

This Report will be made public on 3 November 2020

Report Number **C/20/46**

To: Cabinet
Date: 11 November 2020
Status: Key Decision
Head of Service: Charlotte Spendley – Director of Corporate Services
Cabinet Member: Councillor David Monk, Leader and Portfolio Holder for Finance

SUBJECT: UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME

SUMMARY: This report updates the General Fund Medium Term Capital Programme for decisions which have occurred since the Council approved the budget on 19 February 2020. It also considers a proposal to provide loan funding met from prudential borrowing to Veolia Environmental Services Limited for the provision of the new fleet and equipment required for the new Waste, Recycling and Street Cleansing Contract. Changes to the Capital Programme are required to be submitted to full Council for consideration and approval.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because:

- a) It needs to be kept informed of the General Fund Capital Programme position and take appropriate action to deal with any variance from the approved budget.
- b) Proposed changes to the General Fund Capital Programme need to be considered before being submitted to full Council for approval.

RECOMMENDATIONS:

1. To receive and note report C/20/46.
2. To seek full Council approval to update the General Fund Medium Term Capital Programme for the changes outlined in section 2 of the report.
3. To seek full Council approval to include a budget of £4,052,000 in the General Fund Medium Term Capital Programme to provide loan funding met from prudential borrowing to Veolia Environmental Services Limited for the provision of the fleet and equipment required for the new Waste, Recycling and Street Cleansing Contract.
4. The Director of Place to be authorised to incorporate terms within new the Waste, Recycling & Street Cleansing Contract to provide funding of the new vehicle fleet in return for contract savings as outlined.

1. INTRODUCTION AND BACKGROUND

- 1.1 Full Council approved the current General Fund Medium Term Capital Programme (MTCP) for the five year period to 31 March 2025 on 19 February 2020 (minute 101 refers). Since then there have been several decisions taken regarding General Fund capital schemes which have a budget impact and require being submitted to full Council for consideration and approval to update the MTCP. This report summarises the changes to the individual capital schemes arising from these decisions including the impact to the capital budgets and financing resources for them.
- 1.2 This report also outlines a proposal, in conjunction with Dover District Council (DDC), to provide loan funding met from prudential borrowing to Veolia Environmental Services Limited (VES) for the provision of the new fleet and equipment required for the new Waste, Recycling and Street Cleansing contract which will generate an annual saving to the Council over its eight year term.

2. CAPITAL PROGRAMME CHANGES

- 2.1 The capital schemes where decisions have occurred since the current MTCP was approved are summarised in the table below:

Scheme	Decision	Budget Increase	Funding Change
1. Purchase of former Debenhams Building, Folkestone	11/03/2020 - Urgent decision under Council's scheme of delegation. Purchase completed 01/05/2020.	£2,346,000	Met from the Economic Development and High Street Regeneration Reserves
2. Mountfield Road Industrial Estate Phase 2 – To provide infrastructure and services to a 5 hectare site enabling its use to provide much needed employment space creating up to 450 new jobs	August 2020 - Approval in principle by South East Local Enterprise Partnership of a £3.5m grant from its 'Getting Building Fund' to fully fund the site infrastructure costs.	£3,500,000	Met entirely from the SELEP Getting Building Fund grant
3. Biggins Wood Development – Land remediation	September 2020 - Approval in principle by Homes England	£1,150,000	£1,016,000 from the Homes England Grant

and infrastructure works to enable the Commercial and Housing developments to proceed.	of a grant of £1.016m towards the estimated cost of £1.7m. The Council has already provided £0.55m towards this cost in the existing MTCP budget		£134,000 from the Economic Development Reserve
4.Electric Vehicle Charging Points	Scheme approved by Cabinet on 21 October 2020 (Report no. C/20/37 refers)	£40,000	Met from the Climate Change Reserve
Total Budget Increase		£7,036,000	

2.2 Both the SELEP Getting Building Fund grant and the Homes England grant have been agreed in principle. No work to be funded from these grants will commence until the final funding agreements are in place. The use of the revenue reserves outlined above has been factored into the Council's medium term financial planning.

3. WASTE, RECYCLING AND STREET CLEANSING CONTRACT – FUNDING OF FLEET REQUIREMENTS

3.1 Background

3.1.1 Cabinet on 22 July 2020 agreed the award of the new joint Waste, Recycling and Street Cleansing Contract to VES. Included within the overall contract cost of the new agreement was the provision of new fleet vehicles and other equipment to service the contract for the waste collection and street cleansing operations.

3.1.2 During the procurement dialogue stages the option was discussed with bidders for the councils (FHDC and DDC) to fund the capital purchase of the new vehicle fleet and other equipment. This option was included in the final tender document and bidders were asked to provide a revised contract cost with the councils providing the funding of the new fleet.

3.1.3 The intention was to consider this option post award as the financial benefits would need to be assessed based on current borrowing rates. For the procurement award the contract price evaluation was completed on the basis that the contractor will fund and purchase the new fleet.

