SOUTHAMPTON CITY COUNCIL
CAPITAL STRATEGY
2015/16 TO 2019/20

FEBRUARY 2016

Capital Strategy 2015/16 to 2019/20

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SECTION ONE - THE SOUTHAMPTON CAPITAL STRATEGY

Aims of the Strategy and its links to the Councils 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 - "City of Opportunity – where everyone thrives"

In order to reflect the ambition and vision above the Council's priorities were revised in 2015 to:

- Jobs for local people
- Prevention and early intervention
- Protecting vulnerable people
- Good quality and affordable housing
- Services for all
- City pride
- A sustainable council

These objectives reflect the on-going commitment to ensure the Council works to put residents and the customers at the heart of what we do reflecting the city's diversity. Such strong leadership is essential if the city is to be able to meet the immediate challenges faced in a way that means it is sustainable and able to make the most of opportunities in the future.

We expect the shape of the Council, including the types of services we deliver and how we will deliver them, will be very different by 2017. The Council Strategy sets out that by 2017 we expect changes in terms of:

- Commissioning Services
- Community Ownership
- Better Customer Experiences
- More flexible ways of working
- A wide range of service delivery models
- Listen and improve learning from our mistakes
- Increased focus on digital capabilities of customers

A major public consultation was undertaken in August 2015 to gauge public opinion on what the Council priorities and outcomes should be focused on. The feedback received has led to a review of the all Council services around three major 'Obsessions' or Outcomes;

- Children and young people getting a good start in life;
- A modern vibrant city where everyone works together to keep it clean and attractive; and
- Strong, sustainable economic growth.

This work is ongoing and as a result the Council Strategy will be updated later in 2016 to reflect the final conclusions of the review.

The Capital Strategy

The Council's capital strategy is to ensure that all the priorities of the Council Strategy are accounted for in the allocation of any available resources. The principles of the strategy are as follows:

- The Council Capital Board (CCB) will lead the strategic direction of capital investment for the Council. The CCB will operate 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 strategies and programmes and the need to apply for funds on a regional basis and as a result, the Council must also ensure that its capital strategy reflects the LEP, PUSH, and Transport for South Hampshire all of which 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 objectives, priorities, outcomes and regional strategies and, only after a positive contribution to one or more of the objectives has been demonstrated, is a project to 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 objectives. This funding will be allocated as the CCB feel is appropriate to achieve these objectives, following receipt of the required 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 un-ringfenced and corporate resources will managed by the CCB and it will review all 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 the 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 objectives, priorities and outcomes.

- The CCB will recommend the use of both un-ringfenced and ring-fenced resources and also the general prioritisation of resources so that Cabinet/Council can make a final well informed decision 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 DCLG.

- Prior to the annual review of the capital strategy a review of the individual projects will be undertaken to:
    a) Ensure that schemes still meet strategic priorities and outcomes;
    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 rephasing of planned expenditure; and
    d) Identify any unutilised or underutilised resources.
    e) Consider any reallocation of resources.

- All applications/bids for capital grant funding will be brought 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 explored. 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

With a population of more than 1.3 million and over 50,000 businesses, 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.

The Solent LEP is led by the business community and supported by three university partners, the further education sector, three unitary authorities, eight district councils, one county council and the voluntary and community sector – all working together to secure a more prosperous and sustainable future for the Solent area.

The vision for the Solent was set out in the initial growth strategy, *A Strategy for Growth,* in December 2012:

> *"Our vision is to create an environment that will bring about sustainable economic growth and private sector investment in the Solent. It will assist this globally-competitive area reach its full potential, enabling existing businesses to grow, become more profitable and to be greener; enabling the creation of new businesses and attracting new businesses to the region."*

Within the broader vision, the Solent LEP strategy includes the following objectives:

- Maximise the economic impact of our economic assets in the area and sectors with the potential for growth. Promoting the area as the UK's leading growth hub for advanced manufacturing, marine and aerospace both at home and, more importantly, in the global marketplace. Developing the advanced engineering and manufacturing sector through a business-led approach and supporting the visitor economy;
- Unlock critical employment sites to enable the Solent businesses, particularly the marine, maritime and advanced manufacturing sectors of their economy, to expand;
- Provide new housing to support the growing workforce;
- Ensure people have the right skills to access employment and support the growing sectors;
- Provide effective support to small and medium-sized enterprises (SMEs) to enable them to grow – including marine and maritime SMEs; and
- Unlock innovation led growth to engage more businesses in knowledge exchange and innovation, develop links to wider Higher Education Institutions (HEIs) and demonstrate the benefits of working with knowledge based partners.

