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| Meeting Name: | Cabinet |
| Date: | 22 July 2024 |
| Report title: | Policy and Resources: Capital Outturn Report 2023-24 |
| Cabinet Member: | Councillor Stephanie Cryan, Equalities, Democracy and Finance |
| Ward(s) or groups affected: | All |
| Classification: | Open |
| Reason for lateness (if applicable): | N/a |

FOREWORD - COUNCILLOR STEPHANIE CRYAN, CABINET MEMBER FOR EQUALITIES, DEMOCRACY AND FINANCE

Our capital programme continues to deliver real and tangible benefits for our residents and despite ongoing financial pressures, we continue to invest in this delivery and remain committed to its ambition and scale.

It funds large scale projects such as investment in our school buildings, parks and leisure centres as well as projects to help tackle the Climate Emergency and to meet our commitment to be net carbon neutral by 2030. The capital programme also helps fund smaller, local priorities and initiatives through our Cleaner, Greener, Safer funds and Local Community Infrastructure Levy.

Within the capital programme we have also committed to improving air quality, increasing the number of cycle hangers, as well as funding improvements in care home homes and children's homes.

However funding remains a significant issue. As reported in last year's Capital Outturn report, planned spend is considerably in excess of forecast resources, over the life of the programme. Shortfall in capital resources means that financing will be from borrowing, which will have accompanying debt charges, which will add to revenue costs.

Our greatest challenge is in the Housing Investment Programme. The impact of inflation and rising interest rates has meant that the cost of building new council

homes and costs for major works on our estates has increased. This in turn increases the need for borrowing and the impact of the cost of this on both capital and revenue within the Housing Revenue Account as meant we have had to take the decision to pause a small number of new council homes projects. We are also, for the first time, having to borrow to help finance major works whilst we implement our HRA recovery plan.

Despite this we are still delivering on our capital programme. Our commitment to Southwark 2030 gives us an opportunity to reset and reprioritise the capital programme to ensure we are delivery on the things that our residents, through extensive consultation and listening events, have told us are important to them. Ensuring that we have a capital programme that delivers on these priorities is key to shaping our borough for the next decade and beyond.

RECOMMENDATIONS

Recommendations for the Cabinet to note:

1. Notes the outturn and resources for 2023-24 and future years for both the general fund and housing investment programmes as detailed in Appendices A and C.
2. Notes the borrowing requirement of £375m which needs to be identified for the general fund programme to be fully delivered over the remaining term of the programme, as detailed in Appendix A.
3. Notes the borrowing requirement of £831m for the housing investment programme to be fully delivered over the remaining term of the programme, as detailed in Appendix C.

Recommendation for the Cabinet to approve:

4. The virements and variations to the general fund and housing investment capital programme as detailed in Appendix D.

REASONS FOR RECOMMENDATIONS

5. Cabinet is asked to note the capital outturn position for the general fund and the housing investment programme.
6. Cabinet to approve the virements and variations to the General Fund and Housing Investment Programme.

ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

7. None considered as this is a capital outturn report for 2023-24.

POST DECISION IMPLEMENTATION

8. For the approved virements and variations to be included in the capital programme.

BACKGROUND INFORMATION

9. The scale of the capital programme is immense, representing a major element of the council's financial activities. It has a significant and very visible impact on the borough and hence on the lives of those who live, learn, visit and do business in the borough.
10. Due to the size and scale of the programme and the number of projects involved, it is inevitable that unforeseeable delays can occur which lead to some variations against planned spend. Actual resources may also vary to the plan, due to, for example, a delay in the sale of a property, or an external development with s106 or Community Infrastructure Levy (CIL) obligations not being brought forward as quickly as anticipated. This has historically resulted in the capital programme being over-programmed in year, whilst retaining a balanced programme over the entire ten-year life of the programme. However, the council now faces a position where planned spend is considerably in excess of forecast resources over the life of the programme.
11. The council's constitution requires council assembly to agree the capital strategy and programme at least once every four years, ensuring effective financial control and the achievement of value for money, within the provisions of financial standing orders. On 21 February 2024, the council assembly approved the refreshed 10-year general fund capital programme and housing investment programme (HIP) for the period to 2033-34. Cabinet will continue to receive regular capital monitoring reports to ensure it is fully updated and aligns with the council's key priorities.
12. The month 8 capital monitoring report was presented to cabinet in January 2024. This report presents the 2023-24 outturn position.

