

Capital Programme Review

Corporate Policy and Scrutiny Committee

Date: 27th June 2024

Purpose

Overview of the Capital Programme

- Scene setting - why the Capital Programme is important and why there is a need for continued focus
- Key Processes for managing the Capital Programme

Review of the 2023/24 Capital Programme

- The Aspirational Capital Programme by Portfolio
- Executive summary
- Delivery performance
- Analysing movement

Capital investment is **vital to deliver outcomes** for our residents in line with Everyone's Essex Priorities. Benefits are significant, ranging from **generating economic growth to reducing congestion, unlocking land to develop homes and maintaining a wide range of assets**

A large capital programme (**£1.4bn** between 2023/24 – 2027/28) is a modern ECC phenomenon based on **historic positive choices**, including a high commercial appetite. **Scale is significantly driven by high levels of external funding**

The **economic fallout** from the **global pandemic** and **war in Ukraine** led to a **rise in inflation** and **interest rates** during 2022/23. Alongside this, we have also seen the rise in Section 114 notices issues by councils linked to capital programmes and rising debt. This has led to the **need for even greater control** of the capital programme and **challenging prioritisation**

As a result of undertaking the **Capital Review in 2022 and 2023**, ECCs **Aspirational Capital Programme has reduced by £100m**, whilst maintaining a programme that **delivers strong outcomes and plateauing the level of indebtedness by 2027/28**

There is commitment to a **continuous review and focus** on the capital programme as there are **new emerging priorities**; schemes in the programme with **substantial risk**; schemes in the programme where **risk may yet materialise**, all of which need to be managed within an agreed **funding envelope**

Successful delivery of the planned programme is extremely important given ECCs limited resources and outcomes to achieve. Tough decisions are made when setting the budget and over optimistic delivery could impact revenue budgets. **Confidence in delivery** of the programme and **limited movement drives effective decision making**

During 2023/24, **345 schemes were undertaken** of which 56 new projects started, 194 continued through their delivery lifecycle and 100 completed. Highlights of these schemes include **c400 new school places** and **c300 new SEND and PRU** places delivered; significant packages of **transport improvement** work continued to progress; schemes delivering a number of measures working towards meeting **net zero aspirations** by 2030 progressed and essential work to **maintain our assets** undertaken. Further detail can be found in the Appendices

Actual expenditure was **£292m** against an Original Budget of **£275m**, good delivery at **106%**

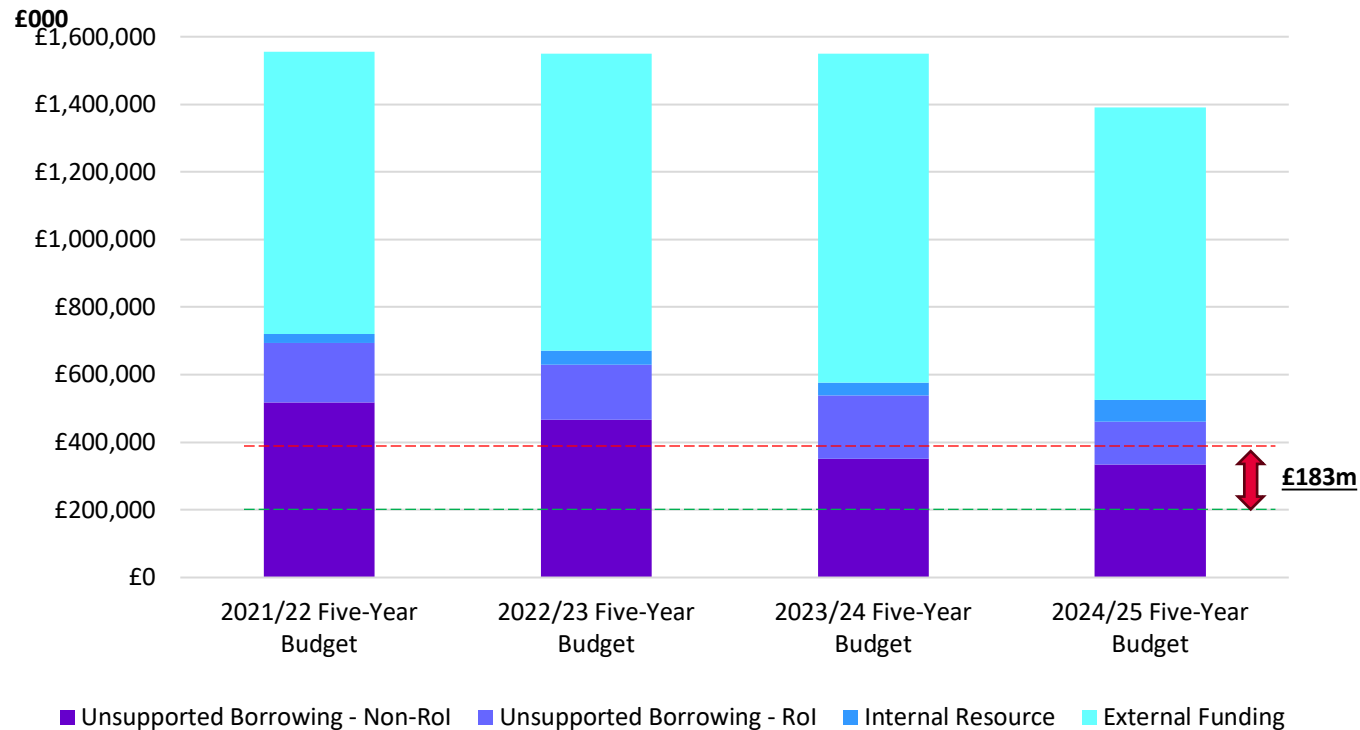
Movement occurred (slippage, additions, reductions and advanced works) throughout the year **changing the programme delivered** against the original programme set by Full Council in February 2023

