SOUTHAMPTON CITY COUNCIL
CAPITAL STRATEGY
2016/17 TO 2020/21

FEBRUARY 2017

Capital Strategy 2016/17 to 2020/21

Contents

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 - "Southampton - a city of opportunity where everyone thrives"

In order to reflect the ambition and vision above the Council's priority outcomes were revised in 2016, based on public consultation, to:

These objectives reflect the on-going commitment to ensure the Council works to put residents and the customers at the heart of everything 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 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

To manage our resources effectively to deliver these priority outcomes, we have allocated resources against each of them, 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

The Capital Strategy

The Council's capital strategy is to ensure that all the priority outcomes 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 outcomes, priorities, Executive commitments 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-ring fenced 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 outcomes, priorities and Executive commitments.

- The CCB will recommend the use of both un-ring fenced 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 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 an 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 -, 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, growth, productivity 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 including Solent LEP, Solent LAs Business South, Chamber of Commerce, FSB, Higher Education and UK Trade and Investment, training providers and businesses 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 on supporting the attraction of new businesses to the VIP development schemes included in the City Centre Masterplan, development of commercial property, sectors and 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

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 completed to date include an initial pilot at Hinkler Way, 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.

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 was 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 work has been developed to set this up.

More 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. 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 has reviewed its estate regeneration strategy and objectives. The delivery model for development of Townhill Park was been reconsidered as set out in reports to Capital Board in March and April 2016.

In order to maximise the chance of securing the £750,000 HCA grant funding for the delivery of 50 units for Affordable Rent it is was agreed that an alternative delivery model be considered for plot 1.

It was agreed that procurement of a Development Manager and Contractor to deliver c. 60 units on plot 1 on a design & build basis using the Wayfarer Partnership procurement panels had the potential to be significantly quicker than procuring a Developer or Development Partner for the whole of Phase 1 via the HCA DPP.

Direct procurement would also reduce the cost to the HRA of procuring these units, avoiding double stamp duty and associated transaction costs and developers profit. Construction risk would sit with the Council but this would be mitigated by using an experienced partner Housing Association as Development Manager.

This model has been progressed and First Wessex appointed as Development Manager. A contractor has been identified through the First Wessex Contractor Framework. The scheme has been redesigned to improve the layout and offer significant savings. A revised planning application will be lodged in February 2017 and Cabinet approval sought to enter into the building contract in March with a start on site shortly after and completion in March 2019.

A revised strategy for Estate Regeneration has been agreed and discussed at Overview and Scrutiny Management Committee in September 2016.

This recognised that accelerating investment in the redevelopment and or major refurbishment of the Council's housing stock will require, at least initially, greater capital expenditure than can currently be funded either from within the Housing Revenue Account or through borrowing on the account.

A range of models for development and funding are therefore being pursued.
These include :-

- Direct Development within the HRA.
- Use of the Council's Development and Investment Companies that will allow the Council to develop and invest in housing for sale and offer at market rent in order to reinvest development proceeds in the delivery of affordable homes.
- The sale of sites to Housing Association Partners.
- The sale of sites to institutional funding partners make completed units available to the Council through finance leases with options to purchase.

It is proposed that the council will develop ongoing relationships with a number of development and funding partners with models replicated across the city.

Over time as the Council's older stock is replaced or refurbished, the cost of repairs and maintenance as a proportion of income is expected to fall releasing more funding for regeneration and new housing development.

Key Priority Issues

Devolution

The City Council has worked with Portsmouth City Council and the Isle of Wight Council to submit a proposal for a Solent Deal based on a Mayoral Combined Authority (MCA). The Deal was submitted in March 2016, and includes:

- An allocation of £30M pa for 30 years (75% capital 25% revenue) for economic growth, that can also be capitalised;
- The retention of 100% of the business rates collected within the area earlier than the national roll-out in 2020 (currently 50% of all business rates collected are passed over to Central Government. The model assumes the proposal will be fiscally neutral to the Government;
- Funding and support for business growth and innovation;
- Control of Adult Education budgets to meet the needs of employers and local residents;
- A support programme to enable unemployed people to progress to work;
- Additional homes in the Solent area;
- New dedicated transport budgets and powers; and
- Measures to support public sector reforms.

