

# Southend-on-Sea Borough Council

Agenda  
Item No.

Report of Corporate Management Team  
to  
**Cabinet**  
on  
**18 January 2018**

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**Draft Capital Programme 2018/19 to 2021/22**  
**All Scrutiny Committees**  
**Executive Councillor: Councillor Lamb**  
***A Part 1 Public Agenda Item***

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**1. Purpose of Report**

- 1.1 The purpose of this report is for Members to consider a draft programme of capital projects for the period 2018/19 to 2021/22 that can be submitted to Council for approval.

**2. Recommendation**

**That the Cabinet:**

- 2.1 Note the current approved Programme for 2018/19 to 2020/21 of £166.5m (Appendix 1);**
- 2.2 Note the changes to the approved Programme as set out in Appendix 2;**
- 2.3 Consider and approve the proposed new schemes and additions to the Capital Programme for the period 2018/19 to 2019/20 totalling £20.1m for the General Fund (Appendices 6 and 7);**
- 2.4 Consider and approve the proposed scheme subject to external funding approval for the period 2018/19 to 2021/22 totalling £19.0m (Appendices 2 and 7);**
- 2.5 Note that the proposed new schemes and additions (Appendices 6 and 7) and other adjustments (Appendix 2) will result in a proposed capital programme (excluding schemes subject to external funding approval) of £184.9m for 2018/19 to 2021/22 (Appendix 8);**
- 2.6 Note that, of the total programme of £184.9m for the period 2018/19 to 2021/22, the level of external funding supporting this programme is £71.7m (paragraph 7.1);**

- 2.7 Note that a final review is being undertaken on the 2017/18 projected outturn and that the results will be included in the report to Cabinet on 13 February 2018;**
- 2.8 Refer this report as approved to all Scrutiny Committees and then to Budget Cabinet on 13 February 2018.**

### **3. Background**

- 3.1 Capital expenditure is defined as expenditure incurred on the enhancement, acquisition or creation of assets needed to provide services, such as houses, schools, vehicles etc. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services. Capital grants, borrowing and capital receipts can only be spent on capital items and cannot be used to support the revenue budget. However, it should be noted that revenue funding can be used to support capital expenditure.
- 3.2 Under the Local Government Act 2003, from 1 April 2004, each authority can determine how much it can borrow within prudential limits (unsupported borrowing). The Government does have powers to limit the aggregate for authorities for national economic reasons, or for an individual authority.
- 3.3 Unsupported borrowing is not specifically financed by capital grant and no longer as a separate stream in the Government revenue grant. However, the Council has full discretion on how it allocates its formula grant funding. Therefore, any unsupported borrowing undertaken is financed from the total available resources to the Council from both Grant and Council Tax.

### **4. Capital Programme 2017/18 to 2020/21 - Movements**

- 4.1 The Council's current agreed capital programme for 2017/18 and future years is attached as Appendix 1 and totals £233.1m.
- 4.2 Movements and proposed new schemes and additions since the agreement of the revised programme in November 2017 have an overall effect of increasing the capital programme by £20.2m to £253.3m as set out in Appendix 2, with more detail in Appendices 3 to 7.

### **5. Spending Plans 2018/19 to 2021/22**

- 5.1 The proposed additions to the Capital Programme for 2018/19 to 2019/20 of £20.1m are set out in Appendix 6, with the details of each scheme and its funding explained in Appendix 7. In preparing these proposals consideration has been given to the following key criteria:
- Maintain the essential infrastructure of the organisation;
  - Essential Health and Safety works;
  - Essential rolling programmes;

- Are wholly financed by external/internal funding;
- Match funded investment for regeneration projects;
- Outcome of feasibility studies for Pier and New Museum;
- Are invest to save borrowing schemes.

Additionally, consideration has been given to:

- Revenue impact of the proposals on the Medium Term Financial Plan;
- Borrowing position of the Council;
- Whether schemes are profiled to the appropriate financial year;
- Recognition of the future vision of the authority;
- Recognition of the ability to prioritise and refocus following the recent transformation overview;
- Recognition of the capacity in the organisation to deliver such a programme.

As part of this year's budget process consideration has also been given to a new wider strategic approach to the formulation of the capital programme which has resulted in:

- Identifying essential capital investment for 2018/19 and 2019/20 only;
- Utilising feasibility studies where needed;
- Adopting a gateway approach review for larger strategic schemes to enter the programme at the required time;
- The ability to enter items into the capital programme in a managed way through firstly the annual budget round and secondly when the programme is reviewed mid-year and consequently the November Cabinet cycle;
- Being mindful of the current level of the programme in relation to capacity to deliver, the relevant financing of schemes and any other running costs.