Risk identification against predicted delivery performance is **transparent and effective**; meaning there is minimal material movement that has not been previously identified

The Capital Review

The capital review is one of the key tools we use to ensure ECC continues to have a financially sustainable aspirational capital programme

Aspirational Capital Programme Budgets
(by financing source)



Reduction in total aspirational programme costs in the 2024-25 Five-Year Budget is primarily driven by a technical change in the way EH LLP loan costs are recorded

- The capital review, driven by the CLT and Finance Oversight Board (FOB), consists of quarterly reviews leading up to budget setting
 - Monitors the programme's **existing risks, pressures, and opportunities**;
 - Provides Members and senior officers with **insight into the macroeconomic situation**;
 - **Undertakes prioritisation exercises** based on the needs of the organisation;
 - All decisions and recommendations are taken to FOB for consideration, before going to PLT for approval
- We currently set a **borrowing cap** to set a **financially sustainable level of borrowing, and to control ECC's indebtedness and the revenue cost of borrowing**
 - The cap is monitored annually;
 - Flexible, depending on factors such as borrowing rates and ECC's revenue funding gap
- Since capital reviews were introduced, **the five-year aspirational capital programme's Non-Return-on-Investment (RoI) borrowing requirement has reduced by 35%**, despite the overall programme value (£1.4bn) remaining relatively stable
 - Efficient prioritisation decisions;
 - Sourcing more external funding

Despite rising costs and interest rates, our capital programme has remained financially sustainable, and we remain in-control of indebtedness

Key Processes

Monthly Reviews & Risk Identification

Multiple monthly forums for officer assurance, ensuring there is **visibility and accountability**

Robust discussions; constructive challenge with a key focus on profile of expenditure and **cost risk identification**; programme and projects **risks and mitigating actions**; timely reporting; reflections and sharing **lessons learnt**

Outcome is to have management, **transparency and grip** over the delivery of the capital programme

Quarterly Capital Reviews

To provide CLT & FOB an **update on the latest position** of the Aspirational Capital Programme

To review the **borrowing cap principles** alongside the financial outlook, existing and emerging risks, issues and opportunities

To review **key areas of spend, evaluate the outcomes** arising from our existing levels of investment

Outcome is to have **focussed discussions enabling timely decisions** to remain **financially sustainable** as an organisation

Challenge Sessions

A **thorough review once a year**, in September, of each scheme proposed in the programme, looking at the project spend profile

Primary focus is on **deliverability in the next financial year** based on known risks and lessons learnt to **reduce optimism bias**

Outcome is to propose to Members a programme that **officers believe is deliverable** should it be affordable for the organisation

Budget Setting / Prioritisation

Reviewing and setting a programme to deliver benefits to residents that is **affordable within the MTRS**

