

# Southend-on-Sea Borough Council

Agenda  
Item No.

Report of Corporate Management Team  
to  
**Cabinet**  
on  
**14 February 2017**

Report prepared by: Joe Chesterton  
Director of Finance and Resources

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**Capital Programme 2017/18 to 2020/21**  
**All Scrutiny Committees**  
**Executive Councillor: Councillor Lamb**  
***A Part 1 Public Agenda Item***

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**1. Purpose of Report**

- 1.1 The purpose of this report is for Members to consider a proposed programme of capital schemes and their funding for 2017/18 to 2020/21 that can be submitted to Council for approval.

**2. Recommendation**

**That the Cabinet recommend to Council that it:**

- 2.1 Note the current approved Programme for 2017/18 to 2019/20 of £125.4m (Appendix 1);**
- 2.2 Approve 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 2017/18 to 2020/21 totalling £79.0m of which £72.8m is for the General Fund and £6.2m 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 £213.0m for 2017/18 to 2020/21 (Appendix 8);**
- 2.5 Note that, of the total programme of £213.0m for the period 2017/18 to 2020/21, the level of external funding supporting this programme is £80.8m (paragraph 9.1);**
- 2.6 Note that a final review has been undertaken on the 2016/17 projected outturn and that the results have been included in this report;**

**2.7 Approve the proposed Capital Programme for 2016/17 to 2020/21 (Appendix 8);**

**2.8 Approve the Capital Strategy for 2017/18 to 2020/21 (Appendix 9).**

### **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 and 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 2017/18 to 2020/21. 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. The Council's approach to property disposals is 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 but the impact of this approach is that a much lower level of capital receipts is delivered.

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 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.

3.6 Under the Local Government Act 2003 each authority can determine how much it can borrow within prudential limits (unsupported borrowing). The Government does have powers to limit the aggregate sum for authorities for national economic reasons, or for an individual authority.

3.7 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 main revenue Government grant funding. Therefore, any unsupported borrowing undertaken is financed

from the total available revenue resources to the Council from Council Tax, Business Rates and Government Grant.

#### **4. Capital Programme Planning**

4.1 An important part of planning is for the Council to have a Capital Strategy and Corporate Asset Management Strategy 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 Corporate Asset Management Strategy.

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 9.

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 Corporate Asset Management Strategy 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 Corporate Asset Management Strategy, which covers all of the Council's assets, provides essential information in determining capital investment needs.

4.5 The Corporate Asset Management Strategy was comprehensively reviewed and updated for the period 2015 – 2025 and was approved at the Cabinet meeting in September 2015. The amendments to the plan included:

- Revisions to give the Corporate Asset Management Strategy a high level strategic focus to enable flexibility over the plan period and to reinforce the current Vision and Strategic Aims that all the Council's assets are corporately held and managed strategically to:
  - Support efficient and effective service delivery;
  - Support regeneration and development and enable the Council to achieve its objectives;

- Rationalise, develop and improve the portfolio to underpin the capital programme and revenue budget through development, income generation, property acquisition and disposals;
- Actively support co-location and integration with other public-sector partners.

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 included in a separate report elsewhere on this agenda.

4.7 The formulation of the 2017/18 to 2020/21 Capital Programme has taken account of the Council's Capital Strategy and Corporate Asset Management Strategy 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 1 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 of the following when setting its prudential indicators:

- Affordability;
- its asset management plans;
- the implications of 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 previously approved capital investment plans, require the Council to externally

borrow approximately £63m (£42m net of invest to save schemes) over the period 2017/18 to 2020/21. This level of borrowing is driven by the capital programme.

## **6. Capital Programme 2016/17 to 2019/20 - Movements**

- 6.1 The Council's current agreed capital programme for 2016/17 to 2019/20 is attached as Appendix 1 and totals £191.2m.
- 6.2 Movements and proposed new schemes and additions since the agreement of the revised programme at Cabinet in November 2016 have an overall effect of increasing the capital programme by £77m to £268.2m for the period 2016/17 to 2020/21 and are set out in Appendix 2, with more detail in Appendices 3 to 7.

## **7. Spending Plans 2017/18 to 2020/21**

The proposed new schemes and additions to the Capital Programme for 2017/18 to 2020/21 of £79m 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 In February 2016 the Government confirmed the Education Maintenance Capital allocations and Devolved Formula Capital (DFC) for 2016/17 and gave an indication that a similar level of grant would be available for 2017/18, subject to downwards adjustments as more schools convert to academy status. Basic Need Grant was confirmed for the three years 2016/17 to 2018/19.

The grant funding was confirmed as follows:

- £0.537 million of basic need funding to provide school places to be paid in 2016/17 with £1.14 million paid in 2017/18 and £4.80 million in 2018/19.
- £1.55 million of Maintenance Capital to support the needs of the schools we maintain and for the Sure Start children's centres;
- £0.288 million of Devolved Formula Capital for schools;

- 7.1.2 All of these allocations will be delivered as capital grant.

