment, sector assessments (maritime), infrastructure and investment plans. Many of these are referred to in the 'Productivity and growth strategy update February 2017'. This update seeks to help frame policy and investment decisions, ahead of a refresh of our Strategic Economic Plan.

Since the publication of the Solent Strategic Economic Strategy in 2014 and Growth Plans in 2014, 2015 and 2016 the Solent LEP have continually assessed what capabilities needed to deliver growth and prosperity in the future in the Solent. Investments will be focussed on activity that will help to give businesses and individuals the support they need to respond to any new challenges such as the imminent change in our relationship with Europe.

In 2017 a five point plan was published to guide partners and support the on-going development of a new Solent Strategic Economic Strategy.

- Address deficits in infrastructure, most pronounced in transport, also in flood defence and superfast broadband, and the infrastructure required to unlock new development opportunities
- Address the serious and chronic shortage of housing in the Solent area.
- Develop the skills that our economy needs to succeed, with a continued focus on higher level skills, apprenticeships and STEM (Science, Technology, Engineering and Maths).
- Ensure that ideas and knowledge are at the forefront of our approach working with our world class universities to support our businesses to innovate and grow.
- Address the economic challenges across the Solent area.

The Solent economic strategy update began in 2017 with a series of discussions with key local stakeholders (including local business, academia and the public sector) to shape a new vision for the Solent Economy going forward.

This vision needs to provide a clear statement for the future of the economy so that the Solent is positioned to respond to the opportunities and challenges ahead.

Productivity and growth will remain as key issues in the new Solent economic strategy and in the imminent development of a Solent (Local) Industrial Strategy. The Government has set a clear agenda to raise productivity in the UK and see this as the central long-term economic challenge facing the country. The government's approach to raising productivity, set out in the 2015 Productivity Plan, is based on:

- encouraging long-term investment in economic capital, such as technology, innovation, infrastructure, and skills; and
- creating a dynamic economy which ensures resources are put to their best use.

The Industrial Strategy sets out how plans to build a Britain fit for the future, positioning the UK at the forefront of what is referred to as the fourth industrial revolution by helping businesses create better, higher-paying jobs with investment in the skills, industries and infrastructure of the future. The focus is on five foundations: ideas, people, infrastructure, business environment and places.

The underperformance of the UK in terms of productivity is mirrored in the Solent economy. The total value of GVA in Solent stood at £27.8 billion, accounting for just under 12% of regional output. The productivity gap to the regional average is explained by the relatively high concentration of jobs in the Solent economy in lower productivity sectors such as health and social work and a lower share of jobs in higher value sectors such as financial activities; and information and communications.

By accelerating job growth in higher value sectors, the Solent LEP area will be able to close the productivity gap over the medium to long term. In the longer term to 2036 GVA in the Solent LEP area is forecast to grow by 2% per annum and this is slightly slower than both the south east (2.2%) and the UK (2.1%) as a whole.

Future priorities relevant to Southampton partly relate to a focus on strategic projects such as Southampton Airport Economic Gateway, Itchen Riverside and also on transport projects such as Solent Metro. Other thematic priorities include infrastructure, skills, innovation, enterprise and a focus on science.

In 2017 the main priorities for the Solent areas included:

- 'Developing our Economic Infrastructure' with improved connectivity, with a strengthened pipeline of infrastructure projects, with the release of public land assets to accelerate employment growth and/or housing delivery.
- 'Skills' with the delivery of the Solent Area Review, the refresh of the skills strategy and explore the implications of automation, autonomy and the increasing use of Artificial Intelligence.
- 'Science and Innovation' including the development of a Solent Innovation Strategy informed by a science and innovation audit, an assessment of the economic value of Solent Area universities and by building on the opportunities for transferring enabling technologies and emerging technologies (such as high-performance computing and big data; advanced materials and composites; nanotechnology and nanophysics; autonomous systems; high

power lasers; and optoelectronics and fibre optics) across the industry sectors and sub-sectors.

- ‘Enterprise’ with further development of the Solent Growth Hub to engage with more local businesses, with the on-going provision of funding and support for innovative, high growth businesses as well as support those business that are experiencing challenging trading conditions.
- ‘Strategic Sectors’ with a particular focus the value of the strategic marine and maritime sectors, whilst increasing the focus on growing sectors based around professional, scientific, and technical activities and with a renewed focus on tourism and the visitor economy.

Solent LEP prioritisation for capital programmes will use a scored methodology which is outcome based and focuses on the delivery of outcomes such as the creation of new homes, new jobs and infrastructure projects to support local economic growth.

The Solent LEP Board comprises of a fully elected board of 15 Directors, democratically elected by its members and underpinned by robust, transparent and accountable delivery structure. A Funding, Finance and Performance Management Group supports and advises to the board in relation to overall performance.

Economic Development

The City council is working with key partners including Solent LA’s, business organisations, Higher and Further Education, the Department for Trade and Investment, training providers and businesses to generate economic growth in the city to strengthen Southampton’s reputation as a place that welcomes and supports business growth.

The current focus is on supporting the attraction of new businesses to the VIP development schemes included in the City Centre Masterplan, providing property solutions for business, sector development and facilitating businesses’ support services to maximise the potential of the City through the enhanced cultural, retail and hospitality offer, improving productivity, and ensuring that all residents can benefit from, and contribute to the City’s growth. The Economic Development and Skills team has an active programme for working with developers and occupiers to ensure that residents of the city are given the opportunity to gain employment created by major development schemes. It also levers significant external funding for labour market interventions.

Estate Regeneration

In 2009 Southampton City Council launched its Estate Regeneration programme, this outlined the vision to create successful communities on its estates where people will want to live in the future.

Estate regeneration schemes followed at Hinkler Way, Laxton Close, Exford Avenue, Meggeson Avenue, Cumbrian Way and Weston Lane. The preparation for these projects were funded by the HRA (with some of this funding being repaid through grants and land receipts). A mixture of homes for sale and Housing Association funded affordable homes (for rent and shared ownership) were provided plus new shopping parades in some developments. These projects were not designed to create council owned homes.

In August 2013, the administration outlined an aspiration for estate regeneration development to be council led with the HRA acquiring new homes for rent (at Affordable Rent levels). The initial focus of this work was Townhill Park, which was identified as the council's first area of comprehensive regeneration.

In 2017 construction commenced on 56 general needs affordable homes on Plot 1 at Townhill Park, with completion planned for May 2019. The work is ahead of schedule and the homes will be handed over in early February, and the flats at the beginning of April. The homes are being constructed for the council by Drew Smith Group, the council will own the properties all of which will be available at affordable rents. The council's investment in Plot 1 is supported by a grant from 'Homes England' and money received in Section 106 payments from private housing developers and right to buy receipts. The council's wider plans for Townhill Park across a number of plots are intended to deliver around 665 new homes. In February 2018 the Chancellor confirmed Southampton's successful bid for £3.75M from the Housing Infrastructure fund towards Townhill Park Regeneration, this grant is to fund road improvements, including traffic calming, to Meggeson Avenue and the development of a ~~village green~~ new central open space. The formal grant offer was received in September 2018 and work is ongoing to enable formal agreement to be reached with Homes England to allow work to commence and is to be completed by March 2021.

The council is currently using and exploring a number of different models for development and funding of new homes across the city, these include:

- **Direct Development** within the HRA –two developments are currently on site and under construction, these include Townhill Park Plot 1 (56 homes) and Potters/Kiln Court (84 homes with extra care and 15 general needs age designated homes)
- **The sale of** sites to Housing Association Partners – this includes the former Lordshill Housing Office site plus sites in Andromeda Way and Lower Brownhill Road.
- **The potential sale of sites to institutional funding partners** – this could make completed units available to the council through finance leases with options to purchase. This is being explored particularly in relation to the former Oaklands School Site and Plot 2 in Townhill Park.

