MAIDSTONE BOROUGH COUNCIL

CABINET

WEDNESDAY 14 AUGUST 2013

REPORT OF CORPORATE LEADERSHIP TEAM

Report prepared by Paul Riley
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1. BUDGET STRATEGY 2014 15 ONWARDS CAPITAL

1.1 Issue for Decision

1.1.1 To determine the strategy for developing the future Capital Programme, for 2014/15 onwards, as part of the consideration of the Medium Term Financial Strategy (MTFS).

1.1.2 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 That Cabinet approve for consultation:

a) the draft Medium Term Financial Strategy for capital, as set out in appendix B;

b) the capital funding projection set out in Appendix C; and

c) the proposed capital programme 2014/15 onwards set out in Appendix D.

1.2.2 That Cabinet agree to use of the Strategic Leadership and Corporate Service Overview and Scrutiny Committee's budget working group as the all-party sounding board for capital proposals.

1.3 Reasons for Recommendation

1.3.1 Attached at **Appendix A** is a summary of the current capital programme. The programme as given in Appendix A was approved by Council in February 2013. Subsequently Cabinet has approved

amendments at its meetings in May 2013 and August 2013 that are not reflected in Appendix A however the agreed amendments have been taken into account in the development of the recommendations in this report.

1.3.2 The Medium Term Financial Strategy (MTFS) is directly influenced by the country's economic situation and the government's strategy to remove the structural deficit. The impact covers both the revenue and capital elements of the strategy and must be considered in any review of the capital programme.

1.3.3 In the spending review 2010, and more recently the spending round 2013 and the autumn statement 2013, the government has reduced the level of resources available for capital expenditure. The most direct effect for Maidstone has been seen in the area of support for affordable housing through the Homes and Communities Agency.

1.3.4 As part of the spending round 2013 and the autumn statement 2013 the government has also announced a series of initiatives that direct capital resources towards economic growth in a targeted way. Most of the funding for these programmes is being directed through Local Enterprise Partnerships (LEPs). Proposals must therefore be submitted as bids to the SE-LEP if the resources are to be directed towards Maidstone initiatives.

1.4 Determining the Strategy - MTFS Principles

1.4.1 In their 2012/13 review of the capital programme the Corporate Service Overview and Scrutiny Committee recommended a number of changes to the strategy. In addition, the Committee gave their support to prudential borrowing where it was used for acquisitions that were of a commercial nature and provided a net revenue benefit after costs. The review made many recommendations including proposed changes to the strategy, such as:

a) Creation of a standalone capital strategy separate from the MTFS;

b) Active encouragement of capital proposals;

c) The creation of a cross party sounding board to evaluate proposals; and

d) The development of a disposal, acquisition and management strategy for assets

1.4.2 The strategy set out in this report has been developed from the current MTFS. In addition it includes possible actions arising from the recommendations listed above. The first of which is the creation of a stand alone strategy separate from the MTFS. While this would achieve the visibility that was of concern to the Overview and Scrutiny Committee, it would remove the integrated view of the strategy that effectively links revenue and capital resources with the priorities in the strategic plan.

1.4.3 In considering options for the capital strategy the principles have been updated and are attached at **Appendix B**. This Appendix could be used as the basis for the development of a standalone strategy or should Cabinet be concerned about separating the two elements of the MTFS it could be integrated with the revenue strategy reported elsewhere on this agenda.

1.4.4 **MTFS Principles - Appraisal of Options**

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

a) Where schemes fit within a specific strategy and resources are available within the capital programme for that strategy, such as the Asset Management Plan, the schemes would also be subject to appraisal and prioritisation against the objectives of that strategy. These schemes must be individually considered and approved by the relevant Cabinet Member following the approval of the full programme.

b) Where schemes can be demonstrated to be commercial in nature and require the use of prudential borrowing, a business case must be presented to the Property Investment Advisory Panel. These proposals will receive final approval from the Property Investment Cabinet Committee.

1.4.6 Where schemes do not fit within the criteria above but an appropriate option appraisal has been completed the use could be made of the proposed cross party sounding board however the prioritisation of such schemes will remain as previsously approved by Council and set out below:

a) For statutory reasons;

b) Fully or partly self-funded schemes focused on strategic plan priority outcomes;

c) Other schemes focused on strategic plan priority outcomes;

d) Other non-priority schemes with a significant funding gearing.

1.4.7 If the Overview and Scrutiny proposals are successful and the programme is promoted to the point of their being a number of schemes that cannot be accommodated within the current programme, this could be used as the basis for the creation of a select list of schemes for addition to the programme as future resources permit. Schemes that receive endorsement from the cross party sounding board could be prioritised by Cabinet thus allowing officers to focus funding efforts on delivering scheme that are next in priority order.

