MAIDSTONE BOROUGH COUNCIL

CAPITAL STRATEGY

CONTENTS

1. INTRODUCTION

1.1 CIPFA's Prudential Code, which governs the Council's capital investment and borrowing, introduced a new requirement in 2019/20 for a Capital Strategy. The intention was to ensure that councils provide a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with a description of how associated risk is managed and the implications for future financial sustainability.

1.2 Accordingly, the Capital Strategy articulates in a single place a number of strategies and policies that the Council already addresses elsewhere: it is an overarching document linking the Strategic Plan, the Medium Term Financial Strategy, the Treasury Management Strategy and the Asset Management Plan.

2. CAPITAL EXPENDITURE AND LINKS TO OTHER CORPORATE STRATEGIES

Strategic Plan

2.1 Capital expenditure at Maidstone Borough Council plays a vital part in the Council's Strategic Plan, since long term investment is required to deliver many of the objectives of the plan.

2.2 The current Strategic Plan went through a thorough process of discussion and refinement over the period June – October 2018 and was approved by Council on 12 December 2018. It sets out four objectives, as follows:

- Embracing Growth and Enabling Infrastructure
- Homes and Communities
- A Thriving Place
- Safe, Clean and Green.

The ways in which capital expenditure can support these priorities are described below.

Embracing Growth and Enabling Infrastructure

The Council has a vital role in leading and shaping our borough as it grows. This means being proactive in policy and master planning for key sites in the borough, and where appropriate, investing directly ourselves.

Separate objectives, set out below, address specifically the development of new housing, and other investments intended to make Maidstone a thriving place. In order to enable these developments to take place, investment in infrastructure will be needed. In general, infrastructure schemes are funded from the benefits gained from the development. To address any potential funding gap, the Council will enable infrastructure spending, to the extent that it meets our strategic priorities.

Accordingly, £3 million has been set aside within the current capital programme to contribute towards provision of local infrastructure, and to indicate our intention to invest to unlock development and attract matching funding.

Homes and Communities

The Strategic Plan seeks to make Maidstone a place where people love to live and can afford to live. This means a range of different types of homes, including affordable housing.

The Council plans to developing new housing, providing a mixture of tenures, under the Housing Development and Regeneration Investment Plan agreed by Policy and Resources Committee in July 2017. Developments are under way at Brunswick Street and Union Street. Lenworth House was acquired in 2018/19, and further developments are envisaged. The Council is seeking partnerships to enable further development to take place.

In total, £40 million has been provided in the capital programme for the Housing Development and Regeneration Investment Plan.

We aim, and are required by law, to address homelessness and rough sleeping. The Council has invested in temporary accommodation for homeless families, thereby ensuring a good standard of accommodation and providing a more cost-effective solution than is offered by the private sector. In 2018/19 we acquired 17 homes for use as temporary accommodation and we have purchased a further 10 units in 2019/20, for which £5 million has been provided in the capital programme.

The Council also works with Kent County Council Social Services to deliver adaptations and facilities to enable disabled people to remain at home. This work forms part of the capital programme, although it is funded directly by central government grant. £4 million has been provided in the capital programme for Disabled Facilities Grants.

A Thriving Place

The Strategic Plan seeks to make Maidstone a borough that is open for business, attractive for visitors and is an enjoyable and prosperous place to live for our residents. This can be achieved through investment in the County town and rural service centres.

There are a number of ways in which the Council will take the lead, including working with partners and through direct investment ourselves. The Council has a successful track record of acquiring property as part of its Commercial Investment Strategy. These acquisitions both generate a return that supports the revenue budget and contribute to making Maidstone a thriving place. We will continue to seek good quality investment opportunities.

Where appropriate, we will seek to achieve the necessary scale of investment by identifying joint venture partners. The amount available for direct investment by Maidstone Council is governed by the overall size of the capital programme, but we will adopt a flexible approach within this constraint in order to take advantage of investment opportunities that meet our criteria.

Specific projects that will contribute to a Thriving Place include Maidstone East, where the Council is working in partnership with Kent County Council to redevelop a key site next to the railway station, and the Kent Medical Campus, where the Council has secured external funding to match the Council's own funds to provide £10.5 million in total to create an Innovation Centre for growing businesses in the life science, heathcare and med-tech sectors.

The Council has already made a significant investment in improving the public realm in the Town Centre. The current capital programme includes a further investment of £1.5 million, including partner contributions, in the bus station to improve its efficiency and attractiveness to customers.

