

Southend-on-Sea Borough Council

Report of Strategic Director (Finance and Resources)
to
Cabinet
on
17 January 2019

Agenda
Item No.

Report prepared by: Caroline Fozzard
Group Manager – Financial Planning and Control

Draft Capital Investment Programme 2019/20 to 2023/24
All Scrutiny Committees
Cabinet Member: Councillor John Lamb
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 investment for the period 2019/20 to 2023/24 that can be submitted to Council for approval.

2. Recommendations

That the Cabinet:

- 2.1 Note the current approved Programme for 2019/20 to 2021/22 of £153.1m (Appendix 1);**
- 2.2 Consider and approve the Capital Investment Strategy for 2019/20 to 2023/24 (Appendix 2);**
- 2.3 Consider and approve the proposed:**
- (i) new schemes and additions to the Capital Investment Programme for the period 2019/20 to 2023/24 totalling £14.5m for the General Fund and £20.8m for the Housing Revenue Account (Appendix 6);**
 - (ii) schemes subject to external funding approval for the period 2019/20 to 2020/21 totalling £3.0m (Appendix 6);**
 - (iii) schemes subject to viable business cases for the period 2019/20 to 2021/22 totalling £48.6m (Appendices 6 and 7);**
- 2.4 Note the changes to the approved Programme will result in a proposed capital investment programme of £177.0m for 2019/20 to 2023/24 (Appendix 7) of which £70.7m is supported by external funding;**

- 2.5 Note that a final review is being undertaken on the 2018/19 projected outturn and that the results will be included in the report to Cabinet on 12 February 2019;**
- 2.6 Refer this report as approved to all Scrutiny Committees and then to Budget Cabinet on 12 February 2019.**

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 so any unsupported borrowing undertaken is financed from the total available resources to the Council from both grant and Council Tax.

4 Capital Investment Strategy

- 4.1 Each year the Council agrees a Capital Investment Strategy that sets out the framework for controlling and monitoring the Capital Investment Programme. The Capital Investment Strategy is a key document for the Council. It sets out the processes and policies relating to capital expenditure and investment 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).
- 4.2 The capital investment programme is prepared and developed in accordance with the Council's Capital Investment Strategy, which is attached as Appendix 2 to this report. In turn, the Capital Investment Strategy has been written in the context of Southend 2050 and the five themes and all capital investment is therefore driven by the aim of contributing to the delivery of the ambition and the desired outcomes.
- 4.3 The proposed additions to the capital investment programme for 2019/20 to 2023/24 of £14.5m for the General Fund and £20.8m for the Housing Revenue Account are set out in Appendix 6, with the details of each scheme and its funding explained. In preparing these proposals consideration has been given to the key criteria set out in section 8.1 of the capital investment strategy and to

the factors concerning prudence, affordability and sustainability set out in section 8.3 of the capital investment strategy.

- 4.4 As a result of the strategy around prioritisation of schemes there are a number of new schemes and additions that are being proposed subject to viable business cases being produced and approved under current governance processes, before they can be brought into the capital investment programme. These schemes are set out in Appendix 6.
- 4.5 There are also two schemes in the current approved programme that are now being re-categorised as being subject to a viable business case being approved. These are the re-development of the Delaware and Priory Residential Care homes and the Viking Day Centre and the Commercial Property Investment scheme. This is set out in Appendix 7.
- 4.6 The Council's current agreed capital programme for 2018/19 and future years is attached as Appendix 1 and totals £213.6m.
- 4.7 Movements and proposed new schemes and additions since the agreement of the revised programme in November 2018 are set out in Appendix 7, with more detail in Appendices 3 to 6. Excluding schemes subject to external funding approval and viable business case approval they have an overall effect of increasing the capital investment programme by £21.0m to £234.6m (Appendix 8). If all these schemes were approved it would increase the programme by a further £51.6m to £286.2m (Appendix 8). Appendix 8 also shows how the proposed capital investment programme relates to the five themes.

