

Item No. 10.	Classification: Open	Date: 7 February 2012	Meeting Name: Cabinet
Report title:		Quarterly Capital Monitoring Report Quarter 3	
Ward(s) or groups affected:		All wards	
Cabinet Member:		Councillor Richard Livingstone, Finance, Resources and Community Safety	

FOREWORD - COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY

This report sets out the position of the council's capital budget at the end of the third quarter for 2011/12, based on the ten-year capital programme approved by Council Assembly in July 2011.

The report includes both the general fund capital programme and the housing investment programme and gives details of variations to both. As the year has progressed, the gap between expenditure and expected income for 2011/12 has decreased and it is likely that this will reduce further by the end of the financial year. This position demonstrates the wisdom of the apparent 'over-programming' of projects for the year agreed in the ten-year programme.

The report also asks us to approve the reprofiling of and additions to budgets as set out in Appendix C.

This includes new work whose cost will be met through additional funding secured since the last report considered by cabinet in November 2011. Most significantly, this includes £1.3m funding from the Department of Education, some of which will be used for the temporary expansion programme to meet demands for school places.

I would therefore recommend that Cabinet, after due consideration, agree the recommendations set out below.

RECOMMENDATIONS

That Cabinet:

1. Approve the addition of budgets into the programme, matched by additional funding secured since the last report to cabinet (Appendix C).
2. Note the current monitoring position for the general fund capital programme 2011-21 and housing investment programme 2011-16 as at 31 December 2011 (Appendices A, B and D).
3. Note the additions into the programme of budgets relating to existing cabinet decisions and the movement of existing schemes between departments (Appendix C).
4. Approve the addition of £1.3m of additional Department of Education grant

funding to the children's services capital programme and to allocate £500k of this for the temporary expansion programme. The allocation of the remaining budget will be subject to a further report to Cabinet.

5. Note that the Capital Programme 2011-21 will be updated and presented to cabinet for approval in 2012/13 (paragraphs 59 to 60).

BACKGROUND INFORMATION

6. The quarter 2 capital monitor was reported to cabinet on 22 November 2011. It reported a total general fund (GF) programme for 2011-21 of £376m with forecast resources over the same period estimated to be £430m, an overall surplus of £54m. It was noted that the surplus resources will not become available until the later half of the programme, from 2015/16 at the earliest. Overall the GF programme was reporting a slight adverse variance of £1.4m (0.4% of total programme) against the approved budget, which could be contained within the unallocated resources within the programme.
7. The total housing investment programme expenditure for up to 2015/16 was reported in quarter 2 as £418m and was fully funded.

KEY ISSUES FOR CONSIDERATION

Summary of spend and resources

8. The expenditure budget for the general fund programme for 2011/12 has further increased by £2.1m to £131.2m since quarter 2. The current forecast expenditure for the year is £106.6m, showing a variance of £24.6m. This variance has increased since quarter 2 due to a reprofiling of expenditure on the information services budgets within finance and resources, the reprofiling of the olympic legacy fund, parks, public realm and cleaner greener safer programmes within environment; and the reprofiling of the East Peckham and Nunhead schemes and Ilderton travellers' site within the housing general fund. The additional budgets between quarter 2 and quarter 3 relate to £1.5m of additional grant funding in children's services, allocation of £301k of corporate reserves within the leisure centres' programme and smaller sums of S106 funds within environment & leisure and DCE (regeneration & neighbourhoods).
9. Of the resources funding this expenditure, £13.5m has also been reprofiled into later years, as this funding is linked to specific works which have been reprofiled. The reprofiling of £24.6m of expenditure from 2011/12 into later years has reduced the forecast in-year variance between expenditure and expected income. The movement of the forecast variance of spend over financing for 2011/12 has therefore decreased from £8m in quarter 2 to the current position of £1.1m. The existing capital programme continues to be reviewed to monitor the progress of schemes to identify those which will not achieve the level of spend anticipated at the start of the year, and currently the apparent 'over-programming' is not considered to be a cause for concern.
10. As a result of unforeseen works on the Burgess Park project within environment, additional expenditure of £1.1m has been identified as necessary, an explanation for which is contained in paragraphs 45 and 46. This means that the total general fund for 2011-21 has a forecast expenditure of £379.3m (appendices A and D). The total forecast available resources over this period are

estimated to be £422.9m, an overall surplus of £43.6m against forecast expenditure.