KEY ISSUES FOR CONSIDERATION

Programme position at outturn 2023-24

13. The capital programme is detailed within the report and appendices as follows:
 - Appendix A provides further detail on the general fund capital programme 2023-2033
 - Appendix B the accompanying departmental narratives
 - Appendix C sets out the housing investment programme for 2023-2033
 - Appendix D sets out the capital programme budget virements and variations for approval.

HOUSING INVESTMENT PROGRAMME (HIP) OUTTURN 2023-24

14. The 'Housing Investment Programme' (HIP) is the capital programme for the Housing Revenue Account (HRA). Broadly, there are two major strands; the New Build programme and the Asset Management (AM) programme. The New Build programme is the commitment to new council homes delivery. The Asset Management programme arises from the council acting as a social landlord, with legal obligations to ensure the upkeep of its council homes, to ensure they are safe, healthy and free from things that can cause harm.
15. Table 1 summarises the programme expenditure over the period 2023-24 to 2032-33. Outturn is £1.65bn, comprising of £833m for new homes, £808m for asset management and £13m for other programmes. This represents a reduction from the month 8 position which included an estimate for paused and uncommitted schemes through direct delivery. It is assumed that the next phase of delivery will be via a development partner with minimal cost to the council.

Table 1 Housing Investment Programme outturn 2023-23 to 2032-33

| | Budget 2023-24 | Outturn 2023-24 | Variance 2023-24 | Forecast 2024-25 | Forecast 2025-26 | Forecast 2032-33+ |
|--|--------------------|--------------------|----------------------|---------------------|---------------------|----------------------|
| Asset management | 108,146,808 | 108,744,048 | 597,240 | 108,345,885 | 98,951,603 | 807,922,473 |
| New Build and Acquisitions | 366,448,631 | 216,825,653 | (149,622,978) | 171,695,238 | 110,075,847 | 833,033,959 |
| Other programmes | 4,642,275 | 5,638,619 | 996,344 | 6,892,035 | 132,462 | 12,663,116 |
| TOTAL EXPENDITURE | 479,237,714 | 331,208,321 | (148,029,393) | 286,933,158 | 209,159,912 | 1,653,619,548 |
| FUNDED BY: | | | | | | |
| Capital Receipts | 53,078,769 | 25,568,466 | (27,510,302) | 45,475,237 | 4,773,528 | 89,550,928 |
| Major Repairs allowance | 51,000,000 | 46,857,091 | (4,142,909) | 51,600,000 | 51,600,000 | 511,257,091 |
| Reserves | - | - | - | | | |
| Revenue | 20,744,775 | 3,222,564 | (17,522,211) | - | - | 3,222,564 |
| Capital Grants and external contributions | 98,139,324 | 17,202,835 | (80,936,489) | 14,591,260 | 12,570,675 | 90,939,270 |
| Section 106 and CIL | 10,000,000 | 46,547,438 | 36,547,438 | 10,700,703 | 10,000,000 | 127,248,141 |
| Borrowing | 232,239,946 | 191,809,926 | (40,430,020) | 164,565,958 | 130,215,708 | 831,401,554 |
| TOTAL RESOURCES | 465,202,813 | 331,208,321 | (93,564,473) | 286,933,158 | 209,159,912 | 1,653,619,548 |

16. The outturn spend for the Housing Investment Programme for 2023-24 was £331.2m. Of this, £216.8m relates to the new build programme, £108.7m is for asset management and £5.7m for other schemes.
17. During 2023-24, the New Build Programme completed the delivery of 605 new homes across 17 schemes, of which 488 are council homes at social rent, 57 are shared ownership and 60 for private sale. A breakdown of the schemes and budgets within the housing investment programme is included in Appendix C.

Financing the Housing Investment programme

18. The New Build Programme is financed through a range of funding sources including grants, Section106 receipts, Right to Buy receipts and capital receipts from the sales of assets. Any shortfall is made up through prudential borrowing and the financing cost of this is charged, as a 'first call', to the Housing Revenue Account (HRA).
19. The Asset Management (AM) programme is financed through the depreciation charges levied on the HRA and through the discretionary revenue contribution to capital. However, it has been necessary to fund part of the spend in 2023-24 from borrowing (£59.2m) and it is increasingly likely that external borrowing will be needed in 2024-25 and beyond with the financing cost of this adding to the burden on the housing revenue account which may result in the slowing of the New Build programme overall.