5 Southend 2050 engagement programme

- 5.1 During spring 2018 the Council embarked on a major engagement exercise with residents and key local stakeholders to develop a shared and jointly owned ambition for Southend in 2050. As part of this a large scale borough-wide 2018 Residents Perception Survey was undertaken.
- 5.2 Residents were asked what they most like about living in this area. The seaside/beach was one of the top responses. A key element of this is Southend's historic pleasure pier, the longest in the world. In recognition of this, capital investment of £18.441m in the pier has been included in this proposed programme across the financial years 2018/19 to 2021/22, including £3.25m for the replacement of the pier trains. A further £10.5m is subject to a viable business case being agreed for the technical design and construction of the Pavilion Deck of the pier.
- 5.3 Parks and open spaces were another important aspect for residents. The town has many parks, gardens and nature reserves offering a range of facilities including sports pitches/courts, children's playgrounds, skateboarding, cafés, boating lakes, fishing lakes and wildlife areas. In recognition of this, capital investment of £1.223m in the town's parks and open spaces has been included in this proposed programme across the financial years 2018/19 to 2020/21.

- 5.4 Residents were also asked what they most disliked about living in this area. The quality of the roads and pavements was the top area of concern and in response to this, capital investment of £26.278m in improvements to the town's highway and footpath network has been included in this proposed programme across the financial years 2018/19 to 2021/22. This amount includes repairing potholes and improving the condition of the pavements around highway trees.
- 5.5 The availability of parking and the amount of traffic congestion were other key areas of concern and in response to this, capital investment of £6.858m for improvements and major works to the town's car parks and £4.690m for traffic management, network and control systems have been included in this proposed programme across the financial years 2018/19 to 2023/24.
- 5.6 Residents were asked how safe or unsafe they felt when outside in their local area. Less than one in ten residents said they felt unsafe during the day but four in ten residents said they felt unsafe after dark. Women and younger residents were more likely to feel unsafe after dark, with perceptions varying by locality. In response to this, capital investment of £2.94m for community safety has been included in this proposed programme across the financial years 2018/19 to 2020/21. £2.04m of this is for an upgrade to the existing CCTV cameras and installation of a number of new cameras in priority locations following consultation.

6. Other Key Areas of Investment 2019/20 to 2023/24

Other key areas of investment for the Council are identified in the sections below.

6.1 Housing

- 6.1.1 Under the theme Safe and Well investment in this area contributes to the desired outcome that we are well on our way to ensuring that everyone has a home that meets their needs.
- 6.1.2 The Housing, Homelessness and Rough Sleeping Strategy 2018-2028 was approved by Cabinet at its meeting of 6 November. The strategy has five high level aims:
- Prioritise the supply of safe, genuinely affordable homes;
 - Regeneration and growth to create inclusive, healthy places to live and thrive;
 - Encourage good quality housing design, management and maintenance;
 - Support people to live independently in their own homes and avoid homelessness;
 - Any instance of homelessness to be brief and non-recurrent.

The capital resource position for housing investment will be submitted once the implementation plans have been developed and considered. Business cases will be considered and agreed, with any resulting capital investment being brought into the programme at the appropriate time. Capital investment may be

supported by funding sources either from the General Fund or Housing Revenue Account (HRA) or by any other housing investment model.

- 6.1.3 The Housing Revenue Account capital investment programme for the 2019/20 financial year is £9.326m which comprises mainly Decent Homes work to the Council's housing stock including kitchen and bathroom modernisations, together with improvements to the common areas and environmental health and safety works. This also includes a budget of £0.700m for disabled adaptations, £1.258m for the construction of new housing on HRA land and £0.345m for some remodelling works to sheltered housing schemes.
- 6.1.4 The overall capital programme for the next five financial years 2019/20 to 2023/24 includes a commitment of at least £6.5m each year for major repairs and Decent Homes work to the Council's housing stock.

