Southend-on-Sea Borough Council

Agenda Item No.

Report of Corporate Management Team
to
Cabinet
on
13 February 2014

Report prepared by: Joe Chesterton
Head of Finance and Resources

Capital Programme 2014/15 to 2017/18
All Scrutiny Committees
Executive Councillor: Councillor Nigel Holdcroft
A Part 1 Public Agenda Item

---

1. Purpose of Report

1.1 The purpose of this report is for Members to consider a proposed programme of capital projects for 2014/15 to 2017/18 that can be submitted to Council for approval.

2. Recommendation

That the Cabinet recommend to Council that it:

2.1 Note the current approved Programme for 2014/15 to 2017/18 of £66.1m (Appendix 1);

2.2 Approve 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 2014/15 to 2017/18 (and later years) totalling £60.7m of which £52.7m is for the General Fund and £8.0m for the Housing Revenue Account (Appendices 6 and 7);

2.4 Note that the proposed new schemes and additions (Appendices 6 and 7) and other adjustments (Appendix 2) will result in a proposed capital programme of £137.4m for 2014/15 to 2017/18 (and later years) (Appendix 8);

2.5 Note that, of the total programme of £137.4m for the period 2014/15 to 2017/18 (and later years), the level of external funding supporting this programme is £38.2m and £31.5m is funded from the Housing Revenue Account (paragraph 9.1);

2.6 Note that a final exercise has been undertaken on the 2013/14 projected outturn and that the results have been included in this report;

2.7 Approve the Capital Programme for 2013/14 to 2017/18 (Appendix 8).

2.8 Note the minor revisions to the Asset Management Plan (paragraph 4.5) to be included in the refreshed plan for 2013 to 2017.

3. Background

3.1 The Council is required to review its capital spending plans each year and set a Capital Programme. A key consideration when setting the programme is the projected level of available capital resources.

3.2 A variety of resources are available to local authorities to fund capital investment. The primary one is borrowing. As a result of the prevailing economic conditions, capital receipts are slow to crystalize, and the Council has to borrow in order to fund any additional commitments that are not funded from external sources. The Medium Term Financial Strategy has set aside revenue funding to enable the Council to fund borrowing over the period from 2014/15 to 2017/18. The purpose of this funding is to complement other sources of funding, such as external grants, to enable the Council to deliver an ambitious capital programme that supports its objectives.

3.3 A second source of funding is capital receipts which arise from the sale of assets such as surplus land and the sale of council dwellings. As mentioned in paragraph 3.2, the generation of capital receipts has been severely impacted by the recent economic downturn.

3.4 A third source of funding is capital grants, or external funding, issued by Government departments and agencies, which are often allocated on a competitive bidding basis for specified purposes. Many of these require local authorities to make a financial commitment through match funding and to the on-going running costs of the schemes.

3.5 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.

3.6 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.

3.7 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 in the setting of its Council tax.

4. Capital Programme Planning

4.1 An important part of planning is for the Council to have a Capital Strategy and Asset Management Plan in place. In addition, there are other service capital plans that are required by Government departments and they need to link clearly to the overall Capital Strategy and Asset Management Plan.

4.2 The authority's Capital Strategy is updated on an annual basis and is approved alongside the Capital Programme. A review of the Capital Strategy has been undertaken and this is attached at Appendix 10.

4.3 The Capital Strategy is an over-arching policy document which relates to investment in services and describes how the deployment and redistribution of capital resources contributes to the achievement of corporate goals. The overarching objectives for the Capital Strategy are as follows:

- Successfully deliver a Capital Programme which is consistent with the Council's key priorities;
- Maximising external funding to support the delivery of the Capital Programme consistent with the Council's key priorities, both from the private sector and through Government grant funding;
- Maximising the utilisation of the Council's assets by:
  - Ensuring that all investment properties are making sufficient returns;
  - Ensuring that non-profitable investment properties and assets surplus to requirements are disposed of as efficiently as possible;
  - Monitoring the utilisation of assets on a regular basis.

