

This Report will be made public on 16 February 2021

Report Number **A/20/06**

To: Council
Date: 24 February 2021
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 2020/21

SUMMARY: This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2026. The report provides an updated projected outturn for the General Fund capital programme in 2020/21, based on expenditure to 30 November 2020. 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. The Finance and Performance Scrutiny Sub-Committee considered this report on 12 January 2021 ahead of Cabinet approving it for submission to full Council on 20 January 2021.

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.

RECOMMENDATIONS:

1. To receive and note report A/20/06.
2. To approve the updated General Fund Medium Term Capital Programme as set out in appendix 2 to this report.

1. INTRODUCTION AND BACKGROUND

1.1 In line with the Council's approved Budget Strategy for 2021/22, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five year period ending 31 March 2026. The report;-

- i) provides the latest projection, as at 30 November 2020, of the planned expenditure in 2020/21 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 2021/22,
- 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 2025/26,
- 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 2021/22.

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 Additionally, the Council's General Fund and HRA capital investment plans will feature in the Capital Strategy and Investment Strategy both of which are planned to be reported to Cabinet on 24 February 2021 ahead of being submitted to full Council for approval on the same day. This is a requirement of the CIPFA Prudential Code for Capital Finance in Local Authorities.

1.5 The Finance and Performance Scrutiny Sub-Committee considered this report on 12 January 2021 ahead of Cabinet approving it for submission to full Council on 20 January 2021.

2. CAPITAL PROGRAMME 2020/21 – PROJECTED OUTTURN

2.1 The planned expenditure on all General Fund capital schemes in 2020/21, based on expenditure to 30 November 2020, is anticipated to be £20,873,000 a reduction of £26,860,000 compared to the approved budget of £47,733,000. 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 Q3 2020/21 | Latest Budget 2020/21 | Projection 2020/21 | Variance Budget to Projection |
|--|--------------------------|-----------------------|-------------------------------------|
| | £'000 | £'000 | £'000 |
| Service Units | | | |
| Operations | 9,022 | 1,781 | (7,241) |
| Corporate Services | 5,666 | 2,106 | (3,560) |
| Housing | 1,959 | 1,010 | (949) |
| Transformation & Transition Place | 4,066 | 2,599 | (1,467) |
| | 27,020 | 13,377 | (13,643) |
| Total Capital Expenditure | 47,733 | 20,873 | (26,860) |
| Capital Funding | | | |
| Capital Grants | (6,242) | (1,753) | 4,489 |
| External Contributions | (943) | (196) | 747 |
| Capital Receipts | (1,741) | (2,010) | (269) |
| Revenue | (4,133) | (4,226) | (93) |
| Borrowing | (34,674) | (12,688) | 21,986 |
| Total Funding | (47,733) | (20,873) | 26,860 |

2.2 The following table summarises the main reasons for the net reduction in the projected outturn compared to the latest budget:

| Variances – 2020/21 Latest Budget to Projected Outturn | | | |
|--|---|----------------|-----------------|
| 1 | Reprofiling between 2020/21 and 2021/22 | £'000 | £'000 |
| | i) Area Officer Vans | (30) | |
| | ii) Oportunitas Phase 2 Funding | (3,590) | |
| | iii) Greatstone Holiday Lets | (1,849) | |
| | iv) Otterpool Park Land and Property Acquisitions | (6,010) | |
| | v) Otterpool Park Delivery | (9,662) | |
| | vi) Princes Parade Leisure Centre | (2,215) | |
| | vii) Coast Protection - Coronation Parade cliff stabilisation works | (800) | |
| | viii) Temporary Accommodation | (327) | |
| | ix) Corporate Property Development Projects | (161) | |
| | x) Biggins Wood Commercial Development | (950) | |
| | xi) Public Toilet Enhancement | (200) | |
| | xii) Waste Contract Vehicles and Equipment | (1,121) | |
| | | <u>(1,121)</u> | (26,915) |
| 2 | Overspends | | |
| | i) Grounds Maintenance Vehicle Replacement Programme | 66 | |
| | ii) PC Replacement Programme | 30 | |
| | iii) Lower Sandgate Rd Beach Huts | 43 | |
| | iv) Enhanced Hythe to Folkestone Beach Management programme (externally funded) | 170 | |