1.4.8 The MTFS requires the Council to identify actual funding before commencement of schemes and that, while schemes may be prioritised for the programme, commencement of the scheme can only occur once all the necessary resources have been identified.

1.4.9 **MTFS Principles - Funding**

1.4.10 The MTFS principles require that the Council will maximise the resources available to finance capital expenditure, in line with the requirements of the Prudential Code, through:

a) The use of external grants and contributions, subject to maintaining a focus on the priority outcomes of its own strategies;

b) Opportunities to obtain receipts from assets sales as identified in the asset management plan and approved for sale by the Cabinet Member for Corporate Services;

c) The approval of prudential borrowing when the following criteria also apply to the schemes funding by this method:

i) they are commercial in nature;

ii) the outcome returns a financial benefit at least equal to the cost incurred by borrowing to fund the schemes;

iii) 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.

d) The provision of on-going revenue support to manage the needs of the Asset Management Plan and the ICT Strategy.

e) The use of New Homes Bonus for capital purposes in line with the Council Great Place and Great Opportunity priorities.

f) The implementation of a community infrastructure levy (CIL) and the management of its use, along with other developer contributions (s106), to deliver the priority objectives of the infrastructure delivery plan.

1.5 The amount and allocation of Capital Resources.

1.5.1 The funding assumptions made in the development of the future capital programme are essential to the development of the budget and specific detail in relation to each source is set out in the paragraphs below. **Appendix C** to this report sets out the projected funding levels over the five year period of the MTFS.

Capital Grants

1.5.2 This funding source is the main focus of government's controls over the level of capital expenditure. In fact a number of the grants that were available to the council for funding capital projects no longer exist.

1.5.3 Recent projects 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.

1.5.4 In the spending round 2013 announcement the government set out plans for a joint NHS / local authority pooled fund of £3.8bn. Although details are still to be released it is expected that the £3.8bn will be resourced in part from the disabled facilities grant currently paid to district and single tier authorities. It is unclear at this time if responsibility for paying disabled facilities grants will also transfer although it is assumed to be likely.

1.5.5 Obtaining grant funding for schemes is often conditional upon match funding from the Council and other sources. Schemes that are currently applying for or being developed as part of a proposal may appear in the capital programme commitments in order to evidence to potential funders that the Council is prepared to commit or has received match funding for the scheme.

Capital Receipts

1.5.6 From 2004 through to 2008 the receipt from the voluntary transfer of the housing stock was the main source of funding for the capital

programme. Since then the council has sold surplus assets to provide support to the programme. Receipts in the current programme represent assets for which agreement on sale has been reached and are at least under offer. Council assets available for sale are diminishing although some potential asset sales still exist. In line with the principles of the MTFS the capital receipts from these potential sales will not be recognised in the programme until they are confirmed.

1.5.7 Further asset sales are restricted by two 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. No assets can be sold until the Cabinet Member for Corporate Services has confirmed that a suitable business case exists or they are surplus to requirements.

Prudential Borrowing

1.5.8 In 2012 the Council approved in principle expenditure of up to £6m through prudential borrowing for acquisition of commercial property, acquisition of property to alleviate homelessness and action to enable stalled development to progress.

1.5.9 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 and the Council's MTFS has been developed to ensure compliance. In summary the key objectives of the code are:

a) To ensure within a clear framework that capital expenditure plans are affordable, prudent and sustainable;

b) That treasury management decisions are taken in accordance with good professional practice;

c) That local strategic planning, asset management planning and proper option appraisal are supported; and

d) To provide a clear and transparent framework to ensure accountability.

Revenue Support

1.5.10 The Council has, over the last three years, created a permanent revenue resource of £0.35m to directly support programmed capital expenditure. This funding was provided because the Council

foresaw the end of the resources available from asset sales and wished to ensure that asset management and ICT provision do not suffer from the lack of available resources.

1.5.11 In addition to this a number of windfall cash receipts have been used to support the capital programme. Examples include the use of the refund from the Fleming VAT claim and the outcome the bidding process for the use of the revenue under spend in 2011/12 and 2012/13.

1.5.12 The revenue support to the capital programme is the most flexible of the available resources because, arising as it does from the revenue budget, it can be utilised for both revenue and capital purposes. For this reason the Council has always elected to use other available resources first when funding actual capital expenditure and the balance of revenue support has grown to over £7m. This is a cash resource with the exception of the £0.35m annual budget mentioned above.

