

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Management Team
to
Cabinet
on
19 January 2016

Report prepared by: Joe Chesterton
Head of Finance and Resources

Draft Capital Programme 2016/17 to 2019/20
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 draft programme of capital projects for the period 2016/17 to 2019/20 that can be submitted to Council for approval.

2. Recommendation

That the Cabinet:

- 2.1 Note the current approved Programme for 2016/17 to 2018/19 of £129.6m (Appendix 1);
- 2.2 Note 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 the period 2016/17 to 2019/20 totalling £52.7m of which £44.7m 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 £177.6m for 2016/17 to 2019/20 (Appendix 8);
- 2.5 Note that, of the total programme of £177.6m for the period 2016/17 to 2019/20, the level of external funding supporting this programme is £59.9m (paragraph 7.1).
- 2.6 Note that a final review is being undertaken on the 2015/16 projected outturn and that the results will be included in the report to Cabinet on 11 February 2016;

2.7 Refer this report as approved to all Scrutiny Committees and then to Budget Cabinet on 11 February 2016.

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 2015/16 to 2018/19 - Movements

- 4.1 The Council's current agreed capital programme for 2015/16 and future years is attached as Appendix 1 and totals £179.4m.
- 4.2 Movements and proposed new schemes and additions since the agreement of the revised programme in November 2015 have an overall effect of increasing the capital programme by £45.3m and are set out in Appendix 2, with more detail in Appendices 3 to 7.

5. Spending Plans 2016/17 to 2019/20

The proposed additions to the Capital Programme for 2016/17 to 2019/20 of £52.7m 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 In January 2015 the Government confirmed the Education Maintenance Capital allocations, Basic Needs Grant and Devolved Formula Capital (DFC) for 2015/16 and gave an indication that the same level of grant would be available for 2016/17 and 2017/18, subject to downwards adjustments as more schools convert to academy status.

The grant funding was confirmed as follows:

- £2.18 million of basic need funding to provide school places to be paid over three years from 2015/16 to 2017/18 with £1.14 million paid in 2017/18;
- £1.97 million of Maintenance Capital to support the needs of the schools we maintain and for the Sure Start children's centres;
- £0.335 million of Devolved Formula Capital for schools;

5.1.2 All of these allocations will be delivered as capital grant. A further announcement of updated grant awards is expected in late January 2016.

5.1.3 The education capital programme for 2016/17 onwards will continue to be dominated by the need to provide more school places to cope with the rising pupil numbers.

5.1.4 £5.76 million of Basic Need projects that were given funding approval in 2013/14 are almost complete. The outstanding schools are St Helen's Primary School and St Mary's Primary School.

5.1.5 The focus on additional places will mean that expenditure on condition schemes will again be limited, with approximately £1.2 million being allocated in 2016/17 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, curtain walling and rewiring continues to dominate.

5.1.6 Following the three year indicative funding award, the Heads Asset Management Group agreed a draft three year maintenance programme to allow schools to plan ahead. The full list of possible maintenance projects could extend the overall programme by a further £3.5 million and the longer these projects are not addressed, the greater the risk of having to undertake emergency project during the year.

5.1.7 Government funding is not ring fenced and Southend, like many other authorities, will be spending more on Basic Need than the awarded grant.

5.1.8 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.

5.1.9 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 (DfE)

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.

- 5.1.10 A proposed addition to the education capital programme is a scheme of £8,000,000 to ensure the Council meets its duty to provide sufficient school places from September 2017 and 2018. The scheme includes £3million for the conversion of PROCAT and Wentworth. The rest of the scheme would include partial expansion of an existing school(s) to meet rising year 7 numbers and subsequent years would be part of a wider expansion programme. Corporate funding is required to meet any shortfall in Education Funding Agency grant for basic need. This scheme is in addition to the £10,000,000 budget already in the approved capital programme, funded from corporate borrowing.

5.2 Housing

- 5.2.1 As part of the HRA Land Review project it was agreed that officers should investigate a phased approach to the housing development on Council owned land. The project is currently underway and planning permission was received in April for the proposed sites. The plan is to construct 18 housing units with the Shoeburyness ward with an anticipated start date in early 2016 with a total budget of £2,808,000.
- 5.2.2 The Housing Revenue Account (HRA) capital programme for the 2016/17 financial year is £10,273,000 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 £2,608,000 for the construction of new housing on HRA land as included above and £345,000 for some remodelling works to sheltered housing schemes.
- 5.2.3 The sheltered housing review has been commissioned and the outcome of the review will be available during 2016/17. The resulting programme of works will inform the future capital programme.
- 5.2.4 The overall capital programme for the next four financial years 2016/17 to 2019/20 includes a commitment of at least £7.5 million each year for major repairs and Decent Homes work to the Council's housing stock.