Difficult **informed prioritisation choices** are required to the aspirational and pipeline programme with considerations on **benefits and implications** of decisions

Outcome is to have an **affordable fixed one-year programme** with a further **3 years aspirational programme** presented to Full Council

Lessons learnt and recommendations through audits are shared for greater visibility and awareness and factored into the setting of the future programme and projects

Overview – Capital Programme (Everyones Essex)



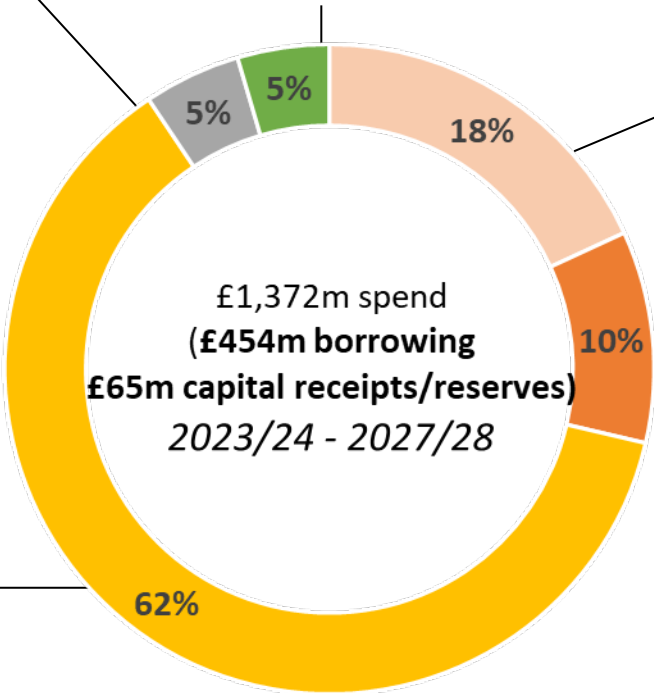
Climate Action
 £66m, 5%
£29m non-Rol ECC resources
 Active Travel **£16m**
 Salix carbon reduction schemes **£8m**
 Cycling **£5m**

Other
 £63m, 5%
£44m non-Rol ECC resources
 Building Maintenance **£25m**
 Early Years **£6m**
 Children’s Adaptations **£2m**
 RCHW Maintenance **£4m**

Education Excellence, Life Long Learning & Employability
 £248m, 18%
£75m non-Rol ECC resources
 Basic Need Schemes **£140m**
 Special Schools **£51m**
 Building Maintenance **£39m**
 Temporary Accommodation **£14m**



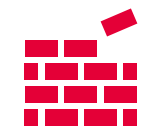
Highways, Infrastructure & Sustainable Transport
 £850m, 62%
£225m non-Rol ECC resources
 Road Maintenance **£159m**
 Bridges **£50m**
 Footway Maintenance **£44m**
 Local Highways Panels **£21m**
 LED Rollout **£10m**
 A133/A120 Link Road **£54m**
 Colchester Rapid Transit **£33m**
 Harlow Sustainable Transport Corridors **£30m**
 Beaulieu Park Station **£146m**
 Chelmsford North-East Bypass **£77m**
 Army & Navy **£64m**
 Colchester St Botolph's **£12m**
 Advanced Scheme Design **£7m**



Planning a Growing Economy
 £145m, 10%
£24m non-Rol ECC resources
 Essex Housing Programme **£73m**
 Clacton Town Regeneration **£13m**

ECC Resources refers to any use of internal resources, including unsupported borrowing, capital receipts & reserves

2023/24 Delivery – Summary



During 2023/24, **345 schemes were undertaken. Actual** capital expenditure for 2023/24 was **£292m**

- Delivery of the **Original Budget - £275m** set by Members at Full Council is **106%**
 - Over delivery against original budget was driven by **significant additions** to the programme for example **additional Highways funding and new external grants received** (Active Travel; Safer Roads & GBF)
- Delivery of the **Latest Budget - £307m** reset at Quarter 3 Reporting (Nov'23) is **95%**



Primary drivers of movement against budgets are: -

- 2022/23 **Provisional Outturn movement** linked to 2023/24 anticipated expenditure
- 2023/24 **Quarterly Report requests** for movement (slippage and advanced works), additions and reductions
- **CMA's approved**