Targets to 2020 include the following:

- In addition to current forecasts, create an additional 15,500 new jobs in the Solent LEP area;

- Achieve GVA growth of 3%;
- In addition to current forecasts, increase GVA per capita by an additional £3,000 per head, increase employment rates to 80% from the current 78% and improve economic activity rates from 80% to 81%;
- Raise the business birth rate from 3.6% to 4.1% (and create 1000 new businesses);
- Improve the business survival rate from 61.4% to 62.5%;
- Raise the proportion of the population with Level 4 and above skills to 36% of the working age population from the current 32%;
- Support the raising of education attainment rates to above the UK average;
- Increase inward investment into Solent attracting at least 5% of FDI projects entering the UK;
- Improve productivity (GDP per head) closer to the South East average; and
- In doing so, we will also seek to maximise value for money from key public sector investments focusing on areas that are economically vulnerable, and linking local people to jobs through effective procurement processes whilst levering private sector investment in skills and employment.

Supporting the Strategic Economic Plan is a £2.4bn Investment Plan for the Solent which brings to together:

- Local assets to unlock resources to be re invested in growth, including the Southampton – Portsmouth City Deal - a £953 million investment plan;
- European Union Strategic Investment Funding of £73.6 million including private and public sector match funding; and
- Local growth deal - a £1.38bn proposal, including Government, public and private sector match.

Solent LEP prioritisation for capital programmes uses a scored methodology including the number jobs created, private sector leverage and deliverability. City Deal and Growth Deal funding to date have largely been drawn from Regional Growth Fund and FE capital funding, for which national eligibility and reporting remain.

Portsmouth City Council takes the Lead Accountable Body role for Solent LEP in terms of financial procedures and accounting, overseen by governance arrangements including a Board and separate panels.

Economic Development

The City Council is working with key partners such as Solent LEP, Business South, Chamber of Commerce, Higher Education and UK Trade and Investment to generate economic growth in the city and to strengthen Southampton's reputation as a place that welcomes and supports business growth.

The current focus is supporting the attraction of new businesses to the 7 VIP development schemes included in the City Centre Masterplan. Future priorities include the Itchen Waterside area and the former Ford Transit plant close to junction 5 of the M27. 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.

Estate Regeneration

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

Estate regeneration schemes included an initial pilot at Hinkler, and then projects at Laxton Close, Exford Avenue, Meggeson Avenue, Cumbrian Way and Weston. These projects were delivered on the basis of marketing an 'oven ready' site with preparation 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) were provided.

Further, in February 2012 Cabinet agreed to move forward with a programme of 'city-wide' estate regeneration. Looking sequentially at the Millbrook and Maybush, Northam, Thornhill and Weston Estates.

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 has been Townhill Park, the council's first area of comprehensive regeneration with plans to deliver nearly 700 new homes. Work has been undertaken to identify a suitable delivery model which would enable the homes to be built whilst ensuring that at the same time the HRA would be able to purchase some of the homes for Affordable Rent. The council were advised that a wholly owned Development Company (DevCo) would meet these requirement and as detailed in the section below, work is continuing to develop and set this up.

However, recent announcements by the Government, the Chancellor's Summer 2015 Budget and the Comprehensive Spending Review in November 2015, contained a number of measures affecting current and future social housing provision:

- The announcement that rents in the social rented sector will be reduced by one percent per year for the next four years;
- The compulsory introduction of "pay to stay" requiring higher income social housing tenants to pay market rents and for councils to handover to the exchequer the additional rents collected;
- A review of the use of lifetime tenancies in social housing "to limit their use and ensure households are offered tenancies that match their needs and ensure best use is made of social housing";
- The extension of the Right to Buy to Housing Associations; and
- The compulsory sale of "high value voids" in the Local Authority sector to support, in part, the RTB for Housing Associations.

Further the Housing and Planning Bill also contains significant changes to planning most notably the removal of obligatory section 106 requirements for the provision of affordable housing in favour of lower cost home ownership products. This measure will effectively change the definition of what is considered affordable housing in favour of home ownership particularly 'Starter Homes' as opposed to affordable rent. In addition there is currently consultation on the definition of affordable housing.

