

This Report will be made public on 12 February 2019.

Report Number **A/18/19**

To: Council
Date: 20 February 2019
Status: Key Decision
Responsible Officer: Charlotte Spendley, Assistant Director – Finance, Customer and Support Services

SUBJECT: UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME AND BUDGET MONITORING 2018/19

SUMMARY: This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2024. The report provides a projected outturn for the General Fund capital programme in 2018/19, based on expenditure to 30 November 2018. The General Fund Medium Term Capital Programme is required to be submitted to full Council for consideration and approval as part of the budget process. This report also sets out both the Prudential Indicators for capital expenditure and the Minimum Revenue Provision Statement for 2019/20 to be approved by full Council. Overview and Scrutiny Committee were due to consider this report on 19 February ahead of Cabinet approving it earlier today to be submitted to full Council.

REASONS FOR RECOMMENDATIONS:

Full Council is asked to agree the recommendations set out below because:

- a) It needs to be kept informed of the existing General Fund Medium Term Capital Programme position and take appropriate action to deal with any variance from the approved budget.
- b) Proposed extensions to existing schemes are required to be considered and approved before being included in the council's Medium Term Capital Programme.
- c) The proposed Medium Term Capital Programme needs to be considered before it is submitted to full Council for approval as part of the budget process.
- d) The Council must also have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities when carrying out its duties under Part 1 of the Local Government Act 2003.
- e) The Council is required to approve a Minimum Revenue Provision statement for 2019/20 in advance of the start of the financial year.

RECOMMENDATIONS:

- 1. To receive and note report A/18/19.**
- 2. To approve the updated General Fund Medium Term Capital Programme as set out in appendix 2 to this report.**
- 3. To approve the Prudential Indicators for capital and borrowing set out in the appendix 3 to this report.**
- 4. To approve the Minimum Revenue Provision (MRP) Policy Statement for 2019/20 set out in appendix 4 to this report.**

1. INTRODUCTION AND BACKGROUND

1.1 In line with the council's approved Budget Strategy for 2019/20, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five year period ending 31 March 2024. The report;-

- i) provides the latest projection, as at 30 November 2018, of the planned expenditure in 2018/19 for the existing General Fund capital programme and explanations of the variances compared to the latest approved budget,
- ii) reviews and updates the existing approved Medium Term Capital Programme and incorporates the capital investment proposals agreed by Cabinet during the budget process for 2019/20, including the proposed leisure centre and housing development at Princes Parade, Hythe due to be considered and agreed by Cabinet on 13 February 2019,
- iii) provides details of those existing capital schemes proposed to be extended by one year into 2023/24,
- iv) summarises the impact the proposed changes to the overall capital programme will have on the financing resources required to fund it, and
- v) outlines further new capital schemes that may come forward for approval during the next 12 months.

1.2 The capital expenditure plans for the Housing Revenue Account (HRA) are due to be considered by Cabinet in a separate report on this agenda as part of the current budget process for 2019/20.

1.3 The overall capital expenditure plans for both the General Fund and HRA are required to be submitted to full Council for consideration and approval as part of the budget process.

1.4 This report also sets out both the Prudential Indicators for capital expenditure and the Minimum Revenue Provision Statement for 2019/20 required to be approved by full Council.

2. CAPITAL PROGRAMME 2018/19 – PROJECTED OUTTURN

2.1 The planned expenditure on all General Fund capital schemes in 2018/19, based on expenditure to 30 November 2018, is anticipated to be £7,716,000 a reduction of £6,336,800 compared to the approved budget of £14,052,800. Full details are shown in **appendix 1**. The following table summarises the position across the council's service units and also outlines the impact on the capital resources required to fund the expenditure:

General Fund Capital Programme	Latest Approved Budget	Latest Projection	Variance
General Fund - Service Units	£'000	£'000	£'000
Environment & Corporate Assets	3,237	816	(2,421)
Strategic Development	2,754	3,223	469
Governance, Law & Regulatory Services	1,447	1,440	(7)
Finance, Customer & Support Services	4,589	611	(3,978)
Strategy, Performance & Communications	2,026	1,626	(400)
Total General Fund Capital	14,053	7,716	(6,337)
Capital Funding			
Grants	(2,789)	(1,004)	1,785
External Contributions	(1,002)	(2)	1,000
Capital Receipts	(1,451)	(2,119)	(668)
Revenue	(1,630)	(1,041)	589
Borrowing	(7,181)	(3,550)	3,631
Total Funding	(14,053)	(7,716)	6,337

