

TONBRIDGE & MALLING BOROUGH COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

15 January 2020

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet

1 CAPITAL PLAN REVIEW 2019/20

This report considers progress on the 2019/20 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 is to be reported to the Finance, Innovation and Property Advisory Board on 8 January 2020, where Members will consider 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 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 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) recommended for endorsement is summarised in **[Annex 1]**.
- 1.3.2 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. The schedule of schemes recommended to be added to and schemes to be deleted from List C is attached at **[Annex 2]**.

1.3.3 The List C schemes recommended for evaluation is attached at **[Annex 3]**. On this occasion, four schemes have been recommended including three 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 recommended for transfer from List C to List B is attached at **[Annex 4]**.

1.4 Capital Strategy

1.4.1 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 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.

1.4.2 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.”

1.5 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 13 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 strategic priorities and 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 strategic priorities and 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 Endorse subject to review each year that the maximum 'annual capital allowance' be **increased** from £200,000 to £250,000.
- 1.9.2 It is **RECOMMENDED** that the recommendations to the Finance, Innovation and Property Advisory Board detailed at paragraph 1.3 be endorsed.
- 1.9.3 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.

Background papers:

Nil

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