4.4 The Capital Strategy and the Asset Management Plan are integral to the Council's future capital investment planning process. The Capital Strategy links policies and priorities to capital investment and provides a framework for the operational work of asset management. The Asset Management Plan, which covers all of the Council's assets, provides essential information in determining capital investment needs.

4.5 The Asset Management Plan was comprehensively reviewed and updated as part of the 2010/11 budget process and has been reviewed annually since in the annual budget processes. The plan is reviewed annually to ensure that it is up to date and links with the latest Capital Strategy. The following minor amendments will be incorporated in to the plan which will be put on the Council's website following Budget Council to replace the existing version. The plan will be updated to include:

- An updated section setting out the Council’s procedure to manage the list of Assets of Community Value as agreed by Cabinet 16 June 2013;
- The Council's plans to make more asset information publicly available through the European INSPIRE Initiative, the further development of GIS, particularly the Pan-Essex Mapping Project (EPAM) hosted by Southend and available for all Essex Local Authorities, Essex Police, Fire and other services to provide a web-hosted, pan-Essex public sector property map;
- An update on PSP Southend LLP projects, including the former Hinguar Primary School development, Brunel Road and possible pipeline projects;
- The outcome of an operational property review, including reference to recent service reviews on Library Services, Youth Services, the Council's two Elderly Peoples' Homes and the property implications of the New Ways of Working Programme, Energy and other corporate workstreams;
- As set out in the Revenue Budget Report, bringing forward a review of potential additional rental income along with the realignment of all Council rent generating assets (all not assets used for service delivery) into one managed budget under Asset management which is due to complete before the end of the 2013/14 financial year. The crystallization of a corporate landlord approach for all rent generating property will lead to better control and the generation of further income;
- A revised schedule of Asset Management fees and charges to optimise income generation;
- Updating of the Council’s aims, objectives and priorities in line with the Corporate Plan;
- Consideration of a full review and re-write of the Asset Management Plan during 2014/15 for the period 2015 – 2020 including major projects such as the Airport Business Park and Seaway Car Park developments;
- An updated approach to the rolling asset revaluation and Non-Domestic Rates appeal programmes.

4.6 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. This Strategy and indicators are a separate report elsewhere on this agenda.

4.7 The formulation of the 2014/15 to 2017/18 Capital Programme has taken account of the Council’s Capital Strategy and Asset Management Plan and consequently capital schemes are assessed and approved on the basis of this strategy.

5 Capital Accounting Arrangements

5.1 The enabling legislation for the current capital regime is set out in the Local Government Act 2003 which came into force on the 1 April 2004. Since this date, authorities have been empowered with greater freedoms to borrow than under the previous system, providing they can meet the revenue costs of the borrowing and the running costs of the resultant capital scheme.

The capital system provides for an integrated approach to capital investment decision making with an authority having to take account the following when setting its prudential indicators:

- Affordability;
- its asset management plans;
- the implications for external borrowing;
- Value for money through options appraisal and its strategic plans.

The aim is to bring together revenue and capital resources to meet service delivery objectives.

5.2 Instead of the use of credit approvals under the previous capital control system, the current system places reliance on a series of prudential indicators that must be determined by each local authority for the forthcoming year and the following two years. These indicators assist Council's in determining an appropriate level of borrowing and to provide benchmarks against which they can monitor their borrowing levels.

5.3 In simple terms the Council is now able to borrow at whatever levels it feels are necessary so long as any borrowing is prudent, affordable and sustainable.

5.4 The prudential guidelines require the Council to set out various indicators on its capital plans, investments and projected Council Tax increases.