2.2 The main reasons for the net reduction in the projected outturn compared to the latest approved budget for 2018/19 are summarised below:

	£'000	£'000
1 <u>Reprofiling of schemes to 2019/20</u>		
i) GF Property Health & Safety Enhancements	(15)	
ii) Coast Protection - Coronation Parade phases 2 & 3	(2,411)	
iii) Pumping Stations - New Vehicle	(25)	
iv) Biggins Wood Commercial Development	(59)	
v) Greatstone Holiday Lets	(852)	
vi) Oportunitas Loan & Share Capital Ph 1	(578)	
vii) Oportunitas Loan & Share Capital Ph 2	(3,400)	
		(7,340)
2 Otterpool land acquisition scheme partly reprofiled from 2019/20 to 2018/19		1,380
3 Disabled Facilities Grants - current demand lower than anticipated		(400)
4 <u>Increases in scheme costs</u>		

i)	Coast Protection Beach Management 2015-2020 - increase entirely funded from Environment Agency grant	36	
ii)	Coast Protection - Coronation Parade Annual Monitoring funded from Environment Agency grant	4	
iii)	Lifeline Capitalisation - additional units to meet increased demand for service	8	
			48
5	<u>Other reductions in scheme costs</u>		
i)	Coast Protection - Greatstone Dune Management funded from Environment Agency grant	(14)	
ii)	Princes Parade On-Street Park	(3)	
iii)	Car Park Review	(1)	
iv)	Compactor Bins	(7)	
			(25)
	Net reduction		(6,337)

2.3 As highlighted above, the main reason for this significant reduction in the planned capital expenditure for the year is due the reprofiling of certain schemes to 2019/20. Notably, the planned capital funding to support the expansion and long term sustainability of the council's housing and regeneration company, Oportunitas Ltd, is now expected to commence in 2019/20. The company is currently in negotiations to acquire up to 30 residential units as part of a redevelopment opportunity in central Folkestone which would require most of the remaining investment earmarked for it.

2.4 The projections contained in this report are based on the most accurate information at the current time and every effort is made to ensure the capital programme is delivered on time and in budget. Some capital schemes are more difficult to project accurately in terms of both the timing of expenditure and the final cost. In particular it is difficult to accurately project the timing of expenditure for the Disabled Facilities Grants and Loans and the Private Sector Empty Homes Initiative.

3. **UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME**

3.1 The latest projection for the total cost and funding of the General Fund capital programme from 2018/19 to 2023/24 is £73,283,000. Compared to the latest approved budget of £40,021,800 this represents an increase of £33,261,000. Full details are shown in **appendix 2** to this report and the following table summarises the position across the service units and also outlines the impact on the capital resources required to fund the programme:

General Fund Capital Programme	Latest Approved Budget	Latest Projection	Variance
General Fund - Service Units	£'000	£'000	£'000
Environment & Corporate Assets	6,465	7,042	577
Strategic Development	16,711	45,776	29,065
Governance, Law & Regulatory Services	1,831	1,920	89
Finance, Customer & Support Services	8,089	8,089	0
Economic Development	0	2,530	2,530
Strategy, Performance & Communications	6,926	7,926	1,000
Total General Fund Capital	40,022	73,283	33,261
Capital Funding			
Grants	(9,849)	(10,736)	(887)
External Contributions	(1,002)	(2,846)	(1,844)
Capital Receipts	(1,851)	(23,827)	(21,976)
Revenue	(2,182)	(2,470)	(288)
Borrowing	(25,138)	(33,404)	(8,266)
Total Funding	(40,022)	(73,283)	(33,261)

3.2 The main changes from the approved budget to the latest projection for the medium term programme are summarised below:

	£'000	£'000
1. Capital investments decisions approved by Cabinet		
i) Civic Centre replace fire doors	36	
ii) Civic Centre security access system	34	
iii) Royal Military Canal - continuation of footpath enhancement programme (£20k per annum)	100	
iv) Hawkinge Cemetery expansion - access routes	28	
v) New Business Hub - Mountfield Road Industrial Estate, subject successful to external funding bid	2,530	
vi) Royal Military Canal - replace rowing boats	46	
vii) Princes Parade Leisure Centre and Housing Development	29,065	
		31,839
2. Existing annual programmes extended by one year to 2023/24		
i) Coast Protection - Greatstone Dunes Management and Study met from Environment	15	