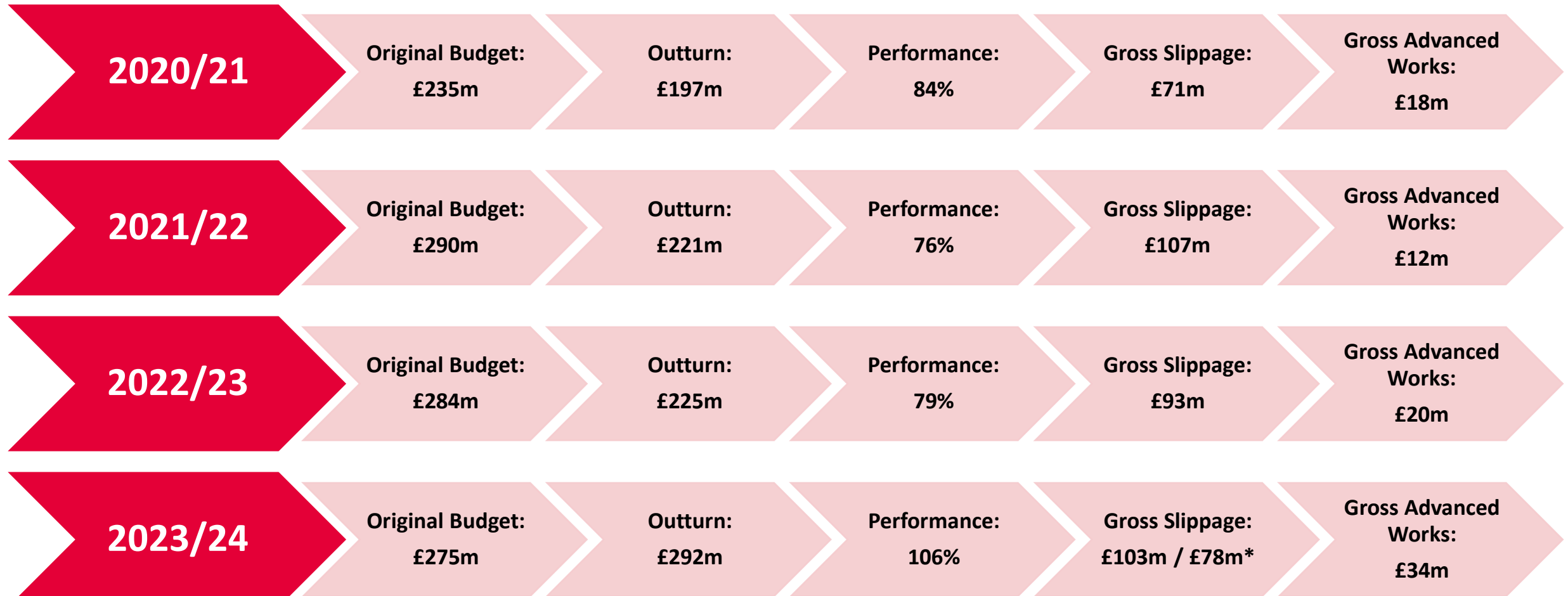
Slippage reported is **£103m across 145 schemes**, which when assessed shows **32% Non-controllable** and **68% Controllable**

- Circa £25m is associated with accounting treatment (change in approach for Essex Housing LLP pipeline projects), when this is excluded, it shows: -
 - **43% Non-controllable** (£33m) and **57% Controllable** (£45m)
 - **Less slippage** than prior years **against the largest programme outturn position**
- **10 schemes had slippage over £2m** (totalling £51.1m), of which there were 5 schemes with slippage over £5m (totalling £33.8m)



Risk identification against delivery performance is **good**, there is no material movement that has not been previously identified