These announcements will not only have a significant impact on the levels of anticipated income but have also led to the need for Local Authorities and Social Landlords to review both revenue and capital plans for future investment in their housing stock. There is likely to be a reduced capacity and viability in the ongoing development of affordable housing.

In light of these developments the Council will need to review its estate regeneration strategy and objectives. The current proposed development of Townhill Park has been reconsidered, with a view to marketing the site for development for phase 1 with an emphasis on starter homes, but to continue as planned for phases 2 and 3 aiming for Council led development through the DevCo.

Key Priority Issues

Devolution

The Council is currently an active partner in the Hampshire and Isle of Wight devolution deal, along with 15 other councils, two Local Enterprise Partnerships and two national park authorities, to Central Government to have more powers devolved to the area.

The deal includes a proposal to retain 100% of the business rates collected within the area, currently 50% of all business rates collected are passed over to Central Government. In return for foregoing Revenue Support Grants from central government, the prospectus asks to keep 100% of business rates generated in the area and assumes the proposal will be fiscally neutral to the Government.

The proposals focus around four key themes: boosting business and skills for work; accelerating housing delivery; investing in infrastructure; and transforming public services.

Plans for homes include accelerated delivery of existing local plans, as well as an additional 500 homes a year in the priority home categories of rural affordable, low-cost starter, council new-build and extra care, by making use of exception sites including redundant public land. A commitment has been made to develop 2,000 new starter homes within the city. This has been supported to date by additional government funding with the introduction of Help to Buy in 2013.

Help to Buy was created 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. Home ownership is a key part of the government's long term plan to provide economic security for working people across the UK. To date this has been facilitated through Equity Loans and Mortgage Guarantee Schemes with 80% of completions to date being made by first time buyers with just under 50% of the properties being new build. The government announced two further initiatives in the Comprehensive Spending Review on 25th November 2015 which will further encourage this agenda.

a) Help to Buy ISA introduced from 1st December 2015 whereby under the scheme, 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.
b) New streams of funding, 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 by accessing some of the new grants.

It is anticipated that future disposal or development decisions within the Council will be mindful of the need to consider opportunities to fully utilise all available funding streams and to meet the low-cost starter home commitments.

<u>Changes to use of Capital Receipts</u>

The CSR also indicated that in the future, 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 has been issued as part of the Provisional Local Government Settlement on 17th December 2015. 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;
- 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.
- 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.

Further guidance and confirmation is expected as part of the Final Local Government Settlement in February, the strategy will be updated as relevant.

It should also 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 from 2016/17 could be used to mitigate the impact of this for Southampton City Council which is currently being assessed. This issue will need to be considered as part of the overall strategy for the use of Capital Receipts and the funding of the capital programme.

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 over and above those currently available to it 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 operation 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 or the Council's Strategic Service Partner – Capita Property and infrastructure where it is practical and prior to the appointment of any third party.

Potential schemes are identified on a scheme by scheme basis, the benefits and risks of which are considered as options are identified. It should be noted that currently the council are looking to review assets that generate a ground lease with a view to entering into agreements with the PSP, whereby a potential capital receipt could be realised or alternatively the asset value maybe increased with an increase in revenue income from ground leases. Any additional or loss of potential capital receipts generated will need to be taken into account in funding the overall capital programme.

Flood Defence

Parts of the city are currently at risk from tidal flooding. The city centre is particularly at risk, where major new development is needed. The council is committed to protecting existing and new developments through the development of flood defences along the River Itchen, which will be designed to integrate with the city's infrastructure.

A report was presented to Capital Board 22nd October 2015 providing details of the River Itchen Flood Alleviation Scheme (RIFAS) identifying the need to strengthen flood defences in that vicinity to:

- To provide strategic flood defence infrastructure that will reduce the tidal flood risk for 679 existing commercial and 1,157 residential properties in this area over the next 70 years avoiding substantial flood damage; and
- To provide strategic flood defence infrastructure that will be future proofed which will enable future redevelopment in the area when these aspirations are realised.

Two options have been identified, a Front Route Option and a Back Option. The Front Route Option was recommended and agreed as the preferred option. This option requires a further financial contribution of £23M over and above other external funding sources such as the LEP and Environment Agency.

