

This Report will be made public on 11 February 2020

Report Number **A/19/26**

To: Council
Date: 19 February 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 AND BUDGET MONITORING 2019/20

SUMMARY: This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2025. The report provides an updated projected outturn for the General Fund capital programme in 2019/20, based on expenditure to 30 November 2019. 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 the Minimum Revenue Provision Statement for 2020/21 to be approved by full Council. Overview and Scrutiny Committee considered this report on 21 January 2020 ahead of Cabinet approving it for submission to full Council on 22 January 2020. The report has been updated to incorporate changes to the Medium Term Capital Programme which have occurred since these meetings.

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 2020/21 in advance of the start of the financial year.

RECOMMENDATIONS:

- 1. To receive and note report A/19/26.**
- 2. To approve the updated General Fund Medium Term Capital Programme as set out in appendix 2 to this report.**
- 3. To approve the Minimum Revenue Provision (MRP) Policy Statement for 2020/21 set out in appendix 3 to this report.**

1. INTRODUCTION AND BACKGROUND

- 1.1 In line with the council's approved Budget Strategy for 2020/21, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five year period ending 31 March 2025. The report;-
- i) provides the latest projection, as at 30 November 2019, of the planned expenditure in 2019/20 for the existing General Fund capital programme and explanations of the variances compared to the latest approved budget and also the previous projection for the current financial year,
 - 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 2020/21,
 - iii) introduces proposed new schemes and initiatives identified during the budget process but yet to be considered by Cabinet,
 - iv) provides details of those existing capital schemes proposed to be extended by one year into 2024/25,
 - v) summarises the impact the proposed changes to the overall capital programme will have on the financing resources required to fund it.
- 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 2020/21.
- 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 the Minimum Revenue Provision Statement for 2019/20 required to be approved by full Council. The Prudential Indicators for capital expenditure are due to be considered separately as part of the Capital Strategy report by Cabinet on 19 February 2020 before being submitted to full Council for approval.
- 1.5 This report was considered by Overview and Scrutiny Committee on 21 January 2020 and Cabinet on 22 January 2020 who approved it to be submitted to full Council. The report has been updated to reflect the following changes to the Medium Term Capital Programme which have occurred since the January meetings:
- i) The council has acquired the land and property interest of Cozumel Estates Limited for the Otterpool Park Garden Town development for approximately £26.2m, met from within the existing overall approved scheme budget and funded from prudential borrowing.

- ii) Further capital expenditure of £774k to support the council's Transformation Programme has been identified, to be met from capital receipts. This is expected to generate ongoing efficiencies and revenue savings.
- iii) The level of revenue funding for the capital programme has been reduced by £230k with this now being met from available capital receipts.

2. CAPITAL PROGRAMME 2019/20 – PROJECTED OUTTURN

2.1 The planned expenditure on all General Fund capital schemes in 2019/20, based on expenditure to 30 November 2019, is anticipated to be £58,374,800 an increase of £21,165,800 compared to the approved budget of £37,209,000. 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	21,434	18,471	(2,963)
Finance, Customer & Support Services	5,108	3,729	(1,379)
Governance, Law & Regulatory Services	2,050	1,878	(172)
Strategic Development Projects	8,617	34,297	25,680
Total General Fund Capital	37,209	58,375	21,166
Capital Funding			
Grants	(2,759)	(1,202)	1,557
External Contributions	(1,001)	(460)	541
Capital Receipts	(1,593)	(1,840)	(247)
Revenue	(1,117)	(1,217)	(100)
Borrowing	(30,739)	(53,656)	(22,917)
Total Funding	(37,209)	(58,375)	(21,166)

2.2 The projected outturn for 2019/20 has increased by £27.84m from that previously reported to Cabinet on 13 November 2019 (Report no. C/19/35 refers) and the main reasons for the change are summarised in the table below:

£'000

i)	Otterpool Park – reprofiling of the budget from 2020/21 mainly to meet the cost of acquiring the land and property interests from Cozumel Estates	27,000
ii)	Transformation Programme - Further ICT related expenditure expected to deliver ongoing efficiencies and revenue savings	522
iii)	Additional expenditure on Disabled Facilities Grants and Loans supporting local residents to remain in their properties, to be met from government grant	210
iv)	Profiled funding of the Lower Sandgate Road Beach Huts scheme approved since the previous capital budget monitoring report, to be met from prudential borrowing	75
v)	Pumping Stations new vehicle now expected to be purchased in 2019/20 rather than 2020/21	25
vi)	Other minor net changes	7
Total		27,839

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 Otterpool Park land and property acquisitions, 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 2019/20 to 2024/25 is £188,405,000. Compared to the latest approved budget of £186,171,000 this represents an increase of £2,234,000. 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
	£'000	£'000	£'000
General Fund - Service Units			
Environment & Corporate Assets	24,758	25,552	794
Strategic Development	143,491	144,490	999
Governance, Law & Regulatory Services	6,926	8,388	1,462
Finance, Customer & Support Services	8,466	9,240	774
Economic Development	2,530	735	(1,795)
Total General Fund Capital	186,171	188,405	2,234

Capital Funding

Grants	(9,836)	(9,517)	319
External Contributions	(2,845)	(4,236)	(1,391)
Capital Receipts	(22,778)	(24,688)	(1,910)
Revenue	(1,748)	(3,591)	(1,843)
Borrowing	(148,964)	(146,373)	2,591
Total Funding	(186,171)	(188,405)	(2,234)

