

MAIDSTONE BOROUGH COUNCIL

CABINET

25 JULY 2012

REPORT OF CORPORATE LEADERSHIP TEAM

Report prepared by Paul Riley
Head of Finance & Customer Services

1. CAPITAL PROGRAMME 2012 TO 2016

1.1 Issue for Decision

1.1.1 To determine the strategy for developing the future Capital Programme for 2013/14 onwards as part of the consideration of the Medium Term Financial Strategy (MTFS) and to consider and approve the amount and allocation of capital resources for the delivery of the objectives of the strategic plan and other key strategies.

1.2 Recommendation of Corporate Leadership Team

1.2.1 It is recommended that Cabinet

- a) Agrees the proposed amendments to the capital strategy including the principle of prudential borrowing where this achieves commercial development, as outlined in section 1.5;
- b) Request officers develop and present proposals that achieve the councils objectives through commercial development, as set out in section 1.5;
- c) Considers the evaluation of resources available and scheme proposals as set out in paragraph 1.6.6 and identifies the appropriate uses of the resources available.

1.3 Background

1.3.1 Due to the complex nature of the two issues, this year the initial consideration of the MTFS is being reported to Cabinet in two separate reports. One report on the capital programme and one on the revenue budget. Both reports are on the same agenda. This report reviews the strategy specifically in relation to the capital programme and considers options for the development of the capital

programme for future years.

1.3.2 Although the capital programme is considered and reviewed quarterly by Cabinet, the last comprehensive review was in May 2009. At that time Cabinet amended both the programme and the criteria stated in the MTFs. The Cabinet decision for May 2009 details the main changes to the capital programme as:

- A reduction in annual capital funding for asset management programmes of £0.44m per annum, as given in the table below.

Programmes	Annual Sum Pre 2009 £,000	Current Annual Sum £,000
Sundry Corporate Properties	200	100
IT Systems Replacement	250	180
Small Scale Capital Works	70	0
Play Area Improvements	250	50
	770	330

- A reduction in the funding of the support for social housing. This was funded to deliver 450 new homes over the period of the programme.

1.3.3 Following the approval given by Cabinet a further review was carried out that focused on the various housing grants. This led to the funding for grants also being reduced over the period of the programme. At the same time the grants offered by the Council were focused on those able to most effectively reduce revenue pressures.

1.3.4 In the period since May 2009 Cabinet has considered and approved a number of further amendments in order to keep the programme and the resources in balance. The major changes approved by Cabinet are tabled below.

Pressures Identified	£m	Approved Changes	£m
Growth Point Grant	1.5	Use of NHB	2.5
Capital receipt timing	2.4	Use of Fleming VAT	1.5
Museum Contributions	1.4	High Street Phase 2	1.3
	5.3		5.3

1.3.5 Attached at **Appendix A** is the current capital programme. This was approved by Council on 29th February 2012 and amended by Cabinet following their consideration, in May 2012, of the Outturn

for 2011/12. In 2012/13 two of the Council's three flagship schemes will report their final accounts with the third due early in 2013/14. The approved programme ends in 2014/15, which is in line with previous assumptions about available resources.

1.4 Maximising Capital Resources

1.4.1 The table below, for the current year and the following five year period of the MTFS, summarises the currently available funding and compares this to the currently approved programme, taken from Appendix A. The table includes the potential sale of 26 Tonbridge Road but makes no further assumptions about asset sales or about the use of future new homes bonus.

Total Resources	Estimate 2012/13	Estimate 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
	£,000	£,000	£,000	£,000	£,000	£,000
Estimated Spend	5,525	2,053	1,820	450	450	450
Resources						
Revenue Support	3,884	350	350	350	350	350
Grant / Contribution	2,084	472	450	450	450	450
Asset Sales / Receipts	3,006	550	0	0	0	0
Total Resources	8,974	1,372	800	800	800	800
Accumulating Balance	3,449	2,768	1,748	2,098	2,448	2,798

1.4.2 The last row of the table above shows the cumulative unused resources available to the programme at the end of each financial year. At the end of 2014/15 a balance of approximately £1.75m exists. As this is the lowest cumulative value in the table, it represents the maximum resources available for immediate use in the development of the programme. This assumes the receipt of £0.55m in 2013/14 from asset sales as identified in paragraph 1.4.1. If this receipt is not forthcoming, the available resources will be £1.2m. In addition, from 2015/16 onwards, the increase in resources available is equal to the accumulated annual revenue support.

