

# Southend-on-Sea Borough Council

Report of Corporate Director of Support Services  
to  
**Cabinet**  
on  
22<sup>nd</sup> January 2013

Report prepared by: Joe Chesterton – Head of Finance and Resources

Agenda  
Item No.

---

## Draft Capital Programme 2013/14 to 2016/17

### *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 2013/14 to 2016/17 that can be submitted to Council for approval.

#### **2. Recommendation**

**That the Cabinet:**

- 2.1 Note the current approved Programme for 2013/14 to 2016/17 of £67.6m (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 2013/14 to 2016/17 totalling £23.8m of which £15.8m is for the General Fund and £8m for the Housing Revenue Account (Appendices 6 and 7);**
- 2.4 Note that the proposed additions and other adjustments (Appendix 2) will result in a proposed capital programme of £92.8m for 2013/14 to 2016/17 (Appendix 8);**
- 2.5 Note that a final exercise is being undertaken on the 2012/13 projected outturn and that the results will be included in the report to Cabinet on 12<sup>th</sup> February 2013;**
- 2.6 Refer this report as approved to Scrutiny Committees and then to Budget Cabinet on 12<sup>th</sup> February 2013.**

### **3. Background**

- 3.1 Capital expenditure is defined as expenditure incurred on the 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 will not be supported financially by either capital grant or revenue support grant; hence the full cost has to be met from Council Tax.

### **4. Capital Programme 2012/13 to 2016/17 - Movements**

- 4.1 The Council's current agreed capital programme for 2012/13 and future years is attached as Appendix 1 and totals £137.4m.
- 4.2 Movements and proposed new schemes and additions since the agreement of the revised programme in November 2012 have an overall effect of increasing the capital programme by nearly £25.7m and are set out in Appendix 2, with more detail in Appendices 3 to 7.

### **5. Spending Plans 2013/14 to 2016/17**

The proposed additions to the Capital Programme for 2013/14 to 2016/17 of £23.8m 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 will be announcing the Education Capital allocations for 2013/14 in late January 2013. It is anticipated that the allocations will be in line with 2012/13 funding and the Education programme has been set in line with this funding. Any changes to the capital allocations will be addressed accordingly in the budget process. The estimated funding is as follows:
- £2.46 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 2013 to take account of the Academy conversions at that date;
- 5.1.2 As was the case in 2012/13, all of these allocations will be delivered as capital grant.
- 5.1.3 The education capital programme for 2013/14 and future years 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 Blenheim Primary, Bournemouth Park Primary, Friars Primary, Thorpe Greenways Infant and Junior and Porters Grange Primary. Some of these projects have already commenced and most will continue into following financial years.
- 5.1.4 Projects due to complete in time for the September 2013 reception intake are St. Mary's Primary, Hamstel Infant and Junior Schools, Milton Hall Primary and Temple Sutton Primary.
- 5.1.5 The major projects at Belfairs and Hinguar have completed in 2012/13. A project at Lancaster Special School commenced in summer 2012, funded from a revenue contribution from the Schools Budget.
- 5.1.6 Provision for additional school places in the centre of the town at £2 million per year had been provisionally identified for 2013/14 and 2014/15 in order to deliver more primary school places for September 2015. Initial 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.
- 5.1.7 The focus on primary places will mean that expenditure on condition projects will again be limited, with approximately £1 million being allocated in 2013/14 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. The list of possible condition projects that the above have been identified from, could extend the 2013/14 programme by a further £2.8 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 2013/14 will be £2.46 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 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 2013. 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 2012, it is proposed that the Housing Revenue Account capital programme be updated to show new external funding (set out in Appendix 5) 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 The results of this review will report over the summer and autumn 2013. 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 2013/14. In addition as part of the City Deal expression of interest, the Council have asked Government to consider the HRA borrowing limit 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:

	2012/13 (confirmed) £'000	2013/14 (confirmed) £'000	2014/15 (indicative) £'000
Integrated Transport	1,138	1,138	1,600
Highways Capital Maintenance	1,720	1,518	1,518

5.3.3 To allow the full delivery of the 2013/14 Local Transport Plan (LTP) programme, the full spend is proposed to be met 100% by capital grant and officers will progress a list of schemes as necessary to ensure full delivery against the allocated capital grant in 2013/14.

5.3.4 Members should also be aware that there is currently a consultation out on the Integrated Transport Block Funding (IT) and this is about the calculation and distribution of a capital block grant as well as the future distribution of IT Block funding.

5.3.5 Central Government are currently indicating that they do not plan to change the allocation for 2014/15.

## **5.4 Other Services**

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

## **5.5 Future Investment Needs**

5.5.1 As part of an on-going corporate review and rationalisation of our asset base and the need to look at various invest to save options that can generate revenue savings in future years, a number of schemes are being assessed for their relative business case and “invest to save” opportunity. Listed below are some of these initial schemes which are currently being assessed for their value for money and will be reported back to Members in the financial year on any required investment from the Council. The initial schemes for review are as follows:

- Street Lighting Energy Efficiency works;
- Alternative service delivery methods for services provided in Leigh, Shoebury, Margaret Thatcher House and Crowborough Road;
- Catering and Florist at Sutton Road Cemetery.

## **6. Capital Programme 2012/13 to 2016/17**

6.1 The Council’s proposed capital programme for 2012/13 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 just over £163million on the part of the Council in the Southend area and the projected investment in 2013/14 alone amounts to nearly £47million.

## **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 formula grant settlement data showing the level of borrowing the government will support, 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 that will be realised.

7.2 In addition, the financing of the capital programme also requires the generation of capital receipts from the sale of existing surplus Council assets. 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 have been included in the Council's current financial planning for 2013/14 to 2016/17. The draft 2013/14 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2013/14.

## **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 2013. 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 2013 as part of the suite of papers agreeing the overall 2013/14 to 2016/17 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 enhances 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.

#### 12.11 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 2012

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 Additions to the Capital Programme

Appendix 7 – New Capital Schemes - descriptions

Appendix 8 – Amended Capital Programme 2013/14 to 2016/17 (2012/13 shown for information)