

**TONBRIDGE & MALLING BOROUGH COUNCIL**  
**FINANCE, INNOVATION and PROPERTY ADVISORY BOARD**

**03 January 2018**

**Report of the Director of Finance and Transformation**

**Part 1- Public**

**Matters for Recommendation to Cabinet - Council Decision**

**1 CAPITAL PLAN REVIEW 2017/18**

**This report:**

- **Reviews the current position of the existing Capital Plan (List A).**
- **Recommends schemes to be added to and deleted from List C.**
- **Recommends schemes from List C for evaluation.**
- **Recommends schemes for inclusion on List B from those evaluated schemes selected for evaluation this time last year or earlier and in certain circumstances schemes identified for Fast-Track evaluation.**

**Members are reminded however, that any aspirations in respect of capital schemes need to be set within the context of the significant financial challenge facing the Council.**

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| <b>NOTE: ANNEXES 1 to 4 TO THIS REPORT ARE CONTAINED IN A SEPARATE BOOKLET CIRCULATED WITH THE AGENDA</b> |
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**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 reduce costs and or generate income. 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.

## **1.2 Capital Plan Funding**

- 1.2.1 Members are 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 2021/22 the Council may need to borrow to fund such expenditure. The annual capital allowance is set at £200,000 and it is proposed that the annual allowance continue to be set at that level.
- 1.2.5 In addition, the Invest to Save Reserve or Transformation Reserve, subject to there being sufficient funds available and where deemed appropriate, could be used to fund in part or in full capital plan schemes.

## **1.3 Capital Plan Review Process**

- 1.3.1 The Capital Plan consists of three main elements:
- List C is a holding list of schemes which ordinarily have not been fully worked up. List C schemes can be in two states – schemes which have been retained on List C for possible future adoption and schemes which have been selected for evaluation, effectively short-listed for adoption.
  - List B is a holding list of List C schemes which have been evaluated and not eliminated. The presumption is that, subject to budget guidance, these schemes will be adopted for inclusion in List A.

- List A is the approved capital programme. Schemes will be selected from List B for inclusion in List A in accordance with budgetary guidance. This selection will be carried out in conjunction with the revenue budget process.

1.3.2 The role of this Board is to consider four aspects of the review process and make recommendations to Cabinet. The four aspects are:

- A review of the existing Capital Plan (List A).
- The addition of new schemes to List C and the removal of schemes from List C.
- The selection of schemes from List C which are considered suitable for evaluation.
- Consideration of those List C schemes which have been evaluated.

1.3.3 The Overview and Scrutiny Committee on 23 January will also consider the overall Capital Plan position and make recommendations as appropriate to Cabinet on 8 February. Cabinet on 8 February will consider and make recommendations on the transfer of schemes from List B to List A in the light of the overall financial position. Finally, Council on 20 February will consider recommendations from Cabinet.

1.3.4 Capital Plan schemes should emerge from, or be designed to achieve, the Council's strategic priorities and objectives. As part of this review any new schemes being recommended for inclusion on List C are justified by reference to one of the three criteria detailed at paragraph 1.1.2. Elsewhere, Annexes 2, 3 & 4 contain references to the former Key Priorities and Improvement Actions and the key to these appears in **[Annex 1]**.

## **1.4 Review of the Existing Capital Plan (List A)**

1.4.1 Attached at **[Annex 2]** is the existing Capital Plan (List A) in budget book format along with explanatory notes. The following routine adjustments to the 2017/18 Budget Book have been made:

- the outturn for 2016/17 has been taken into account and any slippage still required has been included in 2017/18;
- schemes included in the existing Budget Book which were completed in 2016/17 have been removed;
- in accordance with the policy of having a rolling six year Capital Plan (current year plus six) an additional year, 2023/24, has been added; and

