

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Management Team
to
Cabinet
on
19 January 2017

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Draft Capital Programme 2017/18 to 2020/21
All Scrutiny Committees
Executive Councillor: Councillor Lamb
A Part 1 Public Agenda Item

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 2017/18 to 2020/21 that can be submitted to Council for approval.

2. Recommendation

That the Cabinet:

- 2.1 Note the current approved Programme for 2017/18 to 2019/20 of £125.4m (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 2017/18 to 2020/21 totalling £59.1m of which £52.9m is for the General Fund and £6.2m for the Housing Revenue Account (Appendices 6 and 7);**
- 2.4 Consider and approve the proposed schemes subject to external funding approval for the period 2017/18 to 2020/21 totalling £42.6m (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 £185.8m for 2017/18 to 2020/21 (Appendix 8);**
- 2.6 Note that, of the total programme of £185.8m for the period 2017/18 to 2020/21, the level of external funding supporting this programme is £58.2m (paragraph 7.1).**

2.7 Note that a final review is being undertaken on the 2016/17 projected outturn and that the results will be included in the report to Cabinet on 14 February 2017;

2.8 Refer this report as approved to all Scrutiny Committees and then to Budget Cabinet on 14 February 2017.

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 2016/17 to 2019/20 - Movements

4.1 The Council's current agreed capital programme for 2016/17 and future years is attached as Appendix 1 and totals £191.2m.

4.2 Movements and proposed new schemes and additions since the agreement of the revised programme in November 2016 have an overall effect of increasing the capital programme by £55.8m and are set out in Appendix 2, with more detail in Appendices 3 to 7.

5. Spending Plans 2017/18 to 2020/21

The proposed additions to the Capital Programme for 2017/18 to 2020/21 of £59.1m are set out in Appendix 6, with the details of each scheme and its funding explained in Appendix 7. The key areas of investment and funding for the Council are identified in the sections below.

5.1 Education

5.1.1 In February 2016 the Government confirmed the Education Maintenance Capital allocations and Devolved Formula Capital (DFC) for 2016/17 and gave an indication that a similar level of grant would be available for 2017/18, subject to downwards adjustments as more schools convert to academy status. Basic Need Grant was confirmed for the three years 2016/17 to 2018/19.

The grant funding was confirmed as follows:

- £0.537 million of basic need funding to provide school places to be paid in 2016/17 with £1.14 million paid in 2017/18 and £4.80 million in 2018/19.
- £1.55 million of Maintenance Capital to support the needs of the schools we maintain and for the Sure Start children's centres;
- £0.288 million of Devolved Formula Capital for schools;

5.1.2 All of these allocations will be delivered as capital grant.

5.1.3 The Government is due to announce in February 2017 the 2017/18 figures and indicative figures for the years 2018/19 and 2019/20. If these figures are available in time they will be included in the report to Cabinet on 14 February 2017.

5.1.4 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 rising pupil numbers.

5.1.5 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 under the Free School Agenda.

5.1.6 The Primary School Expansion Programme has been completed although any changes to future demand will be monitored closely. The Secondary School Expansion Programme is now in the feasibility and planning stage.

5.1.7 Government funding is now ring fenced and Southend, like many other authorities, will be spending more on Basic Need than the awarded grant.

5.1.8 Improvement and provision of school places funding of £18 million has funded the purchase of the PROCAT building and to allow improvements and future expansions at Futures college under the umbrella of the incoming Partnership Learning Academy Trust. New accommodation for both Seabrook College elements under the umbrella of the incoming Parallel Learning Academy Trust has been identified and three secondary schools are at the planning application stage of their expansions.

5.1.9 In November 2015, following the three year indicative funding award published in January 2015, the Heads Asset Management Group agreed a draft three year building condition programme to allow schools to plan ahead. It was

agreed that only the first £1 million of Maintenance Grant per year would be used exclusively for this programme and the remainder would be made available to address condition items within the schools expansion programme.

- 5.1.10 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.
- 5.1.11 The focus on additional places will mean that expenditure on condition schemes will continue and be limited, with up to £1 million to be allocated in 2017/18 to address high priority condition items at schools and children's centres, which if not done could result in a closure. The replacement of boilers, curtain walling and rewiring continues to dominate. This programme will be subject to adjustment as schools convert to academy and the grant income reduces accordingly.