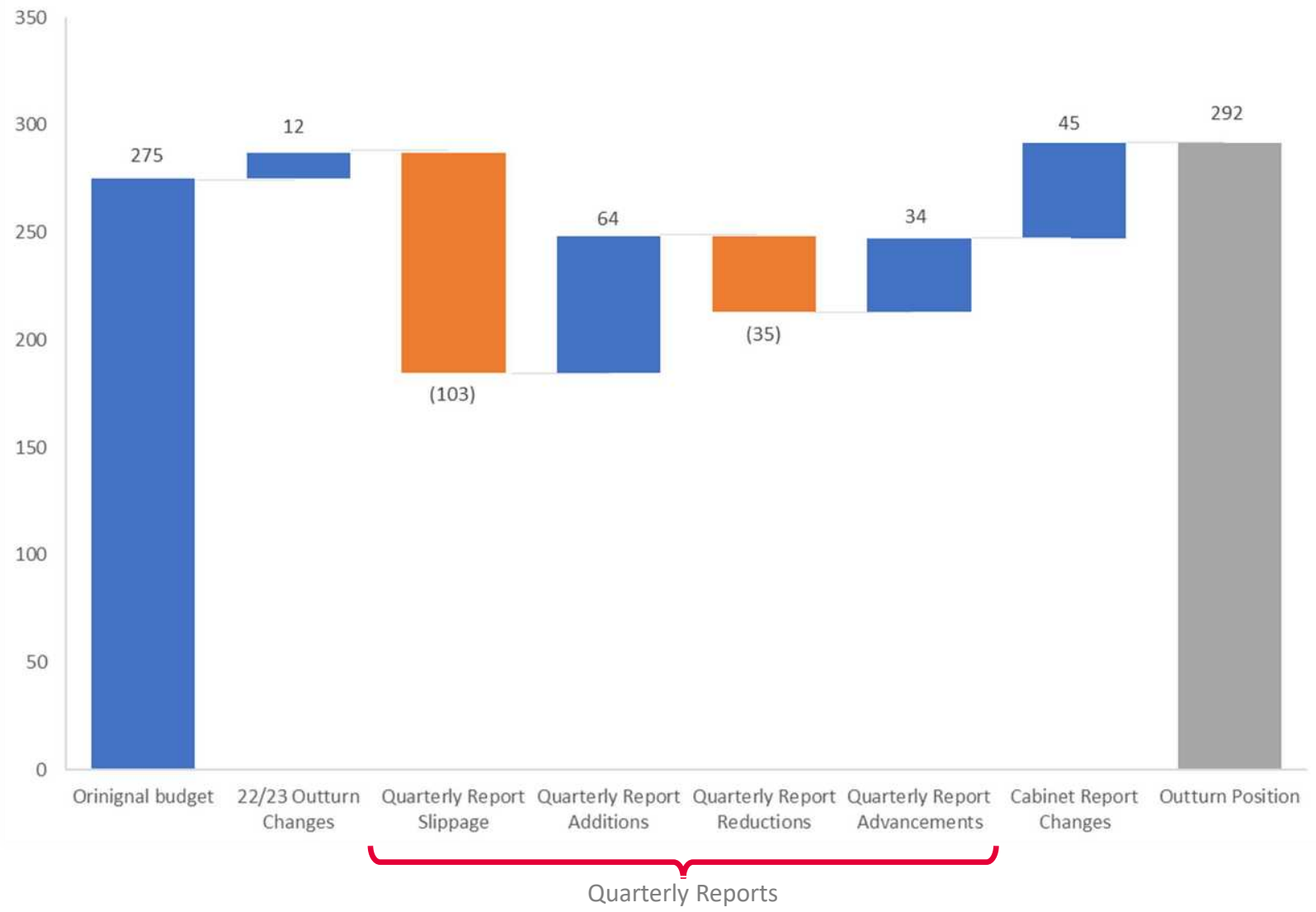
2023/24 Delivery – Annual Performance over the Years



* Gross Slippage (excl. Accounting Treatment - change in approach for Essex Housing LLP pipeline projects)

The challenges with delivery have differed from year to year, for example, Covid Pandemic, Ukraine War; Inflation

2023/24 Delivery – Summary of Movement to Original Budget



The Capital Programme Budget changes throughout the year through various decision mechanisms. The most significant change is seen through quarterly reports agreed at Cabinet

2023/24 Delivery – Summary of Outturn, Additions, Reductions & Cabinet Decision¹¹

2022/23 Outturn (Provisional Outturn) £12m

- Prior year Q4 movement affects the budget position, this is predominantly associated with slippage and advanced works
- Examples of movement through the provisional outturn report were: -
 - Major Infrastructure Scheme contingencies (£5m)
 - Harlow Investment Fund (£5m)