11. The original budget of the housing investment programme for 2011/12 remains unchanged at £99.6m. However, £41.3m of expenditure has been reprofiled into later years giving a revised forecast expenditure of £58.8m. The reasons for the reprofiling of this expenditure are detailed in paragraphs 61-64.
12. This monitor is projecting a total general fund capital receipt over the life of the programme of £212.7m, an adverse variance of £9m. This is as a result of a reprofiling of receipts from the Elephant and Castle development. This position will continue to be monitored very closely by officers.
13. The commentary below on the latest monitoring position sets out the main achievements and potential issues arising by service department.

Comments on Capital Programme by Service

General Fund (Appendices A and D)

Children's services

14. At quarter 3 the budget for the children's services capital programme 2011/12 is £16.7m. This is an increase of £1.5m from the quarter 2 position as a result of external grant funding added to the programme. The forecast expenditure for 2011/12 is £13.9m representing a favourable variance of £2.8m due to reprofiling of the primary capital programme.
15. The ten year capital programme at quarter 2 was £61.8m and this has increased to £63.3m. The council has been allocated an additional basic needs grant of £1.3m announced by the Department for Education in November 2011 to areas of greatest need for additional school places. In addition, £206k of Aiming High grant, specifically for capital purposes, has been included in the programme to facilitate short breaks for disabled children.
16. The primary places strategy is currently being reviewed due to rising demand for reception places across the borough and an increase in the demand for places for new residents to Southwark. It is anticipated that this will result in a strategy for permanent expansion for implementation from September 2013.
17. In the interim, the £1m set aside in the 2011/12 programme to support temporary expansion (bulge) classes has been fully allocated and with the anticipated continuing pressure for places in the short term it is proposed that an additional £500k is set aside from the additional basic needs grant of £1.3m for further temporary expansion classes in 2012/13.
18. The main variances to the original budget are due to reprofiling of the grant funded primary capital programme. The funding agreement and gateway 2 decision for St Anthony's School is scheduled for February 2012 and with the expectation of the council's funding profile resulting in a favourable variance in 2011/12 of £1.8m. Works at Crampton, Cherry Gardens and the three primaries have been put back to 2012/13 compared to the original estimates. This has been offset by bringing forward the budget for works at Robert Browning.

19. Allocations of £350k have been made against the £1.7m delegated budget for plant, fabric and modernisation.
20. Within the programme there is a budget of £500k challenge fund for schools that do not have sufficient resources to meet the costs of priority works. Awards of up to 50% match funding, capped at £20k, have been agreed from this fund. A block of £100k has been set aside for carbon reduction and plans with schools are at an advanced stage. A further £170k has been awarded to 12 schools in the first round of responses. This leaves up to £230k available for future allocations and schools are currently being invited to bid for phase two.

