

Meeting Name:	Cabinet
Date:	15 October 2024
Report title:	Policy and Resources: Capital Monitoring Report 2024-25 and Southwark 2030 strategic alignment
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 is rightly ambitious to deliver benefits for all of our residents. Across Southwark we are seeing the positive difference our programme is making in helping to tackle inequalities and improve our neighborhoods and community offer. Through our new council homes being built across the Borough, the Una Marson Library on the Aylesbury Estate, the new leisure centre at Canada Water and our commitment to new children's homes and nursing homes we are demonstrating the real and tangible benefits that this ambitious programme has and will continue to deliver.

It is encouraging to see the new Government put infrastructure at the heart of its plans for growth as well as the recognition that this is essential for our communities and our economy. Long-term, large-scale projects such as the Bakerloo Line extension will be vital to help achieve this.

Southwark 2030 has given us the opportunity to align our capital programme to deliver the things that are important to our residents and in July we agreed the process for capital bids and the alignment with Southwark 2030.

This report gives an update on the programme and our current forecast spend across both the General Fund and the Housing Revenue Account and whilst our ambition remains unwavering, we do have to acknowledge the borrowing requirements across both funds.

This report is also asking cabinet to approve money from the Green Buildings Fund to help deliver a programme of decarbonisation projects to support delivery of our Climate Change Strategy and Action Plan.

There are also new capital bids to approve to help deliver on our Council Delivery Plan commitments to invest in our playgrounds and to help increase our tree canopy.

I am therefore asking cabinet to note and approve the recommendations in the report.

RECOMMENDATIONS

Recommendations for the Cabinet to note:

1. Notes the month 4 2024-25 forecast spend and resources and future years for both the general fund and housing investment programmes as detailed in Appendices A1 and C.
2. Notes the alignment of the general fund capital programme to the Southwark 2030 priorities at Appendix A2
3. Notes the significant borrowing requirement of £303m 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.
4. Notes the significant borrowing requirement of £515m 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:

5. The virements and variations to the general fund and housing investment capital programme as detailed in Appendix D.
6. The new capital bids in Appendix E and F for inclusion into the capital programme.
7. That the Strategic Director of Environment, Sustainability and Leisure, the Strategic Director of Resources, and the cabinet member for climate change be authorised to apply Green Buildings Fund funds released to a programme of decarbonisation projects to support delivery of the Climate Change Strategy and Action Plan, in line with the council's constitution and departmental scheme of delegation.

REASONS FOR RECOMMENDATIONS

8. Cabinet is asked to note the capital programme forecast at month 4, 2024-25 for the general fund and the housing investment programme.
9. Cabinet to approve the virements and variations to the General Fund and Housing Investment Programme.

ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

10. None considered as this is a capital monitoring report for 2024-25.

POST DECISION IMPLEMENTATION

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

BACKGROUND INFORMATION

12. The projects contained within the council's capital programme endeavour to deliver the council's priorities in the medium and longer term. It looks forward to a vision of a Future Southwark that is a great place to live, learn, visit and do business in the borough. In July 2024, cabinet agreed the 'Southwark 2030' strategy which was jointly developed with residents, communities, businesses and stakeholders. Southwark 2030 sets out a vision to build a fair, green and safe Southwark in the longer term. It is supported by three principles:

- Reducing inequality,
- Empowering people, and
- Investing in prevention.

13. These principles have been translated into a focus on six goals to achieve this vision as follows: -

- Decent homes for all
- A good start in life
- A safer Southwark
- A strong and fair economy
- Staying well
- A healthy environment.

The delivery of these goals will be financed through day-to-day spending (revenue) and through longer term spending (capital).

14. The council monitors both capital and revenue spending and reports regularly throughout the year to cabinet. This report details the council's capital programme spend. This first capital monitoring report for 2024-25, follows a similar format to previous reports, detailing the individual projects by department for both the general fund and the housing investment programme.

15. In addition, the report shows how the capital programmes align to the six goals set out in the Southwark 2030 Strategy. The month 8 capital monitoring report will review the existing capital programme to ensure that resources remain targeted to key priorities and that the council's long-term ambitions are able to be met within existing council resources.