The housing targets for Southampton are set out in the Southampton City Council Housing Strategy 2016-2025 and the Southampton Core Strategy 2006-2026. This currently states that there is a requirement for an additional 16,300 housing units for the city by 2026.

Despite the council owning 16,000 properties there is still an urgent need for social and affordable housing with over 9,000 families currently waiting for homes on the housing register.

In 2018 the administration set a target of developing a 1,000 council owned homes in a five year period. A plan is therefore currently being developed for the delivery of 1,000 homes over 5 years with sites identified, a method of taking these forward, and a timeline.

As part of the Autumn Budget 2017 the government confirmed its commitment to delivering 300,000 homes per year and on the 29th October 2018, the Housing Revenue Account (HRA) borrowing cap was formally removed with the publication of the Limits on Indebtedness (Revocation) Determination 2018. Southampton City Council responded to this opportunity with the formation of a dedicated task and finish group. The terms of reference of this group and representation by senior managers across the council was approved by the Councils capital board in November 2018. The Service Director for Adults, Housing and Communities was appointed as the lead for the task and finish group. The approved purpose of task and finish group are to:

- Evaluate the implications of the removal of the cap, in order to maximise any opportunities that support delivery of the council's strategic objectives.
- Consider whether any additional prudential indicators are required and to propose these.
- Test the assumptions that have been proposed as part of the HRA 30 year business plan review.
- Agree the methodology that the council will use to assess the financial viability of new build proposals under various models.
- Make recommendations over future governance arrangements and how this work is best coordinated and delivered as 'business as usual'.
- Prepare a short report for consideration at Full Council in February 2019.

Key Priority Issues

Housing

The Southampton Core Strategy identifies a housing requirement for the city of 16,300 by 2026. Local Plans for homes include delivery of priority home categories including affordable, starter home for first time buyers, council new-build and extra care, by making use of exception sites including redundant public land. A commitment has been made to develop at least 2,000 new starter homes within the city. This has been supported to date by additional government funding including;

- The Help to Buy scheme which has been in place since 2013, to ensure that working people who were doing the right thing and saving for a deposit could achieve their aspiration of buying their own home through Government support.
- The Help to Buy ISA was introduced from 1st December 2015 whereby first-time buyers can save up to £200 a month towards their first home and the government will boost their savings by 25%, or £50 for every £200, up to a £3,000 bonus.
- Additional funding streams, such as for low-cost home ownership are intended to be available for councils as well as housing associations and private developers. Councils are encouraged to think creatively about the homes they could deliver.

In the Autumn Budget 2018 the government built on previous budgets in relation to a focus on new homes and supporting the development of more social housing. This included:

- An announcement that the Housing Revenue Account (HRA) borrowing cap has been abolished from 29th October 2018, enabling councils greater freedom to increase house building in England to approximately 10,000 homes per year.
- Further to the announcement of the abolition of the borrowing cap, the council has set up a dedicated task group to evaluate the implications of the removal of the cap in order to maximise this opportunity as part of the Building Council Homes Programme.

- Stamp duty will be lifted for first time buyers of shared ownership properties worth less than £500,000.
- The Housing Infrastructure Fund will increase by £500M to a total of £5.5BN.
- Town planning rules to be eased allowing for the conversion of under-used retail units to be made into residential properties.
- New partnerships with housing associations in England to deliver 13,000 new homes
- Guarantees of up to £1BN for smaller house-builders.
- Lettings relief limited to properties where the owner is in shared occupancy with the tenant.

During the Autumn 2018, the Government also consulted on the Social Housing Green Paper 'A new deal for Social Housing'. The paper proposed reforms to ensure social homes provide an essential, safe, well managed service for all those who need it. This included looking at tenant empowerment to ensure that issues are addressed and resolved and strengthening the regulatory framework for social housing. The Government is currently considering the feedback from consultation which closed in November 2018, and any future legislative or regulatory requirements introduced following the Green Paper may have impacts on the way that HRA is managed and the requirements for Southampton City Council as a landlord.

Affordable Housing

In June 2018, the Government issued an addendum to the Shared Ownership Affordable Homes Programme 2016-2021 (SOAHP) introducing additional funding for affordable housing including affordable rented homes. Alongside the announcement to abolish the HRA borrowing cap giving greater freedoms to build more affordable housing the Government confirmed a total of :-

- £1.7bn Grants included within the SOAHP 2016-2021 in a range of tenures between affordable homes and affordable rented homes with around a total of 69,600 total homes forecast announced at the end of June 2018
- This is in addition to the £2BN previously announced October 2017 to deliver social rent across England as well as tenures currently available through the programme.
- £400M announced May 2018 to fully fund the removal and replacement of dangerous cladding by councils and Housing Associations. This funding will come from the current SOAHP. To provide long term certainty £400M grant funding will be coming back into the SOAHP in 2021/22.

Alongside this funding, the government is expanding the existing affordable homes programme to offer a wider range of ways to help people into home ownership and to provide support for those that need affordable housing such as Affordable Rent, Shared Ownership and Rent to Buy.

Building new homes

Following the announcement of the abolition of the HRA borrowing cap formally removed as at 29th October 2018, the council responded by forming an HRA task group to benefit from this opportunity. The objectives of the task and finish group are:

- To explore and evaluate the implications of the removal of the cap in order to maximise opportunities for the Authority and support the delivery of the council's priorities in line with the Southampton City Strategy 2015-2025
- To update and develop the city's Housing Strategy
- Agree and consider any additional prudential indicators to address affordability
- Assess the financial viability of schemes and agree methodology for proposals under various models
- To make recommendations for embedding governance and how delivery of the work is best co-ordinated

A report will go to full council this month during February 2019. A project plan for which the council is seeking support is to deliver 1000 homes over five years. The project will include:

- Identifying key sites within the city to support these additional homes
- To explore a range of sites with mixed options for redevelopment
- To address individuals requiring a range of special needs including care and disabilities (Research demonstrates a need for an addition of 450 homes with care)
- Exploring the use of external consultants to for redesign, development and initial project scoping
- The use of a financial appraisal system on key sites to identify viability
- Ensure early planning consultation to identify issues early within the process

A government grant of £0.050M has been awarded to the council in order to start initial feasibility studies and project scoping.

Southampton Business Improvement District

In November 2016, City Centre businesses voted in favour of the establishment of a Business Improvement District (BID). Over £1M will be generated for each year from 2018/19 to 2022/23, through a levy of 1.5% of business' rateable value in the specified BID area (with some concessions). The funds will be overseen by the businesses via a Board, and allocated for activities to improve the marketing and experience of the City Centre. Delivery must add value to council services, for which a baseline agreement will be in place. The BID has the potential to match fund and augment existing services, to consider alternative delivery models in the future, and to lever additional resources to the City. This will support the council's outcomes and priorities, particularly in relation to economic growth.

Public Sector Plc (PSP)

Southampton City council on the 15th of September 2014 entered into a limited liability partnership with PSP Facilitating Limited and PSP Southampton LLP for a minimum period of 10 years.

It provides the council with an additional option with regard to the disposal, sale or use of its assets to maximise income and opportunity. The relationship brings funding opportunities which are not traditionally available and the formed LLP is required to demonstrate its value to the council before projects are agreed for delivery.