- the profiling of project spend has been reviewed and adjusted where appropriate to reflect the most likely pattern of spend across the plan period.
- 1.4.2 Paragraphs 1.4.3 to 1.4.6 detail specific amendments to the Capital Plan (List A) approved by Council in February 2017.
- 1.4.3 Gross expenditure on Disabled Facility Grants across the plan period has been increased by £433,000 matched in full by additional government grant funding.
- 1.4.4 FIPAB in June 2017 recommended approval of an IT and digital transformation capital plan scheme for the Revenues and Benefits Service. The scheme cost identified at that time of £65,000 to be funded from the Transformation Reserve.
- 1.4.5 Capital renewals provisions have been extended by a further year to enable the current level of assets (vehicles, plant and equipment) to be maintained. Renewals figures included in 2017/18 and subsequent years incorporate provision for inflation (typically an uplift of 2% per annum). Average renewals spend over the seven-year period of the plan is £845,000 per annum (2017/18 - 2023/24) compared to £875,000 per annum (2016/17 - 2022/23).
- 1.4.6 Provision for recurring expenditure has also been extended by a further year (see table below). Members are asked to note that following a review of spend on Disabled Facilities Grants and associated government grant funding the Council's contribution has reduced from £175,000 to £125,000 per annum. Gross expenditure in the final year of the Plan remains at £665,000 as approved by Council in February 2017. As this is a contribution which is funded from revenue, **the reduction of £50,000** in the Council's own funding is a **contribution towards the savings target** and has been reflected accordingly.

| <b>Capital Plan (List A) recurring expenditure</b>   |                          |                         |
|--|--------------------------|-------------------------|
|  | <b>2023/24<br/>£'000</b> | <b>Annex 2<br/>Page</b> |
| <b>Planning, Housing and Environmental Health</b>    |                          |                         |
| Housing disabled facilities grants (net)             | 125                      | CP 14                   |
| Housing assistance (net)                             | 30                       | CP 14                   |
| <b>Street Scene, Leisure and Technical Services</b>  |                          |                         |
| Green waste bins growth / replacement                | 31                       | CP 18                   |
| Refuse bins growth / replacement                     | 61                       | CP 18                   |
| Leisure community group funding                      | 8                        | CP 20                   |
| Improvements to existing car parks rolling programme | 30                       | CP 22                   |
| <b>Corporate</b>                                     |                          |                         |

|                         |            |       |
|-------------------------|------------|-------|
| General IT developments | 30         | CP 30 |
| <b>Total</b>            | <b>315</b> |       |

- 1.4.7 A number of other minor adjustments to scheme budget provisions have been made. Any budget amendments have been highlighted in bold italics in the detailed scheme notes in **[Annex 2]**.
- 1.4.8 It is **RECOMMENDED** that Cabinet be asked to endorse the Capital Plan (List A) position as shown in **[Annex 2]**, and note the contribution of £50,000 towards the savings target as a result of the reassessment of DFG funding.

## 1.5 List C Update

- 1.5.1 As a result of the undoubtedly difficult financial landscape that lies ahead the focus is on what are seen as priority capital plan schemes or where there is potential for external funding.
- 1.5.2 It should be noted that a number of List C schemes are dependent on and, will in all likelihood, only proceed if funded in full or in large part by developer contributions, government grant or other external funding opportunities. An updated schedule of List C schemes is attached at **[Annex 3]**. The update includes schemes which are recommended to be added to List C and schemes to be deleted from List C.
- 1.5.3 To assist Members a summary of the proposals is detailed in the table below.

| <b>List C additions and deletions</b>   |                         |
|---|-------------------------|
|   | <b>Annex 3<br/>Page</b> |
| <b>Schemes to be added to List C</b>  |                         |
| <b>Street Scene, Leisure and Technical Services</b>   |                         |
| Haysden Country Park – Sewage Treatment Facility  | CP 41                   |
| <b>Schemes to be deleted from List C</b>  |                         |
| <b>Street Scene, Leisure and Technical Services</b>   |                         |
| Larkfield Leisure Centre: Gym Extension / New Studio (scheme currently being progressed and funded in full by TMLT)                 | CP 36                   |
| <b>Corporate Services</b>   |                         |
| IT Initiatives: Revenues and Benefits Citizen’s Access (scheme now part of the Revenues and Benefits IT Digital solution in List A) | CP46                    |
| IT Initiatives: Upgrade to Payment Facilities Software (alternative existing payment options taken up)                              | CP 46                   |

