

## **TONBRIDGE & MALLING BOROUGH COUNCIL**

## **FINANCE, INNOVATION and PROPERTY ADVISORY BOARD**

**09 January 2019**

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

#### **Part 1- Public**

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

##### **1      CAPITAL PLAN REVIEW 2018/19**

###### **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 current financial climate.**

**NOTE: ANNEXES 1 to 3 TO THIS REPORT ARE CONTAINED IN A  
SEPARATE BOOKLET CIRCULATED WITH THE AGENDA**

##### **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 fully aware of the significant financial challenge faced by the Council as a result of the Government's ongoing budget deficit reduction programme which has resulted in reductions in the financial support it can offer to local government. Despite statements regarding an end in sight for austerity, the Chancellor's Budget in late October did nothing to suggest an 'easing' in the financial pressures to be faced over the medium term by district councils.
- 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. The annual capital allowance is currently set at £200,000. In 2019/20 and for one year only the annual allowance is £525,000 (paragraph 1.7.4 refers) returning to £200,000 over the remainder of the capital plan review period 2020/21 to 2024/25. It should be noted, based on current projections, that from 2025/26 the Council may need to borrow to fund such expenditure.
- 1.2.5 In addition, the Invest to Save Reserve or Transformation Reserve (made up of specific grants received from government in respect of revenues and benefits functions) could be used to fund in full or in part appropriate 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 22 January will also consider the overall Capital Plan position and make recommendations as appropriate to Cabinet on 14 February. Cabinet on 14 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 19 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.

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

1.4.1 Attached at [Annex 1] is the existing Capital Plan (List A) in budget book format along with explanatory notes. The following routine adjustments to the 2018/19 Budget Book have been made:

- the outturn for 2017/18 has been taken into account and any slippage still required has been included in 2018/19;
- schemes included in the existing Budget Book which were completed in 2017/18 have been removed;
- in accordance with the policy of having a rolling six year Capital Plan (current year plus six) an additional year, 2024/25, 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 1.4.11 detail specific amendments to the Capital Plan (List A) approved by Council in February 2018.
- 1.4.3 Cabinet in March 2018 followed by Council in April 2018 approved the purchase of an automated software solution for General Data Protection Regulation purposes. The capital cost of £66,000 to be funded from the Invest to Save Reserve.
- 1.4.4 Cabinet in March 2018 followed by Council in April 2018 approved the sum of up to £1.6m be added to the Capital Plan for the purchase of property for temporary accommodation purposes funded from section 106 monies.
- 1.4.5 The Director of Street Scene, Leisure and Technical Services approved a movement in the sum of £8,000 from the Drainage Improvement Programme capital plan scheme to Tonbridge Rugby Club Drainage Improvements capital plan scheme. The scheme is to be rescheduled to 2019/20 to enable further monitoring of water levels over the winter period and the budget reduced by £9,000 to £16,000.
- 1.4.6 The revenue funded pilot in support of the West Kent Hospital Discharge Scheme and Occupational Therapist has led to much higher demand for disabled facility adaptations than originally anticipated. As a consequence, expenditure on adaptations in 2018/19 has been increased by £541,000 to £1,341,000. This increase is funded in full from prior year grant underspends, from grant allocated within the Capital Plan to future years and from additional funds announced in the Chancellor's October Budget. However, continuation of the pilot and the ability to fund increased demand going forward will be dependent on the level of Government support. Plan figures for 2019/20 and beyond are, therefore, subject to amendment.
- 1.4.7 The Larkfield Leisure Centre: Ventilation and Boiler Replacement capital plan scheme is to be deferred to 2019/20 and the budget increased by £445,000 to £950,000 following a detailed assessment by consultant heating and ventilation engineers and is to form part of a major programme of works in 2019/20. The increase is to be met from the expected better than budgeted performance in respect of the Kent and Medway 100% Business Rates Retention Pilot and a review of earmarked reserves.
- 1.4.8 The Tonbridge Racecourse Sportsground Riverside Revetment Works capital plan scheme is to be rescheduled to 2019/20 and the budget increased by £105,000 to £225,000 following unsuccessful outcome of tender exercise and cost review by the Building and Facilities Manager in liaison with external consultant. The increase is to be met from the revenue reserve for capital schemes.

- 1.4.9 The Woudham River Wall capital plan scheme is to be split into two parts. Remedial works to the path to be undertaken this year at an estimated cost of £25,000. Budgetary provision of £1.1m is to be made for the more substantive strengthening / rebuilding works in 2023/24 following external consultant's report on potential timing of works.
- 1.4.10 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 2018/19 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 £810,000 per annum (2018/19 - 2024/25) compared to £845,000 per annum (2017/18 - 2023/24).
- 1.4.11 Provision for recurring expenditure has also been extended by a further year (see table below) and updated to reflect the new waste services contract provision which rises steadily to £37,000 over the period 2020/21 to 2024/25.