1.5.13 Full use of this balance to fund the capital programme is expected by the end of 2014/15 as other sources of funding are diminishing.

New Homes Bonus (NHB)

1.5.14 The government has made a series of announcement to channel additional capital resources through LEPs as reported in section 1.3.4. One proposal is to top slice the new homes bonus funding to support the development single local growth fund of £2bn per annum from 2015/16. The national value of the NHB top slice is £400m.

1.5.15 This proposal was stopped as part of the announcements in the autumn statement 2013. The Government has resourced the LEP growth fund from other sources. In addition the Government has announced a full review of the NHB scheme during 2014/15 with any necessary changes following that review.

1.5.16 The announcements do support a longer term attitude by government to the principles of the NHB system than had previously been considered by the Council. It is therefore possible to continue to account for the receipt of NHB in all years of the current MTFS.

1.5.17 As the government still intend to review the NHB system there remains a risk that there will be a change in the focus and/or calculation of the bonus. It is prudent at this time to continue to assume a loss of resources. It is proposed in this report to assume a loss equivalent to 35% from 2015/16 onwards. Once the review

has been completed, any additional funding can be incorporated in the development of a future capital programme.

1.5.18 The Cabinet was informed that the government had announced the distribution of NHB for 2014/15 and that the Council was due to receive £3,740,411. All of this resource would be used for capital purposes, not to support the revenue account

Other Contributions

1.5.19 The major other contributions are developer contributions through s106 and, in the future, the community infrastructure levy (CIL).

1.5.20 The intention of CIL and an element of s106 contribution is the completion of the priority schemes detailed in the Infrastructure Delivery Plan. The plan remains in formative stage at this time as it must reflect the infrastructure needs of housing and business development in the final agreed local plan and these must be considered in accordance with the location of strategic sites.

1.5.21 It is however possible to identify an expected level of CIL given the information in the current draft Local Plan and an assumption that CIL will be introduced by 1st April 2015. The values attributable to CIL within the programme period are included with the detailed values of the other funding stream below

Overall Funding Level

1.5.22 The funding available for the capital programme, based on the detail above, is given in Appendix B. The appendix provides details of the available funding. The table below summarises the level of funding assumed for each resource type.

2013/14 £,000	Funding Projection	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
5,115	Revenue Support	400	350	350	350	350
2,948	New Homes Bonus	3740	2,752	3,115	2,898	2,673
472	Grants & Contributions	450	450	450	450	450
2,442	Capital Receipts	0	0	0	0	0
1,850	Prudential Borrowing	4,150	0	0	0	0
0	Developer Contributions	0	0	1,963	1,963	1,963
12,827	**Total**	**8,740**	**3,552**	**5,878**	**5,661**	**5,436**

1.6 Current Programme

1.6.1 The current programme, set out in Appendix A, was approved by Council in February 2013 and only annual programmes are included after 2014/15. The main reason behind the decision not to develop the programme beyond 2014/15 at that time was the limited detail available on future funding and the needs of the

infrastructure delivery plan. The draft IDP available at that time predicted a need for resources that could not be completely covered by either the Council's current access to resource or the development of a community infrastructure levy.

1.6.2 In May 2013 Cabinet considered the outturn for 2012/13 and in August 2013 Cabinet considered the first quarterly monitoring report for 2013/14. Approved recommendations from those reports have amended the current programme since the document reproduced as Appendix A. This report takes account of those approvals in developing the future programme.

1.7 Future Programme

1.7.1 A decision on the programme for 2014/15 onwards can no longer be deferred. Even though a finalised IDP does not exist at this time it is necessary to make some assumptions about future use of council resources. **Appendix D** to this report sets out a proposed programme based on proposals that have come forward to date, as set out below.

1.7.2 A number of proposals have been reviewed by Cabinet Members and by Overview & Scrutiny. It is necessary for these proposals to be formally agreed by Cabinet at this stage to allow for consultation on a future programme as agreed at Council in February 2013. The proposal are as follows:

a) The Council has reached agreement on the contract for the Hazlitt Arts centre and as part of that contract have agreed to provide capital support for the replacement of carpet and seating in the theatre and upgrades to the box office. This support will be returned to the Council through a discounted annual payment under the contract. In addition this work will enhance possible payments under the profit share. The discount will reduce revenue costs over the 15 years of the contract by a future payment equivalent to an immediate capital cost of £0.121m identified in the programme for the current year.