Additions (Quarterly Reports) £64m

- Additions to the programme are as a result of new funding being agreed or received for the capital programme for example:
 - Highways (£16.9m)
 - Active Travel 4 grant (£5m)
 - Safer Roads grant (£1m)
 - M11 J8 (£10m)
 - New S106 schemes
- In year additions can be requested through quarterly reports and then re-profiled through slippage as appropriate to future financial years (this does impact performance statistics)
- Additions can also be movement from block codes to named schemes, this is predominantly associated with the Education Programme **(these additions and reductions net off)**

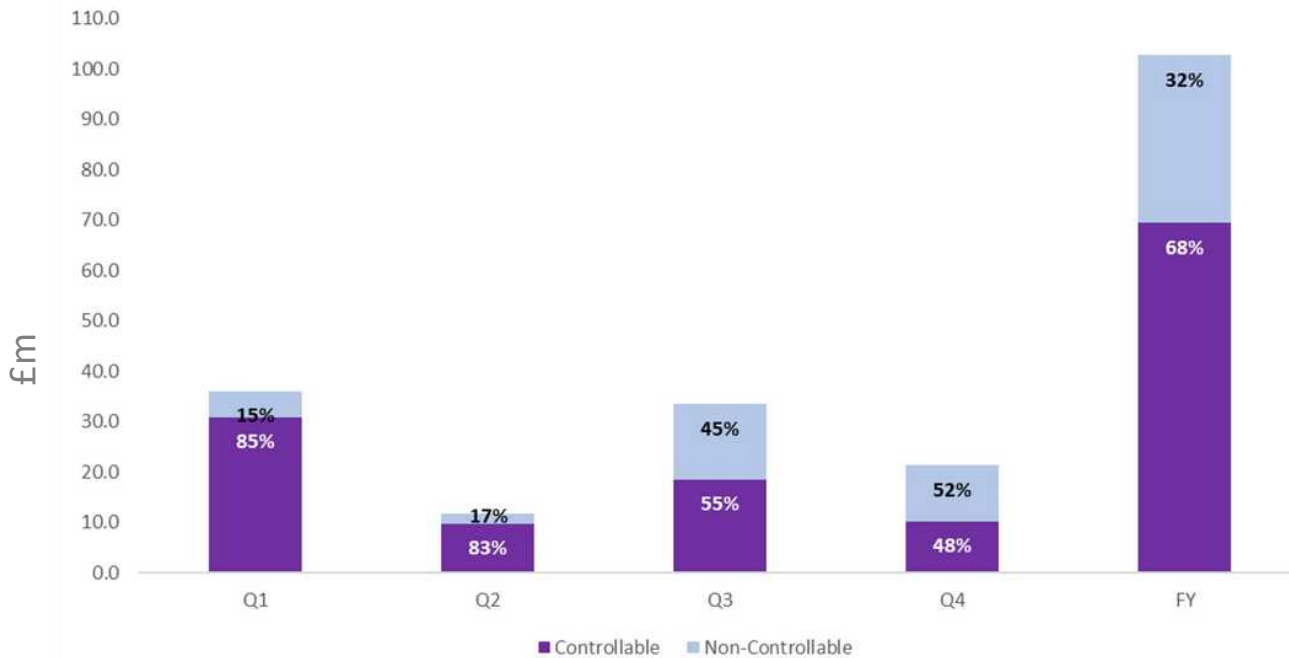
Reductions (Quarterly Reports) (£35m)

- Reductions to the programme are as a result of release of funding from the programme/project, for example:
 - M11 Junction 8 (£3m)
 - Flood (£700k)
- Reductions to the programme can also be down to abortive costs where schemes don't proceed to delivery as originally planned
- Reductions can also be movement from block codes to named schemes, this is predominantly associated with the Education Programme **(these additions and reductions net off)**

Cabinet Reports (Key Decisions/CMAs) £45m

- Cabinet reports may approve changes to individual projects profiling and budget values across financial years
- The HIF/HIG schemes are where the significant changes have been approved through this mechanism (some new funding and some profile changes). Examples are: -
 - Beaulieu Park Station programme acceleration (£33m)
 - Colchester RTS (£11m)
 - Harlow STC & Camb. Rd (-£3m)
 - Highways (£2.4m)

2023/24 Delivery – Slippage Analysis - Controllable/Non-Controllable ¹²



Circa £25m was associated with accounting treatment (change in approach for Essex Housing LLP pipeline projects), when this is excluded, it shows: -

43% Non-controllable (£33m) and 57% Controllable (£45m)