5.5 New capital expenditure plans proposed in Appendices 6 and 7 along with existing capital investment plans, require the Council to borrow approximately £81m over the period 2014/15 to 2017/18. This level of borrowing is mainly driven by the capital programme but also by the need to re-finance some loans and to bring the amount of borrowing up to the Capital Financing Requirement (CFR) (see paragraph 5.3 of Appendix 2 of the Treasury Management and Prudential Indicators – 2014/15 report elsewhere on this agenda).

6. Capital Programme 2013/14 to 2017/18 - Movements

6.1 The Council's current agreed capital programme for 2013/14 to 2016/17 is attached as Appendix 1 and totals £118.4m.

6.2 Movements and proposed new schemes and additions since the agreement of the revised programme at Cabinet in November 2013 have an overall effect of increasing the capital programme by just over £65m to £183.6m and are set out in Appendix 2, with more detail in Appendices 3 to 7.

7. Spending Plans 2014/15 to 2017/18 (and later years)

The proposed new schemes and additions to the Capital Programme for 2014/15 to 2017/18 (and later years) of £60.7m 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.

7.1 Education

7.1.1 The Government announced the updated Education Capital allocations for 2014/15 in late January 2014. In addition a further £3.79m targeted grant to provide new primary places from September 2015 was awarded in October 2013.

The grant funding for 2014/15 has been confirmed as follows:

- £2.97m of basic need funding to provide school places;
- £1.89m of maintenance capital to support the needs of the schools we maintain and for the Sure Start children's centres;
- A provisional allocation of £0.34m of devolved formula capital for schools, final allocations will be confirmed in April 2014 to take account of the Academy conversions at that date;
- There has also been a grant award of £0.44m to assist schools to meet the new government initiative of a free school lunch for all infant aged pupils.

The Basic Need grant for 2015/16 and 2016/17 has been announced as £1.05m over the two years.

7.1.2 As was the case in 2013/14, all of these allocations will be delivered as capital grant.

7.1.3 The education capital programme for 2014/15 and 2015/16 will be dominated by the need to provide more primary school places to cope with the rising birth rate. Projects to provide places will occur at Bournemouth Park Primary School, Porters Grange Primary School, Darlinghurst Primary School and further works at Hamstel Infant and Junior Schools.

7.1.4 The targeted capital funding received will see, subject to the results of formal consultations, the permanent expansions of Thorpe Greenways Infant and Junior Schools and Sacred Heart Primary School by 1form of entry (FE) each.

7.1.5 £4.1m over two years for 2013/14 and 2014/15 has been agreed to expand St Helen's Primary School permanently by 1FE and St Mary's Primary School by 2FE for up to four years where demand is required. Initial design works are under way and indications are that this cost will be around £4.5m with the additional £0.4m being met from the 2015/16 capital grant allocation.

7.1.6 The focus on primary places will mean that expenditure on condition projects will again be limited, with approximately £1m being allocated in 2014/15 to new high priority condition items at schools and children's centres, which if not done could result in a closure. Any underspends on current condition projects will be used to increase this so more urgent items can be addressed. The replacement of boilers continues to dominate.

7.1.7 The list of possible condition projects that the above have been identified from, could extend the 2014/15 programme by a further £2.5m and the longer that these projects are not addressed the greater the risk of having to undertake emergency projects during the year. This risk will increase year by year if only a minimal condition programme is possible, which given the continual demand on primary places, seems likely.

7.1.8 Government funding for 2014/15 will be £2.97m for basic need and £1.89m for maintenance. This funding is not ring fenced, and Southend like many authorities will be spending more on basic need than is allocated.

7.1.9 The devolved formula capital allocations to schools have been confirmed but at the low levels set originally in 2012/13. This will continue to put pressure on any central programme with schools unable to deal with the range of capital items they might have been able to deal with prior to 2012/13.

7.1.10 The income received from Central Government for maintenance is likely to be reduced in relation to the number of academies. However, this may be further adjusted when final allocations are made in April 2014. Academies are able to bid into a central pot directly to the Department for Education. The basic need funding to Councils does include expansion at academies and the Government would expect the Council to fund capital works for any new academy arising from a basic need requirement.

