

TONBRIDGE & MALLING BOROUGH COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

26 January 2016

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet

MEMBERS ARE ASKED TO BRING WITH THEM THE CAPITAL PLAN BOOKLET CIRCULATED WITH THE AGENDA FOR THE MEETING OF THE FINANCE, INNOVATION AND PROPERTY ADVISORY BOARD

1 CAPITAL PLAN REVIEW 2015/16

This report considers progress on the 2015/16 Capital Plan Review and requests endorsement of recommendations to Cabinet.

1.1 Introduction

- 1.1.1 The capital plan process, as outlined below, provides a means of maintaining a pool of schemes (List C) from which schemes can be selected for evaluation and possible implementation. It also provides an opportunity to review the provisions for schemes which are already in the Capital Plan (List A).
- 1.1.2 The criteria established to guide the inclusion of new List C schemes (holding list of schemes not yet fully worked up) and ultimately the inclusion of schemes on List A (schemes assigned budget provision) are:
- to meet legislative requirements including health and safety obligations;
 - funded from external resources; and
 - reduce revenue expenditure and or generate income.
- 1.1.3 The subsequent recommendations where appropriate have regard to these criteria.
- 1.1.4 The review takes place within the context of the revenue estimates, reflecting the fact that capital schemes have an impact on revenue. Positive impacts may include potential to increase income or reduce operating costs. Negative impacts may include loss of income during construction and will include loss of investment income where the project costs are met from the Council's resources.

1.1.5 The Capital Plan review process started at the Finance, Innovation and Property Advisory Board on 13 January 2016, where Members considered the following issues:

- 1) The position of the existing Capital Plan (List A).
- 2) The addition of new schemes to List C and the removal of schemes from List C.
- 3) The selection of schemes from List C for evaluation over the following year.
- 4) Consideration of those List C schemes which have been evaluated.

1.2 Capital Plan Funding

1.2.1 Members will no doubt be aware of the significant financial challenge facing the Council as a result of the Government's ongoing budget deficit reduction programme which has resulted in continuing reductions in the financial support it can offer to local government.

1.2.2 Capital expenditure is currently funded from the revenue reserve for capital schemes, grants from government and other bodies, developer contributions and from capital receipts derived from the sale of assets.

1.2.3 It is important to ensure that the revenue reserve for capital schemes can continue to fund capital expenditure at least until we reach a position where the annual contribution to the reserve matches the funding required for the replacement of existing assets (vehicles, plant and equipment) as well as recurring capital expenditure.

1.2.4 As a result there is an annual capital allowance for all other capital expenditure. Any 'bids' for capital schemes or discretionary capital grants are to be assessed in the context of the annual allowance. It should be noted, based on current projections, that from 2019/20 the Council will need to borrow to fund such expenditure. In order to support the funding arrangement in respect of the Tonbridge Town Lock Scheme in April 2015 the annual capital allowance was set at £200,000 and it is proposed that the annual allowance continue to be set at that level.

1.3 Recommendations from Finance, Innovation and Property Advisory Board

1.3.1 Details in respect of the existing Capital Plan (List A) can be found in the report to the Finance, Innovation and Property Advisory Board. The position of the existing Capital Plan (List A) presented to the Finance, Innovation and Property Advisory Board and summarised in **[Annex 1]** was endorsed noting:

- 1) The increase in the budget provision in respect of the Tonbridge Town Lock capital plan scheme and how that is to be funded (FIP Advisory Board report paragraph 1.4.3 refers).

- 2) The additional works at an estimated cost of £20,000 to be met in full by the TMLT and the use of the urgency procedure to amend the Capital Plan accordingly (FIP Advisory Board report paragraph 1.4.4 refers).
- 3) The increase in the budget provision in respect of the river wall, Wouldham capital plan scheme and how that is to be funded (FIP Advisory Board report paragraph 1.4.6 refers).

1.3.2 Members are aware of the undoubtedly difficult financial landscape that lies ahead where it will be difficult to fund other than priority capital plan schemes. As a result a number of what could be termed 'like to do' schemes that, in many cases, have sat on List C for a number of years are recommended to be deleted and, in so doing, focus attention on what are seen as priority capital plan schemes or where there is potential for external funding. The schedule of schemes recommended to be added to and schemes to be deleted from List C **[Annex 2]** was endorsed.