New Build Programme

20. Like the General Fund programme, the HIP underwent a detailed review to ensure that it continues to meet the strategic policy aims of the council whilst still being affordable and sustainable. As part of this review, the new homes programme has been separated into two categories; a 'committed' and an 'uncommitted' programme.
21. The committed programme comprises those projects for which a contractual commitment exists or where the council has demonstrated a deep commitment to continue with, such as by way of a resident ballot. However, these committed projects still need constant review to ensure their continuing affordability, particularly when both borrowing costs and construction costs are rising. So, completion of these 'committed' projects remains subject to the test of affordability, as they are affected by a range of factors, including inflation, interest rates and other pressures impacting the Housing Revenue Account (HRA).
22. The uncommitted programme comprises the pipeline of projects that the council would like to pursue, but for the time being cannot be contained within the affordability envelope. The council will endeavour to introduce these to the committed programme as and when funding and affordability allow.
23. Considering rapidly increasing build and financing costs, the council took a decision in November 2023 to pause planned construction on a small number of sites across the borough, namely Bells & Lindley and Sceaux Gardens. This action significantly reduces the council's need to borrow over the next few years and goes some way towards reducing pressures on the Housing Revenue Account. Officers will continue to review proposals for these sites with a view to identifying alternative approaches to delivery that remain affordable.

24. Exposure to interest rate rises and the consequent cost of borrowing remains the key constraint on the council's New Build programme. The cost of borrowing has effectively tripled since December 2021. With effect from 15 June 2023, HM Treasury¹ introduced a new concessionary PWLB rate for Housing Revenue Accounts (HRA) borrowing. The discount margin is set at 40 basis points (i.e., 0.4%) below the rate at which local authorities usually borrow from the PWLB. While this is welcome, it has so far had limited impact in achieving its objective due to continuing underlying interest rate rises.
25. The prospect of interest rates falling significantly over the short to medium term is extremely unlikely, which needs to be considered when programming for the HIP. While interest rates are still relatively high the council will seek to minimise borrowing over and above that to which it is already committed.
26. Unfortunately, borrowing rates are near their highest level in 15 years just as the council reaches a peak in its borrowing requirement for the new homes programme. It is becoming increasingly clear that the council will need to reduce the pace of borrowing to prevent the cost of servicing the debt from exceeding available resources. This will be achieved in several ways, including by slowing down or pausing projects or by finding other sources of income including capital receipts from the sale of vacant or unproductive assets.

Asset Management (AM)

27. Recent changes in the legislative, regulatory and policy environment, have added significant costs to an already ambitious programme and without any additional funding from government. The HIP has an annual budget of £60m-£70m to undertake capital works to its stock but spend in 2023-24 was £108.7m, largely on works to ensure the stock is safe. This has left a funding gap of around £59m, which has been met from borrowing.
28. Officers are considering a range of options to reduce the gap in 2024-25 and beyond including:
 - Reducing spend on the HRA to allow more of the capital asset management programme to be funded via revenue contribution,
 - Reducing or re-profiling the existing asset management programme to bring it closer to the £70m envelope,
 - Reviewing contracts and procurements to maximise value for money,
 - Selling surplus HRA assets (e.g., a small number of long-term voids that have proved uneconomical to repair, vacant land) to generate capital receipts,
 - Prioritising health and safety works.

¹ [https://www.dmo.gov.uk/responsibilities/local-authority-lending/concessionary-rates/#:~:text=PWLB%20Concessionary%20Rates&text=From%2015%20June%202023%2C%20the,60%20basis%20points%20\(0.60%25\).](https://www.dmo.gov.uk/responsibilities/local-authority-lending/concessionary-rates/#:~:text=PWLB%20Concessionary%20Rates&text=From%2015%20June%202023%2C%20the,60%20basis%20points%20(0.60%25).)