Safe, Clean and Green

The Council seeks to protect and where possible enhance our environment and to make sure our parks, green spaces, streets and public areas are of a high quality.

Recent investment has included a programme of developments in our flagship local park, Mote Park. An Adventure Zone opened in May 2019 and plans are under way for the construction of a new Visitor Centre. Mote Park Lake is effectively a reservoir, and we are required to reduce the risk of the lake overtopping the dam at its western end. The necessary work is due to take place in Summer 2020 and current estimates are that the total scheme cost will be around £2 million.

The floods of winter 2013/14 highlighted the risks faced by the borough generally. Maidstone Borough Council is part of the Medway Flood Partnership, which includes the Environment Agency and Kent County Council. The Partnership plans to spend at least £19 million over the next five years in the Medway catchment area, of which Maidstone is contributing £1 million.

Medium Term Financial Strategy

2.3 The overall context for the MTFS is one where the Council is increasingly dependent on locally-generated resources, whether from Council Tax or a range of other income streams, including parking income, planning fees and the Council's property portfolio. The MTFS supports the Council's need to become financially self-sufficient.

2.4 In drawing up the capital programme, there is therefore a focus on schemes that both meet strategic priorities and are self-funding. Specifically:

- the Commercial Investment Strategy builds on the Council's existing commercial investment property portfolio and assumes that we will continue to expand the portfolio, subject to opportunities arising that generate the required rate of return.

- the Housing Development and Regeneration Investment Plan provides for the Council to develop housing ourselves, thereby addressing the need for new homes in the borough and generating long term revenue returns through developing homes for market rent.

2.5 Below is a table of the latest capital programme which was discussed at Policy and Resources Committee on 22nd January 2020.

Table 1: Capital Programme 2019/20 to 2024/25

	19/20	Five Year Plan					Total
	Projected £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	£000
Brunswick Street - Net Cost	2,514	-230	-579				-809
Union Street - Net Cost	975	-550	-2,141				-2,691
Springfield Mill	2,275	1,077	36				1,112
Granada House extension	0	1,664					1,664
Indicative Schemes	0	8,042	11,212	6,796			26,050
Sub-total Housing Development and Regeneration	5,765	10,002	8,528	6,796	0	0	25,326
Affordable Housing Programme	1,040	275	5,075	5,175	10,175	10,175	30,875
Acquisitions Officer	0	80	80	80	80	80	400
Disabled Facilites Grant	1,570	800	800	800	800	800	4,000
Temporary Accommodation	3,236	2,190					2,190
Flood Action Plan	100	300	300	300			900
Crematorium and Cemetery Development Plan	140	130					130
Electric Operational Vehicles		100					100
Housing IT System		50					50
Street Scene Investment	147	25					25
Installation of Public Water Fountains		15					15
Gypsy Site Improvement Works	42						0
CCTV Upgrade and Relocation	150						0
Commercial Waste	180						0
Sub-total Communities, Housing & Environment	12,371	13,967	14,783	13,151	11,055	11,055	64,011
Mote Park Visitor Centre and Estate Services Building	156	2,000	740				2,740
Mote Park Dam Works	267	1,650	100				1,750
Improvements to Play Areas	422						0
Other Parks Improvements	100						0
Museum Development Plan	11	125	225	39			389
Sub-total Heritage, Culture & Leisure	957	3,775	1,065	39	0	0	4,879
Acquisition of Commercial Assets	24,850	2,500	2,500	2,500	2,500	2,500	12,500
Kent Medical Campus - Innovation Centre	649	8,250	1,500				9,750
Lockmeadow Ongoing Investment	0	4,000	1,000				5,000
Garden Community	200	1,665	340	465	425	425	3,320
Infrastructure Delivery	1,200	600	600	600	600	600	3,000
Asset Management / Corp Property	1,017	1,430	175	175	175	175	2,130
Biodiversity and Climate Change	0	1,000					1,000
Software / PC Replacement	124	200	200	200	200	200	1,000
Feasibility Studies	113	50	50	50	50	50	250
Digital Projects	20	20	20	20	20	20	100
High Street Regeneration	547						0
Sub-total Policy & Resources	28,720	19,715	6,385	4,010	3,970	3,970	38,050
Mall Bus Station Redevelopment	250	750					750
Bridges Gyratory Scheme	121						0
Sub-total Strategic Planning, Sustainability & Transportation	371	750	0	0	0	0	750
Sub-Total	**42,419**	**38,208**	**22,233**	**17,200**	**15,025**	**15,025**	**107,690**
Section 106 Contributions	28	57	63	480	59	69	756
TOTAL	**42,447**	**38,265**	**22,296**	**17,680**	**15,084**	**15,094**	**108,446**

Treasury Management Strategy

2.6 The Treasury Management Strategy sets out how the Council manages its investments and cash flows, including banking, money market and capital market transactions, and how optimum performance is assured whilst managing the risks associated with these activities.