Southwark Schools for the Future

21. The forecast for Southwark Schools for the Future (SSF) is changed from quarter 2 to reflect the agreed milestone payments for the financial close of St Michael's and All Angels Academy (SMAA) and the co-located Highshore School.
22. The 2011/12 budget for the SSF programme is £48.6m and the forecast expenditure is £39.7m representing a favourable variance of £8.9m, a reduction of £0.1m from quarter 2, due to reprofiling of the budgeted programme.
23. The 2011/12 favourable variance is due to slippage in the confirmation of funding by Partnerships for Schools for Rotherhithe School (£6.9m); the revised financial close for SMAA and the co-located Highshore School based on the project milestone payments (£4.9m); and reprofiling of £0.5m contingency. This is offset by adverse variances for Notre Dame and St Saviour's and St Olave's school reprofiling of milestone and VAT payments.
24. Phase 3b for SMAA/Highshore reached financial closed in December 2011; the first phase 2 PFI school, St Thomas the Apostle College, is expected to become operational in February 2012 (put back from January 2012 at quarter 2); and Phase 3c for Southwark Inclusive Learning Service Key Stage 3/Key Stage 4 is hoped to reach financial close in February 2012.

Health and community services

25. The 2011/12 Southwark Resource Centre is still forecast on budget.
26. The new Department of Health Capital Grant for 2011/12 of £818k has to date spent £38k, with plans to spend the balance on major works for day centres. It is unlikely to be fully spent by 31 March 2012 and options are being considered to re-profile spend and/or budget. The option of carrying forward unused balance is being discussed with the Department of Health.

Deputy chief executives

27. The capital budget for the department over the 2011-2021 period has seen a slight increase of £100k from £69.6m as reported at the end of quarter 2, to £69.7m. In 2011/12, the department is currently forecasting an expenditure of £18.2m, a favourable variance of £4.7m against the budget of £22.9m.
28. A rigorous review of the capital programme and subsequent re-profiling of some key projects such as Elephant & Castle leisure centre, office accommodation

programme and Nunhead community centre into future years has resulted in a favourable variance. The completion date for Elephant & Castle leisure centre is unaffected. There are also a number of smaller variances on the externally funded projects within economic development and strategic partnership, and planning and transport divisions.

29. Economic development and strategic partnerships has forecast expenditure of £4.3m for 2011/12. The capital projects funded by S106 and programmed for completion during the 2011/12 financial year include the Cathedral Steps environmental improvement, Rolls Road and Rouel Road tunnels are now complete. St Mary Magdalene park improvements is also currently on site and nearing completion.
30. Orders have been placed for Legible London way-finding system which has commenced on site, programmed for pre-Olympic completion. With regard to the improving local retail environments scheme, 15 sites are now complete and works on the remaining nine sites are programmed to commence in January 2012.
31. The planning and transport division have forecast expenditure of £4.0m in 2011/12. As reported in quarter 2, the two major schemes funded in addition to main TfL grant-funded projects have progressed very well. Access improvement works to Denmark Hill station to support the introduction of lifts are now complete. The community consultation for Camberwell town centre scheme development and design started in October 2011 and is on-going with approximately 200 responses received to date.
32. The delivery of transport improvement works aimed at improving road safety, and encouraging greener and sustainable modes of transportation in the borough is progressing as planned. These include works in East Dulwich, Peckham Rye, West Walworth and Forest Hill. Principal Road renewal on Champion Park is now complete and the completion of the renewal of Rotherhithe old road has been slightly delayed due to ongoing utilities work in the area.
33. The Elephant and Castle leisure centre project is being progressed through Southwark's local education partnership, 4 Futures. The project is currently in the early design stages. A planning application is anticipated to be submitted in June 2012 with a view to construction works commencing in summer 2012. Outturn costs are currently estimated within the budget allocated to this project by Cabinet in November 2010, with £950k in 2011/12 being reprofiled into 2012/13. There is no impact on the estimated opening date for the new centre.
34. The Property Services division have forecast expenditure of £9.6m in 2011/12, of which £6.8m relates to the Canada Water development. The new library at Canada Water is now complete and the final works on the surrounding plaza are progressing. Expenditure of £410k of the Nunhead community centre project has been reprofiled into 2012/13 due to extension in the design and planning stages. The office accommodation strategy has a capital budget of £10.7m of which £2.3m is forecast to be incurred this year.

