

This Report will be made public on 10 January 2017

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report Number **C/16/99**

To: Cabinet
Date: 18 January 2017
Status: Key Decision
Head of Service: Pat Main, Interim Head of Finance
Cabinet Member: Councillor Susan Carey, Finance

SUBJECT: UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME AND QUARTER 3 MONITORING 2016/17

SUMMARY: This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2022. The report provides a projected outturn for the General Fund capital programme in 2016/17, based on expenditure to 30 November 2016. This report also sets out both the prudential indicators for capital expenditure and the Minimum Revenue Provision Policy Statement to be approved by full Council. 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.

REASONS FOR RECOMMENDATIONS:

Cabinet 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 have regard to the Prudential Code 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 Policy Statement for 2017/18 in advance of the start of the financial year.

RECOMMENDATIONS:

- 1. To receive and note report C/16/99.**
- 2. To seek Council's approval to the updated General Fund Medium Term Capital Programme as set out in appendix 2 to this report.**
- 3. To recommend to Council the approval of the Prudential Indicators for capital and borrowing set out in the appendix 3 to this report.**
- 4. To recommend to Council the approval of the Minimum Revenue Provision (MRP) Policy Statement set out in appendix 4 to this report.**

1. INTRODUCTION AND BACKGROUND

- 1.1 In line with the council's approved Budget Strategy for 2017/18, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five year period ending 31 March 2022. The report;-
- i) provides the latest projection, at quarter 3, of the planned expenditure in 2016/17 for the existing General Fund capital programme and explanations of the variances compared to the approved budget,
 - ii) incorporates the capital investment proposals agreed by Cabinet as part of the Budget Strategy for 2016/17 at its meeting on 16 November 2016 to be submitted to full Council for approval,
 - iii) provides details of those existing capital schemes proposed to be extended by one year into 2021/22,
 - vi) identifies the impact the proposed changes to the overall capital programme will have on the financing resources required to fund it,
 - v) sets the prudential indicators for capital expenditure and borrowing required to be submitted to full Council for approval, and
 - vi) sets the Minimum Revenue Provision (MRP) statement for 2017/18 required to be submitted to full Council for approval.
- 1.2 Capital expenditure plans for the Housing Revenue Account (HRA) are due to be considered by Cabinet in a separate report as part of this agenda.
- 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.

2. CAPITAL PROGRAMME 2016/17 – PROJECTED OUTTURN

- 2.1 The planned expenditure on all General Fund capital schemes in 2016/17, based on expenditure to 30 November 2016, is anticipated to be £8,900,000, a reduction of £2,281,600 compared to the latest approved budget of £11,181,600. 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 Programme 2016/17	Latest Budget 2016/17	Quarter 3 Projection 2016/17	Variance
General Fund – Service Units	£'000	£'000	£'000
Commercial and Technical Services	3,701.6	4,075.0	373.4
Democratic Services and Law	100.5	100.5	-
Finance	3,347.0	2,100.0	(1,247.0)
Economic Development	40.0	0	(40.0)
Communities	1,433.0	1,015.0	(418.0)
Human Resources	20.5	20.5	-
Strategic Development Projects	2,539.0	1589.0	(950.0)
Total General Fund Capital	11,181.6	8,900.0	(2,281.6)
Capital Funding			
Grants	(2,880.0)	(3,289.0)	(409.0)
External Contributions	(551.0)	(569.0)	(18.0)
Capital Receipts	(1,494.0)	(1,387.0)	107.0
Revenue	(6,256.6)	(3,655.0)	2,601.6
Borrowing	-	-	-
Total Funding	(11,181.6)	(8,900.0)	2,281.6

2.2 The main reasons for the net reduction in the projected outturn for 2016/17 are summarised below:

		£'000	£'000
1.	Budgets Reprofiled to 2017/18		
i)	Oportunitas acquisitions funding	(1,247)	
ii)	Corporate Property Development Projects	(950)	
iii)	Empty Properties Initiative	(391)	
iv)	Van – New supervisor’s post (linked to Oportunitas work).	(15)	
			(2,603)
2.	Other Changes		
i)	Coronation Parade Coast Protection Scheme – increased cost of renovating the concrete structure met by additional Environment Agency grant	425	
ii)	Home Safe Loans – reduction in expenditure due to lower than anticipated demand	(45)	
iii)	Saving – ‘Connectivity’ wi-fi pilot project	(40)	
iv)	Other net minor savings	(19)	
			321
	Net reduction		(2,282)

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 2016/17 to 2021/22 is £19,245,000. Compared to the latest approved budget of £17,785,100 this represents an increase of £1,459,900. 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 2021/22	Latest Budget	Projected Outturn	Variance
General Fund – Service Units	£'000	£'000	£'000
Commercial and Technical Services	7504.6	8320.0	815.4
Democratic Services and Law	500.5	596.5	96.0
Finance	3,347.0	3,347.0	-
Economic Development	40.0	-	(40.0)
Communities	3,833.0	4,422.0	589.0
Human Resources	21.0	20.5	(0.5)
Strategic Development Projects	2539.0	2539.0	-
Total General Fund Capital	17,785.1	19,245.0	1,459.9
Capital Funding			
Government Grants	(8,005.0)	(9,189.0)	(1,184.0)
External Contributions	(1,051.0)	(1,069.0)	(18.0)
Capital Receipts	(1,904.0)	(2,590.0)	(686.0)
Revenue	(6,825.1)	(6,397.0)	428.10
Borrowing	-	-	-
Total Funding	(17,785.1)	(19,245.0)	(1,459.9)