| | | | |
|----------|--|---------|-----------------|
| | v) Royal Military Canal Enhancements | 9 | |
| | vi) Otterpool Park Garden Town Delivery Vehicle | 12 | |
| | | <hr/> | 330 |
| 3 | Underspends | | |
| | i) Coast Protection, Coronation Parade Folkestone - The rock revetment work originally planned for the scheme is now not expected to take place due to it be uneconomical (externally funded) | (1,569) | |
| | ii) Hythe-Folkestone Beach Recharge - Modelling has found it will be more beneficial to continue with an enhanced annual beach management programme (externally funded) | (1,970) | |
| | iii) Empty Home Initiatives | (182) | |
| | iv) Disabled Facilities Grants - reduction in referrals from the Occupational Therapist service due to staff being redeployed to other priorities at the peak of the COVID-19 crisis | (400) | |
| | v) Home Safe Loans - reduction in applications due to the impact of COVID-19 | (40) | |
| | vi) Former Debenhams Building | (6) | |
| | | <hr/> | (4,167) |
| 4 | Other | | |
| | i) Transformation | 748 | |
| | ii) Otterpool Park – Capitalisation of masterplanning costs | 3,144 | |
| | | <hr/> | 3,892 |
| | | | <hr/> |
| | Total change in overall capital programme for 2020/21 | | (26,860) |
| | | | <hr/> |

2.3 **Transformation Costs** – A temporary statutory provision allows local authorities incurring revenue expenditure for staff transformation programmes and other similar initiatives generating ongoing savings to be met from capital receipts received from the disposal of surplus assets. However these costs are required to be classified as capital expenditure for accounting purposes. The Council expects to incur about £1m in costs for its Transformation programme in the current financial year to be met from qualifying capital receipts and this is now incorporated into the General Fund capital programme. A corresponding adjustment has been made to reduce the General Fund revenue account.

2.4 **Otterpool Park Masterplanning Costs** – Up until 2019/20 the costs incurred on the masterplanning work for the Otterpool Park Garden Town project were required to be treated as revenue expenditure. This was largely because the Council had yet to submit a formal planning application for the site, were still in discussions regarding the land assembly for the proposed scheme and had yet to formulate a clear delivery strategy for the project. However, with the outline planning application for the scheme now submitted, the majority of the land assembly completed and the delivery vehicle established, most of the masterplanning costs incurred for 2020/21 and 2021/22 are required to be treated as capital expenditure. It is projected

that £3.144m in capitalised masterplanning costs will be incurred in 2020/21 with a further £0.156m in 2021/22. These costs will be met from a mixture of revenue reserves, borrowing and any further government grant secured towards the masterplanning phase of the project. At this stage the additional borrowing of up to £2.196m for the masterplanning costs is proposed to be adjusted against the Otterpool Park delivery budget over the period of the Medium Term Capital Programme.

- 2.5 Waste Contract Vehicles** – Negotiations have taken place between Folkestone and Hythe District Council, Dover District Council and Veolia Environmental Services Limited to agree a mechanism to grant security to the Councils over the vehicles to be met from the approved funding for the new Waste contract (FHDC = £4.052m). It has been agreed that both Councils will purchase the vehicles required for the contract although this will still be arranged through Veolia. The Councils will have legal ownership of vehicles, providing the security both Authorities were seeking, but with Veolia remaining responsible for their operation and full running costs. FHDC will still receive the rebate of about £100k per year over the life of the contract from Veolia by meeting the capital cost of the vehicles through prudential borrowing. The majority of the vehicles being purchased are expected to be spread over the remainder of 2020/21 and into 2021/22.