Whilst agreeing to support the recommendation of a Front Route Option in principle, at this stage no additional council resources have been agreed. Following a review of other EU funding options and investigation into how we unlock private sector funding and contributions from land owners and businesses, a further worked up option will be presented to Capital Board at later date.

Development Company

Cabinet approved at its meeting in April 2015 to undertake the necessary works to set up a wholly owned Development Company (DevCo) which could enable the Council to make maximum use of its assets. Recognising that the Council has a number of sites across the city, both in the city centre and surrounding areas of Council owned accommodation which have the potential to deliver more homes for the city and promote economic growth.

The city's estate regeneration programme is designed to create successful communities to ensure everyone in the city will benefit from this economic growth. The creation of a DevCo would afford the Council new opportunities. One of these will be to increase the supply of new housing across the city. Whilst initially considered in relation to the provision of additional homes in the City, consideration is being given to ensuring that the DevCo is adaptable to deal with all development options.

The structure of the DevCo has still to be agreed and a further report is required on options for the governance and potential financing of the Dev Co.

Further, two specific schemes have now been identified as possible development opportunities to pursue through the DevCo Model, the development of the former Oaklands School Site and stages 2 and 3 of a proposed regeneration of the Townhill Area. The Council have engaged a partner to produce detailed business cases for each of these schemes to test the viability, options, risks and benefits.

Efficiency Strategy & Transformation Programme

The continued financial challenge facing the Council increases the need for fundamental, transformational change in both the services it delivers and how it delivers them. The transformation programme was established in 2013, the objectives of which are further detailed in the Medium Term Financial Strategy. A number of tactical and strategic projects have been developed to meet the Council’s financial and operational objectives. These include:

- Service Excellence – aims to increase capacity and productivity through process improvement and revised organisation design;
- HR Policies and Procedures – redesign of redeployment and sickness policies and ongoing challenge and removal of vacant posts;
- Activity Analysis – Review of ‘duplicate’ activities across the organisation, streamlining and consolidation of activities;
- Service Cost Recovery – Income growth and cost avoidance;
- Procurement – Aim to achieve price and demand efficiencies;
- Digitalisation – reviewing processes and procedures to ensure we are using technological advances to minimise cost and maximise services both to customers and employees; and
- Operating Model – Reviewing the organisational structure to be fit for purpose and focusing on delivering outcomes and priorities.

In order to ensure the successful implementation of these projects it may be necessary to provide upfront capital investment. These costs will be included in the project’s detailed business case and will be reported to Capital Board as identified. As noted in the ‘Change in Capital Receipts Usage’ section above, some of the revenue costs implications of these projects could now be met from the release of Capital Receipts.

<u>Demographic Pressures</u>

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. The primary school expansion programme is due to end within the next two years, which will lead to a requirement to expand the secondary schools to meet the need for additional year 7 places. 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 by September 2018. 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 after 2016/17 to 2020/21. Therefore during this period any required works to increase the PAN of Secondary schools, in order to accommodate the increase in year 7 children, will need to be funded from Council Resources.

<u>Property Investment Fund</u>

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 Authorities are now acting to strengthen their funding base and reduce reliance on Government grant by building asset portfolios that provide a commercial return and 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.

Officers of the Council are developing a proposal to make a recommendation to Capital Board on how this could work for Southampton City Council and are looking to agree a strategy for undertaking 'Property Investment' activities.

The prime purpose of the strategy will be to:

- Set criteria for making investments;
- There are a number of 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.
- The main property sectors are 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;
- Chose 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
- A clear exit strategy.

Approval will be sought from Council in February 2016, following recommendation by Capital Board to add £65M to the capital programme in 2016/17 to provide funding for a Property Investment Fund. Further updates on the progress of the Fund, and requests for additional funding to expand the programme will be reported to the Capital Board as relevant.

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 Councils key outcome which is aimed at ensuring children and young people getting the best 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.

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 also aim to improve the economic vitality of the City through the delivery of transport based schemes for the benefit of the wider economy. 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.

Further, a need to identify opportunities to make improvements to footways outside of the City Centre has been raised. These will be prioritised and implemented as additional funding is identified.