Environment and leisure department

Summary

35. Environment and leisure department's latest approved capital budget for 2011/12 is £102.6m against the projected spend of £103.7m giving an overall adverse variance of (£1.1m) for Public Realm division. The progress of major schemes is outlined below.

Sustainable services

36. The Integrated Waste Management Facility (IWWMF) at the Old Kent Road opened on 4 January. All council waste is now being tipped at the IWWMF, including that collected by Southwark Cleaning and Quadron. The facility is open for Southwark Cleaning vehicles to tip overnight, removing the need to go to the City of London. The Materials Recovery Facility (that separates dry recyclable material collected from our residents started operating double shifts on 3 January (07:00 to 15:00 and 15:30 to 23:30), doubling the number of people employed. The Mechanical Biological Treatment plant within the site (that treats residual waste and reduces the amount of rubbish that needs to be sent to land fill) is still undergoing fine tuning, and performance testing is likely to start in mid February.
37. The Independent Certification of Acceptance Testing is continuing. The practical tests at the MBT and Materials Recovery facility (MRF) have been completed, but sign off is dependant on completion of further tests relating to quality of build, staffing arrangements, and compliance with regulatory conditions. Unitary Charge step up payments, plus capital payments of £1.5m, will apply once testing is completed and certified.
38. Manor Place closed to the public on 3 January, and the Reuse and Recycling Centre (RRC or Civic Amenity site) at the IWWMF opened on 4 January.
39. The key objective of the project, highlighted at the Outline Business Case stage, was to provide a sustainable long-term solution for the collection, treatment, recycling and disposal of municipal waste in the Borough, capable of meeting high national and local performance targets and delivering ongoing service improvement over the duration of the contract. Achievements thus far, suggest that, the service is well on track to achieving these goals.
40. Although current costs estimate suggest a possible favourable variance on project spend, the unit has taken a cautious/prudent view and has therefore not projected this variance in the monitor. Projects such as this have substantial uncertainties and there are currently a number of outstanding compensation payments and negotiations. In any case, the division believes it has enough funding to cover these and expects (worst case scenario) the project to be delivered on budget.
41. In respect of the Southwark Heat Network from South East London Combined Heat and Power facility (SELCHP), there has been significant progress in identifying a viable route and technical solution for the pipework for the heat network, and a revised financial model and offer has been made by Veolia. Officers are considering this improved offer, and expect to be able to report on Heads of Terms of an agreement to the March cabinet meeting.

Public realm

42. In respect of the CGS programme the programme to date has now been reviewed and a spend of £3.6m is forecast (from a total budget of £5.1m). The remaining schemes have factors such as planning approvals, lack of match funding, and reliance on other programmes that will prevent completion until next financial year. The new programme of £1.9m for year 2012/13 has just been launched in Community Councils.
43. Public Realm is projected to deliver their Highways and Lighting programmes within budget and time. All major schemes have member and stake holder approval and are programmed for delivery, although risks exist around two schemes because of the need to co-ordinate works with statutory utilities. Quarterly updates on all capital schemes are now provided to all ward councillors.
44. For the Southbank Improvement Project, GLA funding of £3.1m has been secured to delivery a number of accessibility and public realm improvements along the Southbank from borough boundary with Lambeth to Tower Bridge. This reflects the importance of this area for tourism in London in the run up to the Olympic and Paralympics games in summer 2012. The project is now on site and risk is being managed around the completion date of March 2012. The major risk is the delay in delivery of materials however the council is working closely with GLA to mitigate the risks. The grant funding is profiled as £2.1m in 2011/12 and £1.1m in 2012/13 so there is flexibility in the programme to allow for slippage into first quarter of 2012/13.
45. Additional costs of £1.1m have been projected for the Burgess Park Revitalisation Project due to four large disused diesel tanks being uncovered in the park and the associated cost of removing contaminated soil. This has added significant costs to the project and expended the available project contingency.
46. The project has already undergone a value engineering process and the project team is confident that costs will be contained at the revised budget of £6.2m.

