

**TONBRIDGE & MALLING BOROUGH COUNCIL**

**OVERVIEW AND SCRUTINY COMMITTEE**

**27 January 2015**

**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 2014/15**

**This report considers progress on the 2014/15 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 schemes to List C (wish list) 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 increase income or reduce operating costs. 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 7 January 2015, where Members considered the following issues:

- 1) The position of the existing Capital Plan (List A).
- 2) The addition of new schemes to List C and the removal of schemes no longer required.
- 3) The selection of schemes from List C for evaluation over the following year.
- 4) Consideration of those List C schemes which have been evaluated.

## **1.2 Capital Plan Funding**

1.2.1 Members will be aware that the Council continues to face a significant financial challenge as a result of the Coalition Government's budget deficit reduction programme which has resulted in a reduction 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. The revenue reserve for capital schemes provides the main source of funding for existing and any new schemes that are introduced into the Capital Plan.

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 allowance is set at £320,000. It should be noted, based on current projections, that from 2018/19 the Council will need to borrow to fund such expenditure.

## **1.3 Recommendations from Finance, Innovation and Property Advisory Board**

1.3.1 The position of the existing Capital Plan (List A) presented to the Finance, Innovation and Property Advisory Board and summarised in **[Annex 1]** was endorsed. Details in respect of the existing Capital Plan (List A) can be found in the report to the Finance, Innovation and Property Advisory Board.

1.3.2 The schedule of schemes recommended to be added to and schemes to be deleted from List C **[Annex 2]** was endorsed.

- 1.3.3 The schedule of List C schemes recommended for evaluation including one for Fast-Track evaluation **[Annex 3]** was endorsed. In addition, three schemes selected for evaluation in a previous Review: Tonbridge Farm Sportsground Provision of Toilets, Leybourne Lakes Country Park Facility Improvements and Tonbridge to Penshurst Cycle Route Refurbishment, are also to be evaluated over the coming year. Under normal circumstances, schemes successfully coming through the evaluation process, and progressing to List A, might be expected to be implemented in 2016/17.
- 1.3.4 The schedule of evaluated schemes **[Annex 4]** recommended for transfer from List C to List B was endorsed noting:
- 1) In respect of the Tonbridge Town Lock scheme this is an additional funding requirement of £100,000 to that currently reflected in the Capital Plan to be met from a pending developer contribution and in the interim from the Council's own resources.
  - 2) The Tonbridge School Athletics Track Improvements scheme is expected to be progressed in the year 2018/19 subject to the identification of developer contributions / external grant sources.
  - 3) In respect of the LLC Health Suite Refurbishment scheme this is an additional funding requirement of £60,000 to that currently reflected in the Capital Plan.

## 1.4 Capital Strategy

- 1.4.1 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."
- 1.4.2 The updated Capital Strategy attached at **[Annex 5]** has been designed to be published on the Council's website. The Strategy has no annexes but incorporates 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 The update has followed the policy of evolution, rather than revolution. The Key Financial Statistics in paragraph 2.1 of the annex have been updated to reflect the 2014/15 estimates and the balance sheet as at 31 March 2014. Elsewhere, examples of our current practice have been updated where appropriate.

Throughout the annex the type face of any new and or amended text and figures has been presented in bold italics.

- 1.4.4 The Peer Review Challenge reinforced the recognition that future strategies will need to take into account the fact that the main source of funding for new capital plan schemes, the revenue reserve for capital schemes, is expected to be exhausted in 2018/19 at which stage the Council will need to borrow to fund such expenditure.
- 1.4.5 The Finance, Innovation and Property Advisory Board endorsed the Capital Strategy as presented.

## **1.5 Legal Implications**

- 1.5.1 None.

## **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 12 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 meeting the Council's Key Priorities and Improvement Actions, focuses on value for money.

## **1.7 Risk Assessment**

- 1.7.1 Where a scheme is to be funded, in full or in part, from a pending developer contribution and in the interim from the Council's own resources there is a risk of an unbudgeted commitment if that developer contribution is not forthcoming.
- 1.7.2 Financial implications of new schemes to be considered by Cabinet at the February budget meeting.
- 1.7.3 Failure to endorse a satisfactory Capital Strategy may lead to a capital programme which does not fully support the Council's Key Priorities and Improvement Actions.

## **1.8 Equality Impact Assessment**

- 1.8.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

## **1.9 Summary of 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 asked to endorse the Capital Strategy as attached at **[Annex 5]** for adoption by Council and publication on the Council's website.

Background papers:

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Nil

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