6.2 Social Care

- 6.2.1 Under the theme Safe and Well investment in this area contributes to the desired outcome that we are all effective at protecting and improving the quality of life for the most vulnerable in our community.
- 6.2.2 A major investment of £11.581m included in this capital programme (subject to a viable business case being approved) is for the re-development of the Delaware and Priory Residential Care homes and the Viking Day Centre. This will include the building of a new 60-bedroom care facility and a day centre providing high quality services for people with high and complex needs, including dementia, and incorporating specialist services for people with disabilities. The new centre will be flexible, enabling people to remain as independent as possible offering a wide range of activities to meet individual needs and interests as well as providing personal care, therapeutic and health interventions.

6.3 Schools

- 6.3.1 Under the theme Opportunity and Prosperity investment in this area contributes to the desired outcome that our children are school and life ready and our workforce is skilled and job ready.
- 6.3.2 The schools capital investment programme for 2019/20 onwards will continue to be dominated by the need to provide more school places to cope with the current high pupil numbers, as the demand moves from the primary sector to the secondary schools. £12.711m of investment has been included in the proposed programme for this.
- 6.3.3 The secondary expansion programme is progressing well. 120 permanent places have been created for September 2018 and a further seven places will be available from September 2019 along with additional new places over the following years. This expansion will be across eight of the twelve secondary schools. The Primary School future demand will continue to be monitored closely.

6.4 Enterprise and Regeneration

- 6.4.1 Under the theme Opportunity and Prosperity investment in this area contributes to the desired outcome that key regeneration schemes, such as Queensway, seafront developments and the Airport Business Park are underway and bring prosperity and job opportunities to the borough.
- 6.4.2 A major investment of £24.818m included in this capital investment programme is for the Airport Business Park, a major strategic employment site in close proximity to London Southend Airport. It is envisaged that the new Business Park will become renowned as a leading regional centre for the science, medical and technology sectors and deliver benefits for both local businesses and local communities. The development will create thousands of job opportunities for local people, attract inward investment and it is hoped it will bring lasting prosperity to the region. Design consultants have been appointed for the Launchpad at the Airport Business Park. Procurement is in the early stages to find an operator, procurement of the remaining phase one infrastructure works is complete and procurement of phases two and three are underway.

6.5 Culture and Tourism

- 6.5.1 Under the theme Pride and Joy investment in this area contributes to the desired outcome that the variety and quality of our outstanding cultural and leisure offer has increased and we have become the first choice English coastal destination for visitors.
- 6.5.2 Under the theme Safe and Well investment in this area contributes to the desired outcome that Southenders are remaining well enough to enjoy fulfilling lives, throughout their lives.
- 6.5.3 Under the theme Active and Involved investment in this area contributes to the desired outcome that more people have active lifestyles and there are significantly fewer people who do not engage in any physical activity.
- 6.5.4 Under the theme Opportunity and Prosperity investment in this area contributes to the desired outcome that key regeneration schemes such as seafront developments are underway and bringing prosperity and job opportunities to the borough.
- 6.5.5 A major investment of £18.450m included in this capital investment programme is for Forum II, the second phase development of the Forum in partnership with South Essex College. This will deliver education, cultural and business space so as to increase the opportunity to engage with digital, cultural and creative industries.

6.6 Other Investment

- 6.6.1 Subject to a viable business case being produced and approved, commercial property investment of £23.478m has been included in the proposed capital programme to continue to grow an investment portfolio to enable the Council to secure and maintain long-term growing income streams and capital appreciation. Such investments will be part of the Council's wider strategy, for example economic development and growth. The Council's Commercial

Property Investment Strategy is set out in the Corporate Asset Management Strategy.

