

This Report will be made public on 20 February 2018

Folkestone

Hythe & Romney Marsh
Shepway District Council



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Report Number **A/17/21**

To: Council
Date: 28 February 2018
Status: Key Decision
Head of Service: Charlotte Spendley, Head of Finance
Cabinet Member: Councillor Malcolm Dearden, Finance

SUBJECT: UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME AND QUARTER 3 MONITORING 2017/18

SUMMARY: This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2023. The report also provides a projected outturn for the General Fund capital programme in 2017/18, based on expenditure to 30 November 2017. 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. Overview and Scrutiny Committee considered this report on 16 January 2018 ahead of Cabinet approving it on 17 January 2018 to be submitted to be 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.

RECOMMENDATIONS:

1. To receive and note report A/17/21.
2. To approve the updated General Fund Medium Term Capital Programme as set out in appendix 2 to this report.
3. To approve the budgets for the additional General Fund capital schemes set out in addendum to this report.

1. INTRODUCTION AND BACKGROUND

- 1.1 In line with the council's approved Budget Strategy for 2018/19, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five year period ending 31 March 2023. The report;-
- i) provides the latest projection, at quarter 3, of the planned expenditure in 2017/18 for the existing General Fund capital programme and explanations of the variances compared to the previous reported projection at quarter 2,
 - ii) reviews and updates the existing approved Medium Term Capital Programme and incorporates the capital investment proposals agreed by Cabinet as part of the Budget Strategy for 2018/19 at its meeting on 15 November 2017 to be submitted to full Council for approval,
 - iii) provides details of those existing capital schemes proposed to be extended by one year into 2022/23,
 - iv) outlines further new capital schemes that may come forward for approval during the next 12 months, and
 - vi) identifies the impact the proposed changes to the overall capital programme will have on the financing resources required to fund it,
- 1.2 Capital expenditure plans for the Housing Revenue Account (HRA) were considered by Cabinet on 14 December 2017 in a separate report as part of the current budget process for 2018/19.
- 1.3 Since this report was considered on 17 January 2018 Cabinet has considered and approved a further four capital schemes to be submitted to full Council for approval and these are contained in the addendum to this report.
- 1.4 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.

2. CAPITAL PROGRAMME 2017/18 – PROJECTED OUTTURN

- 2.1 The planned expenditure on all General Fund capital schemes in 2017/18, based on expenditure to 30 November 2017, is anticipated to be £3,492,700, a reduction of £667,300 compared to the previous projection at quarter 2 of £4,160,000. Full details are shown in **appendix 1**. The previous projection at quarter 2 was reported to Cabinet on 15 November 2017 (Report number C/17/55 refers). 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 Programme 2017/18	Latest Approved Budget 2017/18	Quarter 2 Projection 2017/18	Quarter 3 Projection 2017/18	Variance Quarter 2 to Quarter 3
General Fund – Service Units	£'000	£'000	£'000	£'000
Commercial and Technical Services	3,476	927	972	45
Democratic Services and Law	112	112	112	-
Finance	1,178	1,178	330	(848)
Human Resources	11	11	11	-
Communities	1,163	1,061	1,061	-
Strategic Development Projects	1,329	871	1,006.7	135.7
Total General Fund Capital	7,269	4,160	3,492.7	(667.3)
Capital Funding				
Grants	(2,395)	(1,120)	(1,120)	-
External Contributions	(1,007)	(7)	(7)	-
Capital Receipts	(1,009)	(596)	(487)	109
Revenue	(2,561)	(2,345)	(1,490)	855
Borrowing	(297)	(92)	(388.7)	(296.7)
Total Funding	(7,269)	(4,160)	(3,492.7)	667.3

2.2 The main reasons for the net reduction in the projected outturn in quarter 3 compared to quarter 2 for 2017/18 are summarised below:

		£'000
1.	Planned funding of the Oportunitas housing acquisitions programme partly reprofiled to 2018/19	(848)
2.	Unallocated balance for the Corporate Development Projects reprofiled to 2018/19	(161.3)
3.	Budgets approved for schemes since quarter 2	£'000
	i) Varne Holiday Lets	222
	ii) Otterpool Land Acquisition	75
	iii) Princes Parade Parking Implementation	45
		342
	Net reduction	(667.3)

2.3 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, the Private Sector Empty Homes Initiative and the release of funding to Oportunitas Limited for its housing acquisitions programme.