Less slippage than prior years against the largest programme outturn position ever

Delivering the programme as published each year is important for multiple reasons: -

- To ensure the **benefits** for Essex residents are **realised as stated**
- Funding available to the Council is used in the **best way possible** to benefit the residents
- Projects are delivered in line with our **partners expectations**

Setting a programme that is too optimistic can **impact on the revenue budget and affects decision making**

Slippage is analysed at each quarter to understand **thematics** along with what is **within our control** and **outside of our control**

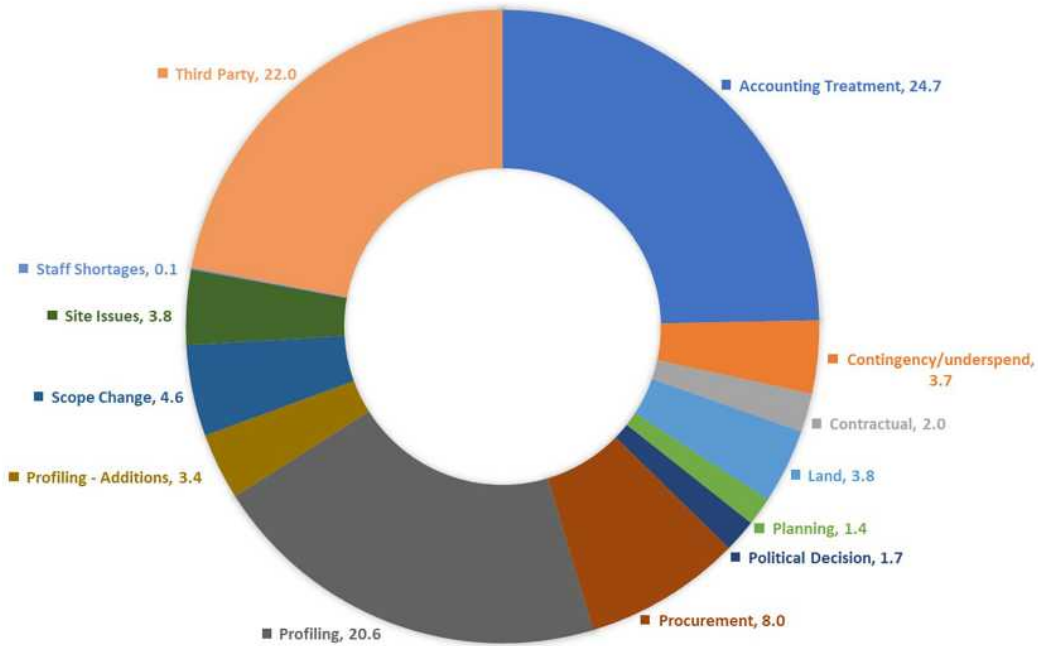
Analysis is **discussed** across the programme and **shared** ensuring **lessons learnt** are taken into consideration for other projects

Accounting Treatment, Procurement Choices and Profiling are the highest thematics of **controllable** slippage

The nature and complexity of the schemes remains challenging

2023/24 Delivery – Slippage Analysis - Thematic Summary

Thematic Drivers of Slippage



Quarterly analysis undertaken has multiple lenses to ensure lessons and thematics are shared, enabling learning for future schemes across all functional areas

- **Accounting Treatment £25m**
 - Essex Housing LLP – An internal review resulted in a change of approach for pipeline schemes led to forecast changes
- **Profiling – Additions £3m**
 - Multiple schemes – Mechanism to add funding to the programme & re-align expenditure
- **Contingency / Underspends £4m**
 - Cambridge Road Junction £1m – Retaining contingency within the project until completion (slightly delayed)
 - SEND schemes £1m (Fairview, Southview, Cedar Hall) – Schemes completed but retaining underspends as managed as a programme
- **Third Party £22m**
 - Education – Academies / DfE undertaking delivery of projects – Plume Academy £2m; Richard de Clare £1m; Clacton County High £500k, Dunmow New Primary £500k
 - Harlow Investment Fund £5m – Partner funding sources being confirmed
- **Profiling £21m**
 - Optimistic assumptions made on delivery of schemes – Castledon SEND £3m, Solo Beds / Children Residential £3m; CNEB £3m
 - Adverse weather – CNEB £1m
- **Scope Change £5m**
 - Often driven by value engineering to be undertaken due to cost escalation White Bridge School; Tollesbury PSDS; Clacton Hub; Castledon SEND School
- **Procurement Choices £8m**
 - Colchester RTS Section C £5m – Tender period extended to enable compliant bids
 - A1331 £2m and IL OP £1m – Changes to procurement approach