7.2 Housing

7.2.1 Since the Cabinet meeting in November 2013, it is proposed that the Housing Revenue Account capital programme be updated to reflect budget re-profiles (set out in Appendix 4) and increased by the additions relating to the future capital programme (set out in Appendices 6 and 7).

7.2.2 Officers are continuing to work on a review of HRA capital investment in line with flexibilities offered by HRA self-financing. The aim of the review is to develop a longer term strategic programme that looks at opportunities for a more creative way to plan for the replacement or upgrading of existing assets beyond the standard repairs and maintenance programme. The review is exploring the possibility of the Council taking a more strategic approach to the development of additional social housing as a key regeneration tool.

7.2.3 Until then a holding “business as usual” programme is proposed. The value of the programme is in accordance with affordability within the self-funded HRA together with known grant funding for 2014/15. In addition, as part of the City Deal expression of interest, the Council have asked Government to consider the HRA borrowing headroom to be lifted to £50m to allow additional housing to come forward.

7.3 Highways and Transportation

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

7.3.2 The settlement is as follows:

	2013/14 (confirmed) £'000	2014/15* (confirmed) £'000	2015/16 (indicative) £'000
Integrated Transport	1,138	1,600	No details
Highways Capital Maintenance	1,720	1,518	No details

* ***The breakdown of these figures by scheme is shown in Appendix 9.***

In addition, an increase in Local Highways Maintenance Funding was announced by DfT on 18 December 2012 as follows and the grant letters have been received as confirmation:

	2013/14 £'000	2014/15 £'000
Add. Highways Capital Maintenance	277	157

7.3.3 To allow the full delivery of the 2014/15 Local Transport Plan (LTP) programme, the full spend is proposed to be met 100% by capital grant and officers will progress a prioritised list of schemes for both Integrated Transport and Highways Maintenance as necessary to ensure full delivery against the allocated capital grant in 2014/15. There is flexibility to allocate funding between the two blocks, with the exception of the additional allocation which must be spent on maintenance.

7.3.4 Members should also be aware that following the consultation on the Integrated Transport Block Funding (IT), the Department for Transport (DfT) has now published details (December 2013) of the revised formula, which now includes for the first time a factor relating to carbon emissions from transport.

7.3.5 Following the Spending Round 2013, DfT has top sliced £200m per year (for the six year period 2015/16 to 2020/21) from the Integrated Transport Block (ITB) allocations to the Local Growth Fund, as part of the Growth Deal process to Local Enterprise Partnerships supporting local growth priorities. This amount represents some 40% of the total ITB funding. Hence, when the funding announcement is made for the direct allocation to Local Authorities, it will need to take into account both the revised formula and the reduction in direct ITB award.

7.4 Other Services

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

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

- Development of land as a business park (funded partly from earmarked reserves - £4,300k);
- Acquisition and/or demolition of property to maximise development opportunities;
- Conversion/extension of property to enable or enhance service re-provision;
- Construction of beach huts;
- Investment in the Council's ICT infrastructure;
- Works to private rented properties to remove hazards and to bring long term empty homes back into use;
- Replacement of street lighting with LED types to reduce energy and maintenance costs (an invest to save scheme funded partly from earmarked reserves - £1,750k);
- Refurbishment of property to improve structural integrity, enhance access or for health and safety reasons;
- Purchase of storage containers and welfare facilities to make a saving compared to the rental costs (an invest to save scheme funded from earmarked reserves - £50k);
- Investment in the Council's coastal defences (funded from earmarked reserves - £100k).

8. Capital Programme 2013/14 to 2017/18

8.1 The Council's proposed capital programme for 2013/14 and future years is attached as Appendix 8, which includes all of the adjustments identified in the other appendices.