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 2020/21 to 2025/26 is £148,257,000. Compared to the latest approved budget of £144,260,000 this represents an increase of £3,997,000. 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 |
| Service Units | | | |
| Operations | 11,759 | 11,759 | 0 |
| Corporate Services | 6,027 | 6,152 | 125 |
| Housing | 6,359 | 8,337 | 1,978 |
| Transformation & Transition Place | 33,095 | 33,879 | 784 |
| | 87,020 | 88,130 | 1,110 |
| Total Capital Expenditure | 144,260 | 148,257 | 3,997 |
| Capital Funding | | | |
| Capital Grants | (9,331) | (13,186) | (3,855) |
| External Contributions | (7,276) | (2,614) | 4,662 |
| Capital Receipts | (23,157) | (26,123) | (2,966) |
| Revenue | (4,894) | (6,166) | (1,272) |

| | | | |
|----------------------|------------------|------------------|----------------|
| Borrowing | (99,602) | (100,168) | (566) |
| Total Funding | (144,260) | (148,257) | (3,997) |

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) Fisherman's Beach Chalets – Provision of 30 beach chalets at Fisherman's Beach. | 75 | |
| ii) New Beach Huts – Provision of 100 beach huts in various locations. | 300 | |
| iii) Coastal Park Play Equipment – Replace Pirate Ship and undertake urgent repairs. | 62 | |
| iv) Coastal Park Toilet and Concession – Construction of larger purpose built toilet block. | 150 | |
| v) East Cliff Landfill Protection – Work to remediate disused landfill site. | 1,200 | |
| vi) Hawkinge Depot Upgrade – Enhancements to staff welfare facilities. | 75 | |
| vii) Units 1-5 Learoyd Road New Romney – Major refurbishment of units. | 200 | |
| | | 2,062 |
| 2 Existing annual programmes extended by one year to 2025/26 | | |
| 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. | 420 | |
| 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 | |
| | | 1,704 |

3 Other Changes

| | | |
|--|---------|---------------------|
| i) Coast Protection – Coronation Parade, Folkestone Coast Protection, Coronation Parade Folkestone – The rock revetment work originally planned for the scheme is now not expected to take place due to it be uneconomical (externally funded) | (1,569) | |
| ii) Coast Protection Beach Management –The Environment Agency has approved funding for a 5 year programme of works from April 2020 to March 2025 | | 850 |
| iii) Coast Protection Beach Recharge – Modelling has found it will be more beneficial to continue with an enhanced annual beach management programme above (externally funded). | (1,970) | |
| iv) Disabled Facilities Grants – Reduction in referrals from the Occupational Therapist service due to staff being redeployed to other priorities at the peak of the COVID-19 crisis. | (400) | |
| v) Home Safe Loans – Reduction in applications due to the impact of COVID-19. | (40) | |
| vi) Empty Properties Initiative (KCC) – Loans to landlords. | 1,318 | |
| vii) FHDC Transformation – capitalisation of revenue costs. | | 748 |
| viii) Replacement Technology – Increased spending due to transition of Housing back to FHDC. | | 30 |
| ix) Mountfield Road Business Hub – Mountfield Road Industrial Estate Phase 2 (externally funded) | | 36 |
| x) Lower Sandgate Road Beach Huts. | | 43 |
| xi) Grounds Maintenance Vehicle and Equipment Replacement Programme. | | 66 |
| xii) Otterpool Park – net adjustment between delivery and masterplanning costs | 1,104 | |
| xiii) Other small net changes. | | 15 |
| | | <u>231</u> |
| Total net increase | | <u>3,997</u> |

- 3.3 **Joint Empty Properties Initiative with Kent County Council** – Since 2017/18 the Council has jointly funded the ‘No Use Empty’ initiative with KCC to provide interest free loans to the owners of empty properties in the district to meet the cost of works to bring them back into residential use. The loans made are repaid within three years providing the Council with the opportunity to reinvest these in future tranches of the scheme. The proposed MTCP

provides for the Council making an annual contribution of £300k to this initiative through to 2025/26 with the cost being met from repaid loans due from previous tranches of this scheme.

- 3.4 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 and Princes Parade Leisure and Housing schemes are expected to change as the Council's plans for these develop going forward. Cabinet will be kept informed of any changes to the proposed profiling of expenditure for the capital programme through the budget monitoring process and future updates to the MTCP.
- 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 2021/22 or feature in the Council's approved Medium Term Financial Strategy.