2.7 The specific aspects of the Treasury Management Strategy that are relevant here are how it addresses the Council's capital expenditure plans and how borrowing needs are met. Capital expenditure is funded from the New Homes Bonus, internal resources, borrowing and third party contributions such as Section 106 payments on new developments. The Council has relied primarily on New Homes Bonus and internal resources, but has now entered into a borrowing position with the purchase of the Lockmeadow Leisure Complex. External borrowing will increase owing to the reduction in New Homes Bonus payments and the scale of the capital programme.

2.8 The current local authority funding regime does not set cash limits for borrowing. However, borrowing must be sustainable in terms of the Council's ability to fund interest payments and ultimately repayment of capital.

2.9 Further details are set out in Section 4.

Asset Management Plan

2.10 The longer term maintenance of the Council's capital assets is addressed by the Council's Asset Management Plan. The Asset Management Plan ensures that the Council's assets, as a resource, support the delivery of the Council's objectives by:-

- Providing a suitable standard of accommodation for services including those shared with other authorities
- Maintaining commercial investment assets and ensuring that they deliver the required rate of return
- Providing an asset management service to the property holding company
- Meeting the needs of the local community by maintaining assets in parks and open spaces and other community assets
- Safeguarding local heritage through ownership and preservation of historic and scheduled ancient monuments.

The current capital programme includes a provision of £2 million for Corporate Property Improvements, based on the requirements of the Asset Management Plan.

2.11 The Asset Management Plan is currently under review. An updated Plan is due to be considered by Policy and Resources Committee in early 2020.

3. GOVERNANCE FRAMEWORK

Background

3.1 Capital expenditure proposals are developed in response to the Council's strategic priorities, as described in the previous section. Individual schemes are incorporated in the capital programme, which is included within the Council's Medium Term Financial Strategy.

3.2 The MTFS states that capital schemes will be reviewed and developed so that investment is focused on strategic priorities. The MTFS is updated on an annual basis, as part of the annual budget cycle.

3.3 Subsequent to preparation of the MTFS and its approval by Council each year, capital estimates form part of the annual budget that is submitted to Council for approval.

Developing capital expenditure proposals

3.4 The development of capital expenditure proposals follows certain core principles for the inclusion of schemes within the capital programme. Schemes may be included in the capital programme if they fall within one of the four following categories:

(i) Required for statutory reasons, eg to ensure that Council property meets health and safety requirements;

(ii) Self-funding schemes focused on Strategic Plan priority outcomes;

(iii) Other schemes focused on Strategic Plan priority outcomes; and

(iv) Other priority schemes which will attract significant external funding.

3.5 All schemes within the capital programme are subject to appropriate option appraisal. Any appraisal must comply with the requirements of the Prudential Code and the following locally set principles:

(a) Where schemes fit within a specific strategy and resources are available within the capital programme for that strategy, such as the Asset Management Plan, the schemes would also be subject to appraisal and prioritisation against the objectives of that strategy. These schemes must be individually considered and approved by the relevant service committee.

b) Where schemes can be demonstrated to be commercial in nature and require the use of prudential borrowing, a business case must first be prepared.

3.6 Where schemes do not fit within the criteria above but an appropriate option appraisal has been completed, they may still be included within the programme if they fall within one of the four categories set out above.

3.7 If, following all considerations, there are a number of approved schemes that cannot be accommodated within the current programme, a prioritised list of schemes that can be added to the programme as future resources permit will be created and approved by Policy and Resources Committee, thus allowing officers to focus funding efforts on delivering schemes that are next in priority order.

3.8 The MTFS requires the Council to identify actual funding before commencement of schemes. Accordingly, while schemes may be prioritised for the programme, ultimately commencement of any individual scheme can only occur once all the necessary resources have been identified and secured.