b) The Housing Service has resources from the HCA to bring back into use vacant property. The scheme as funded by the HCA requires the properties to be leased for five years however the principles of the scheme do not produce a viable business case. The Housing Service has, following consideration by the Cabinet Member, diverted some private sector grant resources into a proposed acquisition of a medium sized unit of flats requiring renovation. The HCA has confirmed that their grant can be used to renovate but not

acquire the unit. The programme identifies £750,000 in the current year for acquisition should the Council's offer be accepted.

c) To create and support an Enterprise Hub within the borough. In order to enable a suitable bid for funding to be made to Kent County Council it is necessary to include the proposal within the Capital programme with match funding of up to £0.7m, part of which may eventually be a loan rather than a grant.

d) The planned work on Play Areas which has already been formally considered by Overview and Scrutiny requiring £1.75m

e) In line with the Housing Services proposal on flat conversion a number of options are being considered to convert offices within the town centre to residential units. While a suitable revenue stream can be identified from the conversion the rate of return would not warrant prudential borrowing. This proposal adds £3m of the Council's own capital resources to the commercialisation budget to acquire and/or convert the units and adds £0.15m to the revenue income from corporate property in the future budget strategy.

f) To continue the on-going work of housing services in supporting registered providers and private sector landlords through grant aid it is necessary to extend the funding of these schemes. The proposal assumes an annual budget of £0.9m to be distributed between the different types of grant. Cabinet should note that is a significant reduction from the resources that have previously been set aside for support to housing providers but ensures an ongoing programme exists.

g) The ICT and the asset management programmes currently expire in 2014/15 however the asset management plan and the ICT strategy both identify a need for resources in the future. The level of resources currently provided is £0.38m. There is an on-going provision of £0.35m from revenue support and it is proposed that the programme is matched to this funding.

1.7.3 Incorporating these schemes into the programme, at the values indicated, is possible within the projected funding as set out in Appendix C. If the programme is approved, a balance of unused NHB will exist of £9.55m. This sum is proposed for use in delivering the IDP as complementary funding to the provision of

s106 and CIL from developers. The programme as set out in Appendix D includes subheadings from within the draft IDP and identifies levels of funding that could be used to deliver schemes under each heading. Some schemes will be required regardless of the final format of the Local Plan and are most effectively completed early, to support and enable development.

1.8 Alternative Action and why not Recommended

1.8.1 Cabinet could at this time chose to take no further action in relation to the capital programme. An approved programme through to the end of 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 2014/15 onwards.

1.8.2 Cabinet could choose any variation on the strategy, funding assumptions and programme as set out in the appendices to this report for approval.

a) The strategy has been set using the MTFS approved for 2013/14. It also considers current circumstances and the recommendations of Overview and Scrutiny Committee. However Cabinet may still wish to consider amending some of the principles set out in the report.
b) The funding assumptions are based upon prudent assumptions made from the latest information available and it is not recommended that Cabinet amend these assumptions at this time.
c) The programme is based upon the known schemes that have come forward for consideration or require match funding to enable an application for grant funding. All schemes meet the Council's priorities and have been considered by the relevant Cabinet Member.

1.8.3 Cabinet could consider the 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 budget. An alternative strategy such as this would not, at this time, support the requirements of the Prudential Code. Such a change requires approval by Council of changes to prudential borrowing levels and the related prudential indicators.

1.9 Impact on Corporate Objectives

1.9.1 The strategy outlined and the programme proposed in this report is focused on the Council's corporate objectives and other plans & strategies.

1.10 Risk Management

1.10.1 Resources set out in the report may not ultimately be available and the Council could be forced to borrow. This situation is low risk as the MTFS requires resources to be available before commitment can be made to commence a scheme within the programme.

1.10.2 Statutory schemes could come forward in the future and the Council may not have resources to carry them out. Whilst capital resources may not be available, revenue balances exist. The purpose of maintaining a minimum level of balances is to be prepared for possible events such as this.

1.10.3 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 to be insufficient to cover the cost of schemes for which prudential borrowing occurred. Cabinet has already allowed for scheme failure by setting aside a reserve and by ensuring a diversified range of schemes are undertaken. This issue was considered at the time of approval to the principles in 2012.

1.11 Other Implications

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

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

1.11.2 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.

1.12 Relevant Documents

1.12.1 Appendices

Appendix A: Current Capital Programme 2013/14 Onwards
Appendix B: MTFS – Capital Only
Appendix C: Capital Funding Projection 2014/15 Onwards
Appendix D: Proposed Capital Programme 2014/15 Onwards

IS THIS A KEY DECISION REPORT? **THIS BOX MUST BE COMPLETED**

Yes [X] No [ ]

If yes, this is a Key Decision because: This is a budget strategy report

Wards/Parishes affected: All