

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Management Team
to
Cabinet
on
21st January 2014

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Draft 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 draft programme of capital projects for the period 2014/15 to 2017/18 (and later years) that can be submitted to Council for approval.

2. Recommendation

That the Cabinet:

- 2.1 Note the current approved Programme for 2014/15 to 2017/18 of £66.1m (Appendix 1);
- 2.2 Note the changes to the approved Programme as set out in Appendix 2;
- 2.3 Consider the proposed new schemes and additions to the Capital Programme for the period 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 £132.4m for 2014/15 to 2017/18 (and later years) (Appendix 8);
- 2.5 Note that, of the total programme of £132.4m for the period 2014/15 to 2017/18 (and later years), the level of external funding supporting this programme is £35.4m (paragraph 7.1).
- 2.6 Note that a final exercise is being undertaken on the 2013/14 projected outturn and that the results will be included in the report to Cabinet on 13th February 2014;

2.7 Refer this report as approved to all Scrutiny Committees and then to Budget Cabinet on 13th February 2014.

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 in the setting of its Council tax.

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

- 4.1 The Council's current agreed capital programme for 2013/14 and future years is attached as Appendix 1 and totals £118.4m.
- 4.2 Movements and proposed new schemes and additions since the agreement of the revised programme in November 2013 have an overall effect of increasing the capital programme by £64.3m and are set out in Appendix 2, with more detail in Appendices 3 to 7.

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

The proposed 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.

5.1 Education

- 5.1.1 The Government announced the Education Capital allocations for 2013/14 and 2014/15 in late January 2013. 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:

- £5.61 million of basic need funding to provide school places;
- £1.94 million of maintenance capital to support the needs of the schools we maintain and for the Sure Start children's centres;
- A provisional allocation of £0.37 million of devolved formula capital for schools, final allocations will be confirmed in April 2014 to take account of the Academy conversions at that date;

The grant funding for 2015/16 and 2016/17 has only been partially confirmed.

- 5.1.2 As was the case in 2013/14, all of these allocations will be delivered as capital grant.
- 5.1.3 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, Darlington Primary School and further works at Hamstel Infant and Junior Schools.
- 5.1.4 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 1 form of entry (FE) each.
- 5.1.5 £4m 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 £4.5 million with the additional £500,000 being met from the 2015/16 capital grant allocation.
- 5.1.6 The focus on primary places will mean that expenditure on condition projects will again be limited, with approximately £1 million 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. The replacement of boilers continues to dominate.
- 5.1.7 The list of possible condition projects that the above have been identified from, could extend the 2014/15 programme by a further £2.5 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, which given the continual demand on primary places, seems likely.
- 5.1.8 Government funding for 2014/15 will be £2.96 million for basic need and £1.94 million for maintenance if at similar levels to 2012/13. This funding is not ring fenced, and Southend like many authorities will be spending more on basic need than is allocated.

- 5.1.9 The devolved formula capital allocations to schools have not yet been confirmed but are likely to stay 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.
- 5.1.10 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.

5.2 Housing

- 5.2.1 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).
- 5.2.2 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.
- 5.2.3 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.

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:

	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

In addition, an increase in Local Highways Maintenance Funding was announced by DfT on 18th 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

5.3.3 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.

5.3.4 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.

5.3.5 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.

5.4 Other Services

5.4.1 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.

5.4.2 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).

6. Capital Programme 2013/14 to 2017/18

6.1 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.

6.2 The proposed capital programme represents a significant investment of over £182million on the part of the Council in the Southend area and the projected investment in 2014/15 alone amounts to over £54million.

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 funding for the programme is as follows:

Type of funding:	2014/15	2015/16	2016/17	2017/18 and later years	Total
	£m	£m	£m	£m	£m
External funding – capital grant	23.3	7.1	1.5	1.5	33.4
External funding – third party contributions	1.7	0.3	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	0.2	4.5	0.5	1.0	6.2
Borrowing	20.7	9.3	15.9	13.0	58.9
	54.4	28.5	25.9	23.5	132.4

- 7.2 A disposal strategy to achieve the required receipts target will be presented when the Council formally agrees its Asset Management Plan (AMP) for the period of the capital programme. If the Council does not agree the disposal strategy to support capital investment then there will be either the increased need to prudentially borrow or reduce the extent of the Capital Programme.
- 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 £80k for every £1m borrowed or if £8m 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 2014/15 to 2017/18. The draft 2014/15 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2014/15.
- 7.5 In summary, it is the Chief Finance Officer's view that the 2014/15 to 2017/18 proposed capital programme is Prudent, Affordable and Sustainable.

8. Capital Strategy, Asset Management Plan & 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). 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 2014. Further to this the Asset Management Plan will be presented at the same meeting.

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 2014 as part of the suite of papers agreeing the overall 2014/15 to 2017/18 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

Officers are preparing an update to the Capital Strategy and Asset Management Plan (with an associated disposals strategy) that may significantly affect the Council's property holdings, assets and liabilities. The Strategy and AMP will reflect the implications of the agreed capital programme.

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 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)