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:

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

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

- 5.3.3 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.
- 5.3.4 Following the Autumn Statement 2015, the Government have confirmed the indicative Local Growth Fund allocations that were made through Growth Deals and that Local Enterprise Partnerships will continue to receive core funding from Central Government matched by local areas. A further £100m per year will be available for the Accessibility Fund, £80m of which will be for revenue.
- 5.3.5 The Government has also set up a 'Challenge Fund' for local authorities to bid for major highways maintenance projects that could include bridges, carriageways, footways, drainage and street lighting. The Council was successful in bidding in the first round for the street lighting LED project. There will be a second round of funding through this route in 2017/18. This forms part of the incentivising capital maintenance projects based upon 'banding'. The additional amount within the formula element for the maintenance block could be between £70k and £77k for 2016/17 and £70k and £116k for 2017/18.
- 5.3.6 The Government also announced £475m of new funding to support construction of large transport projects, a £250m pothole action fund, £300m for cycling and continued funding of Bikeability.
- 5.3.7 To allow the full delivery of the 2016/17 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 the Local Transport Plan (LTP3) Implementation Plan: 2015/16 – 2020/21.
 - 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 addition, maintenance schemes will be progressed using the latest information from the Gaist Asset Management work.

- As in previous years, there is flexibility to allocate funding between the two blocks and the LTP actions.

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:

- Reconstruction and enhancement of the Library car park;
- Redevelopment of the Civic Centre East car park;
- A budget provision to grow a commercial property investment portfolio;
- A budget provision to acquire Queensway commercial properties as opportunities arise as part of the Better Queensway regeneration project;
- Cemeteries and crematorium infrastructure and income generation schemes;
- Upgrade and modernisation of the ICT core infrastructure;
- ICT schemes in support of business transformation;
- Refurbishment of the Council's core property stock to deliver a planned condition programme;
- Non-structural condition works on the pier;
- Reinstatement and stabilisation works to the Belton Hills steps;
- A gateway review for the new museum;
- Energy efficiency and solar PV projects.

6. Capital Programme 2016/17 to 2019/20

6.1 The Council's proposed capital programme for 2015/16 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 £177million on the part of the Council in the Southend area and the projected investment in 2016/17 alone amounts to over £65million.

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 estimated funding for the programme is as follows:

Type of funding:	2016/17	2017/18	2018/19	2019/20 and later years	Total
	£m	£m	£m	£m	£m
External funding – capital grant	15.4	17.9	14.0	10.2	57.5
External funding – third party contributions	1.8	0.5	0.1	-	2.4
Capital Receipts	1.6	0.9	1.0	-	3.5
Major Repairs Reserve (Housing Revenue Account)	7.3	7.5	7.8	8.0	30.6
Earmarked reserves/ Revenue Contributions	8.3	0.3	0.1	-	8.7
Borrowing	31.2*	26.6	11.5	5.6	74.9
	65.6	53.7	34.5	23.8	177.6

* This relates to both internal and external borrowing and in respect of 2016/17 external borrowing is estimated to be in the order of £29 million.

- 7.2 An updated Corporate Asset management Strategy (CAMS) for the period 2015-25 was agreed by Cabinet on 22 September 2015 and endorsed by Full Council on 22 October 2015. This revised CAMS records a clear preference for the retention of freeholds but does recognise that in some circumstances, a disposal is the most appropriate course of action. The Capital Receipts target of £1m p.a. is retained but is not a key driver for the sale of property. Capital receipts will reduce the need for borrowing to support the Capital Programme if they can be generated.
- 7.3 When the Council enters into Prudential Borrowing to fund Capital expenditure, there is a revenue impact and therefore an increase to the Council's 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 2016/17 to 2019/20. The draft 2016/17 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2016/17.
- 7.5 In summary, it is the Chief Finance Officer's view that the 2016/17 to 2019/20 proposed capital programme is Prudent, Affordable and Sustainable.

8. Capital Strategy, Corporate Asset Management Strategy & 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) and the Corporate Asset Management Strategy (CAMS). 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 2016.

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 2016 as part of the suite of papers agreeing the overall 2016/17 to 2019/20 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

The Capital Strategy and Corporate Asset Management Strategy (CAMS) may affect the Council's property holdings, assets and liabilities. The Strategy and CAMS will reflect the implications of the agreed capital programme and any impact on the level of required borrowing.

The CAMS now also includes a Commercial Property Investment Strategy setting out the Council's clear intention to proceed to make commercial property investments on the basis of specialist independent advice and where there is a good, sustainable return to be made both in terms of on-going revenue and long term capital appreciation. Now that the CAMS is approved, work on this is beginning, initially with the identification of appropriate advisers.

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 2015

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 6 – Proposed New Schemes and Additions to the Capital Programme

Appendix 7 – Proposed New Schemes and Additions - descriptions

Appendix 8 – Amended Capital Programme 2016/17 to 2019/20 (2015/16 shown for information)