

Southend-on-Sea Borough Council

Agenda
Item No.

4

Report of Corporate Management Team
to
Cabinet
on
12 February 2015

Report prepared by: Joe Chesterton
Head of Finance and Resources

Capital Programme 2015/16 to 2018/19

All Scrutiny Committees

Executive Councillor: Councillor Woodley

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 2015/16 to 2018/19 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 2015/16 to 2017/18 of £100.1m (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 2015/16 to 2018/19 (and later years) totalling £45.4m of which £37.6m is for the General Fund and £7.8m 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 £154.7m for 2015/16 to 2018/19 (and later years) (Appendix 8);**
- 2.5 Note that, of the total programme of £154.7m for the period 2015/16 to 2018/19 (and later years), the level of external funding supporting the General Fund programme is £58.2m and £29.9m for the Housing Revenue Account (paragraph 9.1);**

- 2.6 Note that a final exercise has been undertaken on the 2014/15 projected outturn and that the results have been included in this report;**
- 2.7 Approve the proposed Capital Programme for 2014/15 to 2018/19 (Appendix 8).**
- 2.8 Note the revisions to the Asset Management Plan (paragraph 4.5) to be included in the refreshed plan for 2015 to 2025.**

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 consequently 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 2015/16 to 2018/19. 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 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 sum 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 main Government grant funding. Therefore, any unsupported borrowing undertaken is financed from the total available resources to the Council from both Government grant and 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 9.

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 Asset Management Plan is being substantially re-written for the period 2015 – 2025 and will be presented to June 2015 Cabinet before being uploaded to the Council's website. A workshop has been held with the Senior Leadership Team as part of the process. The amendments to the plan will include:

- Revisions to give the Asset Management Plan a high level strategic focus to enable flexibility over the plan period and to reinforce the current Vision and Strategic Aims that all the Council's assets are corporately held and managed strategically to:
 - Support efficient and effective service delivery;
 - Support the regeneration of the town and enable Southend to achieve its objectives;
 - Underpin the Council's capital programme and revenue budget.
- The inclusion of a property investment strategy with its own set of governance to enable investment opportunity decisions to be taken quickly against a pre-agreed set of investment performance criteria such as and including lot size, yield, property type, lease terms and covenant strength.
- A general review to streamline the document to cross reference other Corporate documents rather than reiterating sections of them.
- An update to the governance section and in particular to the delegated powers set out in the constitution to ensure property decisions can be taken appropriately and promptly and the processes are up to date and clear.
- An update on transparency and data publication, 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.
- PSP Southend LLP update.
- An updated schedule of Asset Management fees and charges to optimise income generation, benchmarked against other local authorities.
- Reference to the Council's high priority major projects such as, and including Queensway, Airport Business Park, Care Home and LD re-provision.

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 included in a separate report elsewhere on this agenda.

4.7 The formulation of the 2015/16 to 2018/19 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 externally borrow approximately £40m (£30m net of loan repayments) over the period 2015/16 to 2018/19. This level of borrowing is mainly driven by the capital programme but also by the need to re-finance some loans (see section 5 of Appendix 2 of the Treasury Management and Prudential Indicators – 2015/16 report elsewhere on this agenda).

6. Capital Programme 2014/15 to 2017/18 - Movements

- 6.1 The Council's current agreed capital programme for 2014/15 to 2017/18 is attached as Appendix 1 and totals £145.4m.
- 6.2 Movements and proposed new schemes and additions since the agreement of the revised programme at Cabinet in November 2014 have an overall effect of increasing the capital programme by nearly £51m to £196.2m for the period 2014/15 to 2018/19 and are set out in Appendix 2, with more detail in Appendices 3 to 7.

7. Spending Plans 2015/16 to 2018/19 (and later years)

The proposed new schemes and additions to the Capital Programme for 2015/16 to 2018/19 (and later years) of £45.4m 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 Education Capital allocations and Devolved Formula Capital (DFC) for 2014/15 and Basic Need allocations for 2014-2017 in late January 2014. Capital grant for 2014/15 was also allocated to assist the schools to deliver the new Universal Infant free school meals requirement from September 2014.