Slippage is not always driven by scheme delays (*additions to the programme*). Slippage can be a positive choice for ECC (*unused contingency*)

Summary

Due to our successes in attracting external funding, ECC's four-year aspirational capital programme is one of the largest and most ambitious to date

Following a recent benchmarking exercise, ECC's capital spend in 2023/24 was one of the greatest in absolute terms, based on the latest published draft statement of accounts, and had one of the highest delivery percentages compared to our statistical neighbours

This performance is facilitated by the strong processes we have in-place, including quarterly capital reviews, a cap on borrowing of £70m each year, an in-depth prioritisation exercise, and capital challenge sessions

- Enables us to maintain a large but affordable capital programme that plateaus our indebtedness and protect the authority from out of control borrowing costs

We have been incredibly successful at attracting external funding in recent years, allowing us to maintain an ambitious capital programme and control borrowing cost. Over the last two financial years:

- £311m of Grant Funding was applied to the capital programme
- £44m of Section 106 was applied to the capital programme
- Almost $\frac{3}{4}$ of our non-Rol capital programme was financed from external sources

We will continue to explore new ways on attracting external funding and delivering a capital review that achieves strong outcomes for our residents, while maintaining a capital programme that is affordable

APPENDICES

2023/24 Delivery – Summary Highlights



Essex Highways delivered **essential work on improving our roads and footways, vital to maintaining a safe network**. Each improvement and maintenance scheme helps keep our residents safe, contributes to longer-term economic growth, and helps deliver our vision for safer, greener and healthier travel.



Significant packages of **transport improvement work continue to progress across the County**, such as in Chelmsford where considerable progress is being made on the **construction of Beaulieu Park Station**, a new railway station scheduled for completion in 2025, and the **building of a new conveyor bridge** as part of an early works packages for Chelmsford North East Bypass which will allow the new road to operate with minimal interference with mineral extraction. In Harlow, works are nearing completion for a **new junction onto Cambridge Road** from Riverway and works are commencing on the **development of the Sustainable Transport Corridor**. In Colchester, our **Rapid Transit System** project to provide more reliable and improved journey times is progressing well with Section B covering Colchester's Town Centre extending towards the University of Essex complete.



Active Travel projects continue to **deliver local walking and cycling infrastructure projects** in Essex with the aim to reduce pressure on the network by creating high quality routes which can accommodate an increase in cycling and start to create walking cycle networks.



Public Sector Decarbonisation schemes continued to **deliver a number of measures to work towards meeting net zero aspirations by 2030**. The main focus of the work has been replacement of gas boilers with electrical supplied heat sources, installation of solar PV panels, increased insulation, window replacement and led lighting across our large core office estate, libraries and school buildings.

2023/24 Delivery – Summary Highlights



Over **400 new school places and circa 300 new SEND and PRU places delivered** across Essex in the form of new schools; expansion of existing schools; temporary solutions changed to permanent solutions all of which are delivered to net zero standards where possible.

The flood management programme **designed and delivered 5 schemes benefitting 219 properties** as well as completing feasibility studies that form our pipeline of schemes for 2024/25.

Work continues with our partners to **plan the delivery of our Levelling Up Regeneration schemes** across Colchester, Harlow and Tendring. Schemes are in different phases of development and aim to deliver a range of high-quality homes and jobs, support transport improvements and catalyse the regeneration of these priority places.

The **LED Phase 4 Street Lighting has continued and is nearing completion**. When all of ECC's lights are replaced with energy saving LED lamps, it will save 6,500 tonnes of carbon per year, and will also save the Council £39m over the next 25 years.

Essex Housing has made capital investments in 2023/24 towards the delivery of a five-year development programme that will deliver over 1,000 homes (of which over 50% are specialist or affordable) alongside community assets. This investment has included **progressing construction works for 4 schemes** that will deliver a rebuilt library, a brand-new commercial unit, 101 private residential units, and 32 units for affordable or specialist uses. This has included the **completion of the Shernbroke scheme in Waltham Abbey that is 100% specialist and affordable**.