

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

08 January 2020

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet - Council Decision

1 CAPITAL PLAN REVIEW 2019/20

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.

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 financial challenge faced by the Council as a result of the Government's budget deficit reduction programme which has resulted in reductions in the financial support offered to local government; and despite statements about an end to austerity, a challenging financial outlook remains.
- 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. It is proposed subject to review each year that the maximum 'annual capital allowance' **be increased to £250,000** for the period 2020/21 to 2025/26. It should be noted, based on current projections, that from 2026/27 the Council may need to borrow to fund such expenditure.
- 1.2.5 This does not however, preclude a decision to borrow in order to fund in full or in part a commercial investment opportunity that meets the Council's strategic priorities and objectives, achieves value for money and delivers a financial return. Each such opportunity to be considered on a case by case basis as appropriate.
- 1.2.6 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 15 January will also consider the overall Capital Plan position and make recommendations as appropriate to Cabinet on 13 February. Cabinet on 13 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 18 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 or more 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 **[supplementary Annex 1]** is the existing Capital Plan (List A) in budget book format along with explanatory notes. The following routine adjustments to the 2019/20 Budget Book have been made:

- the outturn for 2018/19 has been taken into account and any slippage still required has been included in 2019/20;
- schemes included in the existing Budget Book which were completed in 2018/19 have been removed;
- in accordance with the policy of having a rolling six year Capital Plan (current year plus six) an additional year, 2025/26, 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 2019.
- 1.4.3 The Council has received the second and final payment of initial EU Exit Funding for Local Government in the sum of £17,484, together with a further payment of £17,484 to support local authorities in their preparations for the UK leaving the EU and used for the purchase of laptops to facilitate remote working.
- 1.4.4 Cabinet in June followed by Council in July 2019 approved an increase in the capital plan budget for the major programme of works at Larkfield Leisure Centre of £729,000 from £1,400,000 to £2,129,000.
- 1.4.5 Cabinet followed by Council in October 2019 approved the allocation of the Better Care Funding available in 2019/20 for Disabled Facilities Grant spend as follows: mandatory and discretionary DFG budget of £959,000 and £41,000 respectively; discretionary revenue schemes budget of £183,000; and assumed grant repayments in the sum of -£13,000. The level of demand for mandatory DFGs in the current year is such that £41,000 intended for discretionary grants and also £140,000 to support revenue initiatives in 2020/21 is required to meet mandatory DFG spend. As such no Better Care Funding is available to meet revenue initiatives beyond 2019/20.
- 1.4.6 Cabinet followed by Council in October 2019 retrospectively approved a capital plan budget of £23,000 following delegated authority granted to purchase a digital mobile working solution funded from the Invest to Save Reserve.
- 1.4.7 Cabinet followed by Council in October 2019 approved a capital plan budget of £140,000 to purchase a content management system website solution funded from the Transformation Reserve.
- 1.4.8 Cabinet followed by Council in October 2019 approved the sum of £2.1m be added to the Capital Plan provision for the purchase of property for temporary accommodation purposes to give an overall available budget of £2.6m. The increase in the budget to be funded from monies held in the business rates retention scheme reserve, the property fund investment reserve and New Homes Bonus funding above that anticipated.
- 1.4.9 The Haysden Country Park Sewage Treatment Facility capital plan scheme budget is to be increased by £55,000 to £130,000 following latest cost review. The increase is to be met from developer contributions.
- 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 2019/20 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 £813,000 per annum (2019/20 - 2025/26) compared to £810,000 per annum (2018/19 - 2024/25).

1.4.11 Provision for recurring expenditure has also been extended by a further year (see table below).

Capital Plan (List A) recurring expenditure		
	2025/26 £'000	Annex 1 Page
Planning, Housing and Environmental Health		
Housing disabled facilities grants (net)	125	CP 4
Housing assistance (net)	30	CP 4
Street Scene, Leisure and Technical Services		
Green waste bins growth / replacement	31	CP 10
Refuse bins growth / replacement	61	CP 10
Waste services contract	37	CP 10
Improvements to existing car parks rolling programme	30	CP 16
Corporate		
General IT developments	30	CP 22
Total	344	

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]**.

1.4.13 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 challenging financial outlook 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 **[supplementary 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.

List C additions and deletions	
	Annex 2 Page
Schemes to be added to List C	
Street Scene, Leisure and Technical Services	
Tonbridge Farm Sportsground Improvements	CP 29
Open Spaces: Holly Hill Path Improvements	CP 31
Leybourne Lakes Country Park: Path Improvement Works	CP 33
Tonbridge Cemetery Memorial Garden Vaults	CP 34
Car Parking Improvement Works	CP 36
Corporate Services	
Commercial Opportunities	CP 37

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 **[supplementary 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, four schemes have been recommended including three 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.

Schemes selected for evaluation from List C	
	Annex 2 Page
Street Scene, Leisure and Technical Services	
Tonbridge Racecourse Sportsground Improvement Works: Phase 3	CP 30
Leybourne Lakes Country Park: Path Improvement Works (Fast-Track)	CP 33
Tonbridge Cemetery Memorial Garden Vaults (Fast-Track)	CP 34
Car Parking Improvement Works (Fast-Track)	CP 36

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 2018/19 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 **[supplementary 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 (income) 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.

Capital / revenue consequences of evaluated schemes			
	Capital Cost £'000	Annual revenue / renewals cost £'000	Annex 3 Page
Street Scene, Leisure and Technical Services			
Leybourne Lakes Country Park Path Improv. Works	60	0	CP 39
Tonbridge Cemetery Memorial Garden Vaults	16	1	CP 41
Car Parking Improvement Works	210	(107)	CP 43
Total	286	(106)	

- 1.7.4 The estimated capital cost of the path improvement works at Leybourne Lakes Country Park is to be funded by way of external funding and developer contributions; and the memorial garden vaults and car parking improvement works can be met from the annual capital allowance of £250,000.
- 1.7.5 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. Loss of investment income and the revenue consequences of the car parking improvement works capital plan scheme have been included in the draft revenue estimates reported elsewhere in these papers.
- 1.7.6 List B schemes will be considered by Cabinet on 13 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.
- 1.7.7 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.

1.8 Capital Strategy

- 1.8.1 The requirements of the 2017 edition of both the Treasury Management and Prudential Codes of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA) 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.
- 1.8.2 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.”
- 1.8.3 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 13 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 strategic priorities and 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 strategic priorities and 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 Endorse subject to review each year that the maximum 'annual capital allowance' be **increased** from £200,000 to £250,000.

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

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

1.13.4 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.

1.13.5 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.

1.13.6 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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