- 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 2021/22	£'000	£'000	£'000
1.	Capital investment decisions approved by Cabinet on 16 November 2016			
i)	Grounds Maintenance replacement vehicles and equipment	75		
ii)	Pumping Stations – replacement vehicle	25		
iii)	Royal Military Canal – bridleway and road surface enhancements (year 2 of 10)	20		
iv)	Community Safety Unit – replacement transit van	16		
			136	136
2.	Existing annual programmes extended by one year to 2021/22			
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	500		
ii)	Home Safe Loans funded from repaid Decent Homes Loans	100		
			600	
	Total schemes extended by one year			1,003
3	Changes to schemes in 2016/17			
i)	Coronation Parade Coast Protection Scheme – increased cost of renovating the concrete structure met by additional Environment Agency grant	425		
ii)	Home Safe Loans – reduction in expenditure due to lower than anticipated	(45)		

	demand			
iii)	Saving – ‘Connectivity’ wi-fi pilot project	(40.0)		
iv)	Other net minor savings	(19.1)		
			320.9	320.9
	Total change in overall capital programme			1,459.9

3.3 Flexible Use of Capital Receipts

3.3.1 The Statutory Guidance on the Flexible Use of Capital Receipts issued by the government in March 2016 was outlined to Cabinet in the Medium Term Financial Strategy on 14 September 2016 (report C/16/48 refers). In summary, the guidance allows local authorities to use capital receipts from the disposal of property, plant and equipment assets received from 1 April 2016 to 31 March 2019 to fund revenue spending forecast to generate ongoing savings. The guidance allows the revenue expenditure to be treated as capital expenditure to be met from the qualifying capital receipts.

3.3.2 To date the council has received one qualifying capital receipt from the sale of 3 -5 Shornccliffe Road of £0.98m. Qualifying expenditure is being incurred particularly on the digital delivery of services however this is not currently reflected in the projected outturn for the capital programme. It is anticipated that future budget monitoring reports and updates for the General Fund capital programme will reflect the qualifying expenditure as well as information on any further capital receipts available to support this.

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 th November 2016	(7,781)
Less,	
committed towards General Fund capital expenditure	2,590
committed towards HRA capital expenditure	3,160
Ring-fenced for specific purposes:	
i) Revenue efficiencies (flexible use of capital	980

receipts)	
ii) Home Safe Loans	310
iii) Other	78
Contingency for urgent or unforeseen capital expenditure	500
Balance available to support new capital expenditure	(163)

- 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 £6.44m committed towards funding the MTCP.

Revenue Resources to Fund the MTCP	£'000
Vehicle, Equipment and Technology Reserve	795
Corporate Plans Initiative Reserve	500
Economic Development Reserve	1,700
Invest to Save Reserve	15
New Homes Bonus Reserve	500
Carry Forward Reserve	156
General Reserve	2,731
Total	6,397

- 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 Authority's major capital investment initiatives, such as Otterpool Park, Princes Parade and other asset investment initiatives, remain to be reported in detail to Members for approval. 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 The revenue implications of the of the MTCP are contained in either the proposed General Fund budget for 2017/18 or feature in the council's approved Medium Term Financial Strategy.

5. THE CAPITAL PRUDENTIAL INDICATORS 2017/18 TO 2019/20

- 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 2019/20. 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 2017/18

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 Department for Communities and Local Government (DCLG) 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 2017/18.

7. CONCLUSIONS

7.1 The council's MTCP has been reviewed and updated in accordance with the approved budget strategy for 2017/18.

7.2 The projected outturn for the 2016/17 General Fund capital programme is broadly in line with the approved budget and does not present any resourcing issues.

7.3 The revenue consequences of the MTCP are reflected in the council's General Fund budget and Medium Term Financial Strategy.

7.4 The proposed General Fund MTCP currently does not require new borrowing to fund it.

7.5 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 prudential borrowing to help fund them.

7.6 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.

7.7 Cabinet is also asked to recommend full Council to approve the prudential indicators shown in appendix 3 and the MRP Policy Statement shown in appendix 4.

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 (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.

9.2 Finance Officer's Comments (LW)

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

Tel: 01303 853593. e-mail [:lee.walker@shepway.gov.uk](mailto:lee.walker@shepway.gov.uk)

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

None

Appendices:

- 1) General Fund Capital Programme Projected Outturn 2016/17
- 2) Proposed General Fund MTCP to 2021/22
- 3) Prudential indicators for 2017/18 to 2019/20
- 4) MRP Policy Statement for 2017/18