The three Unitary Authorities have undertaken an eight week consultation over the Summer, which showed a favourable response to progressing with the MCA and devolved powers and funds. Further to the report being approved by the three Councils. A proposal was submitted to the Secretary of State to consider the establishment of an MCA in the Solent. Whilst the proposal has been considered a decision has not been announced, the timeline for the announcement has not been confirmed.

Any announcement would be followed by detailed negotiations and actions plans to take the various strands of the Deal forward, including all arrangements for governance, financial and risk management.

Housing

Local Plans for homes include delivery of 10,000 homes over the next 10 years including 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 at least 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.

Affordable Housing

Changes to the affordable Housing Programme were announced on 5th January 2017 aiming to release £7bn in an expansion of the programme to meet the diverse housing needs of the country with the intention of delivering an additional 200,000 homes and included an allocation of £1.3bn to housing associations, local authorities and private providers.

It should be noted that the £7bn is compiled of previous announcements:

- £4.7bn Grants announced in April 2016 (2016 – 2021 Shared Ownership and Affordable Homes Programme including affordable rent and rent to buy homes);
- £1.4bn announced in the Autumn Statement 2016 (to build 40,000 affordable homes and give flexibility around the above); and
- £0.9bn allocated under the previous affordable homes programme.

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.

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 2017/18 -2021/22, 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 Councils outcomes and priorities, particularly in relation to economic growth.

Flexible use of Capital Receipts

The 2015 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 DCLG 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.

The budget proposals and MTFS have been consulted on. Approval to add schemes and give approval to spend for projects, which have arisen as a result of the implementation of the Executive Commitments and Business Plans, have been added to the Capital Programme update 2016/17 to 2020/21 where 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 2017/18 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 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 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 Frog & Parrot) and 150 – 162 High Street.

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 24th March 2016 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 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
- To 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.

The Council agreed in March 2016 to support the recommendation of a Front Route Option, in principle, subject to funding. Work is still ongoing to secure additional external funds, following the Solent LEP deal being announced in February 2017. Further work will now be undertaken to assess potential alternative funding.

<u>Development Company</u>

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 Council is seeking to establish a DevCo which will have a number of objectives, including:

- Delivery of residential units across a range of tenures;
- Using capital assets to generate revenue income for the Council's General Fund;
- Supporting wider place shaping activity; and,
- Stimulating private sector activity (via contractor roles for example).

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 proposed structure and governance of the DevCo will be reported to Council in early 2017. It is currently recommended that the project will be funded through prudential borrowing from the Public Works Loan Board (PWLB). The paper will include a detailed business case, utilising a theoretical case study to test the viability, options, risks and benefits. The analysis presents a number of guiding commercial principles that may underpin the creation of a DevCo to deliver a single phase development opportunity.

Possible development opportunities to pursue through the DevCo Model will be explored in 2017/18.

<u>Efficiency Strategy & Transformation Programme</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. This programme is the main driver to ensuring the council has a balanced and sustainable set of services. The Efficiency Strategy has been developed into a number of streams:

- Service Excellence – aims to increase capacity and productivity through process improvement and revised organisation design;

- HR Policies and Procedures – improvement initiatives relating to vacancy management, temporary/agency staff, sickness/absence management, and exit process;
- Activity Analysis – reviewing the various service activity to ensure efficient and effective delivery of services;
- Procurement – aim to achieve price and demand efficiencies;
- Digitalisation – aims to position technological advances as an intrinsic part of the Council's future 'DNA', to minimise cost and maximise services both to customers and employees;
- Operating Model – reviewing the organisational structure to be fit for purpose and focusing on delivering outcomes and priorities;
- Commercialisation - investigating all opportunities for generating income to the council to replace reducing Government funding; and
- Prevention and Early Intervention Approach - reshaping resources to invest and achieve better outcomes for residents and reduce costs in the longer term.