16. Due to the size and scale of the programme and the number of projects

involved, it is inevitable that unforeseeable delays can occur which led 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. A refreshed 10-year programme was approved in February 2024 and new capital programme bids are being scrutinised through a capital board to ensure that the council's capital plans remain affordable.

KEY ISSUES FOR CONSIDERATION

17. The capital programme forecast for month 4, 2024-25 is discussed within the report, structured as follows:

- Housing Investment Programme (HIP)
- General Fund (GF) capital programme
- Southwark 2030 goals
- New capital Bids.

18. The additional detail is contained within the appendices as follows:

- Appendix A1 provides further detail on the general fund capital programme by department.
- Appendix A2 details the current general fund capital programme by the goals of Southwark 2030.
- Appendix B the accompanying departmental narratives.
- Appendix C sets out the housing investment programme.
- Appendix D sets out the capital programme budget virements and variations for approval.
- Appendix E provides a summary of new capital bids.
- Appendix F provides the narrative detail of the new capital bids.

HOUSING INVESTMENT PROGRAMME (HIP) Month 4 2024-25

19. 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.

20. Table 1 summarises the forecast programme expenditure over the period 2024-25 to 2033-34. Forecast spend is £1.36bn, comprising of £631m for new homes, £721m for asset management and £7m for other programmes.

Table 1 Housing Investment Programme outturn 2024-25 to 2033-34

Programme	Forecast				2024/25-3033/34 Total Forecast
	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2029/30+ Forecast	
			£	£	£
Asset management	80,177,887	103,180,793	104,979,998	246,799,992	720,856,635
New Build and Acquisitions	179,521,235	113,832,538	61,522,840	148,977,915	631,740,661
Other programmes	6,892,035	132,462	-	-	7,024,497
TOTAL EXPENDITURE	266,591,157	217,145,793	166,502,839	395,777,907	1,359,621,792
FUNDED BY:					
Capital Receipts	29,795,393	19,969,929	14,729,723	-	72,495,046
Major Repairs allowance and revenue	67,149,545	70,623,966	77,661,103	246,799,992	617,321,335
Capital Grants and external contributions	14,685,501	12,540,000	2,583,000	4,556,500	73,800,001
Section 106 and CIL	10,910,106	9,222,878	10,000,000	30,000,000	80,911,492
Borrowing	144,050,612	104,789,019	61,529,012	114,421,415	515,093,918
TOTAL RESOURCES	266,591,157	217,145,793	166,502,839	395,777,907	1,359,621,792

21. The forecast spend for the Housing Investment Programme for 2024-25 is £267m. Of this, £180m relates to the new build programme, £80.2m is for asset management and £6.9m for other schemes.
22. A more detailed breakdown of the schemes and budgets within the housing investment programme is included in Appendix C.

Financing the Housing Investment programme

23. 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).
24. 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 (£59m) and its forecast that an additional £66m of external borrowing will be needed in 2025-26 to 2027-28 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

25. 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.
26. 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).
27. 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.
28. The council's New Build Programme is constrained primarily by the need to borrow and the impact of the cost of borrowing in the form of interest payable on the Housing Revenue Account (HRA). In recent years the HRA has faced other financial pressures arising from rent caps and high inflation, as well as the need to respond to new regulations for building and fire safety.
29. Given that borrowing rates remain high the council has reduced the pace of borrowing to prevent the cost of servicing the debt from exceeding available resources. This is being 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.
30. In July 2024, the Government announced increased flexibilities on the use of Right To Buy (RTB) for the two financial years 2024-25 and 2025-26, as follows:
 - The maximum permitted contribution from RTB receipts to replacement affordable housing has increased from 50% to 100%.
 - RTB receipts will be permitted to be used with section 106 contributions.
 - The cap on the percentage of replacements delivered as acquisitions each year (currently 50%) has been lifted.
 - These flexibilities are welcomed and will enable the council to use its RTB receipts to build or acquire new homes without recourse to borrowing, and work is underway to identify opportunities to best utilise these flexibilities to deliver new homes whilst ensuring value for money.