The key areas of investment and funding for the Council are identified in the sections below.

## **5.2 Education**

5.2.1 In February 2017 the Government confirmed the Education Maintenance Capital allocations and Devolved Formula Capital (DFC) for 2017/18 and gave an indication that a similar level of grant would be available for 2018/19, subject to downwards adjustments as more schools convert to academy status. Basic Need Grant was confirmed for the three years 2017/18 to 2019/20.

The grant funding was confirmed as follows:

- £0.849 million of basic need funding to provide school places to be paid in 2017/18 with indicative sums of £4.83million paid in 2018/19 and £3.82 million in 2019/20.
- £0.944 million of Maintenance Capital to support the needs of the schools we maintain and for the Sure Start children's centres;
- £0.173 million of Devolved Formula Capital for schools;

- 5.2.2 All of these allocations will be delivered as capital grant.
- 5.2.3 The Government is due to confirm in February 2018 the 2018/19 grant figures and issue indicative grant figures for the years 2019/20 and 2020/21. If these figures are available in time they will be included in the report to Cabinet on 13 February 2018.
- 5.2.4 The education capital programme for 2017/18 onwards will continue to be dominated by the need to provide more school places to cope with the current high pupil numbers, as the demand moves from the primary sector to the secondary schools.
- 5.2.5 The Basic Need Grant awarded to Local Authorities includes expansion at academies. The Government also expected all Local Authorities to fund capital works for any new academy arising from a Basic Need requirement unless the new school is funded directly from Central Government.
- 5.2.6 The Secondary School Expansion Programme is now moving forward. Expansions have been agreed with the eight non-selective schools. One school is in the construction stage and a second is awaiting planning permission. The remaining six are in various stages of feasibility and planning. The Primary School future demand will continue to be monitored closely.
- 5.2.7 Government funding is not ring fenced and Southend, like many other authorities, will be spending more on Basic Need than the awarded grant.
- 5.2.8 Once the 2018/19 maintenance grant has been published officers will produce a draft condition programme. It is hoped, as in previous years, future years indicative amounts will also be included to allow a multi-year programme to be set that will allow schools to plan ahead.
- 5.2.9 The income received from Central Government for maintenance only covers maintained schools and will continue to reduce in relation to the increase in the number of academies. Academies are able to bid into a central pot directly to the Department for Education for capital funding.
- 5.2.10 Although the maintenance grant will decrease as more schools convert to academy status the education condition programme will continue to address high priority condition items at schools and children's centres, which if not done could result in a closure as far as funds allow. The replacement of boilers, curtain walling and rewiring continues to dominate the investment programme.

### 5.3 Housing

- 5.3.1 The housing construction scheme is progressing well. The programme of works for the culvert diversion will be finalised shortly. It is anticipated that the remainder of the highways works and the culvert enabling works will begin in late January. The tender for the overall build contractor has been extended until January 2018 to accommodate this change and further consultation will be undertaken with both local members and residents shortly.
- 5.3.2 The Housing Revenue Account (HRA) capital programme for the 2017/18 financial year is £6,900,000 which comprises mainly Decent Homes work to the Council's housing stock including kitchen and bathroom modernisations, together with improvements to the common areas. This also includes a budget of £370,000 for the construction of new housing on HRA land as included above (with the remainder in the 2018/19 financial year) and £345,000 for some remodelling works to sheltered housing schemes.
- 5.3.3 The overall capital programme for the next three financial years 2018/19 to 2020/21 includes a commitment of at least £6 million each year for major repairs and Decent Homes work to the Council's housing stock.

### 5.4 Highways and Transportation

- 5.4.1 The expenditure will be delivered by fully un-ringfenced capital grants.
- 5.4.2 The indicative settlement is as follows:

	2018/19 £'000	2019/20 £'000	2020/21 £'000
Integrated Transport	1,401	1,401	1,401
'Needs Based' Highways Capital Maintenance Block	1,121	1,121	1,121

- 5.4.3 The allocations for the Integrated Transport Block (ITB) 2018/19 to 2020/21 are indicative and are awaiting confirmation from the Department for Transport (DfT).
- 5.4.4 Pothole Funding of £250 million was announced in the Budget 2015. This funding is allocated by formula shared by Local Highways Authorities between 2016/17 and 2020/21 based on the road length for which each authority is responsible. The allocated sum to Southend Borough Council is £65k per year until 2020/21.
- 5.4.5 To allow the full delivery of the 2017/18 Local Transport Plan (LTP) programme, the full spend is proposed to be met 100% by capital grant.
- Typical schemes are presented in the context of four 'Actions' as set out in the Local Transport Plan (LTP3) Implementation Plan 2015/16 to 2020/21.