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.

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. The primary school expansion programme is due to end within the next year, 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.

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 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.

The Council's strategy for undertaking 'Property Investment' activities was approved by Cabinet on 19th April 2016.

The key themes of the 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;
- 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
- Set the governance and decision structure
- Define a clear exit strategy.

During 2016/17 £40M was invested, £20M in 3 commercial properties and earmarked up to £20M to be invested in the CCLA, whilst the Council was considering the position post Brexit. There will be a further investments in 2017/18 up to £23.8M.

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 priority 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.

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 to consist of 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.

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. The Council has committed to utilising the full LTP Integrated Transport grant for the next 5 year and plans to invest in schemes such as Electric Vehicle Technology.

Further, a need has been identified to make improvements to the roundabout infrastructure in Millbrook and Redbridge. This will be prioritised and moved forward in partnership with the LEP.

Bitterne Precinct is one of the key district shopping centres and provides a focal point for the community, providing retail, leisure and social services for Bitterne. It is regarded as a valuable asset offering support to the local economy and with the potential to help expand further growth. Cabinet approved plans, on 15th November 2016, for the replacement of the precinct surfacing and additional street scene enhancements. This infrastructure investment will be funded by CIL.

Parks and Open Spaces

One of the Council Executive commitments is to provide three state of the art play areas at Southampton Common, Mayfield Park and the Veracity Ground.

Plans for a water play area in place of the existing paddling pool and play area at Southampton Common were approved by Council on 10th February 2016. 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.

Schemes at Mayfield and the Veracity Ground were approved by Cabinet on 15th November 2016, to achieve the Executive commitment and contribute towards the priority outcome to help children and young people in Southampton get a good start in life.

The Council is committed to working with the local business community to build and run a state of the art set of public conveniences in the city centre. The proposal is for the Council to fund the construction and the Business Improvement District (BID) to manage. Options will consider the potential for some form of visitor centre and office accommodation for the BID.

Housing

In line with the Executive commitment to develop council owned but empty buildings 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.

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.

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.

The Council has recently delivered 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. Officers are working with Capita Procurement to prepare a brief and procurement strategy.

Leaders

There is circa £190 million spent annually on gas and electricity within Southampton and this is mostly supplied by large companies that have no vested interest in the wellbeing of the city. With 10,000 homes, including 5,000 children, living in fuel poverty within Southampton there is an opportunity to provide a sensible, trusted low price energy product to our residents, other public sector bodies and businesses.

SCC have an opportunity to set up either a licensed energy supply company or white labelled energy product to provide competitive energy rates to residents, public sector and businesses within Southampton and beyond.

The costs associated with setting up a SCC energy product range from less than £5k to in excess of £1.5 million. Depending on the delivery option chosen and the councils key objectives there are also opportunities for income streams to be developed that would offset start up and ongoing costs .

The Council is collaborating with an APSE Energy Consultant with experience in this field, which will presented to Council in the near future.

There is an outline concept for the creation of a new Public Sector Community Hub 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 is an Executive commitment towards achieving 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 re-generation 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 will be investigated as part of the feasibility study, including possible grants.

Southampton is developing 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.

SECTION TWO - CAPITAL RESOURCES

Current Capital Priorities and Potential Investment levels

The table below identifies the major priorities of the capital programme for 2016/17 to 2020/21.