Parks and Open Spaces

Approval is being sought, as part of the Capital Programme update to be reported to Council in February, to provide a state of the art water and dry play area in place of the existing paddling pool and play area at Southampton Common. This in part recognises the need to utilise specific funding sources such as S106 and CIL developer contributions. The proposed design and location of the play area also seeks to maximise the available space on the Common and move nearer to other commercial facilities on the Common such as the Hawthorns Café seeking to maximise revenue benefits whilst providing a safe environment and valued community facility. It is also envisaged that the play area will be more ecologically friendly and have reduced ongoing revenue costs. The scheme contributes to all three major obsessions or outcomes detailed in the proposed Council Strategy. It is expected that further schemes will be identified and in line with any potential capital scheme, any proposals will be considered against the capital strategy resource allocation criteria.

SECTION TWO - CAPITAL RESOURCES

Current Capital Priorities and Potential Investment levels

The table below identifies the major priorities of the capital programme for 2015/16 to 2019/20.

Priority	Major Project	2015/16 £M	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M
Children and young people getting a good start in life;	Primary Review	2.60	6.28	0.00	0.00	0.00
	School Expansion Programme	1.06	2.51	0.00	0.00	0.00
	School Capital Maintenance	2.83	6.59	0.00	0.00	0.00
	Early Years Expansion	0.00	0.50	0.55	0.00	0.00
A modern vibrant city where everyone works together to keep it clean and attractive.	Accessibility	0.31	0.34	0.02	0.00	0.00
	Bridge Programme	1.19	0.55	0.00	0.00	0.00
	Centenary Quay	1.40	0.00	0.00	0.00	0.00
	Roads Programme	7.40	6.21	0.00	0.00	0.00
	Congestion Reduction	0.39	2.09	0.00	0.00	0.00
	Cycling Improvements	0.71	0.98	0.25	0.03	0.00
	North of Station	4.40	0.00	0.00	0.00	0.00
	Public Transport	0.46	0.42	0.26	0.02	0.00
Strong, sustainable economic growth.	Central Depot Development	0.43	0.68	0.00	0.00	0.00
	SNAC	11.03	5.02	0.18	0.00	0.00
	Watermark West Quay	2.80	2.70	0.00	0.00	0.00

The capital programme report and the HRA 50 year business plan 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-ringfenced – 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) Ringfenced – resources which are ringfenced to particular areas and therefore have restricted uses.

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. If the CCB considers the bid meets relevant criteria, it will be referred to the Leader of the Council, Cabinet Member for Resources and the Chief Financial Officer for a decision.

Local Enterprise Partnership

Priorities are largely as set by the Government Department concerned and jobs created, private sector leverage and deliverability. The process 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 Authority qualified for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2014. In April 2015 the Authority submitted its application to Department of the Environment along with the 2015/16 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2015.

An alternative debt instrument that could be utilised going forward is the UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee 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.

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 DCLG.

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;

- Consider forgoing the immediate capital receipt for longer term and sustainable income stream through development of sites via instruments such as the DevCo and PSP as detailed in Key Priority Issues Section; 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.

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 DCLG.

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 at their meeting on the 20th October 2015 tentatively agreed to apply the new standard for annual periods starting on or after the 1st January 2019. The implications of this need to be considered but this may make this source of funding even less attractive.

The Council is currently undertaking a programme of replacing leased vehicles with purchased vehicles and this will be detailed in the Capital Programme update for 2016/17 and future years.

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 Authorities 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 and 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 has been scaled back to deal with just the site specific requirements, as required by the CIL Regulations and 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 the affordable housing the funding of the other pooled S106 obligations, such as Strategic Transport, Public Realm and Public Open Space related obligations 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 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's. In addition, SCC have opted to continue to seek S106 contributions for strategic transport. All other S106's 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.

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.

The CIL funding can be used to fund existing schemes within the current general fund capital programme that meet the definition of infrastructure, and could be used to fund major programmes such as the Schools Expansion and Roads programmes. 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.

It should be noted that whilst 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 objectives, priorities and outcomes.

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 objectives, priorities and outcomes. As most capital financing can be used for projects at the Council's discretion, then the Council is able to address its own priorities and outcomes 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-ringfenced 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 capital priorities and outcomes 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 Chief Financial 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 the 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 strategy;
- 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 for which it expects to receive a grant from Central Government is now to be 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 in 2015/16, 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 THREE - CAPITAL INVESTMENT AND DISPOSAL APPRAISAL PROCESS

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

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

The Council is currently reviewing its programme management arrangements including a review of the documentation being utilised. Further work is required to adapt the current project management documentation to ensure it can be utilised for capital projects and for review by the CCB.