3.9 The MTFS principles require that the Council will maximise the resources available to finance capital expenditure, in line with the requirements of the Prudential Code, through:

a) The use of external grants and contributions, subject to maintaining a focus on the priority outcomes of its own strategies;

b) Opportunities to obtain receipts from asset sales as identified in the Asset Management Plan and approved for sale by Policy and Resources Committee;

c) The approval of prudential borrowing when the following criteria also apply to the schemes funded by this method:

i. they are commercial in nature;

ii. the outcome returns a financial benefit at least equal to the cost incurred by borrowing to fund the schemes;

iii. after covering the cost of funding, a further financial or non-financial benefit accrues to the Council that directly or indirectly supports the objectives of the strategic plan or the medium term financial strategy.

d) The use of New Homes Bonus for capital purposes in line with the Council's strategic plan priorities;

e) The implementation of a community infrastructure levy (CIL) and the management of its use, along with other developer contributions (S106), to deliver the objectives of the infrastructure delivery plan.

3.10 Service managers submit proposals to include projects in the Council's capital programme. Bids are collated by Corporate Finance who calculate the financing cost (which can be nil if the project is fully externally financed). Each Committee appraises the proposals based on a comparison with corporate priorities. Policy & Resources Committee recommends the capital programme which is then presented to Council in March each year.

3.11 Prior to any capital commitment being entered into, a detailed report setting out a full project appraisal and detailed financial projections is considered by the relevant service committee.

3.12 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). Further details are set out in section 4 of the Capital Strategy.

Performance Monitoring

3.13 The Council has a corporate project management framework that applies to most of the projects included within the capital programme. This provides for designation of a project manager and sponsor, and includes a mechanism for progress on corporate projects to be reported quarterly to a Corporate Projects Board.

3.14 Financial monitoring of capital projects is addressed by the Council's Financial Procedure Rules. Individual Member Service Committees receive quarterly reports on capital expenditure for the services for which they are responsible.

Capitalisation

3.15 Accounting principles govern what counts as capital expenditure. Broadly, it must yield benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of non-current assets which are charged directly to service revenue accounts.

3.16 The Council has adopted a minimum threshold of £10,000 for capitalisation.

Asset Disposals

3.17 The Council's policy for asset disposals is set out in a policy adopted by Policy and Resources Committee at its meeting on 25th July 2017.

3.18 The policy distinguishes between the following categories.

- Operational Property held and used by the Council for the direct delivery of services for which it has either a statutory or discretionary responsibility. Assets may be disposed of if they have reached the end of their economic or useful life.

- Investment Property held by the Council for revenue generation purposes, which should be assessed by its potential for improved rates of return by either better asset management, or disposal and re-investment of the receipt.

- Community assets such as open space. The Council will not usually dispose of areas of parks or other areas which are classed as public open space.

3.19 Certain schemes within the capital programme are partially funded through sale of some of the completed asset(s) to partner organisations. In this case, the capital scheme value is shown net of these receipts in the capital programme, as the receipt is ringfenced for this purpose.

4. FINANCING THE CAPITAL PROGRAMME

4.1 Typically, local authorities fund capital expenditure by borrowing from the Public Works Loan Board, which offers rates that are usually more competitive than those available in the commercial sector. Maidstone Borough Council has so far not borrowed to fund its capital programme, instead relying primarily on New Homes Bonus to fund the capital programme. Borrowing is however likely to be required in future.

Financing Requirement

All capital expenditure must be financed, either from external sources (government grants, including New Homes Bonus, and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and other long term liabilities). The planned financing of the expenditure set out in Table 1 is as follows:

Table 2: Capital Financing

	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	Total £000
External sources	6,131	10,552	3,464	2,927	2,927	2,927	28,928
Own resources	15,000	0	0	0	0	0	15,000
Debt	21,288	27,656	18,769	14,273	12,098	12,098	106,182
TOTAL	**42,419**	**38,208**	**22,233**	**17,200**	**15,025**	**15,025**	**150,110**

4.2 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue, which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is set out below; no assumptions have been made here about capital receipts.

Table 3: Replacement of debt finance

	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	Total £000
MRP	484	1,895	2,904	3,518	3,927	4,231	16,960
Capital receipts	0	0	0	0	0	0	0
TOTAL	**484**	**1,895**	**2,904**	**3,518**	**3,927**	**4,231**	**16,960**

4.3 The Council's full minimum revenue provision statement is included within the Treasury Management Strategy.

4.4 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £25.23m during 2020/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000
Brought forward	12,097	47,380	72,610	87,958	98,175	105,778
Capital Expenditure	42,419	38,208	22,233	17,200	15,025	15,025
External funding	-6,131	-10,552	-3,464	-2,927	-2,927	-2,927
Own resources	-521	-530	-517	-537	-568	-580
MRP	-484	-1,895	-2,904	-3,518	-3,927	-4,231
TOTAL CFR	**47,380**	**72,610**	**87,958**	**98,175**	**105,778**	**113,065**

Borrowing Strategy

4.5 The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, so the Council will seek to strike a balance between cheap short-term loans (currently available at around 1.0%) and long-term fixed rate loans where the future cost is known but higher (currently 3 – 3.4%).