The aims and aspirations of the Partnership are as follows:

- Overall to be a facilitating organisation and development partner for the council enabling it to better realise the efficient management of its assets by unlocking value and reducing liabilities in relation to the council's operational properties and investment properties;
- To undertake specific regeneration opportunities by entering into land transactions that achieve the success criteria in a way that maximises the commercial benefits of the Sites;
- To act as a facilitating organisation giving the council choice as to how it pursues its asset management plans; and
- To assist in achieving broader social, economic and environmental outcomes through true partnership working incorporating the insourcing principle which optimises the use of council staff and infrastructure where it is practical and prior to the appointment of any third party.

To date option agreements have been entered into with the partnership in respect of land at Drivers Wharf, 160 -164 Above Bar (The Scholars Arms) and 150 – 162 High Street.

Flood Defence and Coastal Erosion

Southampton has 35km of coastline including areas around Redbridge, the Docks, Northam, St Denys, Woodmill, Bitterne Manor, Woolston and Weston. Our greatest flood risk is tidal, with around 10% of the city at risk from flooding from the sea. Southampton also contains a number of main Rivers that can pose fluvial flood risk, including the River Test, River Itchen and a number of smaller brooks and streams. Additionally, surface water flooding can occur anywhere in the city following heavy rain, particularly when rainfall is unusually intense or prolonged, overwhelming the local drainage network.

The council is committed to protecting existing and new developments from flood risk through the development of flood defences to protect vulnerable areas alongside the River Itchen, which will be designed to integrate with the city's existing infrastructure.

A report was presented to Capital Board and council in March 2016 providing details of the River Itchen Flood Alleviation Scheme (RIFAS) identifying the need to strengthen flood defences in that vicinity to:

- Provide strategic flood defence infrastructure that will reduce the tidal flood risk for existing commercial (775) and residential properties (1434) in this area over the next 100 years which will avoid approx. £1.39BN of flood damages in present day cash terms (which is equivalent to £249M present value); and
- Provide strategic flood defence infrastructure that will be future proofed to enable future redevelopment in the area when these aspirations are realised.

It was envisaged that this project will be a collaboration between the council, the Environment Agency, Solent LEP, private companies and landowners.

Due to the large scale of the project work is still ongoing to assess potential additional external funds, along with alternative proposals should funding not be secured.

The Autumn Statement announced that there will be government support for flood defence of £13 million for the UK to tackle risks from floods and climate change, through pilot projects to ensure property owners have the best information on protecting their homes, and expanding the flood warning system to an additional 62,000 at-risk properties.

An area at Weston Shore has been identified as of concern due to coastal erosion processes threatening the nearby cycle path and Southern Water infrastructure. A proposed coastal erosion defence scheme will construct a modular concrete retaining wall to protect these assets from 2019/20 over two years, at total cost of £1.0M financed partly by a £0.2M grant from Strategic Transport Cycleway Maintenance Fund with the remaining being funded by CIL monies.

<u>Commercialisation and interests in other entities</u>

Considering the continued financial challenge facing the council there is an increased need for fundamental, transformational change across the organisation, in both the services it delivers and how it delivers them.

Cabinet approved at its meeting in December 2016 to undertake the necessary works to explore option for a LATCo. Following public consultation, the council is now seeking to establish a LATCo which will have a number of objectives, including:

- To enable the on-going transformation of a range of in-scope council services, particularly the need for a new operating model that supports cost efficiency in the delivery of services back to the council together with further commercialisation and potential trading opportunities.
- To maximise the effective, efficient and economic management and operation of the in-scope services.
- To develop a commercial capacity that can, where appropriate and in the public interest, profitably trade the services with other councils, public sector organisations, businesses and, where relevant, residents of the City and the broader commercial market.
- To support the council in achieving its aim of continuing to grow the local economy, bringing investment into the city and increasing employment opportunities for local people.

Work has been progressing and following an initial Best Value consultation undertaken in 2017, Cabinet agreed to proceed with the option of establishing a LATCo without an external partner as this is in the best interests of the council.

In establishing a LATCo, the council will ensure that the process includes effective due diligence when seeking to maximise the opportunities associated with such ventures. It will seek to secure independent professional advice on all aspects of commercial activity including robust outline business case, tax implications and all aspects of commercialisation

In January 2018 a report was presented to Cabinet outlining the proposed governance arrangements and company structure, along with proposed phasing of the migration of services. A Best Value consultation has now been launched and will run until April 2018. Following the outcome a final report with the proposals and business plans for the LATCo will be presented for consideration and approval by council in May/June 2018.

Other considerations such as joint ventures/joint working arrangements seeking to maximise opportunities and an effective use of resources to ensure that the strategic priorities of both service potentials are addressed.

Demographic Pressures

The Medium Term Financial Strategy details the significant demographic pressures that are impacting the financial position of the authority both now or are likely to in the future. Whilst the revenue implications are being captured there are also likely to be significant capital spend requirements.

A key pressure has been identified as a result of the need to expand secondary school places. Following the primary school expansion programme, there is now a requirement to expand the secondary schools to meet the need for additional year 7 places in the future. It is forecast that the current surplus of year 7 places within the City's secondary schools will be insufficient to meet both demand and the DfE requirement for a 5% surplus. The level of capital Basic Needs grant, which is provided to Local Authorities to increase school places, is based on the differential between the forecast number of children and the number of places within the city. Across the secondary sector the total number of places exceeds demand in the city until 2023, which in turn will likely delay the allocation of any further Basic Needs funding to 2021/22. Therefore during this period any required works to increase the Published Admission Numbers (PAN) of Secondary schools, in order to accommodate the increase in year 7 children, will need to be funded from Council resources.

The current Secondary expansion programme will deliver an additional 1,500 in line with the known demand into the early 2020's. There has been a surplus of Year 7 places in Hampshire which has led to an outflow of children from the City to Hampshire Schools. It is known that this surplus of secondary places will diminish in the coming years the extent and timing of this pushback is difficult to predict however it is likely Southampton will need to create further secondary places for 2025 and beyond.

Property Investment Fund

Local Authorities face a difficult financial climate with ever decreasing funding from Central Government. This has necessitated in councils looking at innovative ways to generate regular revenue streams so they can reduce reliance on Central Government funding.

Many councils are acting to strengthen their funding base and reduce their reliance on Government grant by building asset portfolios that provide a commercial return. They have made the decision to expand their investment property portfolio, which provides an important and substantial revenue income stream, in order to generate a higher level of income by acquiring additional properties.

The council's strategy for undertaking 'Property Investment' activities was approved by Cabinet on 19th April 2016. The key themes of the Property Investment Strategy are to:

- Set criteria for making investments;
- Identify the types of investment and vehicles that would allow for a balanced investment portfolio. Examples which will be considered include direct investment, i.e. properties that already produce income; indirect investment i.e. investing in property investment vehicles such as investment funds; and corporate investment i.e. investment in or acquisition of property management, trading or investment companies.
- Highlight the main property sectors as retail, office, industrial and leisure/healthcare. The portfolio will aim to spread its investment across the sectors to limit exposure to any volatility in a particular area:
- Maximise rental income and minimise management cost thus maximising returns;
- Pursue opportunities to increase commercial return and improve investment value of commercial assets;
- Choose property in locations driven by financial criteria, so may not be in Southampton although property in Southampton will be considered if it meets the relevant criteria; and
- Set the governance and decision structure
- Define a clear exit strategy.

To date £57M has been invested, £30M in 3 commercial properties (with a return on investment of 5.9%) and £27M invested in the CCLA, to manage risk through diversification.

No further investments are planned at this time. The outcome of Central Government's review of the guidance surrounding Local Authority investments has been released. This will now need to be considered by the CCB with a review of the current investments being undertaken in line with the new code of practice recommendations. This review will be considered and reported in the latest Treasury Management Strategy.