5.2 Housing

- 5.2.1 As part of the HRA Land Review project it was agreed that officers should investigate a phased approach to the housing development on Council owned land. The plan is to construct 18 housing units within the Shoeburyness ward. The contractor is progressing well on site, the first five houses in Bulwark Road and Exeter Close have been handed over and it is anticipated that the six houses in Ashanti Close will be handed over in early January.
- 5.2.2 The Housing Revenue Account (HRA) capital programme for the 2016/17 financial year is £8,881,000 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 £2,508,000 for the construction of new housing on HRA land as included above and £345,000 for some remodelling works to sheltered housing schemes.
- 5.2.3 A proposal for the use of the sheltered housing remodelling budget went forward to November Cabinet. It was agreed that a series of workshops would be set up to explore various schemes. The outcome of these workshops will be presented as a follow up Cabinet report with recommended options for developing a model of sheltered housing provision in order to meet the housing needs of older people in Southend.
- 5.2.4 The overall capital programme for the next four financial years 2017/18 to 2020/21 includes a commitment of around £6 million each year for major repairs and Decent Homes work to the Council's housing stock.

5.3 Highways and Transportation

5.3.1 The expenditure will be delivered by fully un-ringfenced capital grants.

5.3.2 The settlement is as follows:

	2017/18 £'000
Integrated Transport	1,401
'Needs Based' Highways Capital Maintenance Block	1,238

In addition, for the financial years 2018/19 – 2020/21 the following indicative allocations have been announced:

	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

5.3.3 The allocations for the Integrated Transport Block (ITB) 2018/19 to 2020/21 are indicative and are subject to review. The Department for Transport intend to refresh the data in April 2017 and then announce confirmed allocations.

5.3.4 The Department for Transport has recently issued a document titled 'Roads Investment – The roads funding package' which informs where the new funding of £1.3 billion will be allocated as per the Autumn Statement 2016.

5.3.5 The document also details information in relation to other funding and the following extracts are taken from that.

- Local Highways Maintenance Funding Needs Element - this existing Needs Based Formula totals £4.7 billion over the 6 years funding period to the end of this Parliament. The Funding allocated to each Local Highway Authority in England (outside London) is based on a formula using data provided by each authority regarding the assets for which they are responsible.
- Local Highways Maintenance Challenge fund - this fund is to enable Local Highway Authorities in England to bid more major maintenance projects that are otherwise difficult to fund through the normal needs element allocations they receive. A second tranche of the fund will be announced shortly.
- Local Highways Maintenance Incentive/Efficiency Element Funding – there is existing funding of £578 million to Local Authorities in adopting efficiency principles for highways maintenance. It is a mechanism for authorities to receive additional funding over and above the Needs Based Formula. Round two will be formally launched shortly.

- Pothole Fund – 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. In addition to that sum it has also been announced that a sum of £102k has been allocated for 2017/18.

5.3.6 To allow the full delivery of the 2016/17 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. This includes a list of schemes developed by the Traffic and Parking Working Party and Members requests.
- 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, this is flexibility to allocate funding between the two blocks and the LTP actions.

5.4 Other Services

5.4.1 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.

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

- Redevelopment of Delaware, Priory and Viking;
- Further new investment in Southend Pier of £11.6m;
- Car parking in the town centre and central seafront areas;
- Upgrade and modernisation of the ICT core infrastructure;
- ICT schemes in support of business transformation;

6. Capital Programme 2017/18 to 2020/21

- 6.1 The Council's proposed capital programme for 2016/17 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 £247million on the part of the Council in the Southend area and the projected investment in 2017/18 alone amounts to nearly £59million.
- 6.3 In addition, the proposed schemes subject to external funding approval for the period 2017/18 to 2020/21 amount to over £42m, relating to the Airport Business Park and Better Queensway.

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:	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
External funding – capital grant	15.8	18.7	17.7	4.3	56.5
External funding – third party contributions	1.4	0.1	0.2	-	1.7
Capital Receipts	1.0	2.7	-	-	3.7
Major Repairs Reserve (Housing Revenue Account)	7.2	5.8	6.2	6.2	25.4
Earmarked reserves/ Revenue Contributions	3.5	1.3	-	-	4.8
Borrowing – Main Schemes ⁽¹⁾	24.9	27.1	14.2	3.0	69.2
Borrowing – Invest to Save ⁽¹⁾	5.0	5.5	11.3	2.7	24.5
Total	58.8	61.2	49.6	16.2	185.8

Note 1 - this relates to both internal and external borrowing

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

Borrowing to fund capital schemes	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Internal borrowing	8.9	8.6	7.5	5.7	30.7
External borrowing	21.0	24.0	18.0	0	63.0
Total borrowing	29.9	32.6	25.5	5.7	93.7

- 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 £9m 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 2017/18 to 2020/21. The draft 2017/18 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2017/18.
- 7.5 In summary, it is the Chief Finance Officer's view that the 2017/18 to 2020/21 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 2017.
- 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 2017 as part of the suite of papers agreeing the overall 2017/18 to 2020/21 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 2016

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 2017/18 to 2020/21 (2016/17 shown for information)