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

c) 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, which will be undertaken on an annual basis which will be a Concept Outline, this could just be an idea on a page. 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.

It should be made clear that these will be the exception and the main focus will be on projects commissioned by the CCB.

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 will be appraised</u>

Capital Projects will be appraised using the following criteria:

1. Does the project deliver or facilitate the delivery of a strategic priority, linked to an 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 will be 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 WILL BE PRIORITISED

Once a project has demonstrated that it meets the Council's strategic objectives, priorities and outcomes 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 will examine 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 Service Plan priorities;
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; or
10. Likely to have the highest impact on achieving improved performance against the Council's key objectives.

This criteria will be reviewed and any changes reported each year in line with the Council Strategy. Following this, a process of commissioning alongside officer requests for funding will be undertaken and will be 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 should 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.

This process is still under development in 2015/16 and should be fully embedded during 201617.

SECTION FIVE - 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 proriorities and outcomes.
- Identify Priority Schemes and Invest to Save opportunities.

Sept

- 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
- Capital Monitoring and Programme Update

Nov

- Move to full business case for priorities
- Move to Outline business case for officer identified projects

Dec/Jan

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

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
- Analysis of business cases undertaken
- Budget set for the year and MTFS approved.

Mar

- Outline Business cases reviewed and where appropriate move to full business case
- CCB identifies which projects it would like to monitor on a regular basis
- Monitoring of the projects pre implementation commences

Apr to Aug

- Commencement of projects and monitoring put in place

SECTION 6 - HOW THE COUNCIL WILL PROCURE ITS CAPITAL PROJECTS

The structure of the Council's procurement function includes designated Commercial Procurement Managers whose focus is to support all capital projects.

Integration of revenue and capital financial planning provides opportunities for greater efficiency by selection of the most effective procurement processes.

Efficiency gains via procurement will be achieved by:

- Efficient procurement processes which are constantly being enhanced and improved;
- Strategic pro-active contract management of the wider supply chain either directly or through Primary contractors to ensure that efficiency savings and cost optimisation through project completion and beyond;
- Procuring fixed price contracts with risk / reward terms to incentivise further efficiencies. This will require a focus upon getting the design/specification right first time whilst also ensuring that services give both Property and Procurement sufficient notice of any forthcoming capital projects;
- Joining in region wide procurement initiatives and framework agreements where they can demonstrably provide savings through economies of scale;
- Exploring and introducing where practicable PFI and Public Private Partnership (PPP) agreements and other innovative financing arrangements where practicable;
- Exploring and introducing where practicable Leasing/borrowing strategies which will consider the most effective means of acquiring assets;
- Identifying from the Capital and maintenance programme the contracting/framework creation opportunities which will leverage most effectively the council's spend and return the best value for money;
- Ensure the full asset lifecycle cost is considered as part of the asset acquisition process; and
- Ensure that any capital project procurement comply with the council's sustainable procurement and ethical procurement policies as well as the Social Value Act.

One of the key objectives of complying with these policies should be to use our capital project procurements to generate jobs, apprenticeships, NEET employments opportunities and training for long term unemployed for the citizens of Southampton. As such these procurements should be used as a vehicle for delivering economic growth in Southampton.

SECTION 7 - HOW THE COUNCIL WILL MONITOR AND MEASURE THE PERFORMANCE OF THE CAPITAL PROGRAMME

The CCB has a remit to review the financial performance of the capital programme. Financial monitoring reports will therefore be considered by Cabinet on a quarterly basis together with a capital outturn report. Issues that have been considered and recommend by the CCB can be 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 will require 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 should be noted here that there may be a potential revenue consequence of doing this due to the capital accounting requirement to transfer abortive costs to revenue.

The Local Capital Boards for individual portfolios will be responsible for monitoring the implementation and delivery of the individual projects. The CCB will decide 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 (Chair)
- Leader of the Council
- Chief Executive
- Assistant Chief Executive
- Director of Transformation
- Finance Officer Representative
- Cabinet Members

By invite:

- Director for Place
- Director for People
- Project/Programme Managers

The Board will meet on a monthly basis with the remit of:

- 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 Appendix 1.

It should be noted that projects maybe proposed through other boards such as the Transformation and Commissioning Boards. Whilst funding 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.