1.3.3 Attention was also drawn to a proposal from Kent County Council (KCC) for the provision of a new / enhanced tow path from Maidstone to Allington lock. KCC and Maidstone Borough Council have secured £2 million from the local growth fund for the project and Maidstone Borough Council has indicated funding of up to £500,000. KCC is seeking a contribution from this Council of up to £300,000 for the project to extend the path from Allington to Aylesford station. Whilst it is recognised that the proposal would be desirable in terms of improving access along the riverside, it does not meet the Council's existing priorities or stated criteria for capital funding, and no developer contributions are either available or forthcoming in the locality. A contribution of £300,000 would be in excess of the Council's entire annual allowance for funding new schemes and could bring forward the date when the Council would have to borrow to fund new capital plan schemes. As a result it is felt that the proposal from KCC cannot be supported.

1.3.4 The schedule of List C schemes recommended for evaluation **[Annex 3]** was endorsed including one recommended for Fast-Track evaluation. In addition, four schemes selected for evaluation in a previous Review: Tonbridge Farm Sportsground Provision of Toilets, Leybourne Lakes Country Park Facility Improvements, Tonbridge to Penshurst Cycle Route Refurbishment and IT Initiatives Revenues and Benefits Citizen's Access are to be evaluated over the coming year. Under normal circumstances, schemes successfully coming through the evaluation process, and progressing to List A, might be expected to be implemented in 2017/18.

1.3.5 The schedule of evaluated schemes **[Annex 4]** recommended for transfer from List C to List B was endorsed.

1.4 Capital Strategy

1.4.1 The Chartered Institute of Public Finance and Accountancy has supplied the following background notes: "The Capital Strategy should describe how the

investment of capital resources will contribute to the achievement of the authority's key objectives and priorities that are detailed in their Performance Plans and Community Plans/Strategies. An authority's Capital Strategy should be one of the key, overarching strategies that support service plans. The strategy will also determine priorities between the various services and look for opportunities for cross-cutting and joined-up investment. The authority's Capital Strategy should describe how the deployment of capital resources contributes to the achievement of the described goals. It will also help to ensure that issues around property and other assets are fully reflected in the Council's planning."

- 1.4.2 The updated Capital Strategy attached at **[Annex 5]** has been designed to be published on the Council's website. The Strategy has no annexes but incorporates links to a number of other documents or web pages which are referred to in the text and are available on the Council's website or the internet.
- 1.4.3 The Key Financial Statistics in paragraph 2.1 of the annex have been updated to reflect the 2015/16 estimates and the balance sheet as at 31 March 2015. Elsewhere, examples of our current practice have been updated where appropriate. Throughout the annex the type face of any new and or amended text and figures has been presented in bold italics. A more comprehensive update will be presented to Members in due course to reflect the new Corporate Plan, Savings and Transformation Strategy and Asset Review Strategy.
- 1.4.4 The Finance, Innovation and Property Advisory Board endorsed the Capital Strategy as presented.

1.5 Legal Implications

- 1.5.1 The Local Government Act 2003 and its subsidiary regulations set out the framework for the system of capital controls which applied from 1 April 2004 whereby local authorities must set their own borrowing limits with regard to affordability, prudence and sustainability. Underpinning this is a requirement to follow the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.6 Financial and Value for Money Considerations

- 1.6.1 The transfer of schemes from List C to List B has no financial impact. The transfer of schemes from List B to List A will be considered by Cabinet on 11 February in the context of the Medium Term Financial Strategy and the overall budget position.
- 1.6.2 The Capital Strategy outlines a capital plan process which follows the CIPFA Prudential Code and in addition to meeting the Council's Key Priorities and Improvement Actions, focuses on value for money.

1.7 Risk Assessment

- 1.7.1 Financial implications of new schemes to be considered by Cabinet at the February budget meeting.
- 1.7.2 Failure to endorse a satisfactory Capital Strategy may lead to a capital programme which does not fully support the Council's Key Priorities and Improvement Actions.

1.8 Equality Impact Assessment

- 1.8.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.9 Recommendations

- 1.9.1 It is **RECOMMENDED** that the recommendations to Cabinet by the Finance, Innovation and Property Advisory Board detailed at paragraph 1.3 be endorsed.
- 1.9.2 It is **RECOMMENDED** that Cabinet be asked to endorse the Capital Strategy as attached at **[Annex 5]** for adoption by Council and publication on the Council's website.

Background papers:

Nil

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