The grant funding was confirmed as follows:

- £4.01 million of basic need funding to provide school places to be paid over three years from 2014/15 to 2016/17 with £2.97 million paid in 2014/15;
- £1.89 million of Maintenance Capital to support the needs of the schools we maintain and for the Sure Start children's centres;
- £0.331 million of Devolved Formula Capital for schools;
- £0.389 million for free school meal requirements

7.1.2 All of these allocations will be delivered as capital grant. The 2015/16 allocations have not yet been announced.

7.1.3 The education capital programme for 2015/16 onwards will continue to be dominated by the need to provide more school places to cope with the rising pupil numbers.

7.1.4 The £3.79 million Targeted Basic Need capital funding awarded in 2013/14 over two years has mostly funded the permanent expansions of Thorpe Greenways Infant and Junior and Sacred Heart Primary School by one form of entry each.

7.1.5 £5.76 million of Basic Need projects that were given funding approval in 2013/14 are progressing. These include St Helen's Primary School, St Mary's Primary School, Darlington Primary School, Bournemouth Park Primary School and Porters Grange Primary School.

7.1.6 The focus on additional places will mean that expenditure on condition projects will again be limited, will approximately £1million being allocated in 2015/16 to new high priority condition items at schools and children's centres, which if not done could result in a closure. The replacement of boilers and rewiring continues to dominate this programme of spend.

7.1.7 The list of possible condition projects that the above have been identified from, could extend the 2015/16 programme by a further £2.5 million 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 given the continual demand on primary places.

- 7.1.8 Government funding is not ring fenced and Southend, like many other authorities, will be spending more on Basic Need than the awarded grant.
- 7.1.9 The devolved formula capital allocations to schools are expected to continue into future years at the lower level set in 2012/13. This will continue to put pressure on any central programme with schools unable to address larger condition issues.
- 7.1.10 The income received from Central Government for maintenance 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. However, 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.
- 7.1.11 The implementation of the new Universal Free School Meals initiative from September 2014 has been successful with all infant age pupils having access to a free lunch. The £0.389 million capital grant awarded to assist with this has been distributed to schools following a bidding round. A second round of funding was offered by the Department for Education in September 2014 with Local Authorities invited to bid on school's individual projects that had not been included in the spending of the first grant award. Southend submitted eleven bids ranging from £3k to £210k. Results will be known in February 2015.

7.2 Housing

- 7.2.1 The Housing Revenue Account (HRA) capital programme for the 2015/16 financial year is £10,002,000 which comprises mainly Decent Homes work to the Council's housing stock including kitchen and bathroom modernisations together with health and safety works. This also includes a budget of £400,000 for some remodelling works to sheltered housing schemes.
- 7.2.2 In 2014 the Council started work on building the first new Council House which has been part funded from the HRA capital programme together with some Section 106 affordable housing money received from developers. The Cabinet has also agreed to progress with a project to build on some of the existing garage sites and the first phase is being progressed at Shoeburyness and a planning application will be submitted early in 2015. An indicative budget of £2 million has been set aside to meet the cost of this project in 2015/16. Initial feasibility work is underway for the Queensway regeneration project and this could have implications in terms of the capital programme in the future.
- 7.2.3 It is proposed to undertake a review of Sheltered Housing in the Borough during 2015 and this will have an impact on the Council's sheltered housing stock. Therefore it is proposed that only essential health and safety works are carried out to sheltered housing schemes in 2015 until the outcome of the review is known. There could be some capital implications for the Housing

Revenue Account arising from the review but this is unlikely to have any financial implications until 2016/17.

- 7.2.4 The overall capital programme for the next four financial years 2015/16 to 2018/19 includes a commitment of at least £7 million each year for major repairs and Decent Homes work to the Council's housing stock.

7.3 Highways and Transportation

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

- 7.3.2 The settlement is as follows:

	2015/16 £'000	2016/17 £'000	2017/18 £'000
Integrated Transport	1,401	1,401	1,401
'Needs Based' Highways Capital Maintenance Block	1,393	1,277	1,238

Full terms and conditions of the confirmed grants will be sent out via formal letter in March 2015.

