

TONBRIDGE & MALLING BOROUGH COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

22 January 2019

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 2018/19

This report considers progress on the 2018/19 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 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.

1.1.5 The Capital Plan review process started at the Finance, Innovation and Property Advisory Board on 9 January 2019, where Members considered the following issues:

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

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 (Annex 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 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 Board and summarised in **[Annex 1]** was endorsed.

- 1.3.2 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. The schedule of schemes recommended to be added to and schemes to be deleted from List C **[Annex 2]** was endorsed by the Board.
- 1.3.3 The List C schemes recommended for evaluation **[Annex 3]** was endorsed by the Board. On this occasion two schemes have been recommended and for Fast-Track evaluation. 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.
- 1.3.4 The evaluated schemes **[Annex 4]** recommended for transfer from List C to List B and use of the Scape Minor Works Framework, Kier Construction Ltd. being the framework contractor, to procure the planned major programme of works at Larkfield Leisure Centre was endorsed.

1.4 Capital Strategy

- 1.4.1 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.
- 1.4.2 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 5]**. 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.
- 1.4.3 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."

- 1.4.4 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 14 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 supporting the achievement of the Council's priorities and corporate objectives, 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 priorities and corporate objectives.

1.8 Equality Impact Assessment

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

1.9 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 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

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