Asset Management (AM)

31. 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.
32. Officers have considered 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.
33. All programmes will be based on sound information on the condition of the stock and its assets and to achieve this a desktop exercise and on-site surveys are underway to review the current condition of the stock. Following completion of the on-site surveys, the information will be cross-referenced with the current two-year proposed programme and fed into future investment planning. A 100% stock and engineering asset condition survey and report will be produced to inform our future investment programme. A forecast of an estimated £7m across four financial years has been allowed for this work.
34. Electrical safety work is in progress in high rise blocks and street property conversions, based on an assessment of risk. A significant data exercise is in progress to validate electrical certificates and reports carried out through all programmes. The testing of all remaining tenanted dwellings in the high-rise and street property conversions is due to complete by May 2025, and a programme is being planned and procured to deliver full compliance across the rest of the stock by March 2026. Completion by planned dates is dependent on gaining access to properties.

GENERAL FUND CAPITAL PROGRAMME

35. Table 2 shows that programmed expenditure over the period 2024-25 to 2033-34 is currently forecast at £423m and that approximately £304m will be funded by borrowing. Appendix A1 details the capital programmes by department and Appendix B provides the departmental narratives. Appendix D sets out the budget virements to be approved.

Table 2: General Fund Capital Programme - Month 4 2024-25 to 2033-34

Department	2024-25			2025-26			Total Programme to 2033-34	
	Revised Budget	Forecast	Variance	Revised Budget	Forecast	Variations	Revised Budget	Total Forecast
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Children's (incl SSF) and Adults' Services	63,691	63,587	(104)	10,901	11,005	-	83,017	83,017
Finance	12,221	10,215	(2,006)	5,051	10,727	-	37,933	37,933
Governance & Assurance	6,700	7,657	957	5,556	7,105	-	57,193	57,193
Environment, Neighbourhoods & Growth	67,870	42,928	(24,942)	28,337	41,030	2,703	143,288	143,288
Planning & Growth	57,997	28,915	(29,082)	8,946	31,369	-	74,691	74,691
Housing	3,433	3,433	-	2,879	2,879	-	26,464	26,464
TOTAL EXPENDITURE	211,912	156,735	(55,177)	61,670	104,115	2,703	422,586	422,586
FUNDED BY:								
Capital Receipts	5,736	5,736	-	10,000	10,000	-	35,736	35,736
Major Repairs allowance	-	-	-	-	-	-	-	-
Reserves	3,466	3,466	-	1,560	1,560	-	5,026	5,026
Revenue	-	-	-	-	-	-	-	-
Capital Grants	32,029	31,574	(455)	9,712	10,565	853	55,588	55,589
Section 106 and CIL	13,126	10,972	(2,154)	2,203	4,111	1,908	19,337	19,337
External Contributions	3,062	3,062	-	111	111	-	3,186	3,186
TOTAL RESOURCES	57,419	54,810	(2,609)	23,586	-	2,761	118,873	118,874

CAPITAL PROGRAMME SUPPORTING THE 'SOUTHWARK 2030 STRATEGY'

36. The projects within the current general fund capital programme and the housing investment programme have been assigned to the goals set out in the Southwark 2030 strategy. It is necessarily a broad approach to categorisation as some projects support more than one goal or have been included to fulfil health and safety concerns. There are other projects that are not outward facing but are corporate projects. Grouping by goal, does show the scale of the council's investment and ambitions for the long-term future of Southwark.

37. Overall, the council is investing £347m over 10 years, from the general fund to support the vision of Southwark 2030. The housing investment programme

which mainly comprises of the new build programme and asset management is an additional £1,360m over this same 10-year period. Table 3 allocates the forecast over the Southwark 2030 goals, together with the housing investment programme and the corporate projects. Appendix A2 shows more detail.