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) Biggins Wood - Commercial and residential development of the site being met from revenue reserves	1,000	
ii) Parking Services - Replacement of car park machines over a three year period	47	
iii) Parking Services - New software to support management of Traffic Regulation Orders	38	
iv) Private Sector Housing - Empty Homes Initiative jointly funded scheme with KCC. Growth for 2020/21 met from recycling previous loans on this initiative that have been repaid.	300	
	<hr/>	1,385
2. Existing annual programmes extended by one year to 2024/25		
i) Coast Protection - Greatstone Dunes Management and Study met from Environment Agency grant	15	
ii) Coast Protection - Hythe to Folkestone Beach Management met from Environment Agency grant	250	
iii) Coast Protection - Annual monitoring of Coronation Parade, Folkestone met from Environment Agency grant	4	
iv) Lifeline units for customers	50	
v) Royal Military Canal - Footpath improvement scheme	20	
vi) Replacement technology	95	
vii) Disabled Facilities Grants, subject to Government funding	1,000	
viii) Home Safe Loans met from repaid Decent Homes Loans	100	
	<hr/>	1,534
3. Other Changes		

i) Public Toilets - Refurbishment programme for 2020/21 and 2021/22 subject to a separate report to Cabinet detailing the proposed scheme	400	
ii) Disabled Facilities Grants - demand for service lower than anticipated in 2019/20	(100)	
iii) Home Safe Loans - demand for service lower than anticipated in 2019/20	(40)	
iv) Coast Protection Beach Management 2015 -2020 - budget carried forward from 2018/19 not required (entirely funded from the Environment Agency)	(95)	
v) Lifeline Capitalisation - Additional cost of equipment due to an increase in demand for the service resulting in higher income being received	65	
vi) Replacement Technology - Net increase in cost including the rollout of new laptops and tablets for staff and councillors in 2019/20	107	
vii) Mountfield Road Business Hub - Cabinet decision (September 2019) to implement a revised scheme in partnership with the East Kent Spatial Development Company to be met from revenue reserves rather than prudential borrowing	(1,795)	
viii) Transformation Programme - Further ICT related expenditure expected to deliver ongoing efficiencies and revenue savings	774	
ix) Other minor net changes arising from 2019/20	(1)	
		<u>(685)</u>
Total net increase		<u>2,234</u>

3.3 As already mentioned in section 2 of this report, the profiling of the capital programme budget is likely to be subject to some change over the medium term. Notably, the timing and profiling of the Otterpool Park Garden Town scheme is expected to change as the council's plans for it develop going forward.

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 2020/21 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 proposed MTCP requires approximately £146m of prudential borrowing to support it with about £112m of this is for the Otterpool Park scheme. Ordinarily this would put a significant pressure on the General Fund budget for additional interest costs. However, as outlined in the report to full Council on 20 November 2019 regarding the additional funding for Otterpool Park (report A/19/17 refers), The Code of Practice on Local Authority Accounting permits the capitalisation of borrowing costs for qualifying assets during the acquisition and construction phase of a scheme to get them ready for their intended use, recognising this may be a ‘substantial period’ of time. To do this the Council will need to adopt a capitalisation policy and it is intended to implement this by updating its Accounting Policies for the 2019/20 Statement of Accounts. Once the qualifying asset (Otterpool Park) is ready for its intended use the borrowing costs from that point on are met by the General Fund in the normal way. However, at this point the council would anticipate receiving an income stream from the assets to meet the borrowing costs.

4.3 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 November 2019	(11,165)
Less,	
committed towards General Fund capital expenditure	4,173
committed towards HRA capital expenditure	6,017
Ring-fenced for specific purposes	323
Contingency for urgent or unforeseen capital expenditure	500
Balance available to support new capital expenditure	(152)

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 £393k of qualifying capital receipts in hand and plans to use this to support capital expenditure on the Transformation project during 2019/20. 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 £3.591m committed towards funding the MTCP.

Revenue Resources to Fund the MTCP	£'000
Vehicle, Equipment and Technology Reserve	639
Economic Development Reserve	1,000
Business Rates Reserve	733
Carry Forward Reserve	20
General Reserve	1,199
Total	3,591

- 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.

5 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2020/21

- 5.1 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.
- 5.2 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 3** to be applicable for 2020/21.
- 5.3 Capital Prudential Indicators – The Council is required to approve prudential indicators linked to its overall capital expenditure plans, including the HRA. These are due to be considered as part of the Capital Strategy report by Cabinet on 18 March 2020 before being submitted to full Council for approval.

6 CONCLUSIONS

- 6.1 The council's MTCP has been reviewed and updated in accordance with the approved budget strategy for 2020/21.
- 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 requires a substantial level of prudential borrowing to fund it. A capitalisation policy for borrowing costs on qualifying assets is planned to be introduced from 2019/20. This will mean interest costs will only become chargeable to the General Fund on these qualifying assets once they are ready to be used.
- 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 are likely to 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.
- 6.6 Cabinet is asked to recommend full Council to approve the MRP Statement for 2019/20 shown in appendix 3 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 (Nicola Everden)

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.

8.2 Finance Officer's Comments (Lee Walker)

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 2019/20
- 2) Proposed General Fund MTCP to 2024/25
- 3) Minimum Revenue Provision Policy Statement for 2020/21