- 7.1.3 The Government is due to announce in February 2017 the 2017/18 figures and indicative figures for the years 2018/19 and 2019/20. Following the announcement the relevant external funding will be adjusted in the capital programme.

- 7.1.4 The education capital programme for 2017/18 onwards will continue to be dominated by the need to provide more school places to cope with the rising pupil numbers.

- 7.1.5 The Basic Need Grant awarded to Local Authorities includes expansion at academies. The Government also expected 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 under the Free School Agenda.
- 7.1.6 The Primary School Expansion Programme has been completed although any changes to future demand will be monitored closely. The Secondary School Expansion Programme is now in the feasibility and planning stage.
- 7.1.7 Government funding is now ring fenced and Southend, like many other authorities, will be spending more on Basic Need than the awarded grant.
- 7.1.8 Improvement and provision of school places funding of £18 million has funded the purchase of the PROCAT building and to allow improvements and future expansions at Futures college under the umbrella of the incoming Partnership Learning Academy Trust. New accommodation for both Seabrook College elements under the umbrella of the incoming Parallel Learning Academy Trust has been identified and three secondary schools are at the planning application stage of their expansions.
- 7.1.9 In November 2015, following the three year indicative funding award published in January 2015, the Heads Asset Management Group agreed a draft three year building condition programme to allow schools to plan ahead. It was agreed that only the first £1 million of Maintenance Grant per year would be used exclusively for this programme and the remainder would be made available to address condition items within the schools expansion programme.
- 7.1.10 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.
- 7.1.11 The focus on additional places will mean that expenditure on condition schemes will continue and be limited, with up to £1 million to be allocated in 2017/18 to address 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. This programme will be subject to adjustment as schools convert to academy and the grant income reduces accordingly.

## **7.2 Housing**

- 7.2.1 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 plan is to construct 18 housing units within the Shoeburyness ward. Works are progressing well on site as the project nears completion. The contractor has handed over the first five houses in Bulwark Road and Exeter Close which are now tenanted. Eight houses in Ashanti Close were handed over in January with the remaining flats expected to be completed and handed over in March.

- 7.2.2 The Housing Revenue Account (HRA) capital programme for the 2017/18 financial year is £8,610,000 which comprises mainly Decent Homes work to the Council's housing stock including kitchen and bathroom modernisations, together with improvements to the common areas. This also includes a budget of £345,000 for some remodelling works to sheltered housing schemes and £500,000 for the strategic acquisition of tower block leaseholds.
- 7.2.3 A proposal for the use of the sheltered housing remodelling budget went forward to November Cabinet. It was agreed that a series of workshops would be set up to explore various schemes. The outcome of these workshops will be presented as a follow up Cabinet report with recommended options for developing a model of sheltered housing provision in order to meet the housing needs of older people in Southend.
- 7.2.4 The overall capital programme for the next four financial years 2017/18 to 2020/21 includes a commitment of around £6 million each year for major repairs and Decent Homes work to the Council's housing stock.

### 7.3 Highways and Transportation

- 7.3.1 The expenditure will be delivered mainly by fully un-ringfenced capital grants.
- 7.3.2 The Government settlement is as follows:

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

- 7.3.3 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.
- 7.3.4 The Department for Transport has recently issued a document titled 'Roads Investment – The roads funding package' which informs where new funding of £1.3 billion will be allocated as per the Autumn Statement 2016.
- 7.3.5 The document also details information in relation to other funding and the following extracts are taken from that.
- Local Highways Maintenance Funding Needs Element - this existing Needs Based Formula totals £4.7 billion over the 6 years funding period to the end of this Parliament. The Funding allocated to each Local Highway

Authority in England (outside London) is based on a formula using data provided by each authority regarding the assets for which they are responsible.

- Local Highways Maintenance Challenge fund - this fund is to enable Local Highway Authorities in England to bid for more major maintenance projects that are otherwise difficult to fund through the normal needs element allocations they receive. A second tranche of the fund will be announced shortly.
- Local Highways Maintenance Incentive/Efficiency Element Funding – there is existing funding of £578 million to Local Authorities in adopting efficiency principles for highways maintenance. It is a mechanism for authorities to receive additional funding over and above the Needs Based Formula. Round two will be formally launched shortly.
- Pothole Fund – 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. In addition to that sum it has also been announced that a sum of £102k has been allocated for 2017/18.

7.3.6 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 to 2020/21.
- The recommended allocation to the 'Actions' is set out in Appendix 5a (with more details set out in Appendix 5b). The Deputy Chief Executive 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 Director 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.



## **7.4 Other Services**

7.4.1 In respect of the other proposed general fund schemes these are to be funded through borrowing, grants, capital receipts and from earmarked reserves and the required relevant financing costs have been factored into the Medium Term Financial Strategy.