The Digital Agenda

A fundamental review has been undertaken of the council's use of technology, with the objective of positioning this not merely as an essential tool for the delivery of services, but rather an intrinsic part of the council's future 'DNA'.

The council aims for its customers to have an increased and better ability to self-serve, online, at a time that suits them, while ensuring that the requisite support is available for customers who do not have the skills or means to interact with us digitally.

The 'Digital' programme comprises two elements.

- The first focuses on 'digitising' high volume, high cost services in order to drive efficiencies through the automation of process and enhanced levels of integrated workflow solution; and
- The second element will build on this fundamental step to position the council as a 'digital' organisation by facilitating better integration of services across departments, ensuring better and more seamless customer journeys.

These initiatives will enable the council to operate a leaner structure, whilst also delivering savings in third party spend (with contractors and suppliers) and assets (such as property and office accommodation). These will be through enabled reductions in facility requirements, customer contact structures, consolidation of back office and corporate service functions and retirement of old IT legacy. This is currently being progressed through the implementation of an Enterprise Resource Planning System.

SERVICE PRIORITIES

Schools

The Council has a statutory duty to ensure that there are sufficient school places in the City, promote high educational standards, ensure fair access to educational opportunity and promote the fulfilment of every child's educational potential. This is reflected within the Council's priority outcome of children and young people getting a good start in life.

To support the achievement of this outcome a comprehensive Capital Programme is essential to ensure that there are sufficient places available, which enables parental choice and that are of appropriate quality fabric to promote a safe and suitable environment for educational attainment.

The programme is developed in line with the City's Education Strategy and considers both the expansion of school places through development of existing sites and new build projects in conjunction with local need and preference. In addition the maintenance and fabric of the existing buildings is a high priority to ensure all children continue to receive their education in a safe and supportive environment.

After undertaking a programme of Primary school expansions in recent years there is now a need to expand the number of Secondary school places to accommodate the additional pupils currently at Primary age. As part of the February 2018 Capital Programme update approval is being sought for a £67M project to deliver the places required. This is in addition to the £10M already committed for improvements to 3 Secondary schools.

The Council does not currently have sufficient special school places to meet the demand and needs of the Special Educational Needs and Disability ('SEND') population. On 16th March 2016 Council approved plans to expand Springwell School and work has begun on 10 classrooms, a hydrotherapy pool which will be available out of school hours to parents of SEND children, a sensory room, hall, catering kitchen and associated supporting facilities for 128 children. This expansion will assist a number of children and young people get a good start in life, which is crucial to enabling them to go on to fulfil their potential and become successful adults who are engaged in their communities. The work is due to be completed during 2019/20.

The SEND provision across the City is subject to strategic development and this will require significant capital investment to provide places by 2022. Southampton City Council has submitted a Free School bid; if successful this would secure significant inward investment in SEND places. If the bid is unsuccessful the Southampton will need to find circa £30M to provide sufficient capacity for SEND

Transport

The Council’s Transport Asset Management Plan (TAMP) remains the backbone of investment decisions on the maintenance of the highways assets, and is instrumental in determining the appropriate level of investment required to maintain the condition of the roads and pavements in the City. The overall condition of the highway network and ability to assist in providing high quality transport links for all modes is seen to be a key priority in terms of providing an indication of the health and vitality of the City.

Additionally, a programme of Integrated Transport Schemes is determined by the Local Transport Plan (Implementation Plan). These schemes focus on walking, cycling, public transport, road safety, congestion reduction and public realm improvements. Collectively they aim to deliver against the Local Transport Plan aims and objectives. They also directly contribute to core council outcomes such as delivering strong and sustainable economic growth and ensuring Southampton is an attractive and modern city.

As such schemes are prioritised through a series of criteria to identify what schemes will be delivered as part of the capital programme each year. In 2016/17 the council committed to utilising the full LTP Integrated Transport grant over a 5 year period with plans to invest in schemes such as Electric Vehicle Technology, delivery of the Southampton Cycle Network, city centre public realm enhancements and junction capacity improvements.

Further to this, a need has been identified to make improvements to the roundabout infrastructure along the A33 corridor which includes Millbrook and Redbridge roundabouts. The Millbrook project is underway after the successful award of government funding matched with an SCC Integrated Transport grant. The council is working with Highways England to deliver traffic improvements around the M271 motorway and A35 Redbridge Roundabout, with works expected to start in the spring 2019.

Highways England is also consulting on proposals to improve the A3024 Eastern Access Corridor from the motorway into the City Centre, including a replacement Northam road over rail bridge and a package of highway junction improvements aimed at boosting productivity and supporting delivery of housing and jobs by easing congestion and improving journey time for all modes along the A3024 corridor in Southampton.

E&T – City Services

Within Southampton local recycling rates have plateaued and waste growth is expected in line with increased housing numbers. Therefore a new Materials Recycling Facility will be required to future proof capacity and realise efficiencies. Work will need to be undertaken to assess viable options along with potential funding sources. Negotiations are ongoing surrounding the funding of this project.

The Green City Charter

The council is proposing to develop a new citywide Green City Charter which will seek to deliver actions that will reduce pollution and waste, minimise the impact of climate change, stop health inequalities and create a more sustainable approach to economic growth. The Green City charter will identify a clear set of objectives that are aligned with national priorities. As well as setting a set of commitments and actions for the

Council to deliver, it will seek support from partners across the city to do the same. A sum of £0.03M has been identified to develop a work plan involving both internal and external engagement to develop the proposal further, ensure priorities reflect the city's needs and establish a set of ambitious targets and a delivery plan for the Council. The Green City Charter and the council's action plan will be presented to Cabinet in spring 2019.

Leisure

Southampton strives to be a healthy place to live and work with strong, active communities. To accomplish this a number of proposals for the City's leisure facilities are being investigated; including provision of an integrated water sports facility to capitalise on the City's waterfront location, revised sustainable facility at the Quays Leisure Centre and redevelopment of the Sports Centre.

Housing

In line with the executive commitment to develop council owned buildings that are empty work is underway around the Central Station for starter homes, to be sold to young people who want to get on the property ladder at a discount. An opportunity for refurbishment/redevelopment of the Nelson Gate site to provide some residential element alongside office use is currently being appraised. A draft masterplan has been produced to assess land on the south of the station, to include a mix of offices, retail and housing.

Through its LATCo proposals, the council is committed to setting up a letting agency as a 'fair deal' competitor to expensive commercial letting agencies. The proposal is focused on expanding the capacity and capability of the current lettings function the council provides to tenants, to include other properties and tenures including market rented property. This may develop alongside estate regeneration and city development proposals as PRS providers / investors are engaged.

Leader's Portfolio

There is an outline concept for the creation of a new Public Sector Community Hub in the east of the city incorporating a Leisure Facility, Health Primary Care 'Cluster Hub', Library and a Police Public Access point, in a new purpose built building in a central location. This project aims to contribute to the council priority of a modern, attractive city where people are proud to live and work.

Feasibility work has been commissioned and whilst the desire is to promote financially self-supporting regeneration and redevelopment of the area by working with One Public Estate and Public Sector Partners, it is unlikely that the value of released sites alone will generate sufficient funds to establish the Public Sector Community Hub. Alternative funding sources are being investigated as part of the feasibility study, including possible grants.

Southampton is progressing plans for a Business Incubator which will provide office space to small businesses, groups and individuals. This will benefit small and start-up businesses to grow without having to invest heavily up front. The vision of the Business Incubator is to nurture and encourage innovation, whilst supporting strong and sustainable economic growth.

