Southend-on-Sea Borough Council

Agenda Item No.

Report of Corporate Director of Support Services
to
Cabinet
on
12th February 2013

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

Capital Programme 2012/13 to 2016/17
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 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 Consider and approve the proposed additions to the Capital Programme for 2013/14 to 2016/17 of £23.8m (Appendices 6 and 7);

2.3 Approve the changes to the approved Programme as set out in Appendix 2;

2.4 Note that the proposed additions and other adjustments (Appendix 2) will result in a proposed capital programme of £100m for 2013/14 to 2016/17 (Appendix 8);

2.5 Note that a final exercise has being undertaken on the 2012/13 projected outturn and that the results have been included in this report;

2.6 Recommend to Council the approval of the Capital Programme for 2012/13 to 2016/17 (Appendix 8).

2.7 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 fact that all of the Council's capital receipts are committed on existing schemes, 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 2013/14 to 2016/17. 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, all of the Council's capital receipts are committed on existing schemes, and future generation of capital receipts has been severely impacted by the recent economic downturn, which will impact for a number of years.

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 acquisition, creation or enhancement 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 either capital grant or 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 2011/12 and 2012/13 budget processes and now for this budget for 2013/14. 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 on Localism Act, including the Council's approach to managing the list of Assets of Community Value;
- References to the Transparency and the Council's plans to make more Asset information publicly available via the further development of GIS, particularly the Pan-Essex Mapping Project currently being facilitated by Improvement East and hosted by Southend and made 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 progress made by PSP Southend LLP, the Council's new delivery vehicle for funding for property projects including summary sections on what has been achieved to date, the key projects which it is bringing forward and possible pipeline projects;
- The current status of the on-going Operational Property Review, including reference to the on-going service reviews and the property implications arising from the reviews on Library Services, Youth Services, the Council's two Elderly Peoples' Homes and the property implications of the New Ways of Working Programme, Alternative Service Delivery, 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 only (not assets used for service delivery) into one managed budget under Asset management, for example, pier and foreshore, beach huts, parks and leisure, etc. It is anticipated that this could lead to the generation of further income arising from a move to corporate landlord approach for all rent generating property;
- A revised schedule of Asset Management fees and charges to optimise income generation.

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 2013/14 to 2016/17 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 1st 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 £37 million over the period 2013/14 to 2016/17.

6. Capital Programme 2012/13 to 2016/17 - Movements

6.1 The Council's current agreed capital programme for 2012/13 and future years is attached as Appendix 1 and totals £137.4m.

6.2 Movements and proposed additions since the agreement of the revised programme at Cabinet in November 2012 have an overall effect of increasing the capital programme by nearly £24m to £161.0m and are set out in Appendix 2, with more detail in Appendices 3 to 7.

7. Spending Plans

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.

7.1 Education

7.1.1 The Government will be announcing the Education Capital allocations for 2013/14 in February 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 as part of future amendments to the capital programme. 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;

7.1.2 As was the case in 2012/13, all of these allocations will be delivered as capital grant.

7.1.3 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.

7.1.4 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.

7.1.5 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.

7.1.6 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.

7.1.7 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.

7.1.8 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.

7.1.9 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.

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 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.

7.2 Housing

7.2.1 Since the Cabinet meeting in November 2012, it is proposed that the Housing Revenue Account capital programme be 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 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.

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:

	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

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

7.3.3 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.

7.3.4 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.

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

7.4 Other Services

7.4.1 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.

7.5 Future Investment Needs

7.5.1 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.

8. Capital Programme 2012/13 to 2016/17

8.1 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.

8.2 The proposed capital programme represents a significant investment of over £161 million on the part of the Council in the Southend area and the projected investment in 2013/14 alone amounts to nearly £54 million (General Fund £46 million and Housing Revenue Account £8 million).

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 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.

9.2 The financing of the capital programme will continue to be supported 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 find 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 2013/14 to 2016/17. The 2013/14 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2013/14.

9.5 In summary, it is the Chief Financial Officer's view that the 2012/13 to 2016/17 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

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

12.6 Consultation

The draft budget approved at Cabinet on 22 January 2013 has been presented to all three Scrutiny Committees and the Business & Ratepayers Consultative Forum. The feedback from each of these scrutiny bodies is as follows;

- Children & Lifelong Learning Scrutiny Committee offered no comments on the draft Capital Programme 2013/14 to 2016/17 or the proposed new schemes and additions contained therein, in respect of their areas of responsibility;
- Community Services and Culture Scrutiny Committee sought clarification on a number of capital programme items in respect of their areas of responsibility;
- Business Ratepayers and Consultative Committee offered no comments on the draft Capital Programme 2013/14 to 2016/17 or the proposed new schemes and additions contained therein;
- Economic & Environmental Scrutiny Committee sought clarification on a number of capital programme items in respect of their areas of responsibility;

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.

14. Background Papers

14.1 None.

15. Appendices

Appendix 1 – Approved Capital Programme November 2012

Appendix 2 – Summary of Changes to Approved Capital Programme

Appendix 3 – Virements Between Approved Schemes

Appendix 4 – Re-profiles and Amendments

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)

Appendix 9 – Highways Capital Programme 2013/14

Appendix 10 – Capital Strategy 2012/13 to 2016/17