8.2 The proposed capital programme represents a significant investment of approximately £137m on the part of the Council in the Southend area over the 4 year period 2014/15 to 2017/18 and the projected investment in 2014/15 alone amounts to over £59m (General Fund £50m and Housing Revenue Account £9m).

9. Funding the capital programme

9.1 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 funding for the programme is as follows:

Type of funding:	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 and later years £m	Total £m
External funding – capital grant	25.7	7.5	1.5	1.5	**36.2**
External funding – third party contributions	1.8	0.2	0	0	**2.0**
Capital Receipts	0.4	0	0	0	**0.4**
Major Repairs Reserve (Housing Revenue Account)	8.2	7.3	8.0	8.0	**31.5**
General Fund earmarked reserves	0.7	4.6	0.5	1.0	**6.8**
Borrowing	22.3	9.3	15.9	13.0	**60.5**
	59.1	**28.9**	**25.9**	**23.5**	**137.4**

9.2 The financing of the capital programme will continue to be supported where possible by the generation of capital receipts from the sale of surplus Council assets. Since 2011, the Council's approach to property disposals has been geared to reflect members' requests to ensure that, wherever possible, assets are used to generate revenue, with freehold disposals being a last option. This recognises the Council's increasing revenue pressures whilst still delivering a modest programme of capital receipts through the current challenging property market. The impact of this approach is that a much lower level of capital receipts is delivered meaning a greater reliance on borrowing to fund the Capital Programme.

9.3 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 £80k for every £1m borrowed or if £8m is borrowed this would equate to an increase in Council Tax of around 1%.

9.4 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 2014/15 to 2017/18. The 2014/15 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2014/15.

9.5 In summary, it is the Chief Financial Officer's view that the 2014/15 to 2017/18 proposed Capital Programme is Prudent, Affordable and Sustainable.

10. Other Options

10.1 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.

11. Reasons for Recommendations

11.1 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 enhances the Councils infrastructure.

12. Corporate Implications

12.1 Contribution to Council's Vision & Corporate Priorities

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

12.2 Financial Implications

As set out in the report.

12.3 Legal Implications

None at this stage.

12.4 People Implications

None at this stage.

12.5 Property Implications

The Capital Strategy and Asset Management Plan (AMP) sets out the approach to disposals that will affect the Council's property holdings, assets and liabilities. The Strategy and AMP reflect the implications of the agreed Capital Programme.

12.6 Consultation

The draft budget approved at Cabinet on 21 January 2014 has been presented to all three Scrutiny Committees and the Business Sector Consultation meeting. The feedback from each of these scrutiny bodies is as follows:

- Place Scrutiny Committee offered no comments on the draft Capital Programme 2014/15 to 2017/18 or the proposed new schemes and additions contained therein, in respect of their areas of responsibility;
- People Scrutiny Committee sought clarification on a few of the capital programme items in respect of their areas of responsibility namely on the Works in Default and Empty Dwelling Management Orders schemes;

- Policy and Resources Scrutiny Committee sought clarification and assurance on borrowing levels and the revenue savings arising from the investment in street lighting. The Committee provided its support for the LED Street Lighting Programme and also for the Victoria Avenue Improvements scheme and prompt action in delivering this latter scheme;

- The Business Sector consultation meeting offered no comments on the draft Capital Programme 2014/15 to 2017/18 or the proposed new schemes and additions contained therein.

12.7 Equalities and Diversity Implications

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

12.8 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.

12.9 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.

12.10 Community Safety Implications

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

12.11 Environmental Impact

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

13. Background Papers

13.1 None.

14. Appendices

Appendix 1 – Approved Capital Programme November 2013

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 6 – Proposed New Schemes and Additions to the Capital Programme

Appendix 7 – Proposed New Schemes and Additions - descriptions

Appendix 8 – Amended Capital Programme 2014/15 to 2017/18 (2013/14 shown for information)

Appendix 9 – Highways Capital Programme 2014/15

Appendix 10 – Capital Strategy 2014/15 to 2017/18