Table 3: Southwark 2030: Total forecast capital programme spend

Total Capital Programme 2024/25 - 2033/34	
Southwark 2030 Goals	Forecast
	£'000
Decent Homes for All	26,464
Good Start in Life	70,265
A Safer Southwark	36,592
A Strong & Fair Economy	105,537
Staying Well	27,520
Healthy Environment	80,304
Total Expenditure	346,681
Corporate Projects	75,904
Housing Investment Programme (HIP)	1,359,622
Total General Fund and HIP	1,782,207

38. Broadly, the types of projects within each category are as follows:

- **Decent homes for all.** (Building more homes, investing in maintaining and improving social housing, creating new affordable homes)
- **A good start in life.** (Youth services, school refurbishment, air quality improvements, building of children's homes)
- **A safer Southwark.** (Streetcare improvements, CCTV cameras, school streets)
- **A strong and fair economy.** (Regeneration projects, Peckham rye redevelopment, digital connectivity)
- **Staying well.** (Leisure centres, adult social care home improvements)
- **A healthy environment.** (Cleaner, Greener, Safer projects, investments in parks, air quality, climate emergency projects).

Green Buildings Fund

39. The Green Buildings Fund is the council's carbon offsetting fund. It is a collection of financial contributions secured by planning obligations secured through S106 legal agreements. Where a major new development has not achieved net zero carbon emissions, the council collects a financial contribution for each tonne of carbon to make up for the shortfall. The current amount of funding collected within the fund is over £8m.

40. Subject to planning committee approval in November 2024, the current

outstanding balance of the Green Buildings Fund –will be released to help finance the delivery of decarbonisation projects within the council’s Climate Action Plan and Strategy. The Climate Change Team will work with other teams across the council to collate and propose potential projects that will deliver strong decarbonisation outcomes. Projects will be robustly and competitively assessed for carbon savings and other outcomes and presented for decision in a process overseen by the Environment, Sustainability and Leisure Capital Board and the cabinet member responsible for climate change.

41. The GLA recommends that carbon offset funds are targeted towards ‘hard’ measures, including energy efficiency schemes, renewable energy and district heating. ‘Soft’ measures such as behaviour change can be funded but should not benefit from the majority of the carbon offset funding.
42. Each funded project will provide a robust estimate of the tonnage of carbon that delivery will offset, either at decision point or in final reporting, as well as the stage of the project and type of measures being supported (e.g., hard/soft measures as defined in the London Plan). This will be set against details of the S106 agreement where funding was collected, to allow comparison to the tonnage of carbon that would be offset at the carbon price the s106 contribution was secured at, clearly recorded for audit purposes.

New Capital Bids

43. A new capital bid process was reported to the July 2024 cabinet. Any new bids would be formally reviewed by a Capital Board against the affordability criteria and in alignment with key council principles and brought to cabinet for approval. For those that were not brought forward this time, or for new bids during the year, there is a further opportunity to seek approval through this process during the month 8 monitoring.
44. 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. Capital bids totaling £190m were submitted to the capital board in July 2024. As this total was over and above what is affordable the capital board agreed to submit to cabinet for approval those bids that are urgent for health and safety reasons or were key council priorities. The total new bids for these projects are £9.7m with details in Appendix E and F.

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

45. 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

46. 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

47. This report is the capital outturn report which details the budgetary outcomes in 2024-25.

Consultation

48. No consultation has taken place as this report details the 2024-25 capital monitoring report for month 4.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Assistant Chief Executive, Governance and Assurance (NBC 21.08.2024)

49. 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.
50. 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.
51. 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.
52. 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.

53. 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.
54. Cabinet needs to take account of this duty in considering this report.
55. 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.
56. 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 A1	General Fund Capital Programme 2024-25 to 2033-34
Appendix A2	General Fund Capital Programme aligned to Southwark 2030
Appendix B	Departmental General Fund Narratives
Appendix C	Housing Investment Programme
Appendix D	Variations and Virements
Appendix E	New Capital Bids
Appendix F	New Capital Bids narrative

AUDIT TRAIL

Cabinet Member	Councillor Stephanie Cryan, Equalities, Democracy and Finance	
Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Tim Jones, Director of Corporate Finance.	
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CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive, Governance and Assurance	Yes	Yes
Strategic Director, Resources	N/a	N/a
Cabinet Member	Yes	Yes
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