Financing of HIP spend 2023-24

29. Resources available to the HIP were applied as follows to finance the expenditure incurred during 2023-24

| Source of finance | New Build | Asset Management | Other | Total |
|---|---------------------|---------------------|-------------------|---------------------|
| Major Repairs Reserve & Revenue Contributions | £0 | £50,079,655 | £0 | £50,079,655 |
| Non RTB receipts | £24,348,425 | £3,280 | £0 | £24,351,705 |
| RTB receipts | £971,438 | £0 | £245,323 | £1,216,761 |
| Grants & external contributions | £13,141,054 | £31,875 | £4,029,907 | £17,202,836 |
| S106 receipts | £46,547,438 | £0 | £0 | £46,547,438 |
| Borrowing | £131,238,484 | £58,629,238 | £1,363,390 | £191,809,926 |
| Total financing | £216,825,653 | £108,744,048 | £5,638,620 | £331,208,321 |

GENERAL FUND CAPITAL PROGRAMME

30. In response to the inclement financial conditions (inflation, borrowing costs), the council undertook a full review of all capital projects. The review found that whilst some costs had increased (due to construction inflation), management of projects and re-distribution of unused contingencies and project underspends meant the programme reported for month 7 could be contained within the existing funding envelope. The refreshed general fund capital programme was approved at February 2024 council assembly.
31. As noted in the January 2024 cabinet report, affordability of the general fund capital programme is dependent on grant income, 'Section 106', and Community Infrastructure Levy (CIL) receipts and capital receipts. Any shortfall is met through prudential borrowing, which incurs financing costs. The council currently has sufficient budget to afford these financing costs and provision is made through the budget-setting process to increase this amount annually to allow for growth within the programme.
32. Table 2 shows that programmed expenditure over the period 2023-24 to 2032-33 is currently £507m and that approximately £375m will be funded by borrowing. Appendix A details the departmental capital programmes and Appendix B provides the departmental narratives. Appendix D sets out the budget virements to be approved.

Table 2: General Fund Capital Programme Outturn 2023-24 to 2033-34

| Department | 2023/24 | | | 2024/25 | | | 2025/26+ | | | Total Programme 2023/24-32/33 | | |
|--------------------------------------|----------------------------------|---------------|-----------------|----------------------------------|----------------|---------------|----------------------------------|----------------|-----------------|-------------------------------|----------------|----------------|
| | Revised Forecast Variance Budget | | | Revised Forecast Variance Budget | | | Revised Forecast Variance Budget | | | Revised Budget | Total Forecast | Total Variance |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Children's and Adults' Services | 33,189 | 25,783 | (7,406) | 44,019 | 58,613 | 14,594 | 26,514 | 19,326 | (7,188) | 103,722 | 103,722 | - |
| Southwark Schools for the Future | 327 | 264 | (63) | 1,902 | 1,965 | 63 | - | - | - | 2,229 | 2,229 | - |
| Finance | 7,119 | 6,619 | (500) | 6,383 | 14,221 | 7,838 | 33,051 | 25,713 | (7,338) | 46,553 | 46,553 | - |
| Governance & Assurance | 5,227 | 6,635 | 1,408 | 10,425 | 6,700 | (3,725) | 48,176 | 50,493 | 2,317 | 63,828 | 63,828 | - |
| Environment, Neighbourhoods & Growth | 64,458 | 54,144 | (10,314) | 109,938 | 119,086 | 9,148 | 87,307 | 88,472 | 1,166 | 261,703 | 261,703 | - |
| Housing | 2,408 | 2,108 | (300) | 3,244 | 3,433 | 189 | 22,919 | 23,030 | 111 | 28,571 | 28,571 | - |
| TOTAL EXPENDITURE | 112,728 | 95,553 | (17,175) | 175,911 | 204,018 | 28,107 | 217,967 | 207,034 | (10,932) | 506,606 | 506,606 | - |
| FUNDED BY: | | | | | | | | | | | | |
| Capital Receipts | 88 | 88 | - | 5,700 | 5,700 | - | 29,000 | 29,000 | - | 34,788 | 34,788 | - |
| Reserves | 825 | 249 | (576) | - | 576 | 576 | - | - | - | 825 | 825 | - |
| Revenue | - | - | - | - | - | - | - | - | - | - | - | - |
| Capital Grants | 23,920 | 16,252 | (7,668) | 19,169 | 26,272 | 7,103 | 19,984 | 20,549 | 565 | 63,073 | 63,073 | - |
| Section 106 and CIL | 14,420 | 9,718 | (4,702) | 8,389 | 12,876 | 4,487 | 6,016 | 6,211 | 195 | 28,825 | 28,805 | (20) |
| External Contributions | 3,897 | 936 | (2,961) | 121 | 2,997 | 2,876 | | | | 4,057 | 4,057 | - |
| TOTAL RESOURCES | 43,150 | 27,243 | (15,907) | 33,379 | 48,421 | 15,042 | 55,000 | 55,760 | 760 | 131,568 | 131,548 | (20) |
| Prudential Borrowing | 69,578 | 68,310 | (1,268) | 142,532 | 155,597 | 13,065 | 162,967 | 151,274 | (11,692) | 375,038 | 375,058 | 20 |