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

- 7.3.3 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.
- 7.3.4 Following the spending round 2013, £2.75billion was allocated nationally to ITB funding over the 6 year period from 2015/16 to 2020/21. This equates to £458million per year. Each year £200million of this funding will be top sliced and put into the Local Growth Fund (LGF). The first wave of allocations of the Local Growth Fund, including this element, to Local Enterprise Partnerships, were announced on 7th July 2014. The remaining £258million of ITB funding per year will be allocated by formula.
- 7.3.5 The majority of funding for maintenance will continue to be provided on a formula 'Needs basis'. This formula comprises information on key highway asset types, such as road length, bridges, street lighting and footways and cycleways. The allocations from 2018/19 are indicative and pending a data refresh, the collection of cycleway and footway data and a review of the bridges element in the formula. It is worth noting that further funding will be distributed on an 'incentive basis' with the level of funding that a local highway authority will receive to be based on the local authority's record in pursuing innovation, efficiencies and asset management. The Government is also setting up a

'Challenge Fund' for local authorities to bid to for major maintenance projects that could include bridges, carriageways, footways, drainage and street lighting.

7.3.6 To allow the full delivery of the 2015/16 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 Appendix 3 (LTP3 Implementation Plan: 2015/16 – 2020/21 Diagram 4) of the recent Report to Cabinet on 6th January 2015 "Information Report on Review of Local Transport Plan 3 document".
- The recommended allocation to the 'Actions' is set out in Appendix 5a. The Director 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 Head 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 the Cabinet report on 6th January 2015. In addition, maintenance schemes will be progressed using the latest information from the Asset Management work.
- As in previous years, there is flexibility to allocate funding between the two blocks and the LTP actions.

7.3.7 The highways capital programme for 2015/16 is set out in Appendix 5b.

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:

- Condition works at Priory House (funded from earmarked reserve - £225k);
- Upgrade of the Short Street Waste Depot;
- Replacement of non-functioning land drainage on sports pitches;
- Refurbishment of property to improve structural integrity and for health and safety reasons;
- Delivery of suitable storage within Southend for the Prittlewell Prince artefacts;
- Condition works and modernisation of the ICT infrastructure for Southend Pier;
- Development of the derelict, unused, empty space on Victoria Avenue (funded by a grant of £6,700k from the Local Growth Fund);

- Refurbishment of public conveniences;
- Cliff slip remediation and reinforcement works.

8. Capital Programme 2014/15 to 2018/19

- 8.1 The Council's proposed capital programme for 2014/15 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 £155m on the part of the Council in the Southend area over the 4 year period 2015/16 to 2018/19 and the projected investment in 2015/16 alone amounts to over £52m (General Fund £42m and Housing Revenue Account £10m).

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:	2015/16	2016/17	2017/18	2018/19 and later years	Total
	£m	£m	£m	£m	£m
External funding – capital grant	14.6	8.2	12.4	21.4	56.6
External funding – third party contributions	1.6	0.0	0.0	0.0	1.6
Capital Receipts	3.0	1.0	1.0	1.0	6.0
Major Repairs Reserve (Housing Revenue Account)	7.6	7.0	7.5	7.8	29.9
General Fund earmarked reserves	4.4	2.1	0.3	0.4	7.2
Borrowing (external and internal)	20.8	16.3	16.1	0.2	53.4
	52.0	34.6	37.3	30.8	154.7

- 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. The impact of this approach is that a much lower level of capital receipts is delivered meaning a greater reliance on borrowing and external funding 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 2015/16 to 2018/19. The 2015/16 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2015/16.
- 9.5 In summary, it is the Chief Financial Officer's view that the 2015/16 to 2018/19 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 20 January 2015 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 sought clarification on a few of the capital programme items in respect of their areas of responsibility namely:
 - The new bids for the Toilet Refurbishment at Thorpe Hall Avenue and the Cliffs Stabilisation at Clifton Drive;
 - The financing of the new bids by borrowing and the link to forecast levels of borrowing.
- People Scrutiny Committee offered no comments on the draft Capital Programme 2015/16 to 2018/19 or the proposed new schemes and additions contained therein, in respect of their areas of responsibility;
- Policy and Resources Scrutiny Committee sought clarification on a few of the capital programme items in respect of their areas of responsibility namely:
 - The financing of the new bids by borrowing and the link to forecast levels of borrowing.
 - The Waste Transfer Station.
- The Business Sector consultation meeting sought clarification on a few of the capital programme schemes namely the plans to facilitate regeneration of Victoria Avenue.

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 2014

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 5b – Highways Capital Programme 2015/16

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

Appendix 7 – Proposed New Schemes and Additions - descriptions

Appendix 8 – Amended Capital Programme 2015/16 to 2018/19 (2014/15 shown for information)

Appendix 9 – Capital Strategy 2015/16 to 2018/19