1.4.3 In order to consider a programme for future years it is essential to consider all possible resource options. There are four major resource types available to fund any future capital programme, these are: revenue support; grants and contributions from third parties; receipts from the sale of council assets; and prudential borrowing.

- Revenue Contributions

1.4.4 Over the last three years the Council has set aside resources for an annual revenue support budget of £0.35m. This represents 1.8% of

the Council's net revenue budget, is funded within the base budget and is included in the table at 1.4.1. An increase in the level of support, although possible, would place additional pressure upon the revenue budget. The strategic revenue projection suggest savings of £3.5m already need to be found over the medium term, in order to deliver a balanced budget.

- 1.4.5 There are other sources of revenue support available to the Council and in recent years these sources have been used effectively to support the current programme. The two major sources are the general fund balance and new homes bonus.
- 1.4.6 The general fund balance has been utilised in previous years to make a £1.5m one-off contribution to the programme and occasionally for necessary contributions to achieve urgent or emergency works. It is estimated that the unallocated general fund balance will be £5.2m by 31st March 2013. Of this sum the minimum working balance set by Cabinet is £2.3m and the absolute minimum balance set by Council is £2m. This means that approximately £2.9m is available. As this is a revenue resource there are pressures arising from the revenue budget that may demand equal prominence when considering its use.
- 1.4.7 The government's new homes bonus scheme (NHB) has now been in operation for two years and the amounts received by the Council so far are £0.9m for 2010/11 and £1.8m for 2011/12. With the exception of £0.18m set aside for one-off projects, these resources have supported the capital programme. The Council can reasonably expect to receive a sum greater than £1.8m for 2012/13 reflecting the previous receipt plus a further bonus for new dwellings in 2012/13.
- 1.4.8 The £0.18m set aside from 2011/12 NHB for specific one-off projects includes £0.1m provisionally set aside for work on the play areas programme. This resource could be immediately introduced into the Capital programme at this time.
- 1.4.9 The risk relating to NHB in future years is the government's plans for a spending review in 2014. At that time the government may amend or remove the scheme in order to maintain progress in its plan to reduce public sector spending. Although future NHB payments are possible, it would not be prudent to consider their use until the spending review or another announcement clarifies the position.

- Grants and Contributions

- 1.4.10 Recent schemes that have received support through grants and contributions include the Museum, Mote Park, and the High Street. Some government grants are annual sums, such as the disabled facilities grant, but the majority of sums are one-off and scheme specific.
- 1.4.11 Part of the developer contributions often received for new developments, commonly known as section 106 agreements, can be received for capital purposes although the specific use of the resource is defined in the s106 agreement. This funding source is regularly used for parks and open spaces expenditure. Under a scheme resulting from the Planning Act 2008 the Council intends to develop a community infrastructure levy that will partly replace s106 agreements. The Council is expecting to utilise this levy to fund the works set out in the infrastructure delivery plan.
- 1.4.12 The Council could increase its focus on the development of schemes that achieve funding from such sources and the MTFS currently identifies the level of external funding as one element in the prioritisation of schemes. It does not recommend that schemes should be developed to specifically achieve external funding because such an action could potentially focus schemes away from the Council's priorities and towards the objectives of the third party that is providing the support.
- Capital Receipts
- 1.4.13 Since the voluntary transfer of the housing stock in 2004, receipts from the sale of assets have been the main source of funding for the capital programme.
- 1.4.14 By 2008 the resources from the transfer had been fully utilised. Since that time, the council has sold surplus assets to provide support to the programme. Receipts in the current programme represent all major assets that have been identified as surplus with the exception of one asset which, although included in the programme, remains surplus to requirements and for sale.
- 1.4.15 Further asset sales are restricted by two key issues, the difficulty in obtaining best consideration for the asset during the recession and evidencing, in advance of sale, the greater benefit to be derived from the proceeds of the sale when compared to current or alternative uses of the asset.
- Prudential Borrowing
- 1.4.16 When the Council received the proceeds of the voluntary transfer it made a decision to repay all debt, not just the debt related to the