3.1.4 The councils have not committed to fund the purchase of the new vehicle fleet and all decisions to award the contract have been made on the default position that the contractor will fund. The decision to be considered is whether it would be financial advantageous to borrow to fund the vehicles in return for a reduced annual contract cost.

3.2 Financial Assessment

- 3.2.1 As this it is a joint contract with DDC the following figures are the combined cost for both authorities. The new fleet requirements are similar for both councils and operationally vehicles are used across the districts. The proposal is for both councils to provide loan funding to VES to enable them to purchase the fleet and equipment required for the contract. VES would retain ownership of the fleet and equipment and they would repay the loan and provide a rebate to the annual contract cost to reflect the saving on the interest cost to the councils.
- 3.2.2 In summary, the annual cost of the Waste, Recycling and Street Cleansing Contract is £10.023m. VES have estimated over the 8-year contract term of the total capital expenditure for new fleet and equipment to be £8,119,440. The majority of this funding (£7,757,777) is required in Year 1 with further funding (£361,663) in Year 5. If the councils took on the vehicle funding then the annual contract cost would reduce to £8.754m. This Council's share of the capital cost will be £4,052,000.
- 3.2.3 This type of funding arrangement for the purchasing of new fleet has been adopted by other councils on their waste contracts but would be new to FHDC and DDC. External financial advice was obtained from the treasury management specialists Arlingclose Ltd.
- 3.2.4 Arlingclose consider the financial risk of providing the funding to VES for the purchase of the new fleet and the potential savings that could be achieved. The report conclusions were:-
- i) VES is a credit worth company due to the size, spread and diversification of its financials and business operations.
 - ii) VES is credit rated by the three main credit rating agencies all who have assigned a stable outlook to the company and indicated resilience of its three main revenue sources.
 - iii) The credit rating assigned to VES would typically indicate a low default rate on loans made to the company.
 - iv) Significant savings ranging between about £1.42m and £1.97m over the life of the contract, or £178k to £246k, can be made by FHDC and DDC by meeting the purchase cost of the new fleet from prudential borrowing depending on the type of loans used, based on current interest rates.
 - v) The credit risk inherent in the contract of purchasing and funding the new fleet is matched by the value of the savings to be achieved by the Councils.
- 3.2.5 For FHDC the annual saving from using prudential borrowing to fund its share of the fleet cost will be in the range of £89k to £123k. Given the range in borrowing costs used by Arlingclose, it would be reasonable to assume the annual saving to FHDC will be approximately £100k over the 8 year life of the contract.
- 3.2.6 There is no provision within the existing approved Medium Term Capital Programme for the financing of the new fleet. The Council's Constitution

requires full Council to approve the capital budget of £4,052,000 for the loan to VES and also the use of prudential borrowing to finance this cost.

3.2.7 The increase in the prudential borrowing can be comfortably contained within the Council's existing authorised borrowing limit for 2020/21 of £180.1m. The increase in the Council's Capital Financing Requirement arising the prudential borrowing will be offset by the loan repayments from VES over the 8 year life of the contract.

3.2.8 Womble Bond Dickinson (UK) LLP, the legal consultants employed by the councils for the Waste Project have reviewed the proposal in terms of state aid implications. They are satisfied that there are no implications as all bidders at tender were offered the same opportunity to provide bids with the vehicle acquisition funded by the council.

3.2.9 Although VES represent a low credit risk for the loan being proposed, in finalising the arrangement consideration will be given to various options in order to protect the council's position.

4. CONCLUSIONS

4.1 The total value of the General Fund MTCP and the financial resources to support it from 2020/21 to 2024/25 incorporating the changes outlined in sections 2 and 3 of this report are summarised in the table below:

MTCP	Existing Budget £'000	Changes £'000	Updated Budget £'000
Total Cost	133,172	11,088	144,260
Capital Funding			
Capital Grants	(8,315)	(4,516)	(12,831)
External Contributions	(3,776)	-	(3,776)
Capital Receipts	(23,157)	-	(23,157)
Revenue	(2,374)	(2,520)	(4,894)
Borrowing	(95,550)	(4,052)	(99,602)
Total Funding	(133,172)	(11,088)	(144,260)

4.2 Full Council approval is required for the changes to the Capital Programme outlined above.

5. RISK MANAGEMENT ISSUES

5.1 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	Schemes supported by grant funding will only commence once fully approved and committed by the relevant body. Revenue resources required to fund capital expenditure are covered by Earmarked Reserves and have been factored into the Council's medium term financial planning
Cost of new projects may exceed the estimate.	High	Medium	Capital monitoring procedures in place allowing prompt early action to be taken to manage the risk effectively.
Veolia Environmental Services Ltd defaulting on loan obligations	High	Low	Independent financial appraisal undertaken confirming strong credit rating of company

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Officer's Comments (NM)

The legal implications of providing borrowing to Veolia Environmental Services Limited are set out in the report.

6.2 Finance Officer's Comments (LW)

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

6.3 Diversities and Equalities Implications

The report does not cover a new service or policy or a revision of either and therefore does not require an Equality Impact Assessment.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

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

- 1) Arlingclose Ltd – FHDC & DDC Waste Capital Financing Report