- The recommended allocation to the 'Actions' is set out in Appendix 5a. The Deputy Chief Executive for Place will progress a prioritised list of schemes for both Integrated Transport and Highways Maintenance in consultation with the portfolio holder for Public Protection, Waste and Transport and the Director of Finance and Resources. A list of capital schemes developed by the Traffic and Parking Working Party and Members requests will come from part of this funding stream.
- The prioritisation process is set out in diagram 1 of the implementation plan. In addition, maintenance schemes will be progressed using the latest information from the Gaist Asset Management work.
- As in previous years, there is flexibility to allocate funding between the two blocks and the LTP actions.

## **5.5 Other Services**

5.5.1 In respect of the other proposed general fund schemes these are to be funded through borrowing, grants, capital receipts and from earmarked reserves and the required relevant borrowing costs have been factored into the Medium Term Financial Strategy.

5.5.2 The other proposed general fund schemes encompass the following key themes:

- A budget provision to grow a commercial property investment portfolio;
- Fire improvement works across the corporate property estate;
- Refurbishment of the Council's core property stock to deliver a planned condition programme;
- Essential refurbishment and renovation works to theatres, parks, leisure centres and other leisure assets;
- Upgrade and modernisation of the ICT core infrastructure;
- ICT schemes in support of business transformation;
- The continuation of the Better Queensway project through the next phase of development;
- Implementation of security measures in line with current threat levels.

## **6. Capital Programme 2018/19 to 2021/22**

6.1 The Council's proposed capital programme for 2017/18 and future years is attached as Appendix 8, which includes all of the adjustments identified in the other appendices.

6.2 The proposed capital programme represents a significant investment of nearly £185million on the part of the Council in the Southend area and the projected

investment in 2018/19 alone amounts to some £88million. Key areas of new and continued investment in 2018/19 and later years include:

- Library Car Park Reconstruction and Enhancement;
- Re-development of Delaware and Priory Residential Care homes and the Viking Day Centre;
- Secondary School Expansion Programme;
- Airport Business Park;
- Digital Strategy and ICT infrastructure;
- Council and Private Housing stock;
- Highways infrastructure and Transport works;
- A127 works;
- Energy efficiency schemes;
- Essential Pier works;
- Coastal Defence and foreshore;
- Essential works for Leisure, Parks, Libraries, Theatres and Museums;
- Better Queensway.

6.3 In addition, the proposed scheme subject to external funding approval for the period 2018/19 to 2021/22 amounts to nearly £19m, relating to the Forum II.

## 7. Funding the capital programme

7.1 The proposed capital programme presented in this report is currently fully funded and has been prepared based on the level of borrowing the Council can support, notified capital grants, prudent assumptions over the level of other grants and the timing and valuation of capital receipts (from the sale of existing surplus Council assets) that will be realised.

The proposed estimated funding for the programme is as follows:

Type of funding:	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
External funding – capital grant	33.8	25.2	10.1	<b>69.1</b>
External funding – third party contributions	2.4	0.2	-	<b>2.6</b>
Capital Receipts	3.9	-	-	<b>3.9</b>
Major Repairs Reserve (Housing Revenue Account)	7.6	6.2	6.2	<b>20.0</b>
Earmarked reserves/ Revenue Contributions	4.1	1.4	-	<b>5.5</b>
Borrowing – Main Schemes <sup>(1)</sup>	31.5	28.8	4.5	<b>64.8</b>
Borrowing – Invest to Save <sup>(1)</sup>	5.1	9.1	4.8	<b>19.0</b>
<b>Total</b>	<b>88.4</b>	<b>70.9</b>	<b>25.6</b>	<b>184.9</b>

Note 1 - this relates to both internal and external borrowing

The estimated amounts of internal and external borrowing are shown in the table below:

<b>Borrowing to fund capital schemes</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>Total £m</b>
Internal borrowing	0	10.9	3.3	<b>14.2</b>
External borrowing	36.6	27.0	6.0	<b>69.6</b>
<b>Total borrowing</b>	<b>36.6</b>	<b>37.9</b>	<b>9.3</b>	<b>83.8</b>