6.6.2 Also subject to a viable business case being produced and approved, £2m of investment is included in the proposed capital investment programme for the construction of an Operation Centre which can discharge 24/7 control of core council services, including CCTV, Parking and Transport, Careline/Telehealth and Environmental Monitoring. Also included in this scheme is the ability to improve the use of data for both day to day operational and longer term strategic planning purposes.

6.6.3 The other proposed capital investment encompasses the following areas:

- Refurbishment of the Council's core property stock to deliver a planned condition programme;
- Essential refurbishment and renovation works to theatres, parks, leisure centres and other leisure assets;
- Upgrade and modernisation of the ICT core infrastructure;
- ICT schemes in support of business transformation;

7. Capital Investment Programme 2018/19 to 2023/24

7.1 The Council's proposed capital investment programme for 2018/19 and future years is attached as Appendix 8, which includes all of the adjustments identified in the other appendices.

7.2 The proposed capital investment programme represents a significant investment of nearly £235million on the part of the Council in the Southend area with a further £3million subject to external funding approval and a further £48million subject to a viable business cases being approved.

The projected investment in 2019/20 alone amounts to some £67million. Key areas of new and continued investment in 2019/20 and later years include:

- Continued investment in the Pier;
- Essential works for Leisure, Parks, Libraries, Theatres and Museums;
- Forum II;
- Highways infrastructure and Transport works;
- A127 works;
- Library Car Park site redevelopment;
- Development of a care home and related facility;
- Council Housing and Private Housing stock;
- Secondary School Expansion Programme;
- Airport Business Park;
- Digital Strategy and ICT infrastructure;
- Energy efficiency schemes;

8. Funding the capital investment programme

8.1 The proposed capital investment 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 (excluding schemes subject to external funding and viable business case approval) is as follows:

Type of funding:	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
External funding – capital grant	27.0	31.5	10.8	-	-	69.3
External funding – third party contributions	0.9	-	0.5	-	-	1.4
Capital Receipts	0.9	0.3	-	-	-	1.2
Major Repairs Reserve (Housing Revenue Account)	7.6	6.7	6.6	6.6	6.6	34.1
Earmarked reserves/ Revenue Contributions	5.9	-	-	-	-	5.9
Borrowing – Main Schemes ⁽¹⁾	23.8	19.2	9.4	0.3	0.3	53.0
Borrowing – Invest to Save ⁽¹⁾	0.8	4.4	6.9	-	-	12.1
Total	66.9	62.1	34.2	6.9	6.9	177.0

Note 1 - this relates to both internal and external borrowing

The estimated amounts of internal and external borrowing are shown in the table below:

Borrowing to fund capital schemes	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Internal borrowing	0	0	0	0	0	0
External borrowing	24.6	23.6	16.3	0.3	0.3	65.1
Total borrowing	24.6	23.6	16.3	0.3	0.3	65.1

8.2 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 Investment Programme if they can be generated.

8.3 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 £70k for every £1m borrowed or if £10m is borrowed this would equate to an increase in Council Tax of approximately 1%.

8.4 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 2019/20 to 2023/24. The draft 2019/20 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2019/20.

8.5 **Schools Funding**

8.5.1 In February 2018 the Government confirmed the Education Maintenance Capital allocations and Devolved Formula Capital (DFC) for 2018/19 and gave an indication that a similar level of grant would be available for 2019/20, subject to downwards adjustments as more schools convert to academy status. Basic Need Grant was confirmed for the three years 2018/19 to 2020/21.

The grant funding was confirmed as follows:

- £4.831 million of basic need funding to provide school places to be paid in 2018/19 with indicative sums of £3.82million paid in 2019/20 and £10.35 million in 2020/21.
- £0.615 million of Maintenance Capital to support the needs of the schools we maintain and for the Sure Start children's centres;
- £0.125 million of Devolved Formula Capital for schools;

8.5.2 All of these allocations will be delivered as capital grant.

8.5.3 The Government is due to confirm in February 2019 the 2019/20 grant figures and issue indicative grant figures for the years 2020/21 and 2021/22. If these figures are available in time they will be included in the report to Cabinet for February 2019.