Agency grant

ii) Coast Protection - Hythe to Folkestone Beach Management met from Environment Agency grant	250	
iii) Lifeline units for customers	42	
iv) Replacement technology	96	
v) Disabled Facilities Grants, subject to Government funding	1,000	
vi) Home Safe Loans met from repaid Decent Homes Loans	<u>100</u>	
		1,503

3. Other Changes

i) Disabled Facilities Grants - demand for service lower than anticipated in 2018/19	(400)	
ii) Jointly funded scheme with KCC. Growth for 2019/20 met from recycling previous loans on this initiative that have been repaid.	300	
iii) Coast Protection Beach Management 2015-2020 - increase entirely funded from Environment Agency grant	36	
iv) Coast Protection - Greatstone Dune Management funded from Environment Agency grant	(14)	
v) Other minor net changes arising from 2018/19	<u>(3)</u>	
		<u>(81)</u>
Total net increase		<u>33,261</u>

3.3 The profiling of the capital programme budget is likely to be subject to some change over the medium term. As already mentioned in section 2 of this report, it can difficult to accurately project the timing of expenditure on capital schemes due to a variety of factors including identifying and being able to successfully negotiate to acquire property, being successful with external funding bids to support projects and targeting and encouraging local property owners to apply for housing improvement grants and loans.

3.4 All proposed changes to the council's General Fund MTCP are required to be approved by full Council as part of the budget setting process. The revenue implications of the of the MTCP are contained in either the proposed General Fund budget for 2019/20 or feature in the council's approved Medium Term Financial Strategy.

4. IMPACT ON CAPITAL RESOURCES

4.1 One of the key principles underlying the council's Medium Term Financial Strategy is the capital programme is funded from available or realised capital resources and that new borrowing should only be used where it is prudent and affordable. The only exception to this is where a scheme is

subject to grant funding or external contributions in which case no commitment is made against these until the funding is confirmed. The latest forecast for the General Fund capital programme conforms to this key principle.

- 4.2 The latest position regarding the council's available capital receipts to fund capital expenditure is shown in the following table:

General Fund Capital Receipts Position Statement	£'000
Receipts in hand at 30 December 2018	(9,183)
Less,	
committed towards General Fund capital expenditure	3,042
committed towards HRA capital expenditure	5,334
Ring-fenced for specific purposes:	
i) Revenue efficiencies (flexible use of capital receipts)	53
ii) Home Safe Loans	44
iii) Other	78
Contingency for urgent or unforeseen capital expenditure	500
Balance available to support new capital expenditure	(132)

- 4.3 The council has previously adopted the government's Statutory Guidance on the Flexible Use of Capital Receipts. This allows the council to use capital receipts from General Fund asset disposals from 1 April 2016 to 31 March 2022 on revenue expenditure that is planned to generate ongoing efficiencies and savings. The council currently has about £753k of qualifying capital receipts in hand and plans to use £700k of this to support capital expenditure on the Transformation project during 2018/19. In line with the council's approved Budget Strategy, future capital receipts received from asset disposals up to 31 March 2022 will be prioritised towards qualifying revenue expenditure under the guidance unless it is agreed these receipts are required to support the authority's future major capital investment plans.

- 4.4 Additionally the council's continuing prudent financial management means it is in a position to use its other internal resources (cash reserves and balances) to fund the MTCP that is not already met from external grants and contributions without resorting to new borrowing. The table below summarises the council's revenue resources of £2.47m committed towards funding the MTCP.

