

MAIDSTONE BOROUGH COUNCIL

CABINET

17 DECEMBER 2014

REPORT OF CORPORATE LEADERSHIP TEAM

Report prepared by Paul Riley

1. BUDGET STRATEGY 2015 16 ONWARDS – CAPITAL

1.1 Issue for Decision

1.1.1 To determine the strategy for developing the future Capital Programme, for 2015/16 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 Reason for Urgency

1.2.1 While the forward plan reflected the consideration of the budget strategy at this meeting the item has been split into two reports representing capital and revenue matters separately.

1.3 Recommendation of Corporate Leadership Team

1.3.1 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.

1.4 Background

1.4.1 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 2014. Subsequently Cabinet has approved amendments at its meetings in May 2014 and August 2014 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.

- 1.4.2 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.
- 1.4.3 In regular spending reviews since 2010 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. Members should note that there was no addition to capital resources for the council set out in the Chancellor's Autumn Statement on 3rd December 2014.
- 1.4.4 At the present time most of the balance of government funding is being directed through Local Enterprise Partnerships (LEPs). Proposals must therefore be submitted as bids to the South East LEP (SELEP) if the resources are to be directed towards Maidstone initiatives. The Council has had some success in gaining funding for schemes through bids to government by the SELEP and these are considered as part of the future programme in section 1.8 of this report.
- 1.5 Determining the Strategy - MTFS Principles.
 - 1.5.1 The strategy set out in this report has been developed from the current MTFS. It is a stand-alone capital strategy separate from the revenue strategy. The two strategies combine to form the MTFS. This approach, to have two separate strategies, was proposed by Strategic Leadership and Corporate Services Overview and Scrutiny Committee in 2012/13 and was utilised last year for the first time.
 - 1.5.2 The strategy for 2015/16 onwards is attached at **Appendix B.**
- 1.6 MTFS Principles
 - 1.6.1 **Appraisal of Schemes**
 - 1.6.2 All schemes within the capital programme are subject to appropriate option appraisal. Any appraisal must comply with the

requirements of the Prudential Code and the following locally set principles:

- 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.

1.6.3 Where schemes do not fit within the criteria above but an appropriate option appraisal has been completed use could be made of the budget working group of the Strategic Leadership and Corporate Services Overview and Scrutiny Committee to complete an evaluation however the prioritisation of such schemes will remain as previously approved by Council and set out below:

- 1st) For statutory reasons;
- 2nd) Fully or partly self-funded schemes focused on strategic plan priority outcomes;
- 3rd) Other schemes focused on strategic plan priority outcomes; and
- 4th) Other priority schemes with a significant funding gearing

1.6.4 If, following all considerations, there are a number of approved schemes that cannot be accommodated within the current programme a prioritised list will be created of schemes that can be added to the programme as future resources permit. Schemes that receive endorsement from the budget working group and Cabinet will be prioritised by Cabinet thus allowing officers to focus funding efforts on delivering schemes that are next in priority order.

1.6.5 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 any individual scheme can only occur once all the necessary resources have been identified and secured.

1.6.6 **Funding**

1.6.7 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 objectives of the strategic plan.
- 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's strategic plan 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 objectives of the infrastructure delivery plan.

1.7 The Amount and Allocation of Capital Resources

1.7.1 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.

1.7.2 **Capital Grants.**

- 1.7.3 This funding source is the main focus of the 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.
- 1.7.4 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. The estimated grant for disabled facilities grants is set in the programme at £0.45m.
- 1.7.5 In 2014 the Council jointly with Kent County Council bid for funding for a number of infrastructure schemes and was successful in obtaining funding for two major schemes within the borough. Funding is subject to match funding from the Council or other sources. In submitting the bids the Council committed up to £2.4m of resources and the grant funding received is £8.75m. The two schemes: the bridges gyratory; and sustainable transport, are detailed later in section 1.9 of this report. These schemes will be completed by Kent County Council who will receive the grant. The Council's contribution will be paid directly to the county council at the appropriate time.
- 1.7.6 **Capital Receipts**
- 1.7.7 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 sale proceeds have been received. 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.
- 1.7.8 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.
- 1.7.9 No additional capital receipts are assumed in the programme. It is possible that windfall receipts could occur from the sale of minor assets.

1.7.10 **Prudential Borrowing**

1.7.11 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.

1.7.12 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 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.

1.7.13 **Revenue Support**

1.7.14 In recent years the Council 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. Since that time the agreement to utilise new homes bonus for capital purposes has meant that the £0.35m has been taken as a revenue saving.

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

1.7.16 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 £10.3m. This is a cash resource.

1.7.17 Full use of this balance to fund the capital programme is expected by the end of 2016/17 as other sources of funding are diminishing.

1.7.18 **New Homes Bonus (NHB)**

1.7.19 Previous government announcements support a longer term attitude by government to the principles of the NHB system. It is therefore possible to continue to account for the receipt of NHB in all years of the current MTFS.

1.7.20 However the government still intends to review the NHB system and there remains a risk that there will be a change in the focus and/or calculation of the bonus.

1.7.21 The programme set out in this report assumes a funding level of 65% of estimated NHB for all future years. This approach allows for the loss of 35% of currently expected NHB following the completion of the Government's review. Once the review is completed any additional funding above the 65% assumption can be incorporated into a future capital programme.

1.7.22 The provisional calculation of NHB receipts for 2015/16 is based on an additional 431 dwellings. Including continued bonus for prior years the 2015/16 receipt is expected to be £4.2m 65% of that figure is £2.8m. For future years an assumed level equivalent to 330 additional dwellings has been made. Once the NHB system has been in operation for six years receipts will begin to recycle as the oldest year is removed from the payment and the resources are used to finance the bonus for the latest year. This recycling effect begins in 2017/18.