8.5.4 The Basic Need Grant awarded to Local Authorities includes expansion at academies. The Government also expects all Local Authorities to fund capital works for any new academy arising from a Basic Need requirement unless the new school is funded directly from Central Government.

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

8.5.6 Once the 2019/20 maintenance grant has been published officers will produce a draft condition programme. It is hoped, as in previous years, future years indicative amounts will also be included to allow a multi-year programme to be set that will allow schools to plan ahead.

8.5.7 The income received from Central Government for maintenance only covers maintained schools and 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.

8.5.8 Although the maintenance grant will decrease as more schools convert to academy status the schools condition programme will continue to address high priority condition items at schools and children's centres as far as funds allow, which if not done could result in a closure. The replacement of boilers, curtain walling and rewiring continues to dominate the investment programme.

8.5.9 Where already announced and allocated to schemes the capital grant allocations are included in the funding table in paragraph 8.1.

8.6 Highways and Transportation Funding

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

8.6.2 The settlement is as follows:

	2019/20 £'000	2020/21 £'000
Integrated Transport	1,401	1,401
'Needs Based' Highways Capital Maintenance Block	1,121	1,121

8.6.3 The allocations for the Integrated Transport Block (ITB) 2020/21 are indicative and are awaiting confirmation from the Department for Transport (DfT).

8.6.4 Pothole Funding of £250 million was announced in the Budget 2015. This funding is allocated by formula shared by Local Highways Authorities between 2016/17 and 2020/21 based on the road length for which each authority is responsible. The allocated sum to Southend Borough Council is £65k per year until 2020/21.

8.6.5 To allow the full delivery of the 2019/20 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 to 2020/21.
- 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.

8.6.6 Where already announced the capital grant allocations are included in the funding table in paragraph 8.1.

8.7 The other revenue implications of the proposed new schemes and additions to the capital investment programme are set out in the table at the end of Appendix 6. In summary these are:

- Commercial Property Investment – the rental incomes to at least cover the financing costs;
- ICT – Southend Operation Centre – £198,000 p.a. from 2021/22 generated by selling services to other organisations, £5,000 p.a. running costs for the new museum store;
- Chalkwell Hall Infants Energy Project – the revenues generated covering the financing costs;
- CCTV upgrade – £37,000 p.a. for increased camera support and maintenance costs;
- Civic Centre Boilers - £5,000 p.a. savings in gas costs through greater efficiency.

8.8 In summary, it is the Chief Finance Officer's view that the 2019/20 to 2023/24 proposed capital programme is Prudent, Affordable and Sustainable.

9. Other Options

9.1 The proposed Capital Investment 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 Investment Programme is compiled from a number of individual projects which either contribute to the delivery of the Council's ambition and desired outcomes or enhance the Council's infrastructure.

11. Corporate Implications

11.1 Contribution to the Southend 2050 Road Map

In line with the Capital Investment Strategy the projects contribute to the delivery of the Southend 2050 ambition and achievement of the desired outcomes, five year roadmap and five themes (as shown in Appendix 8).

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 Investment 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 investment 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.

11.6 Consultation

Consultation has taken place as agreed in the budget timetable, for example the large scale borough-wide 2018 Residents Perception Survey as a key part of the Southend 2050 engagement programme.

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 Corporate Asset Management Strategy 2015-2025:

http://www.southend.gov.uk/downloads/file/2074/corporate_asset_management_strategy_2015-2025

13. Appendices

Appendix 1 – Approved Capital Investment Programme November 2018

Appendix 2 – Capital Investment Strategy – 2019/20 to 2023/24

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 Investment Programme

Appendix 7 – Summary of Changes to Approved Capital Investment Programme

Appendix 8 – Amended Capital Investment Programme 2019/20 to 2023/24 (2018/19 shown for information)