HRA

To achieve the priority outcome of people in Southampton leading safe, healthy, independent lives, the Executive have committed to build Extra Care housing so that older people can live independent lives in a supported environment. In pursuant of this objective, the council has recently delivered the successful conversion and new build projects at Manston, Rosebrook and Erskine Courts, with detailed design of a further facility at Woodside Lodge well under way. It is estimated that there is demand/need for between 500 and 600 units across the City with a potential capital cost of up to £120M (excluding land). Options being investigated will include sharing or passing this cost to development/management partners.

In light of advice from Hampshire Fire and Rescue Service and specialist fire safety consultants, a need has been identified to install sprinkler systems in all tower blocks. Work is currently underway to establish the full programme of works required in 2018/19.

SECTION 2 - CAPITAL RESOURCES

Current Capital Priorities and Potential Investment levels

The table below identifies the major priorities of the capital programme for 2018/19 to 2022/23.

Outcome	**Major Project**	**2018/19 £M**	**2019/20 £M**	**2020/21 £M**	**2021/22 £M**	**2022/23 £M**
Children and young people getting a good start in life	Early Years Expansion	0.56	0.65	0.00	0.00	0.00
	Play Area Improvements	0.38	0.32	0.00	0.00	0.00
	Primary Review & Expansion	1.12	1.12	0.00	0.00	0.00
	School Capital Maintenance	1.84	2.06	0.00	0.00	0.00
	School Expansion Programme Phase 3	1.70	2.38	0.06	0.00	0.04
	Secondary Review & Expansion	4.24	13.88	28.21	11.96	18.59
	Springwell Expansion	3.40	3.83	0.00	0.00	0.00
	Other	0.06	0.00	0.00	0.00	0.00
Southampton is a city with strong, sustainable economic growth	Affordable Housing	0.93	0.00	0.00	0.00	0.00
	Bridges Programme	1.64	0.25	0.00	0.00	0.00
	Integrated Transport	9.86	5.85	2.16	0.00	0.00
	Millbrook Roundabout	0.43	0.00	0.00	0.00	0.00
	Property Investment Fund	0.00	0.00	0.00	0.00	0.00
	Solar Powered Compactor Bins	0.00	1.00	0.00	0.00	0.00
	Other	9.31	0.27	0.85	0.00	0.00
People in Southampton lead safe, healthy independent lives	Anti-Terror Measures	1.05	0.00	0.00	0.00	0.00
	Communal Facilities	2.05	1.14	0.26	1.43	0.00
	Disabled Facilities Grant	1.35	1.85	0.00	0.00	0.00
	Estate Regeneration	1.75	0.00	0.00	0.00	0.00
	Health & Adult Social Care	0.73	0.63	0.50	0.00	0.00
	Improving quality of homes	6.28	9.32	10.09	12.00	15.77
	Making homes energy efficient	8.22	10.27	8.35	10.14	13.28
	Making homes safe	14.23	12.20	7.13	4.17	1.38

Outcome	**Major Project**	**2018/19 £M**	**2019/20 £M**	**2020/21 £M**	**2021/22 £M**	**2022/23 £M**
	Modern Facilities	2.10	0.00	0.00	0.00	0.00
	Safe Wind/Weather Tight	1.33	0.00	0.00	0.00	0.00
	Supporting Communities	0.47	2.22	2.22	2.25	2.28
	Supporting independent living	0.49	2.01	2.12	2.12	1.60
	Warm & Energy Efficient	1.40	0.00	0.00	0.00	0.00
	Other	14.99	17.47	9.04	3.49	0.00
A modern attractive city where people are proud to live and work	Arts & Heritage	0.18	1.42	0.00	0.00	0.00
	Alternate Weekly Collections	0.12	0.00	0.00	0.00	0.00
	Millbrook Roundabout	7.45	0.00	0.00	0.00	0.00
	Minor Parks Development Works	0.58	0.07	0.00	0.00	0.00
	Outdoor Sports Centre Improvements	0.17	0.40	0.00	0.00	0.00
	Purchase of Vehicles	0.88	3.82	0.00	0.00	0.00
	QE2 Mile	0.00	0.96	0.00	0.00	0.00
	Roads Programme	14.76	6.47	0.00	0.00	0.00
	WWQ	0.17	0.34	0.00	0.00	0.00
	Other	2.62	0.76	0.00	0.00	0.00
Modern sustainable council	Digital & IT	5.29	0.28	0.00	0.00	0.00
	Other	0.45	1.70	0.00	0.00	0.00
	Resources	0.01	0.00	0.00	0.00	0.00
	TOTAL	**124.59**	**104.95**	**70.99**	**47.56**	**57.62**

The capital programme report details all the projects currently being undertaken.

Methods of funding the Capital Programme

Government Grants

Capital resources from Central Government can be split into two categories:

a) Non-ring fenced – resources which are delivered through grant that can be utilised on any project (albeit that there may be an expectation of use for a specific purpose). This now encompasses the vast majority of Government funding and the council will initially allocate these resources to a general pool from which prioritised schemes can be financed.
b) Ring-fenced – resources which are ring fenced to particular areas and therefore have restricted uses, specified by the funder.

Non-Government Contributions

Where there is a requirement to make an application to an external agency to receive external funding, and when appropriate to commit council resources as matched funding to any bid for external resources, a business case should first be presented for consideration to the CCB. The business case must demonstrate how the project aligns to council's priorities and how matched funding and any revenue consequences can be managed within the context of the capital and revenue budget.

Local Enterprise Partnership Funding

Priorities are largely as set by the Government Department concerned and jobs created, private sector leverage and deliverability. The process to award funding is led by the LEP Executive and agreed by Board. The lead accountable body is Portsmouth City Council.

Prudential Borrowing

The council will investigate opportunities to resource capital projects using prudential borrowing where plans are sustainable, affordable and prudent. Full appraisal will take place to ensure that, where appropriate, sufficient revenue returns are generated to cover the cost of borrowing. Prudential Borrowing will also be utilised to cover the cost of initiatives, such as redundancy capitalisation (on receipt of appropriate Government directions), where the reduction in costs is a corporate issue.

Where it is considered that prudential borrowing is the appropriate method of funding, but it requires additional revenue financing, the cost will be built into the revenue budget planning process. There are various debt instruments available for financing prudential borrowing and these are explored in detail in the Treasury Management Strategy.

The PWLB remains the council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide. The council qualified for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2018, through its application via the 2018/19 Capital Estimates Return.

An alternative debt instrument is the UK Municipal Bonds Agency plc, established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing councils may be required to provide bond investors with a joint and several guarantees over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. This is explored in further detail in the Treasury Management Strategy.

The council Capital Board will try to secure all other sources of funding before this source of funding is utilised unless a clear invest to save case can be made.

Capital Receipts

Capital Receipts come from the sale of the council's assets. If the disposal is Housing Revenue Account land or property then not all of the receipt is available to support the capital programme as a percentage has to be paid over to the MHCLG.

Where the sale of an asset leads to the requirement to repay grant, the capital receipt will be utilised for this purpose. Once this liability has been established and provided for, capital receipts will be available to support the capital programme as a corporate resource.

Where the asset has been funded from prudential borrowing a review will be undertaken to determine whether the most cost effective option is to utilise the receipt to repay debt, considering the balance sheet position of the authority.