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 2017/18 to 2022/23 is £23,583,000. Compared to the latest approved budget of £16,618,000 this represents an increase of £6,965,000. 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 Programme to 2022/23	Latest Budget	Projected Outturn	Variance
General Fund - Service Units	£'000	£'000	£'000
Commercial and Technical Services	4,704	7,182	2,478
Democratic Services and Law	496	592	96
Finance	1,178	1,178	0
Communities	3,563	7,954	4,391
Human Resources	11	11	0
Strategic Development Projects	6,666	6,666	0
Total General Fund Capital	16,618	23,583	6,965
Capital Funding			
Government Grant	-5,455	-10,870	-5,415
Other External Contributions	-1,007	-1,007	0
Capital Receipts	-1,359	-1,826	-467
Revenue Contributions	-3,163	-3,154	9
Borrowing	-5,634	-6,726	-1,092
Total Funding	-16,618	-23,583	-6,965

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

	Changes to the Medium Term Capital Programme to 2022/23	£'000	£'000	£'000
1.	Capital investment decisions approved by Cabinet on 15 November 2017			
i)	Grounds Maintenance replacement vehicles and equipment	156		
ii)	Replacement vehicle – Environmental Enforcement	14		
iii)	Replacement vehicle – Dog Warden	29		
iv)	Royal Military Canal – bridleway and road surface enhancements (year 3 of 10)	20		
v)	Temporary Accommodation (invest to save)	1,000		
vi)	Empty Homes Initiative	350		
			1,569	1,569
2.	Existing annual programmes extended by one year to 2022/23			
a)	Annual equipment and technology programmes funded from revenue resources			
i)	PC Replacement Programme	16		
ii)	Server Replacement Programme	60		
iii)	Virtual Desktop Technology	20		
iv)	Private Lifeline Equipment	42		
			138	
b	Coast Protection beach management schemes, subject to grant funding from the Environment Agency			
i)	Hythe beach management	250		
ii)	Greatstone dunes management	15		
			265	
c	Private Sector Housing Improvement Initiatives			
i)	Disabled Facilities Grants and Loans, subject to Government grant funding	1,000		
ii)	Home Safe Loans funded from repaid Decent Homes Loans	100		
			1,100	
	Total schemes extended by one year			1,503
3	Other Changes			
i)	Disabled Facilities Grants and Loans – increase in expenditure to 2022/23 reflecting the higher level of government grant funding anticipated to be received for this scheme.	2,150		

ii)	Coast Protection Hythe to Folkestone Beach Recharge Scheme – planned major recharge of beach levels in 2019/20 to maintain the integrity of the existing coastal defences. Externally funded by the Environment Agency	2,000		
iii)	Home Safe Loans – reduction in expenditure in 2017/18 due to lower than anticipated demand	(40)		
iv)	Planned expenditure on the Empty Properties Initiative in 2017/18 is lower than anticipated.	(212)		
iv)	A small saving on the cost of implementing the Parking Self-Serve System scheme	(5)		
			3,893	3,893
	Total change in overall capital programme			6,965

- 3.3 **Disabled Facilities Grants and Loans** – As outlined in the table above, the budget for this is proposed to be increased its current level of £0.5m per annum to £1m per annum to reflect the current level of government grant funding being received on an annual basis through their Better Care Fund (BCF). The government has committed to continue with a similar level of funding for at least the next two years. The MTCP now assumes the council will continue to receive a similar level of funding over the next five years. The actual level of BCF grant for each year is not normally known until around the start of each financial year. The council currently has sufficient BCF grant in hand to meet commitments likely to fall in to 2018/19 meaning there is no requirement to create a waiting list for this service. Additionally, the Department for Communities and Local Government (DCLG) has recently announced it will be providing £42m of additional funding to support DFG expenditure across England in 2017/18 and the council's share of this will be about £103k.
- 3.4 **Coast Protection Hythe to Folkestone Beach Recharge Scheme** – The Environment Agency has provisionally earmarked £2m in 2019/20 to meet the full cost of undertaking a major recharge of the beach levels between Hythe and Folkestone to main the integrity and effectiveness of the existing coastal defences. No expenditure will be incurred on this scheme until the formal funding agreement from the Environment Agency has been received.
- 3.5 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 2018/19 or feature in the council's approved Medium Term Financial Strategy.
- 3.6 A separate report is likely to be made to Cabinet on 28 February 2018 regarding further investment in the council's wholly-owned housing and regeneration company, Oportunitas Limited. Any capital financing implications arising from this will need to be incorporated into the report on the update to