1.5.4 It is **RECOMMENDED** that Cabinet be asked to amend List C as detailed in paragraph 1.5.3.

## 1.6 Selection of List C Schemes for Evaluation

1.6.1 At this meeting, Members have the opportunity to recommend schemes for evaluation.

1.6.2 It is recognised that the evaluation of schemes imposes a resource requirement and, in consequence, Services have to establish a balance between the evaluation of new schemes and the delivery of existing approved schemes.

1.6.3 The schedule of List C schemes in **[Annex 3]** indicates the schemes which have been recommended for evaluation coming out of this Capital Plan Review including where recommended for Fast-Track evaluation and summarised in the table below. On this occasion, one scheme has been recommended and for Fast-Track evaluation.

1.6.4 In addition, there are five schemes selected for evaluation in a previous Review that are either on hold following evaluation, subject to further evaluation or yet to be evaluated as follows: Tonbridge Farm Sportsground – Provision of Toilets, Tonbridge Racecourse Sportsground – Swimming Pool Bridge, Leybourne Lakes Country Park – Facility Improvements, River Medway – Riverside Lighting, Tonbridge and Financial Services Document Management Software.

| <b>Schemes selected for evaluation from List C</b>            |                         |
|---|-------------------------|
|   | <b>Annex 3<br/>Page</b> |
| <b>Street Scene, Leisure and Technical Services</b>           |                         |
| Haysden Country Park – Sewage Treatment Facility (Fast-Track) | CP41                    |

1.6.5 It is **RECOMMENDED** that Cabinet be asked to select the schemes listed in paragraph 1.6.4 for evaluation or further evaluation as appropriate including the scheme recommended for Fast-Track evaluation.

## 1.7 Evaluation of List C Schemes

1.7.1 As part of the 2016/17 and previous Capital Plan reviews a number of schemes were selected for evaluation. The results of those evaluations which have been concluded are given in **[Annex 4]** including those schemes recommended for Fast-Track evaluation.

1.7.2 Members are reminded that the Capital Strategy sets out criteria for evaluation. These criteria are the basis for the pro forma structure for reporting on the evaluation which includes screening for equality impacts.

- 1.7.3 Members are asked to note that the Larkfield Leisure Centre ventilation system capital plan scheme has been expanded to include replacement of the boiler serving the main building. At the current time the urgency of the replacement of the boiler is being established and on grounds of cost savings and operational efficiency consideration given to the implementation / timing of these works.
- 1.7.4 Details of the evaluated schemes are summarised below. For information, indicative, estimated annual revenue costs (savings) are also shown. The amount and timing of the revenue impact depends on the profiling of the capital expenditure and the timing of any changes in activity levels which generate changes to running costs or income.

| <b>Capital / revenue consequences of evaluated schemes</b>           |                     |                                       |                     |
|--|---------------------|---------------------------------------|---------------------|
|  | <b>Capital Cost</b> | <b>Annual revenue / renewals cost</b> | <b>Annex 4 Page</b> |
|  | <b>£'000</b>        | <b>£'000</b>                          |                     |
| <b>Street Scene, Leisure and Technical Services</b>                  |                     |                                       |                     |
| Larkfield Leisure Centre – Ventilation System and Boiler Replacement | 505                 | 20                                    | CP 49               |
| Racecourse Sportsground – Rugby Pitch Drainage Improvements          | 25                  |                                       | CP 52               |
| Haysden Country Park – Car Park Extension                            | 30                  |                                       | CP 54               |
| Haysden Country Park – Sewage Treatment Facility                     | 75                  |                                       | CP 56               |
| Tonbridge Cemetery – Path Works                                      | 15                  |                                       | CP 58               |
| Tonbridge to Penshurst Cycle Route Refurbishment                     | 60                  |                                       | CP 60               |
| <b>Total</b>   | <b>710</b>          | <b>20</b>                             |                     |