7.4.2 The other proposed general fund schemes encompass the following key themes:

- Redevelopment of Delaware, Priory and Viking;
- Further new investment in Southend Pier of £11.6m;
- Car parking in the town centre and central seafront areas;
- Upgrade and modernisation of the ICT core infrastructure;
- ICT schemes in support of business transformation;
- Airport Business Park funded from the Local Growth Fund.

## **8. Capital Programme 2016/17 to 2020/21**

8.1 The Council's proposed capital programme for 2016/17 to 2020/21 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 £213m on the part of the Council in the Southend area over the 4 year period 2017/18 to 2020/21 and the projected investment in 2017/18 alone amounts to nearly £77m (General Fund £68m and Housing Revenue Account £9m).

## 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 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:	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
External funding – capital grant	28.8	28.2	14.6	7.3	<b>78.9</b>
External funding – third party contributions	1.6	0.1	0.2	-	<b>1.9</b>
Capital Receipts	1.4	2.7	-	-	<b>4.1</b>
Major Repairs Reserve (Housing Revenue Account)	7.8	5.8	6.2	6.2	<b>26.0</b>
General Fund earmarked reserves/Revenue contributions	4.1	1.3	-	-	<b>5.4</b>
Borrowing – Main Schemes <sup>(1)</sup>	26.5	26.9	14.3	3.0	<b>70.7</b>
Borrowing – Invest to Save <sup>(1)</sup>	6.5	5.5	11.3	2.7	<b>26.0</b>
<b>Total</b>	<b>76.7</b>	<b>70.5</b>	<b>46.6</b>	<b>19.2</b>	<b>213.0</b>

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	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Internal borrowing	12.0	8.4	7.6	5.7	<b>33.7</b>
External borrowing	21.0	24.0	18.0	0	<b>63.0</b>
<b>Total borrowing</b>	<b>33.0</b>	<b>32.4</b>	<b>25.6</b>	<b>5.7</b>	<b>96.7</b>

- 9.2 The financing of the capital programme will continue to be supported where possible 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. The impact of this approach is that a much lower level of capital receipts is delivered meaning a greater reliance on borrowing and external funding to fund 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 £70k for every £1m borrowed or if £9m is borrowed this would equate to an increase in Council Tax of around 1%.

9.4 The full impact of financing costs associated with the funding of the proposed programme has been included in the Council's current financial planning for 2017/18 to 2020/21. The 2017/18 revenue budget elsewhere on this agenda incorporates the required financing costs budget requirement for 2017/18.

9.5 In summary, it is the Chief Financial Officer's view that the 2017/18 to 2020/21 proposed 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

The Capital Strategy and Corporate Asset Management Strategy (CAMS) sets out the approach to disposals that will affect the Council's property holdings, assets and liabilities. The Capital Strategy and CAMS reflect the implications of the agreed Capital Programme.

## 12.6 Consultation

The draft budget approved at Cabinet on 19 January 2017 has been presented to all three Scrutiny Committees and the Business and Voluntary Sector Consultation meeting. The feedback from each of these scrutiny bodies is as follows:

- Place Scrutiny Committee sought clarification on a few of the capital programme items in respect of their areas of responsibility namely the cost of borrowing for the new capital proposals and the plans for investment in car parking in the Town Centre and Central Seafront. The Committee were supportive of the need to invest in the infrastructure of the Pier, but would welcome a business plan for its on-going operation.
- People Scrutiny Committee sought clarification on a few of the capital programme items in respect of their areas of responsibility namely the Liquid Logic Case Management Solution and the Secondary School Expansion Programme.
- Policy and Resources Scrutiny Committee sought clarification on a few of the capital programme items in respect of their areas of responsibility namely ICT Enterprise Agreement and CCTV Equipment Renewal. Additionally, clarification on investment business cases and the financing of the overall capital programme.
- The Business and Voluntary Sector consultation meeting sought clarification on a few of the capital programme items in respect of their areas of responsibility namely Car Park Investment and Resilience to Flooding. Additionally, clarification on the financing of the overall capital programme.

## 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.

## 13. Background Papers

### 13.1 Corporate Asset Management Strategy 2015-2025:

[http://www.southend.gov.uk/downloads/file/2074/corporate\\_asset\\_management\\_strategy\\_2015-2025](http://www.southend.gov.uk/downloads/file/2074/corporate_asset_management_strategy_2015-2025)

## 14. Appendices

Appendix 1 – Approved Capital Programme November 2016

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 5b – Highways Capital Programme 2017/18

Appendix 6 – Proposed New Schemes and Additions to the Capital Programme

Appendix 7 – Proposed New Schemes and Additions - descriptions

Appendix 8 – Amended Capital Programme 2017/18 to 2020/21 (2016/17 shown for information)

Appendix 9 – Capital Strategy 2017/18 to 2020/21