Outcome	Major Project	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M
Children and young people getting a good start in life;	Primary Review & Expansion	5.05	1.46	0.00	0.00	0.00
	School Capital Maintenance	2.60	8.90	9.50	0.00	0.00
	Early Years Expansion	0.15	1.38	0.00	0.00	0.00
	Springwell Expansion	3.78	7.15	1.17	0.00	0.00
	Common Play Area	0.06	0.54	0.00	0.00	0.00
	Mayfield Play Area	0.00	0.25	0.00	0.00	0.00
	Other	1.36	0.30	0.00	0.00	0.00
Southampton is a city with strong, sustainable economic growth.	Bridges Programme	1.14	1.00	0.45	0.00	0.00
	Property Investment Fund	40.00	25.00	0.00	0.00	0.00
	Affordable Housing	1.11	0.00	0.00	0.00	0.00
	Estate Regeneration	10.50	10.80	20.40	3.25	1.70
	Integrated Transport	2.94	6.83	2.20	2.12	2.12
	Other	2.45	0.84	0.67	0.11	0.00
People in Southampton lead safe, healthy independent lives	Disabled Facilities Grant	1.72	1.91	0.70	0.00	0.00
	Health & Adult Social Care	0.63	0.50	0.50	0.50	0.50
	Power Company	0.00	0.05	0.00	0.00	0.00
	Hampshire Community Bank	0.00	1.00	0.00	0.00	0.00
	Modern Facilities	10.29	5.15	4.11	4.80	18.38
	Safe Wind/Weather Tight	20.52	19.29	11.49	15.31	14.35
	Warm & Energy Efficient	12.48	18.19	3.15	6.11	4.20
	Communal Facilities	4.65	5.58	3.12	3.38	2.42
	Other	0.88	0.86	0.00	0.00	0.00
A modern attractive city where people are proud to live and work.	Roads Programme	8.35	11.37	7.54	0.00	0.00
	Arts & Heritage	0.25	0.14	1.10	0.00	0.00
	Public Sector Community Hub	0.00	0.30	0.00	0.00	0.00
	AWC	0.00	0.56	0.00	2.65	0.00
	QE2 Mile	0.60	0.90	0.00	0.00	0.00
	Watermark West Quay	3.99	0.00	0.00	0.00	0.00
	Bitterne Precinct	0.86	0.00	0.00	0.00	0.00
	SNAC	11.66	0.18	0.00	0.00	0.00
	SeaCity Treasure Trove	0.00	0.70	0.00	0.00	0.00
	Other	0.38	2.05	0.10	0.00	0.00
Modern sustainable Council	Resources	1.17	0.95	0.03	0.27	0.30
	Transformation	3.71	3.00	0.00	0.00	0.00
	TOTAL	**153.27**	**137.12**	**66.23**	**38.50**	**43.97**

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-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.

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 Finance and the Service Director - Finance and Commercialisation (S151) 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 01/11/2016, through its application via the 2016/17 Capital Estimates Return.

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.

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 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;
- Consider flexible use to meet the costs of reform projects as detailed above; 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.

In 2016/17 the Council undertook a significant programme of replacing leased refuse vehicles with purchased vehicles. A review of all remaining vehicle will be undertaken and this will be detailed in the Capital Programme update for 2017/18 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 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 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.

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 capital 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), 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 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 2016/17, 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 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 both a regional and 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
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, 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 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 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 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 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; or

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 and CCB have taken significant steps to embed during 2016/17. It is envisaged that by the end of 2017/18 the process will be fully adopted.

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 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 WILL PROCURE ITS CAPITAL PROJECTS

The Council is redeveloping its procurement strategy in 2017. The outcome of this review will ensure that the principles and practices associated with procuring works, goods and services consistently achieve value-for-money and actively contribute to the authority's priority outcomes to support the achievement of a modern, sustainable Council.

The revised strategy will help 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, for the first time, 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.

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 on a monthly basis. 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 recommended 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 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 the Education and HRA programme meet to monitoring 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 (Chair)
- Leader of the Council
- Chief Executive
- Chief Operating Officer
- Chief Strategy Officer
- Transformation Implementation Director
- 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 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 Annex 1.

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

Initially Monthly

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
- Chief Operating Officer
- Chief Strategy Officer
- Transformation Implementation Director
- Service Director - Finance and Commercialisation (S151)
- Cabinet Members
- Service Lead – Corporate Planning & Commercialisation
- Head of Capital Assets

By invite:

- Service Directors
- Project/Programme Managers