the General Fund MTCP that full Council will be asked to consider and approve on 28 February 2018.

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:

Overall Capital Receipts Position Statement	£'000
Receipts in hand at 30 th November 2017	(8,281)
Less,	
committed towards General Fund capital expenditure	1,826
committed towards HRA capital expenditure	4,856
Ring-fenced for specific purposes:	
i) Revenue efficiencies (flexible use of capital receipts)	414
ii) Home Safe Loans	607
iii) Other	78
Contingency for urgent or unforeseen capital expenditure	500
Balance available to support new capital expenditure	-

4.3 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 met from external grants and contributions without resorting to new borrowing. The table below summarises the council's revenue resources of £3.15m committed towards funding the MTCP.

Revenue Resources to Fund the MTCP	£'000
Vehicle, Equipment and Technology Reserve	734
Corporate Plans Initiative Reserve	339
Economic Development Reserve	150
New Homes Bonus Reserve	75
Carry Forward Reserve	55
General Reserve	1,801
Total	3,154

4.4 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.

- 4.5 The council also has a number of major capital investment initiatives, such as Otterpool Park, Princes Parade and the Biggins Wood Development, which remain to be reported in full detail to Members for approval and are likely to fall within the five year period of the proposed capital programme. These major initiatives will have to be funded at least in part by prudential borrowing in the first instance. It is envisaged the initiatives will provide capital receipts and/or an on-going revenue stream for the council in the future allowing borrowing to be repaid or a commercial return to be made to absorb the financing costs incurred.
- 4.6 Additionally, the council's approved Budget Strategy has identified that the first call on the forecast capital receipts of £2.6m over the next two years will be to support the major transformation project the council is considering to enable it deliver ongoing efficiencies and savings.

5. THE CAPITAL PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2018/19

- 5.1 The Local Government Act 2003 requires local authorities to adopt the CIPFA Prudential Code and to produce prudential indicators. The DCLG also requires full Council to approve a Minimum Revenue Provision (MRP) Statement in advance of the start of each financial year outlining how it intends to make provision to repay an element of the accumulated General Fund capital spend financed by borrowing each year through a revenue charge (MRP).
- 5.2 Both the CIPFA Prudential Code and the DCLG's MRP Guidance are currently in the process of being revised and updated and the provisional outcome of these should be known during January 2018. Therefore it is intended for both these items to be included in the Treasury Management Strategy Statement for 2018/19 which is planned to be considered by Cabinet on 28 February 2018 before going to full Council for approval on the same day.

6. CONCLUSIONS

- 6.1 The council's MTCP has been reviewed and updated in accordance with the approved budget strategy for 2018/19.
- 6.2 The revenue consequences of the MTCP are reflected in the council's General Fund budget and Medium Term Financial Strategy.

- 6.3 The proposed General Fund MTCP already requires prudential borrowing to fund it.
- 6.4 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 will require further prudential borrowing to help fund them.
- 6.5 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 RISK MANAGEMENT ISSUES

- 7.1 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.

8. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

8.1 Legal Officer's Comments (DK)

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. The Council must bear in mind its fiduciary duties to local tax payers and its continuing obligation to ensure it has funding to perform relevant statutory undertakings it has to comply with.

8.2 Finance Officer's Comments (LW)

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

9. 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 2017/18
- 2) Proposed General Fund MTCP to 2022/23

Addendum:

List of four further schemes approved by Cabinet to be submitted to full Council for approval