Community, equalities (including socio-economic) and health impacts

33. This report monitors expenditure relating to the council's capital programme. Although as an outturn report this report has been judged to have no direct impact on local people and communities, the expenditure it is reporting reflects plans designed to have an impact on local people and communities. Community impact was considered at the time the projects and programmes were agreed. It is important that resources are efficiently and effectively utilised to support the council's policies and objectives.

Climate change implications

34. This report provides an update on the council's capital programme as a whole and includes climate change programme updates. The impact of individual projects and programmes will be considered in line with constitutional requirements as part of the specific decision making and procurement processes.

Resource implications

35. This report is the capital outturn report which details the budgetary outcomes in 2023-24

Consultation

36. No consultation has taken place as this report details the 2023-24 capital outturn.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Assistant Chief Executive, Governance and Assurance (NBC 16.05.2024)

37. The council has a duty to maintain a balanced budget throughout the year and, accordingly, members are required to regularly monitor the council's financial position. Section 28 of the Local Government Act 2003 imposes a duty on the council to monitor its budgets throughout the financial year. The council must take necessary appropriate action to deal with any deterioration in the financial position revealed by the review. This report sets out the current situation regarding the general fund capital programme indicating that the costs can be contained within the current funding envelope. It also sets out the position regarding the housing investment programme.
38. Decisions regarding the strategic aspects of the regulation and control of the council's finances are reserved to the cabinet in accordance with Part 3B of the constitution. This part refers to the cabinet having responsibility for the "council's revenue and capital budgets, including the housing revenue account, ensuring effective financial control and the achievement of value for money, within the provisions of financial standing orders. The Financial Standing Orders require the chief finance officer to report on the overall financial position of the council and on capital expenditure incurred by the council to the cabinet on a regular basis.
39. Specific provisions for the approval of virements over £1,000,000 and up to £10,000,000 between capital projects or programme headings as set out in the overall programme approved by council assembly are reserved to cabinet in Part 3C.

40. The capital programme assists the council in complying with the duty under the Local Government Act 1999 which requires it to make arrangement to secure the continuous improvement in the way its functions are exercised, by having regards to the combination of economy, efficiency and effectiveness.
41. The council is required under section 149 of the Equality Act 2010 to have due regard to the need to:
 - Eliminate unlawful discrimination harassment and victimisation
 - Advance equality of opportunity between people who share protected characteristics and those who do not
 - Foster good relations between people who share protected characteristics and those who do not.
42. Cabinet needs to take account of this duty in considering this report.
43. The community, equalities (including socio-economic) and health impacts section above indicates that whilst this report has been judged to have no direct impact on local people and communities, the expenditure it is reporting reflects plans designed to have an impact on local people and communities.
44. The public sector equality duty is a continuing duty and will need to be taken account of in any processes to mitigate budget pressures.

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|-------------------|---------|---------|
| None | | |

APPENDICES

| No. | Title |
|------------|---|
| Appendix A | General Fund Capital Programme 2023-24 to 2032-33 Outturn |
| Appendix B | Departmental General Fund Narratives |
| Appendix C | Housing Investment Programme |
| Appendix D | Variations and Virements |

AUDIT TRAIL

| | | |
|---|---|--------------------------|
| Cabinet Member | Councillor Stephanie Cryan, Equalities, Democracy and Finance | |
| Lead Officer | Clive Palfreyman, Strategic Director of Finance | |
| Report Author | Tim Jones, Director of Corporate Finance. | |
| Version | Final | |
| Dated | 3 July 2024 | |
| Key Decision? | Yes | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| Officer Title | Comments Sought | Comments Included |
| Assistant Chief Executive, Governance and Assurance | Yes | Yes |
| Strategic Director, Finance | N/a | N/a |
| Cabinet Member | Yes | Yes |
| Date final report sent to Constitutional Team | 3 July 2024 | |