1.7.23 **Other Contributions**

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

1.7.25 The intention of CIL and an element of s106 contribution is the completion of the priority schemes detailed in the Infrastructure Delivery Plan (IDP). The plan remains at a 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.

1.7.26 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 2016. The values attributable to CIL and other developer contributions within the programme period are provisional. The calculated figures are included with the detailed values of the other funding streams set out below.

1.7.27 **Overall Funding**

1.7.28 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:

Estimate 2014/15 £,000	Capital Funding	Estimate 2015/16 £,000	Estimate 2016/17 £,000	Estimate 2017/18 £,000	Estimate 2018/19 £,000	Estimate 2018/19 £,000
450	Capital Grants	450	450	450	450	450
597	Capital Receipts					
6,000	Prudential Borrowing					
6,516	Revenue Contribution					
3,740	New Homes Bonus	2,754	3,117	2,900	2,900	1,926
	Developer Contributions		1,963	1,963	1,963	1,963
17,303		3,204	5,530	5,313	5,313	4,339

1.8 Current Programme

1.8.1 The current programme, set out in Appendix A, was approved by Council in February 2013 and only annual programmes were 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.

1.8.2 In May 2014 Cabinet considered the outturn for 2013/14 and in August 2014 and November 2014 Cabinet considered the capital programme as part of the quarterly monitoring reports for 2014/15. 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 proposals for a future programme.

1.9 Future Programme

1.9.1 Even though a finalised IDP does not exist at this time and the Council intends to retain NHB, CIL and S106 developer contributions to deliver the IDP, it is necessary to make some assumptions about future use of council resources for other

services. Appendix D to this report sets out a proposed programme based on proposals that have come forward to date, as set out below.

1.9.2 A number of schemes exist in the current programme that should be carried forward. At this time it is proposed to retain the current budgets for these schemes. These are:

- a) Enterprise Hub: The scheme has previously funding of £0.7m for the Council at a time when the assumed cost of the full scheme was to be part funded by Kent County Council. As alternative proposals are developed it has been assumed that a minimum budget of £0.7m should remain.
- b) Play Areas: At this time the strategy is being considered by the Cabinet Member and Officers. It is proposed that funding for the completion of all the works will be most effectively utilised over a longer period of time and the budget of £1.8m for the scheme has been spread over the five years from 2014/15.
- c) Ongoing housing support: This covers private sector grants and support to registered providers. The budgets from 2014/15 to 2018/19 match the budgets approved by Council in 2014. The budgets proposed for 2018/19 match those previously approved for 2017/18.
- d) Information and Communications Technology (ICT) & Asset Management: These budgets cover maintenance of the Council's own ICT and property assets and expenditure should reflect the two strategies. Funding for 2018/19 has been maintained in line with the previously agreed funding levels to 2017/18 of a total of £0.35m.

1.9.3 In addition there are other schemes that require funding based on previous commitments.

- a) Commercialisation projects: The commercialisation projects in business case stage require an overall investment of approximately £4.2m including some final costs as a result of the redevelopment of Chillington House.
- b) Commercial acquisitions: Two main schemes are currently in planning stage. The total resource required for these schemes is in the region of £4.1m over the two years 2014/15 and 2015/16. The developing proposals will be reported to the Property development Advisory Board and the Property Development Cabinet Committee for approval before any expenditure will occur. Together with the costs set out in item a) above the total expenditure is budgeted as £8.3m leaving a balance of £1.4m for further acquisitions or commercial projects at this time.

- c) Gyrotory system: This scheme is grant aided from the Growth Fund through a joint bid with Kent County Council who will be the lead authority. At the time of submitting the bid for funding the Council committed £1.4m of its own resources.
- d) Sustainable Transport: This scheme is grant aided from the Growth Fund through a joint bid with Kent County Council who will be the lead authority. The scheme will develop cycle paths into the town centre along the River Medway. At the time of submitting the bid for funding the Council committed a maximum of £1m of its own resources.

1.9.4 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 £6.2m. 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.

1.10 Alternative Actions & Why Not Recommended

1.10.1 Cabinet could at this time choose to take no further action in relation to the capital programme. An approved programme through to the end of the financial year 2018/19 exists as set out in Appendix A and amended by more recent Cabinet decisions. Whilst Cabinet could choose 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 2015/16 onwards.

1.10.2 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 2014/15. It also considers current circumstances. However Cabinet could consider amending some of the principles set out in the report allowing for a variation to the programme. However the principles are set in accordance with national guidelines and previous Council approvals and it is not recommended that changes be made at this time.
- b) The funding levels could be varied but they are based upon prudent assumptions made from the latest information

available. 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 receipt of grant funding. All schemes meet the Council's priorities. Any additional schemes that Cabinet may wish to propose should be considered initially by the budget working group as set out in the MTFs.

1.10.3 Cabinet could consider the use of 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.

1.11 Impact on Corporate Objectives

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

1.12 Risk Management

1.12.1 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.

1.12.2 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.

1.12.3 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.

1.13 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	

1.13.1 **Financial and Legal** – the considerations are set out in the report.

1.13.2 **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.

1.14 Relevant Documents

1.14.1 Appendices

- Appendix A: Current Capital Programme 2014/15 Onwards
- Appendix B: MTF5 – Capital Only
- Appendix C: Capital Funding Projection 2015/16 Onwards
- Appendix D: Proposed Capital Programme 2014/15 Onwards .

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: Budget Strategy Report

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Wards/Parishes affected: All

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