housing stock that had been sold. By doing this the Council became debt free and has remained debt free since that time.

1.4.17 The Council has the power to borrow to finance capital expenditure subject to the guidance set out in the Prudential Code. This code of practice is published by the Chartered Institute of Public Finance and Accountancy and covers the full range of capital planning not just potential borrowing. Compliance with the code is a statutory requirement. In summary the key objectives of the code are:

- to ensure within a clear framework that capital expenditure plans are affordable, prudent and sustainable;
- that treasury management decisions are taken in accordance with good professional practice;
- that local strategic planning, asset management planning and proper option appraisal are supported; and
- to provide a clear and transparent framework to ensure accountability.

1.4.18 If the Council were to consider prudential borrowing as a source of funding for the capital programme it would be required to evidence that such funding is affordable, prudent and sustainable. Given the current economic circumstances and the expected future pressure on resources, borrowing would place additional pressure on the savings requirements of the Council. At this time it would only be appropriate to consider borrowing where the overall benefit of the schemes within the programme outweighs the additional pressure on the general fund or the outcome is self-supporting.

- Resources Available

1.4.19 The review in this section of the report has identified the following resources that are, or will be available to the programme now or in the immediate future:

Resources Type	Availability	£m
Cash held	Immediate	1.2
Balances set aside for Play Areas	Immediate	0.1
NHB for 2012/13 (minimum)	By 01/04/2013	1.8
Future revenue support	2015 onwards	0.7
Total		3.8

The table excludes the value of the unsold asset set out in paragraph 1.4.1.

1.5 Developing a Capital Strategy

- 1.5.1 The current strategy states that “although commitment to a scheme is given by its inclusion in the programme, the strategy requires that funding is identified in advance of formal commencement of work”. This means that the appraisal and prioritisation of schemes occurs prior to the decision to enter into contractual commitments. Contractual commitment requires the scheme to be firstly detailed in the capital programme and then for the resources to complete the scheme to have been identified and certain.
- 1.5.2 The strategy further states that “the inclusion of specific capital schemes within the overall programme requires an assessment based on affordability in revenue and capital terms, including the whole life cost, deliverability in terms of ability to complete and a full risk assessment”. While these assessment criteria meet the requirements of the Prudential Code the Council also assesses schemes for their ability to deliver on the objectives set out in the strategic plan.
- 1.5.3 Following the assessment of this report, Cabinet are requested to consider an update to the current strategy that will support the development of a future capital programme in the current economic climate and reflect the revenue pressures faced by the Council. A strategy that includes the principles set out in paragraphs 1.5.4 and 1.5.5 below is recommended.

1.5.4 Capital expenditure

All schemes and programmes within the capital programme are subject to appropriate option appraisal. Such appraisal must comply with the requirements of the Prudential Code.

Where schemes fit within a specific strategy that has programmed resources, such as the IT Strategy, the schemes should also be subject to appraisal and prioritisation against the objectives of that strategy and funded from the approved budgets allocated to that strategy.

Where schemes can be demonstrated to be commercial, producing a return that makes them effectively self-funding, they must also produce either an additional financial benefit or support the strategic plan priorities.

Where schemes do not fit within the criteria above but an appropriate option appraisal has been completed, the prioritisation of such schemes will be as follows:

1. For statutory reasons;
2. Fully or partly self-funded schemes focused on strategic plan priority outcomes;
3. Other schemes focused on strategic plan priority outcomes;
4. Other non-priority schemes with a significant funding gearing.