<b>Capital Plan (List A) recurring expenditure</b>		
	<b>2024/25 £'000</b>	<b>Annex 1 Page</b>
<b>Planning, Housing and Environmental Health</b>		
Housing disabled facilities grants (net)	125	CP 4
Housing assistance (net)	30	CP 4
<b>Street Scene, Leisure and Technical Services</b>		
Green waste bins growth / replacement	31	CP 8
Refuse bins growth / replacement	61	CP 8
New waste services contract	37	CP 8
Improvements to existing car parks rolling programme	30	CP 14
<b>Corporate</b>		
General IT developments	30	CP 22
<b>Total</b>	<b>344</b>	

- 1.4.12 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 1]**.

It is **RECOMMENDED** that Cabinet be asked to endorse the Capital Plan (List A) position as shown in **[Annex 1]**.

### 1.5 List C Update

- 1.5.1 As a result of the undoubtedly difficult financial landscape the focus has to be 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 2]**. 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 2 Page</b>
<b>Schemes to be added to List C</b>	
<b>Planning, Housing and Environmental Health</b>	
Air Quality Monitoring Equipment	CP 27

- 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 2]** 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, two schemes have been recommended and for Fast-Track evaluation.
- 1.6.4 In addition, there are four 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, 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 2 Page</b>
<b>Planning, Housing and Environmental Health</b>	
Air Quality Monitoring Equipment (Fast-Track)	CP 27
<b>Street Scene, Leisure and Technical Services</b>	
Larkfield Leisure Centre: Pool Hall Roof (Fast-Track)	CP 28

- 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 schemes recommended for Fast-Track evaluation.

### 1.7 Evaluation of List C Schemes

- 1.7.1 As part of the 2017/18 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 3]** 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 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 £'000</b>	<b>Annual revenue / renewals cost £'000</b>	<b>Annex 3 Page</b>
<b>Planning, Housing and Environmental Health</b>			
Air Quality Monitoring Equipment	20	5	CP 35
<b>Street Scene, Leisure and Technical Services</b>			
Larkfield Leisure Centre: Pool Hall Roof	450	18	CP 37

Tonbridge Racecourse Sportsground – Swimming Pool Bridge	120	2	CP 39
<b>Total</b>	<b>590</b>	<b>25</b>	

- 1.7.4 After taking into account funding available by way of developer contributions, the estimated capital cost exceeds the standard annual capital allowance of £200,000 by £325,000. This can be met from 2019/20 New Homes Bonus funding above that anticipated.
- 1.7.5 Members are also asked to note that the Larkfield Leisure Centre: Pool Hall Roof, if approved, will form part of a major programme of works in 2019/20 over a six month period at a cost estimate of circa £1.65m comprising the pool hall roof, ventilation refurbishment, boiler replacement and space frame painting. A very early estimate of the associated loss of income claim is circa £1.0m to be funded in large part from the removal of ‘negative RSG’ in 2019/20 (see Revenue Estimates report elsewhere on this agenda). The intention is to procure this work including the design elements through the Scape Minor Works Framework, Kier Construction Ltd. being the framework contractor. This is a national procurement framework which the public sector can utilise to deliver large schemes and which the Council has experience of using.
- 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 and the estimated loss of income claim associated with the proposed major programme of works at Larkfield Leisure Centre 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 14 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 1.7.3 from List C to List B; and approve the use of the Scape Minor Works Framework, Kier Construction Ltd. being the framework contractor, as set out at paragraph 1.7.5 to procure the planned major programme of works at Larkfield Leisure Centre.

## 1.8 Capital Strategy

- 1.8.1 Updated Treasury Management and Prudential Codes of Practice were published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2017. The focus of both updates is to ensure the risks associated with investment in ‘**non-financial assets**’ which are held primarily for financial returns’

are properly evaluated, reported, subject to scrutiny and managed over time. Non-financial assets will include the purchase of property to rent, shares and loans in subsidiaries or other outsourcing structures such as IT or building services providers. Full Council noted the new requirements and adopted new clauses to be added to our own Policies when it met on 30 October 2018.

- 1.8.2 The requirements of the updated Codes of Practice have been taken into account and reflected as appropriate in the annual review and update of the Capital Strategy attached at **[Annex 4]**. 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 CIPFA – “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.”
- 1.8.4 It is **RECOMMENDED** that Cabinet be invited to endorse the Capital Strategy as attached at **[Annex 4]** for adoption by Council and publication on the Council’s website.

## **1.9 Legal Implications**

- 1.9.1 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).

## **1.10 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 14 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 1]**.
- 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 schemes 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 1.7.3 from List C to List B; and approve the use of the Scape Minor Works Framework, Kier Construction Ltd. being the framework contractor, as set out at paragraph 1.7.5 to procure the planned major programme of works at Larkfield Leisure Centre.
- 1.13.5 It is **RECOMMENDED** that Cabinet be invited to endorse the Capital Strategy as attached at **[Annex 4]** for adoption by Council and publication on the Council's website.

Background papers:

Nil

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