The current strategy for the use of capital receipts is to:

- Provide for an MRP holiday to the value of external loan payments generating a revenue budget saving;
- Consider use to meet the costs of equal pay claims as detailed below;

- Consider forgoing the immediate capital receipt for longer term and sustainable income stream through development of sites;
- Consider flexible use to meet the costs of reform projects as detailed below; and
- Capital Board approved that in future, assumed receipts from sale of assets not currently on the market will not be taken into consideration when assessing the total value of receipts available to fund the capital programme.

Flexible use of Capital Receipts

The 2015 Comprehensive Spend Review (CSR) announced that local authorities will be allowed to spend up to 100% of capital receipts (excluding Right to Buy receipts) on the revenue costs of reform projects. Instead of holding assets that could be made surplus, councils will be able to sell them to reinvest in their services. Guidance relating to specific conditions, number of years that this will be offered and the qualifying criteria for a 'reform' project was issued as part of the Final Local Government Settlement on 11th March 2016. The key points included:

- The direction only relates to new receipts received in the period 1st April 2016 to 31st March 2019 that could be applied to meet the revenue costs of reform incurred in the same timeframe;
- The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to the authority's net service expenditure and is expenditure on a project where incurring up-front costs will generate ongoing savings; and
- Individual authorities demonstrate the highest standards of accountability and transparency. The guidance recommends that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full council or the equivalent. This strategy can be included as part of the annual budget documentation and approved by full council or the equivalent at the same time as the annual budget. The guidance provides detail of the content of the strategy and that this strategy does need full council approval in advance of the intended financial year of application. If the strategy is updated during the financial year MHCLG must be notified.
- Examples of qualifying expenditure include the sharing of back office and administrative services; investment in service reform feasibility work; collaboration between central and local government to free up land for economic use; funding the cost of service reconfiguration or restructuring leading to ongoing efficiencies; sharing Chief Executives; driving a digital approach; aggregating procurement on common goods; improving systems and processes to tackle fraud; setting up commercial or alternative delivery models to deliver services more efficiently or increase revenue income; and integrating public facing services across two or more public sector bodies.

It should be noted that, whilst not a recent change, that the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013 were amended to allow the financial implications of meeting backdated Equal Pay claims from capital receipts in order to reduce the additional pressure the council's revenue budget position. It provides for any capital receipt received after the 1st April 2012. It is possible that surplus capital receipts could be used to mitigate the impact of this for Southampton City council.

HRA Right to Buy Receipts

In most cases there will be no ring fencing of capital receipts to specific projects. One exception to this is the retained Right to Buy (RTB) receipts held by the council under the agreement signed in June 2012 and amended in June 2013. Under this agreement any retained RTB receipts, which are not used for the specific purpose of providing replacement affordable housing, must be returned to MHCLG.

Revenue Contributions

An element of the revenue budget can be set aside to fund the capital programme (Direct Revenue Financing). The Capital Programme Update Report will detail any amount that is forecast to be available for the next five years, however with increasing General Fund revenue pressures these amounts available will need to be regularly reviewed.

A service or school may wish to offer some of its revenue budget to support the financing of a capital project. This is acceptable if it can be demonstrated that this funding is unfettered.

Use of Leasing

The council does have the option to lease assets utilising an operating lease arrangement, with the advent of Prudential Borrowing this source of financing is becoming less attractive. The International Accounting Standards Board have reviewed how leased assets are treated and in January 2016 issued a new standard for annual periods starting on or after the 1st January 2019. This will need to be reflect as part of any future business cases.

Tax Increment Financing (TIF)

The Local Government Finance Act 2012 which received Royal assent on 1 November 2012 provided the legislative framework for the introduction of TIF. This initiative was first announced in October 2010 as an incentive to grow local economies and attract new businesses to areas and has been the subject of a consultation process.

In essence TIF allows councils to borrow against future increases in Business Rate revenues generated as a result of local developments and growth. By capturing predicted increases in income from business rates, it will create an income stream that can be used to borrow against, repay existing borrowing incurred under existing borrowing powers or to reimburse costs to a developer for the initial lay out of infrastructure work. This alternative financing for the infrastructure work is aimed at kick-starting regeneration and thereby supporting locally driven development and growth.

This approach has been successfully used in the USA for a number of years and the American experience (both positive and negative) has been used to inform the debate on the implementation of TIF.

S106 Agreements

S106 agreements are made with developers / landowners as part of the planning approval process to ensure that new development mitigates its own impact and provides the necessary site specific infrastructure to support it.

These contributions are site specific or can be ‘pooled’ for a maximum of 5 site specific projects. Any contributions received are ‘ring-fenced’ for the purpose as set out in the relevant S106 agreement and are applied to fund schemes within the relevant capital programme once an eligible scheme has been identified.

S106 contribution agreements have covered all types of infrastructure including transport, affordable housing, play areas, open spaces, playing fields, public realm and public art.

However, since the council adopted CIL the planning obligations sought within S106 agreements have been scaled back to deal with only site specific requirements, as required by the CIL Regulations. Pooled contributions previously sought for strategic transport, public realm and public open space related obligations are now dealt with by CIL.

The S106 contributions are time limited in that if they are not spent within an agreed timescale, typically 5 – 10 years, dependent on what has been agreed in the S106 agreement and any funds not spent in line with the agreement would have to be repaid to the developer, which, may include interest.

Consideration of available S106 funding should be taken into consideration when agreeing, for example, the roads programme for future years to maximise the use of the available funding and reduce the reliance on other sources of funding, predominantly borrowing. With the exception of funding for affordable housing the other pooled S106 obligations, such as Strategic Transport, Public Realm and Public Open Space will become zero over time as the CIL continues to be applied.

Community Infrastructure Levy (CIL)

CIL was adopted by the council in September 2013. CIL contributions are determined by set rates as detailed within the council's CIL Charging Schedule, and based on the amount of floor space being created by the development. CIL can be used to fund a wide range of infrastructure that is needed as a result of new development but is not site specific, giving more flexibility in where the funding can be used in geographical terms.

The CIL does not replace the requirement of S106 contributions. S106 contributions will still be relevant and will be sought alongside CIL.

The Planning Act and subsequent Community Infrastructure Levy Regulations 2010 (as amended) says that authorities can only spend CIL on providing infrastructure to support the development of their areas. This includes flood defence, open space, recreation and sport, roads and transport facilities, education and health facilities. However, it does not include affordable housing, which will continue to be funded by S106 obligations. In addition, SCC have opted to continue to seek S106 contributions for transport. All other S106s contributions are now agreed through CIL.

The Localism Act also clarifies that CIL can be spent on the ongoing costs of providing infrastructure, including maintenance works. The funding can be used towards a significant number of the council's current programmes i.e. School Expansion and the Roads Programme.

The CIL funding can be used to fund existing schemes within the current General Fund capital programme that meet the definition of infrastructure. Capital Board approved, at its meeting on the 22nd October 2015, to treat the CIL monies as a central pot of funding to be allocated as overall council resources to fund the capital programme.

However, it should be noted that 15% (25% if a Neighbourhood Plan is in place) of receipts need to be applied to schemes in the ward that the receipt originated from, in consultation and agreement with the local community.

CIL monies will be allocated to fund key infrastructure schemes within the overall capital programme, future potential investment sites will be identified and options for utilising CIL monies at these sites will be considered within the overarching capital strategy which supports the achievement of council outcomes, priorities and Executive commitments.

Private Finance Initiative (PFI)

Although PFI schemes are not shown within the capital programme as they are not financed by capital resources, PFI is a means by which the council can facilitate major new infrastructure projects. PFI schemes involve partnerships between the public and private sector to fund public sector infrastructure projects with private capital.