1.5.5 Capital resources

The Council will maximise the resources available to finance capital expenditure in line with the requirements of the Prudential Code. The Council has budgetary provision for revenue funding of £0.35m. In addition to this resource the council will:

1. Maximise the use of external grants and contributions, subject to maintaining a focus on the priority outcomes of its own strategies;
2. Consider opportunities to obtain receipts from assets sales subject to the benefits of assets sales demonstrably outweighing the benefits of current and alternative uses of each asset;
3. Allow prudential borrowing when the following criteria also apply to the schemes funding by this method:
 - a. They are commercial in nature;
 - b. The outcome returns a financial benefit at least equal to the cost incurred by borrowing to fund the schemes;
 - c. After covering the cost of funding, a further financial or non-financial benefit accrues to the Council that directly or indirectly supports the strategic plan's priority outcomes.

1.6 Capital Expenditure and a Future Programme

- 1.6.1 The report has set out a prudent limit to the resources that can be considered available for use, of up to £3.7m. It has also reviewed the current programme and detailed the May 2009 reductions made across the capital programme.
- 1.6.2 Much of this reduction occurred to the asset management programmes and programmes within the housing strategy. The prudential code supports the use of such programmes and affords them high importance in option appraisal. Cabinet may wish to give consideration to the full or partial replacement of the resources removed in 2009, a total of £0.44m per annum for the asset

management programmes and a variable amount for both housing programmes.

1.6.3 It is difficult within a report of this nature to provide Cabinet with enough detail for them to approve amendments to those resources levels and allocate any funding across the programmes. However Cabinet may wish to consider the action in principle and set a maximum amount for this purpose and review each programme later in the year as part of the further development of the MTFS for 2013/14. It should also be noted that the infrastructure delivery plan and to a lesser extent some other programmes (i.e. Play Areas) will receive future funding from section 106 agreements and the community infrastructure levy.

1.6.4 In developing the proposals set out in this report, officers have identified schemes that could form an updated capital programme. At this time Corporate Leadership Team is completing a full options appraisal however estimated values that give Cabinet an indication of the level of resources required have been summarised into the following categories:

Scheme Category	£,000	Timescale
Schemes that are high priority because of their legislative importance, i.e. for Health & Safety reasons.	800	Immediate
Schemes that meet the objectives of an asset management strategy that is considered for funding on an annual basis. It is assumed that these schemes will be funded from within the allocated resources	2,200	Funding to be considered
Housing Grants (2015/16 and 2016/17)	1,300	Per Annum
Support to Social Housing	2,070	When approved
Schemes that deliver one or more of the priority outcomes from the strategic plan or the corporate improvement plan.	4,445	When approved
Local Authority Mortgage Scheme	500	Long Term Investment
Schemes that offered a commercial potential and could be expected to deliver a return that would cover the cost of the scheme	1,000	When approved
Total value of schemes being appraised	12,315	

1.6.5 The resources available now or in the immediate future, as set out in paragraph 1.4.19, demonstrate that options to update the programme are available to Cabinet at this time. The following proposal, based on the details in this report, is recommended for Cabinets consideration:

- From the immediately available resources of £1.2m it is possible to commence those schemes identified as high priority for legislative reasons totalling £0.8m and including the necessary support for the provision of a new Gypsy and Traveller site;
- From the balance of the £1.2m above and the use of the annual revenue contribution, it would be possible to partially reinstate the funding of the programmes set out in paragraph 1.3.2. Cabinet may wish to consider utilising funding set aside for play areas and an immediate £0.2m to support an increased corporate property programme and receive reports on the current status of all strategies and their relative need before further distribution of any resources;
- From the minimum level of NHB for 2012/13, of £1.8m, it would be possible to commence work on one or more priority scheme providing commitment occurred and work commenced following the funding announcement in January 2013.