- 7.2 An updated Corporate Asset management Strategy (CAMS) for the period 2015-25 was agreed by Cabinet on 22 September 2015 and endorsed by Full Council on 22 October 2015. This revised CAMS records a clear preference for the retention of freeholds but does recognise that in some circumstances, a disposal is the most appropriate course of action. The Capital Receipts target of £1m p.a. is retained but is not a key driver for the sale of property. Capital receipts will reduce the need for borrowing to support the Capital Programme if they can be generated.
- 7.3 When the Council enters into Prudential Borrowing to fund Capital expenditure, there is a revenue impact and therefore an increase to the Councils budget requirement. As an indicative guide to the revenue consequence, there is a cost of approximately £70k for every £1m borrowed or if £10m is borrowed this would equate to an increase in Council Tax of approximately 1%.
- 7.4 The full impact of borrowing costs associated with the funding of the proposed programme has been included in the Council's current financial planning for 2018/19 to 2021/22. The draft 2018/19 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2018/19.
- 7.5 The other revenue implications of the proposed new schemes and additions to the Capital Programme are set out in the table at the end of Appendix 7. In summary these are:
- Commercial Property Investment – the rental Incomes to at least cover the financing costs;
  - Children's Residential Provision – placement savings of £80,000 p.a. from 2019/20 from a combination of children's residential care, part time placement and respite placements;
  - Income Management System – increase in annual support and maintenance costs of £20,000 p.a. from 2019/20;
  - New Artists Studios – rental income from the project for Beecroft Art Trust, which will first repay the capital reserve investment from the Council;
  - Manor Road Cliff Stabilisation – £5,000 p.a. saving in footway maintenance;
  - Flood Prevention Works - £10,000 p.a. maintenance costs for the pumping station.
- 7.6 In summary, it is the Chief Finance Officer's view that the 2018/19 to 2021/22 proposed capital programme is Prudent, Affordable and Sustainable.

## **8. Capital Strategy, Corporate Asset Management Strategy & Prudential Indicators**

8.1 Each year the Council agrees a Capital Strategy that sets out the framework for controlling and monitoring the Capital Programme. The Capital Strategy is a key document for the Council. It sets out the processes and policies relating to capital expenditure and includes reference to other key documents of the authority which influence capital investment such as the Medium Term Financial Strategy (MTFS) and the Corporate Asset Management Strategy (CAMS). It is best practice for this strategy to be reviewed annually alongside the MTFS, and an updated Capital Strategy will be presented to Cabinet in February 2018.

8.2 In addition, each year the Council agrees a Treasury Management Strategy and prudential borrowing indicators that includes identifying how planned capital investment is to be funded. The strategy will be presented to Cabinet in February 2018 as part of the suite of papers agreeing the overall 2018/19 to 2021/22 budget.

## **9. Other Options**

9.1 The proposed Capital Programme is compiled from a number of individual projects, any of which can be agreed or rejected independently of the other projects.

## **10. Reasons for Recommendations**

10.1 The proposed Capital Programme is compiled from a number of individual projects which either contribute to the delivery of the Councils objectives and priorities or enhance the Councils infrastructure.

## **11. Corporate Implications**

11.1 Contribution to Council's Vision & Corporate Priorities

The projects directly contribute to the delivery and achievement of the Councils Corporate Priorities.

11.2 Financial Implications

As set out in the report.

11.3 Legal Implications

None at this stage.

11.4 People Implications

None at this stage.

## 11.5 Property Implications

The Capital Strategy and Corporate Asset Management Strategy (CAMS) may affect the Council's property holdings, assets and liabilities. The Strategy and CAMS will reflect the implications of the agreed capital programme and any impact on the level of required borrowing.

The CAMS now also includes a Commercial Property Investment Strategy setting out the Council's clear intention to proceed to make commercial property investments on the basis of specialist independent advice and where there is a good, sustainable return to be made both in terms of on-going revenue and long term capital appreciation.

## 11.6 Consultation

Consultation has taken place as agreed in the budget timetable.

## 11.7 Equalities and Diversity Implications

Assessments have been carried out for all capital investment proposals where appropriate.

## 11.8 Risk Assessment

All capital projects are delivered using best practice project management tools as appropriate. This requires a full risk assessment and management review to be carried out. The programme includes an appropriate sum within each project to cover build risk and claims.

## 11.9 Value for Money

All projects are required to follow and adhere to procurement guidance issued by the Council. They must also comply with procedure rules for entering into and managing contracts with suppliers.

## 11.10 Community Safety Implications

Assessments have been carried out for all capital investment proposals where appropriate.

## 11.11 Environmental Impact

Assessments have been carried out for all capital investment proposals where appropriate.

## 12. Background Papers

### 12.1 None.

### **13. Appendices**

Appendix 1 – Approved Capital Programme November 2017

Appendix 2 – Changes to Approved Capital Programme

Appendix 3 – Virements Between Approved Schemes

Appendix 4 – Re-profiles Between Years

Appendix 5 – New External Funding

Appendix 5a – LTP3 – Capital Actions and Allocations

Appendix 6 – Proposed New Schemes and Additions to the Capital Programme

Appendix 7 – Proposed New Schemes and Additions - descriptions

Appendix 8 – Amended Capital Programme 2018/19 to 2021/22 (2017/18 shown for information)