Under PFI, a private sector contractor agrees to accept the risks associated with the design, construction and maintenance of the asset over the contract term, which is typically for a 25 year period. The public sector partner pays an annual fixed price during the contract term, part of which is subject to inflation. At the end of the term, the asset is wholly owned by the council. The Government has provided significant support for PFI schemes although this has recently reduced in line with the general reduction in funding for the public sector.

No additional PFI projects are anticipated. Any such proposals would be presented to the CCB for evaluation before presentation for Members approval.

Resourcing Strategy

The council's strategy for deploying resources is to ensure that all resources are being utilised to achieve the council outcomes, priorities and Executive commitments. As most capital financing can be used for projects at the council's discretion, then the council is able to address its own outcomes and priorities to shape the capital programme to a locally rather than a nationally driven agenda.

The council will ensure that it takes full advantage of the freedom and flexibility arising from the removal of ring fencing of resources to facilitate the achievement of council objectives. All non-ring fenced capital funding and other non-specific council capital resources, will be considered a council resource and allocated via the council Capital Board. This resource will then be managed so that only schemes which can demonstrate the attainment of council outcomes and priorities will be allocated funds. The Council Capital Board (CCB) will review the council Strategy and the Capital Strategy each year to ensure the priorities are aligned making recommendations to Cabinet/Council on the prioritisation of resources for:

a) The initial capital programme; and
b) Any subsequent revisions to the capital programme.

Cabinet/Council will make the final decision on the overarching capital programme and will subsequently delegate the updating of the programme and revisions to projects to the Leader of the council and Cabinet Member for Finance, in conjunction with the Service Director - Finance and Commercialisation (S151 Officer), in order to minimise delays in the capital programme.

The CCB will review the usage of any ring fenced resources to ensure alignment with other spending plans and the maximisation of benefits to the council.

In determining how non-ring-fenced resources will be allocated the CCB will have regard to:

- The preparation of the statutory Local Transport Plan, and Transport Asset Management Plan (TAMP);
- The preparation of the Asset Management Plan for Schools and council Buildings to ensure health and safety issues have been dealt with appropriately; and
- The council's obligation to finance adaptations to the homes of disabled residents. Funding is passported directly to the Better Care Fund along with the Adults Personal

Social Services grant. It has been agreed with the CCG that these monies will be retained by the council, as part of the S75 pooling arrangement detailed in the Revenue Budget Report.

Grant funding allocations notified to the council also include information about capital maintenance funding for Voluntary Aided (VA) schools. This grant is paid directly to the Church of England and Roman Catholic diocese respectively and is not therefore included within the councils capital programme. Expenditure undertaken by the council on VA schools is planned with regard to the availability of contributions from this grant and diocesan resources.

SECTION 3 - CAPITAL INVESTMENT AND DISPOSAL APPRAISAL PROCESS

All capital investment is commissioned by the CCB. This enables all expenditure and it's funding to be better aligned with the council and City outcomes and priorities as well as that of other partners and funding sources. These partners, from both the public and private sector will be at h a regional and district level.

Once initial strategic capital requirements have been identified and prioritised, full business cases are commissioned for the highest priority projects.

For proposals initially commissioned by the CCB the following approvals process will be put in place:

1. Outline Business Case (OBC) which will focus on options appraisal and quantifiable outcomes.
2. Full Business Case (FBC) – the final investment decision. This will focus on the how the priorities set out in the OBC will be delivered, including:
   a) Project description
   b) Consultation
   c) Expenditure and funding including whole life costs and revenue implications
   d) Outputs
   e) Any further option appraisal
   f) Value for Money
   g) Delivery
   h) Timescales
   i) Risk Management
   j) Sustainability, Forward strategy and evaluation
   k) Asset Management
   l) Procurement
   m) Equality Impact Assessment
   n) Environmental Impact Assessment
3. Change Requests where delegated tolerance levels will be exceeded.

For proposals that are identified by officers there will be an initial extra step in the process, a 'Bid on a Page' will be a Concept Outline. This will cover the initial concept idea, potential costs and funding sources, links to the Council Strategy and the City Plan, how outcomes will be improved.

The main focus is on projects commissioned by the CCB and therefore, these will be the exceptions.

Where there is already an agreed asset management plan the CCB can choose to request elements of the above business case to come forward as they see fit.

<u>How projects are appraised</u>

Capital Projects are appraised using the following criteria:

1. Does the project deliver or facilitate the delivery of a strategic priority outcome?
2. Is it worth planning – is it value for money?
3. Can we afford to progress the project and commit funding?
4. Does the project stimulate or add to economic growth?

Business cases are presented to CCB on the basis that they have had the appropriate clearance by finance, legal, property, and strategy.

SECTION 4 - HOW THE CAPITAL REQUIREMENTS ARE PRIORITISED

Once a project has demonstrated that it meets the council's strategic outcomes, priorities and Executive commitments and it has been agreed that it is suitable for capital investment, the strategic requirements will be prioritised using the following criteria (it should be noted that these are not mutually exclusive or in ranking order):

The criteria examines if the proposal is:

1. Related to mandatory, contractual or legislative service delivery requirements;
2. Required to achieve the delivery of a specific revenue budget saving within the revenue budget setting process;
3. Required to support Outcome Plan priorities and achieve key objectives;
4. Linked into other regional objectives;
5. Supporting the evolving localism agenda;
6. Reducing costs or backlog maintenance of assets management/estate management;
7. Providing a general revenue saving (not directly linked to the budget cycle) or offering the delivery of a more efficient service;
8. Fully funded from external resources (including project management etc.);
9. Bringing in substantial external resources for which council matched funding is required

This criteria are reviewed and any changes reported each year in line with the council Strategy. Following this, a process of commissioning alongside officer requests for funding are undertaken and presented to Members each year as part of the process for approving the capital programme, or during the year if projects come forward outside the normal timeframe.

All projects have to demonstrate that they:

- Deliver the highest impact in achieving the required outcomes;
- Are financially sustainable and any adverse revenue implications can be dealt with within existing budgets, and the whole life cost of the project has been considered;
- Have identified risks and appropriate actions to negate these risks;
- Have identified key milestones;
- Have a full exit strategy identified where the project involves a disposal; and
- Have a method of procurement identified and represents value for money.

SECTION 5 - CAPITAL PROGRAMME DECISION MAKING CYCLE

The diagram below illustrates the decision making cycle for capital projects and the link to the revenue budget, the Medium Term Financial Strategy, and the Council Strategy

August
- Align existing projects to Council Strategy, linking to outcomes and priorities

Sept
- Identify Priority Schemes and Invest to Save opportunities, through Exec. Commitments and Business Plans.
- Outline Business cases are commissioned for priority areas
- Call put out for Concept Outlines

Oct
- Outline business cases are reviewed and prioritised
- Concept outlines are reviewed and prioritised
- Capital requirements of revenue savings identified

Nov
- Move to full business case for priorities
- Move to Outline business case for officer identified projects
- Capital Monitoring and Programme Update

Dec
- Settlement information received
- Priorities analysed
- Capital Monitoring and Funding Reviewed and Agreed.

Jan
- Outline Business cases reviewed and where appropriate move to full business case
- Analysis of business cases undertaken

Feb
- Capital Budget Report submitted outlining priority projects for the forthcoming year
- Agree Capital Strategy for the following financial year. Linked to settlement information and review of MTFS assumptions
- Budget set for the year and MTFS approved.

Mar
- CCB identifies which projects it would like to monitor on a regular basis
- Monitoring of the projects pre implementation commences

Apr to July
- Commencement of projects and monitoring put in place

SECTION 6 - HOW THE COUNCIL PROCURES ITS CAPITAL PROJECTS

Cabinet have approved the council’s Procurement Strategy and the Southampton First Policy. The implementation Strategy will ensure that the principles and practices associated with procuring works, goods and services consistently achieve value-for-money and actively contribute to the council’s priority outcomes as well as to support the achievement of a modern, sustainable council.