1.6.6 Elsewhere on this agenda is a report on the final stage of the High Street scheme. When Cabinet last considered the funding available for the High Street scheme, and agreed to progress with Phases 1a and 1b, Cabinet requested that officers report back on options when resources were available to complete the second phase of the scheme. The report on this agenda is brought back to cabinet at this time because the proposal above identifies the availability of £1.8m.

1.6.7 Cabinet may wish to also note two further matters regarding the High Street scheme:

- The scheme is featured within the draft infrastructure delivery plan;
- The community infrastructure levy will require public inspection including an assessment of the use of NHB in the provision of infrastructure.

1.7 Alternative Action and why not Recommended

1.7.1 Cabinet could at this time chose to take no further action in relation to the capital programme. An approved programme through to the financial year 2014/15 exists as set out in Appendix A. Whilst Cabinet could chose to wait, giving consideration at a future time, resources are available for immediate use and it is appropriate to consider options as part of the medium term financial strategy for 2013/14 onwards.

1.7.2 Cabinet could chose not to amend the strategy for the development of the capital programme and continue with the strategy currently in

existence. It would be possible to develop a programme using that strategy. It is however appropriate to consider the future needs of the organisation in keeping with the strategic plan priorities. Amending the strategy at this time reflects the current market conditions and the progressive ambitions of the Council.

1.7.3 Cabinet could chose to use prudential borrowing to finance a larger capital programme. Whilst achieving the Council's strategic aims at a quicker pace, such a strategy would place additional pressure on the revenue account. An alternative strategy such as this would not, at this time, support the requirements of the Prudential Code. The strategy recommended in this report is that prudential borrowing should only be considered by this Council where a commercial assessment of a scheme indicates it is suitable. Criteria that identify a suitable scheme are that a return on the investment can be made that is, at least, equal to the resources required to maintain the necessary debt repayments.

1.8 Impact on Corporate Objectives

1.8.1 The strategy outlined and the programme proposed in this report is focused on the Council's corporate objectives, other strategic priorities and asset management.

1.9 Risk Management

1.9.1 Resources identified in the report are found not to be available and the Council is forced to borrow. This situation is low risk as only guaranteed resources have been considered and any further use of balances has not been proposed at this time.

1.9.2 Statutory schemes come forward and the Council does not have resources to carry them out. Whilst capital resources may not be available, revenue resources and balances exist. The purpose of maintaining a minimum level of balances is to be prepared for such an eventuality.

1.9.3 Negotiations regarding the settlement of the final account on the Museum East Wing project may not achieve the expected result. If the final account is agreed at a higher cost than the provision agreed by Cabinet there may be a requirement to use balances. The purpose of maintaining a minimum level of balances is to be prepared for such an eventuality.

1.9.4 There is potential, due to the nature of commercial enterprise, for borrowing to occur under the strategy and for the payback not to be available or sufficient to cover the cost of schemes for which prudential borrowing may be authorised. If Cabinet conclude that

the option to finance commercially viable schemes through prudential borrowing is acceptable it would be appropriate to allow for a level of scheme failure by setting aside a reserve and by ensuring a diversified range of schemes are undertaken. This issue is considered in the revenue report on this agenda.

1.10 Other Implications

1.10.1

1.	Financial	X
5.	Staffing	
6.	Legal	X
7.	Equality Impact Needs Assessment	X
8.	Environmental/Sustainable Development	
9.	Community Safety	
10.	Human Rights Act	
11.	Procurement	
12.	Asset Management	X

1.10.2 Financial and Legal – the considerations are set out in the report

1.10.3 Equality Impact Needs Assessment – the capital programme is developed in line with the strategic plan, medium term financial strategy and other strategic documents. The programme directs resources in accordance with these strategies and will create a positive impact.

1.11 Relevant Documents

1.11.1 Appendix A – Current Capital Programme 2012/13 to 2014/15

1.11.2 Background Documents

- The Prudential Code, published by the Chartered Institute of Public Finance and Accountancy.

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

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This is a Key Decision because it is a budget strategy report

Wards/Parishes affected: All