Culture, libraries, learning & leisure

47. There have been two minor variances on the costs of Dulwich and Camberwell leisure centres that were reported previously as part of the quarter 2 monitor. These arose as a result of a number of factors including asbestos removal and the rephasing of work on the Camberwell pool. These variances of £183k and £200k have now been confirmed by the Director of Environment as being final for these phases as included in the capital programme agreed by Council Assembly in July. The variances will be funded through a combination of S106 for Camberwell (£81k); and specific contributions from the earmarked reserve for Regeneration and Development (£183k for Dulwich and £119k for Camberwell). A total amount of £1m (£490k from the council's Olympic capital legacy fund and £521k from council resources) has been awarded for a third phase of development at Camberwell, including the upgrade of the centre's sports hall.
48. The anticipated favourable variance on the Thomas Calton centre of £28k has not changed although there are known to be further cost pressures in order to maintain the fabric of the building. There are likely to be further bids to the capital programme in the future to fund additional work. There has been some

movement on the profiling of the Olympic legacy fund projects, and only £231k of the £1.4m originally profiled for 2011/12 is now expected to be spent by 31 March 2012. The rest of the expenditure has been re-profiled to 2012/13.

49. In respect of Dulwich leisure centre the scope of work during phase 2 increased compared to the original tender. Reasons for this include the prolonging of the contract period in order to accommodate asbestos removal. As work on phase 2 of the leisure centre refurbishment has now been completed, no further increase in cost is anticipated.
50. At Camberwell leisure centre the main reasons for additional costs are the re-phasing delivery of works to open the pool by February 2011 and an upgrade of specifications to reduce future lifecycle replacement costs. A total amount of £1m (£490k from the council's Olympic capital legacy fund and £521k from council resources) has been awarded for a third phase of development at Camberwell, including the upgrade of the centre's sports hall.
51. Work at Pynners sports ground pavilion involves rebuilding the pavilion at Pynners which was destroyed by a fire a number of years ago. It is currently expected that this project will be delivered within budget and that all but £12k, which is the retention amount, will be spent by the end of 2011/12.
52. The capital programme has a provision of £2m for the Southwark 2012 Olympic capital legacy fund with an objective to invest in capital projects that support a lasting Olympic and Paralympic legacy in Southwark from the 2012 games, improving access to and increasing participation in physical activity and encouraging the development of the Olympic values in the borough's communities. The 10 successful bids were announced in October 2011. The expenditure for each scheme has been profiled and systems and procedures are in place to monitor their financial performance. As a result of reprofiling of the expenditure, a significant amount has been moved to 2012/13. However a number of smaller projects are expected to be completed by the end of 2011/12.

Housing general fund

53. The housing general housing general fund programme totals £14.1m for investment in housing other than the council's own housing stock. The main areas of activity are detailed in paragraphs 54 to 56 below.
54. Housing renewal: The East Peckham renewal area group repair and solar heating schemes are proceeding on site as previously reported. The responsibility for delivery of some of the housing renewal area projects is about to change, and while the profiling of forecasts has been adjusted it will be the subject of further review. Further adjustments have been made to budget profiles between housing renewal grant types to ensure the programme remains within the overall annual budgets.
55. Travellers' sites: A planning application has been received for the revised Springtide travellers' site scheme. Expenditure has been reprofiled given that there is now little chance of the scheme starting this financial year. Responsibility for the railway embankment retaining wall at the Ilderton Road site boundary has been established as the responsibility of Railtrack, who have attended site to assess the work required. The budget has been reprofiled into next year, although it is anticipated that this may not be required.

56. Affordable housing fund: A planning application for the revised Family Mosaic scheme at Ivydale Road has now been approved. A revised approval for the draw-down of funding is required, and expenditure is expected to be reprofiled into the next financial year. Costs of the revised scheme are expected to be slightly lower than the current £1.3m budget.