4. IMPACT ON CAPITAL RESOURCES

- 4.1 The proposed MTCP requires approximately £101m of prudential borrowing to support it with about £81m of this for the Otterpool Park scheme. Ordinarily the investment in Otterpool Park would put a significant pressure on the General Fund budget for additional interest costs. However, the Council is able to capitalise its borrowing cost for expenditure on the land assembly for the site until the land is ready for its intended use. As the land is sold the Council can then look to repay its borrowing. Additionally, the Council is receiving a net rental income stream from some of the properties it has acquired to date. The borrowing cost to the Council for the planned loan and equity investment in Otterpool Park LLP, the delivery vehicle for the project, will be covered by the interest to be charged on the loan in the first instance.
- 4.2 Prudential borrowing is also planned to be used to fund the following capital schemes where the Council will receive a net revenue benefit after allowing for interest costs.

| Scheme | Borrowing £'000 |
|-----------------------------------|----------------------------|
| *Princes Parade Leisure & Housing | 6,436 |
| Oportunitas Phase 2 Funding | 5,590 |
| Waste Contract Vehicles Funding | 4,052 |
| Greatstone Varne Holiday Lets | 1,864 |
| Lower Sandgate Road Beach Huts | 540 |
| Temporary Accommodation | 527 |
| New Beach Huts | 300 |

| | |
|-----------------------------------|---------------|
| Coastal Park Toilets & Concession | 150 |
| Fisherman's Beach Chalets | 75 |
| Total | 19,534 |

*The borrowing for the Princes Parade scheme is to cover an anticipated short term cash flow position due to the timing of capital receipts and S106 contributions planned to fund it.

- 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 2020 | (10,537) |
| Less, HRA capital receipts | 5,781 |
| General Fund capital receipts in hand | (4,756) |
| Contingency for urgent or unforeseen capital expenditure | 500 |
| Ring-fenced for specific purposes: | 78 |
| *Applied to capital expenditure in 2020/21 & 2021/22 | 3,973 |
| Balance available to support new capital expenditure | (205) |

*Excludes Princes Parade

- 4.4 The Princes Parade Leisure and Housing scheme relies on the Council receiving about £20.5m in capital receipts from the sales of serviced land for housing development adjacent to the proposed leisure centre and from the disposal of the existing Hythe Pool site. The planned continued capital investment beyond 2021/22 in the 'No Use Empty' joint initiative with Kent County Council and also the Home Safe Loans scheme are to be met from investing repaid loans from previous tranches of these schemes.
- 4.5 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 £6.166m committed towards funding the MTCP.

| Revenue Resources to Fund the MTCP | £'000 |
|---|--------------|
| Vehicle, Equipment and Technology Reserve | 456 |
| Economic Development Reserve | 2,784 |
| Business Rates Reserve | 733 |
| High Street Regeneration Reserve | 690 |

| | |
|------------------------|--------------|
| Climate Change Reserve | 40 |
| Otterpool Park Reserve | 1,104 |
| General Reserve | 359 |
| Total | 6,166 |

4.6 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 Council's limited financial resources.

5 CONCLUSIONS

5.1 The MTCP has been reviewed and updated in accordance with the approved budget strategy for 2021/22.

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

5.3 The proposed General Fund MTCP requires a substantial level of prudential borrowing to fund it. The impact to the General Fund of this will be mitigated through a combination of capitalising interest costs where permissible, charging interest to third parties on capital loans met from borrowing and generating additional net revenue streams from capital investments met from borrowing.

5.4 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.

5.5 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 RISK MANAGEMENT ISSUES

6.1 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 or elements of those schemes relying on future capital receipts or external |

| | | | |
|---|------|-----|---|
| | | | grants and contributions will not commence until an agreed disposal plan or funding agreement is in place. |
| 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. |

7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

7.1 Legal Officer's Comments (NM)

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.

7.2 Finance Officer's Comments (LW)

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

7.3 Diversities and Equalities Implications (DA)

The report does not cover a new service/policy or a revision of an existing service or policy therefore does not require an EIA.

8. 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, Capital and Treasury Senior Specialist

Tel: 01303 853593. e-mail :lee.walker@folkestone-hythe.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 2020/21
- 2) Proposed General Fund MTCP to 2025/26