The Strategy helps to ensure that procurement becomes an enabler of the business and is sufficiently flexible and agile to support the council to operate in an efficient, compliant and ethical manner to deliver capital projects on time, on budget and to specified quality standards.

Future procurement within the council will consider the whole of the third party spend across capital and revenue categories and budgets to ensure that the total spend and demand are driven downwards to support the budget challenges. Opportunities to consolidate and aggregate spend and achieve economies of scale will be a key focus. There will be an underpinning principle of commercial focus and a drive to better understand and adapt our approach to the markets through risk and reward strategies and utilising commercial mechanisms which incentivise suppliers.

The council’s strategic partner, Capita, has a specialist procurement function containing experienced procurement professionals who will support the council’s project managers in delivering effective and complaint sourcing of services and works.

This will be coupled with a new and more effective approach to contract management which will ensure the performance of council’s strategic contracts is managed by a specialist team and other key contracts are actively managed by Capita. The council will ensure that the procurement - contract management – re-procurement process is treated as a linked cycle to help embed a commissioning-style approach to all forms of procurement.

Regional, joint and framework options will be utilised where value for money, an appropriate structure, compliance with the council’s ethical procurement strategy and innovation can be demonstrated.

Immediately after the exit from the European Union (EU), existing UK regulations on procurement, which implement EU directives, will continue to apply. After this transition period, there will be more freedom for the UK to set/change its own procurement rules.

SECTION 7 - HOW THE COUNCIL MONITORS AND MEASURES THE PERFORMANCE OF THE CAPITAL PROGRAMME

The CCB reviews the financial performance of the capital programme on a monthly basis. Financial monitoring reports are therefore considered by Cabinet on a quarterly basis together with a capital outturn report. Issues that have been considered and recommended by the CCB are reported to Cabinet as necessary via the regular financial monitoring reports. Where a potential cost overrun has been identified, the CCB will explore possible solutions in detail. It will also consider any underspending or identified surplus resources which can be reallocated to other priorities.

Where there is a delay in the commitment of programme/project resources, the CCB requires project managers to report the reasons for the delay and consider whether it would be appropriate to recommend the decommissioning of the project and the reallocation of non-ring-fenced resources to other projects. It is recognised that there may be a potential revenue consequences of doing this due to the capital accounting requirement to transfer abortive costs to revenue.

The Local Capital Board for the Education and HRA programme meet to monitor the implementation and delivery of the individual projects they are responsible for. The CCB decides which projects and programmes it would like to receive a regular progress and performance update on, based around strategic importance and associated risk.

The performance of the capital programme is also measured by the prudential indicators which are reported to Cabinet and council as part of the Treasury Management Strategy, the Treasury Management half yearly review, and the post year-end review.

SECTION 8 - THE COUNCIL CAPITAL BOARD

The council Capital Board will be made up of the following members:

- Cabinet Member for Finance and Customer Experience (Chair)
- Leader of the council
- Chief Executive
- Deputy Chief Executive (Chief Strategy Officer)
- Chief Operating Officer
- Service Director - Finance and Commercialisation (S151)
- Cabinet Members
- Service Lead – Corporate Planning & Commercialisation
- Head of Capital Assets

  By invite:
- Service Directors
- Project/Programme Managers

The Board meets on a monthly basis to:

- Discuss and recommend actions around developing capital issues;
- Develop the capital strategy;
- Commission the coming years capital programme;
- Review the capital receipts position;
- Review the assets disposal plan;
- Monitor the performance of the capital programme overall;
- Monitor the performance of strategic and high risk projects;
- Periodically review the strategic fit of projects; and
- On an annual basis recommend the tolerance levels for project variations in time to allow the Financial Procedure Rules to be updated and approved by council.

The full Terms of Reference for the Board are included in the Financial Procedure Rules and will be updated annually to reflect any changes to the council Capital Board. These are attached as Annex 1.

It should be noted that projects maybe proposed through other boards such as the Joint Commissioning Board. Whilst funding, with the exception of the requirement of council capital resources, can be approved by these boards, the requests to changes and additions to the programme should still follow the proposed process detailed in the sections above.

ANNEX 1
COUNCIL CAPITAL BOARD TERMS OF REFERENCE

General

1. To oversee and endorse the council's Capital Strategy.
2. To own and oversee the development of, the council's Capital Programme for both the General Fund and the Housing Revenue Account. Through doing so, and taking a long-term view, the Board should ensure that both individual projects and the programme as a whole is affordable and fits with the councils vision, priorities and outcomes as laid out in the council Plan and other inter linked plans and strategies.
3. To develop and regularly review the processes to support a strategic approach to capital investment planning which will justify investment decisions, taking account of the council priorities within the resources available.
4. To operate according to the approved processes for consideration of all capital expenditure and for new proposed capital projects.
5. To operate as a critical gateway for capital projects put forward for endorsement of concept and for ultimate commitment by the council.

On an Annual Basis

6. To receive bids for inclusion in the council's Capital Programme.
7. To prioritise all bid submissions.
8. To format a multiyear capital programme taking into account projected available resources for submission to Cabinet and or Council.
9. Receive capital monitoring reports (financial and performance information).
10. Receive asset disposal programme update.

On a Monthly Basis

11. Consider all requests for in - year additions and changes to the Capital Programme that are not Officer delegated decisions, in accordance with the limits set out in the Financial Procedure Rules.
12. To review all in - year additions and changes to the Capital Programme that have been made as Officer delegated decisions, in accordance with the limits set out in the Financial Procedure Rules.
13. To oversee, monitor and authorise the progression of capital projects through key stages (to include receiving reports from established project, programme or capital boards as appropriate, and approving variations to schemes).

On an Adhoc Basis

14. Review prioritisation and adequacy of existing scoring mechanism.
15. Review systems of pre-project evaluation including project appraisal and business case justification.
16. Review systems of post project evaluation and application to all completed schemes.
17. To review at appropriate points major projects during the construction stage.

18. To receive post-implementation review presentations after the completion of major projects.

The council Capital Board will be made up of the following members:

- Cabinet Member for Finance (Chair)
- Leader of the Council
- Chief Executive
- Deputy Chief Executive (Chief Strategy Officer)
- Chief Operating Officer
- Service Director - Finance and Commercialisation (S151)
- Cabinet Members
- Service Lead – Corporate Planning & Commercialisation
- Head of Capital Assets

By invite:

- Service Directors
- Project/Programme Managers

BACKGROUND PAPERS/LINKS TO STRATEGY REPORTS 2019/20

The Capital Strategy links and overarches the Treasury Management Strategy incorporating both capital expenditure, debt borrowing, commercial activity and any other long term liabilities. This complies with the latest Prudential Code and those links provide a high level overview of how capital expenditure, capital financing and treasury management actively contribute towards demonstrating how stewardship, value for money, prudence, sustainability and affordability is secured to meet statutory reporting requirements and to allow Members to understand how those principles align to legislative reporting. The reports that provide these links are outlined in the following background papers:-

- Capital Programme update report 2019/20
- Treasury Strategy 2019/20
- Asset Investment Strategy 2019/20
- MRP Statement
- Prudential Indicators

Additionally the above reports link to Treasury Management Practices updates and non-treasury investments such as commercialisation and investments for service potential. The revised Prudential Indicators as reported in the Treasury Strategy 2019/20 have been included within the capital programme update report in Appendix 5.