Finance and resources

57. Facilities management forecasts a favourable variance of £374k as a result of additional £366k reserve funding being used to fund the essential health and safety works to council offices. The original budget £366k is now forecast to be spent in 2012/13.
58. The information systems (IS) programme is currently under review. Forecast for the year has been reduced to a favourable variance of £1.1m due to reprofiled forecasts for Carefirst and other IS projects.

Capital programme update

59. In July 2011, Council Assembly agreed the recommendations of the cabinet for a 10-year general fund capital programme 2011-21 of £351m. This will be refreshed in 2012/13 to add an additional year to the programme, to keep it as a full 10-year programme covering 2012-22.
60. The capital programme will be prepared on the basis that projects in 2011/12 which have not completed in this financial year will be carried forward, with funding, to 2012/13. This will be monitored and reported at outturn.

Housing investment programme (Appendix B)

61. The draft 5-year programme approved by cabinet on 31 May 2011 included capital expenditure of £414.8m, and the current forecast shows an increase of £800k overall against that figure. This increase arises mainly through additional budget allocations to achieve the disposal of a site at Manor Place to generate a capital receipt, and the provision of a footpath in connection with the demolition of blocks on the Heygate Estate. Within the warm, dry, safe programme, forecasts have been revised between lines to reflect the updated 5 year programme as reported to cabinet on 18 October.
62. Although the outcome of the Lands Tribunal hearing in respect of the partnering contracts arrangements was in the council's favour, the written judgement was only received on 21 December. Until it was received, it was not possible to significantly progress the 5 year programme. Since the month 6 reported position a further £13.0m of expenditure has been reprofiled from the current year of the warm dry safe programme into the next two years, giving a total movement of £28.3m.
63. Reprofiling of the current year programme overall amounts to £41.3m. Other areas of significant movement include: the Aylesbury PPM programme which with the PFI not proceeding is currently under review; the East Dulwich Estate environmental scheme linked to redevelopment for which a planning application has yet to be submitted; the council new build programme which has suffered delays due to issues with the provision of services to the Lindley development;

the leasehold acquisitions at Maydew House, of which only two are now anticipated to complete in the current year; and the reinstatement of the fire damage at Sumner Road, which is the subject of ongoing negotiations with the council's insurers.

64. Forecast resources to fund HIP expenditure are little changed since last reported. A contribution from HRA revenue has been agreed at £0.2m to fund the inclusion of the Heygate footpath referred to above. There is however an overall reduction in contributions from revenue reflecting the drop in forecast expenditure for the overall HRA programme since last reported. This is largely due to estimated reductions in the level of capital funding required for fire safety works, some of which will be carried out through revenue budgets outside of the HIP, and major voids expenditure with fewer properties arising so far this year than was anticipated. Decent homes backlog funding of £11.25m has been confirmed as grant funding for 2012/13, and since this was originally shown as a revenue funding requirement this gives rise to a significant shift in the overall position between these two funding lines, pending its allocation to specific works or programmes.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

65. The Capital Programme 2011-2021 satisfies the council's 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.
66. By agreeing the recommendations in the report the cabinet will demonstrate that it has made adequate arrangement for the proper administration of the council financial affairs.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Capital monitoring working papers	160 Tooley Street, London SE1 2QH	Le Cheung 020 7525 4300

APPENDICES

No.	Title
Appendix A	General fund capital programme summary
Appendix B	Housing investment programme summary
Appendix C	Funded variations and virements for approval
Appendix D	General fund capital programme details

AUDIT TRAIL

Cabinet Member	Councillor Richard Livingstone, Finance, Resources and Community Safety	
Lead Officer	Duncan Whitfield, Finance Director	
Report Author	Jennifer Seeley, Deputy Finance Director	
Version	Final	
Dated	26 January 2012	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Communities, Law & Governance	Yes	Yes
Finance Director	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team	26 January 2012	