

TONBRIDGE & MALLING BOROUGH COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

27 January 2015

Report of the Director of Finance & Transformation

Part 1- Public

Matters for Recommendation to Cabinet

1 CAPITAL RENEWALS

1.1 The report summarises the outcome of an exercise undertaken following an Overview and Scrutiny Committee Review Group meeting in September 2014. The exercise sought to reduce budget provision for capital renewals by extending the estimated life attributed to vehicles, plant and equipment.

1.2 Introduction

1.2.1 The detailed report submitted to the Overview and Scrutiny Review Group in September is replicated in full at **[Appendix 1]**. Key points drawn from the report include:

- Capital renewals (vehicles, plant and equipment used at our leisure facilities, car parks, recycling, CCTV, IT and other departmental equipment) are an integral part of the cost of service delivery.
- As an annually recurring expense, revenue provision (Council Tax) will need to be set aside each year to meet the cost of renewals.
- Budget provision for renewals in the 2014/15 Capital Plan averages £829,000 per annum.
- Service managers generally adopt an over cautious view, often based on manufacturer recommendations, when assessing how long a vehicle or item of plant and equipment will last. This gives rise to budget provision for replacement being set to high.
- Over the last 4 years budgets have been underspent on average by £376,000 (34%) each year.
- Over-budgeting has an adverse impact on the savings target predicted by our Medium Term Financial Strategy (MTFS).

1.3 Scrutiny Exercise

- 1.3.1 Over the last four years two detailed reviews have been undertaken by service managers who have been encouraged to take a more optimistic view of how long an item will last. Each review had limited impact. To avoid the MTFs savings target being overstated budget adjustments were introduced on the summary page for each Service's capital renewals provisions. The 10% reduction introduced in 2011/12 was increased to 20% in 2012/13 and 2013/14. Given the extent of underspends against budget in recent years increasing the budget adjustment to 25% appears reasonable.
- 1.3.2 Rather than simply increase the summary page budget adjustment, the Scrutiny Review Group supported an alternative approach which sought to embed the budget reduction in the detailed renewals schedules. This was to be achieved by extending the estimated life of each asset by applying a formula (current estimated life plus 33% which equates to a reduction in annual provision for each item of 25%). The amended renewals schedules were then to be circulated to service managers to confirm acceptance of the change in life or moderate the impact where they felt it appropriate.
- 1.3.3 I am pleased to report that this exercise has now been completed and with the exception of the Leisure Trust's renewals schedules and IT, which required a separate exercise, all other schedules have been updated. Generally, services accepted the amended schedules as presented to them. The only significant departures related to the photocopiers / printers that are used throughout the Council where the current estimated life of six years has been retained. These machines have a five year maintenance contract associated with them and whilst extending that by one year is feasible it is thought that attempting to extend the maintenance agreement further would be prohibitively expensive. The Land Rover, our emergency / winter maintenance support vehicle, was also retained at its current ten year life. Some other assets, principally the two recycling vehicles and some children's play equipment and associated safety surfacing, adopted a life somewhere between current and current plus 33%.
- 1.3.4 The Leisure Trust schedules were reviewed and challenged prior to Trust status and are the subject of a legal agreement. The Trust is unwilling to accept any change to the detailed items within their schedules at this time. However, they did agree that, based on past experience, increasing the current summary page budget adjustment from 20% to 25% was appropriate.
- 1.3.5 IT schedules comprises a series of provisions for groups of equipment rather than an amount for the replacement of a specific piece of equipment. A separate exercise for IT has also been completed and this yielded a 20% reduction in budget provision.
- 1.3.6 The scrutiny exercise has eliminated the need for a separate budget adjustment (except for the Trust) and generated a reduction in budget provision for renewals of £32,000 per annum. In addition, the re-profiling of replacements into the future means that the draw on the capital reserve (the current source of funding for

renewals pending delivery of our revenue budget savings targets) is such that borrowing for new capital plan schemes can be deferred by one year to 2019/20. A new Capital Plan summary page which incorporates the results of the renewals exercise is provided at **[Appendix 2]**.

- 1.3.7 Members will also be aware from the Capital Plan Review report considered by the Finance, Innovation and Property Advisory Board in January that the general provisions for CCTV and recycling bank replacements have also been reviewed. The review gave rise to budget reductions totalling £40,000 per annum which have already been incorporated into the estimates.

1.4 Legal Implications

- 1.4.1 None.

1.5 Financial and Value for Money Considerations

- 1.5.1 The annual contribution from revenue to meet the cost of capital renewals can be reduced by a further £32,000 per annum, £40,000 per annum in respect of CCTV and recycling banks having already been reflected in the estimates. In addition to making a positive contribution towards the authority's savings target the reduction in budget provision in the early years of the Capital Plan is sufficient to enable the authority to defer borrowing by one year to 2019/20.

1.6 Risk Assessment

- 1.6.1 Budget provision for renewals items are often rolled forward for use in a subsequent financial year. By extending the estimated life of an item it is accepted that an increasing number may fail earlier than predicted and thus require budget provision to be brought forward. The lack of budget provision in the year of disposal will not preclude service managers from replacing items as the need arises.

1.7 Equality Impact Assessment

- 1.8 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 Recommendations

- 1.9.1 Members are invited to recommend that Cabinet replace the existing capital renewals budget provisions with those summarised in Appendix 2.

Background papers:
Nil

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