- 1.7.5 The schemes detailed above, other than the ventilation system and boiler replacement, are to be funded by way of developer contributions. The ventilation system and boiler replacement is to be met in part from the annual capital allowance. The balance is to be met by increasing the contribution to the revenue reserve for capital schemes in 2017/18 funded from the better than budgeted performance reflected in the 2017/18 revised estimates. The revenue consequences exclude an estimated loss of income claim in the sum of £250,000 to be funded from the Tonbridge and Malling Leisure Trust reserve.

- 1.7.6 Members are reminded that evaluated schemes can be recommended for inclusion on List B, retention on List C, or deletion from the Capital Plan process. Recommendation for inclusion on List B does not commit a scheme to be included in the Capital Plan, but is an expression of “in principle” support. Other than loss of investment income the figures in the above table have **not** been included in the draft revenue estimates reported elsewhere in these papers.
- 1.7.7 List B schemes will be considered by Cabinet on 8 February alongside the revenue estimates. Schemes may be selected for transfer from List B to the Capital Plan (List A) taking into account the overall budget position.
- 1.7.8 It is **RECOMMENDED** that Cabinet be asked to endorse the transfer of the schemes listed in paragraph 1.7.4 from List C to List B.

## 1.8 Capital Strategy

- 1.8.1 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.”
- 1.8.2 The Capital Strategy [**Annex 5**] is updated annually. The Strategy has no annexes but includes 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.
- 1.8.3 It is **RECOMMENDED** that Cabinet be invited to endorse the Capital Strategy as attached at [**Annex 5**] for adoption by Council and publication on the Council’s website.

## 1.9 Legal Implications

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).

## 1.10 Financial and Value for Money Considerations

- 1.10.1 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 8 February in the context of the Medium Term Financial Strategy and the overall budget position.
- 1.10.2 The Capital Strategy outlines a capital plan process which follows the CIPFA Prudential Code and in addition to supporting the achievement of the Council's priorities and corporate objectives, focuses on value for money.

### **1.11 Risk Assessment**

- 1.11.1 Financial implications of new schemes to be considered by Cabinet at the February budget meeting.
- 1.11.2 Failure to endorse a satisfactory Capital Strategy may lead to a capital programme which does not fully support the Council's priorities and corporate objectives.

### **1.12 Equality Impact Assessment**

- 1.12.1 Where there is a perceived impact on end users an equality impact assessment has or will be carried out as schemes progress as appropriate.

### **1.13 Summary of Recommendations**

- 1.13.1 It is **RECOMMENDED** that Cabinet be asked to endorse the Capital Plan (List A) position as shown in **[Annex 2]** and note the contribution to the savings target as a result of the reassessment of DFG funding;
- 1.13.2 It is **RECOMMENDED** that Cabinet be asked to amend List C as detailed in paragraph 1.5.3.
- 1.13.3 It is **RECOMMENDED** that Cabinet be asked to select the schemes listed in paragraph 1.6.4 for evaluation or further evaluation as appropriate including the scheme recommended for Fast-Track evaluation.
- 1.13.4 It is **RECOMMENDED** that Cabinet be asked to endorse the transfer of the schemes listed in paragraph 1.7.4 from List C to List B.
- 1.13.5 It is **RECOMMENDED** that Cabinet be invited to endorse the Capital Strategy as attached at **[Annex 5]** for adoption by Council and publication on the Council's website.

Background papers:

Nil

Sharon Shelton

Director of Finance and Transformation

contact: Michael Withey

Neil Lawley