Revenue Resources to Fund the MTCP	£'000
Vehicle, Equipment and Technology Reserve	607
Corporate Plans Initiative Reserve	64
Other Reserves	26
General Reserve	1,773

Total	2,470
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- 4.5 This level of capital investment will be a significant draw upon the council's available reserves and balances and it is unlikely this could be repeated in the future. For this reason it is important that a thorough and robust assessment is undertaken for the new major capital investment proposals to ensure best use of the councils limited financial resources.
- 4.6 The capital expenditure and funding analysis for the Princes Parade leisure centre and housing development, provided in the Business Case report due to be considered by Cabinet last week, shows that some of the contributions towards this are expected to be received after the main scheme is finished, being S.106 and Community Infrastructure Levy contributions. This means borrowing of about £6.4m will be required in the short term and is reflected in the capital resources required for the MTCP. This short term borrowing need will be extinguished once the contributions have been received.
- 4.7 The council has a number of corporate investment initiatives it is currently exploring where it is envisaged it may be possible to use prudential borrowing, at least in part, to generate future net capital receipts and/or an on-going new net revenue stream for the authority. These initiatives, including further investment in Otterpool Park and also the Biggins Wood Development, are likely to fall within the five year period of the proposed capital programme and will require reporting in full detail to Members for approval.

5 THE CAPITAL PRUDENTIAL INDICATORS

- 5.1 The Local Government Act 2003 requires local authorities to adopt the CIPFA Prudential Code and to produce prudential indicators. The Code promotes the freedom of a local authority to determine locally what it needs to borrow to finance its future capital spending. However, the Code requires the Council to have regard to the following matters when arriving at its decisions:
- i. affordability – eg implications for Council Tax and housing rents,
 - ii. prudence and sustainability – eg implications for external borrowing,
 - iii. value for money – eg options appraisal,
 - iv. stewardship of assets – eg asset management planning
 - v. service objectives, and
 - vi. practicality – eg achievability of the medium term financial plan.
- 5.2 The Council is asked to approve the prudential indicators set out in **appendix 3** for the period up to 2021/22. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the council's underlying capital appraisal system and approved

capital programme. The Prudential Code requires the Authority to monitor the prudential indicators each year.

6 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2019/20

- 6.1 The council is required to pay off an element of the accumulated General Fund capital spend financed by borrowing each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments where it is seen to be in its best interests to do so.
- 6.2 Regulations have been issued by the MHCLG which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The Council is asked to approve the MRP Statement shown in **appendix 4** to be applicable for 2019/20.

7 CONCLUSIONS

- 7.1 The council's MTCP has been reviewed and updated in accordance with the approved budget strategy for 2019/20.
- 7.2 The revenue consequences of the MTCP are reflected in the council's General Fund budget and Medium Term Financial Strategy.
- 7.3 The proposed General Fund MTCP already requires prudential borrowing to fund it.
- 7.4 The level of new capital investment in the proposed MTCP will be a significant draw upon on the council's available reserves and balances and is unlikely to be repeated in the future. Future major capital investment initiatives are likely to require further prudential borrowing to help fund them.
- 7.5 Cabinet is asked to recommend full Council to approve the changes to the MTCP outlined in this report to reflect the latest projected outturn shown in appendix 2 to this report.
- 7.6 Cabinet is asked to recommend full Council to approve the Capital Prudential Indicators and MRP Statement for 2019/20 shown respectively in appendices 3 and 4 to this report.

8 RISK MANAGEMENT ISSUES

8.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Capital resources not available to meet the cost of the new projects.	High	Low	The internal capital resources identified in this report have been realised.
Cost of new projects may exceed the estimate.	High	Low	Capital monitoring procedures in place allowing prompt early action to be taken to manage the risk effectively.
Expenditure planned to be met by grant is ineligible under the terms of the funding agreement	High	Low	Prior to commitments being made the project manager to agree in advance grant eligible expenditure with the funding body.

9. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

9.1 Legal Officer's Comments (David Kelly)

There are no legal implications arising directly out of this report. Part 1 of the Local Government Act 2003 gives the Council the power to borrow and to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs. It also requires the Council to act prudently when carrying out these activities, including an obligation to determine and keep under review how much money it can borrow. In addition, the Council is required by the Local Government Finance Act 1992 to produce a balanced budget. Generally the Council must take into account its fiduciary duties to local tax payers and its continuing obligation to ensure it has the funding required to perform its statutory undertakings.

9.2 Finance Officer's Comments (Lee Walker)

This report has been prepared by Financial Services. There are no further comments to add.

10. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Lee Walker, Group Accountant

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The following background documents have been relied upon in the preparation of this report:

None

Appendices:

- 1) General Fund Capital Programme Projected Outturn 2018/19
- 2) Proposed General Fund MTCP to 2023/24
- 3) Capital Prudential Indicators 2019/20 to 2021/22
- 4) Minimum Revenue Provision Policy Statement for 2019/20