4.6 Projected levels of the Council's total outstanding debt (which comprises borrowing and other long-term liabilities) are shown below, compared with the capital financing requirement.

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.03.19 actual £000	31.03.20 forecast £000	31.03.21 budget £000	31.03.22 budget £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000
Debt (excl.PFI & leases)	0	21,288	48,944	67,713	81,986	94,084	106,182
Capital Financing Requirement	12,097	47,380	72,610	87,958	98,175	105,778	113,065

4.7 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 5, the Council expects to comply with this in the medium term.

4.8 Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances will be fully utilised to fund the capital programme. This benchmark is currently £11m and is forecast to fall to £2m over the next three years.

Table 6: Borrowing and the Liability Benchmark

	31.03.19 actual £000	31.03.20 forecast £000	31.03.21 budget £000	31.03.22 budget £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000
Outstanding borrowing	0	17,288	44,944	63,713	77,986	90,084	102,182
Liability benchmark	4,000	21,288	48,944	67,713	81,986	94,084	106,182

4.9 The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt

Operational Boundary

	31.03.19 actual £m	31.03.20 forecast £m	31.03.21 budget £m	31.03.22 budget £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m
Borrowing	3.986	28.678	53.910	69.260	79.480	87.080	94.370
Other Long Term Liabilities	3.568	3.047	2.527	2.010	1.473	0.905	0.309
Total	**7.554**	**31.725**	**56.437**	**71.27**	**80.953**	**87.985**	**94.679**

Authorised Limit

	31.03.19 actual £m	31.03.20 forecast £m	31.03.21 budget £m	31.03.22 budget £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m
Borrowing	10.418	48.678	73.910	89.260	99.480	107.080	114.370
Other Long Term Liabilities	3.568	3.047	2.527	2.010	1.473	0.905	0.309
Total	**13.986**	**51.725**	**76.437**	**91.27**	**100.95**	**107.985**	**114.679**

4.10 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

4.11 The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the short term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments

	31.03.19 actual £000	31.03.20 forecast £000	31.03.21 budget £000	31.03.22 budget £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000
Short-term investments	15,014	4,000	4,000	4,000	4,000	4,000	4,000
Longer-term investments	0	2,000	2,000	2,000	2,000	2,000	2,000
Total	**15,014**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**

4.12 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and Business Improvement and staff, who must act in line with the treasury management strategy approved by council. Quarterly reports on treasury management activity are included within the budget monitoring reports which are presented to the council Policy & Resources Committee with the half yearly and annual reviews which are scrutinised by Audit, Governance and Standards Committee then recommending to Full council. The Audit, Governance and Standards Committee is responsible for scrutinising treasury management decisions.

Revenue Budget Implications

4.13 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
Financing costs (£m)	-0.220	-0.155	0.659	0.889	1.042	1.156	1.266
Proportion of net revenue stream (%)	-0.011	-0.007	0.035	0.049	0.054	0.060	0.066

4.14 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend beyond 5 years into the future. The Director of Finance and Business

Improvement is satisfied that the proposed capital programme is prudent, affordable and sustainable.

5. OTHER LONG TERM LIABILITIES

5.1 This section deals with other long term liabilities to which the Council has committed itself in order to secure capital investment. The Council has no Private Finance Initiative Schemes, but the following scheme is a similar contract as it is defined as a service concession arrangement.

5.2 The Council entered into an agreement during 2009/10 with Serco, the managing contractor of Maidstone Leisure Centre, to undertake a major refurbishment of the centre. Under the terms of the agreement Serco have initially funded the cost of the works through a loan, and the Council are then repaying this loan over a 15 year term, by equal monthly instalments. The principal element of this loan is reflected on the Council's Balance Sheet, and will be written down annually by the amount of principal repaid. Interest paid on the loan is charged to revenue.

Investments for Service Purposes

5.3 The Council can make investments to assist local public services, including making loans to local service providers, local small businesses to promote economic growth, Charities and the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to provide value for money to the tax payer.

5.4 Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and Business Improvement and relevant committee (where appropriate), and must meet the criteria and limits laid down in the investment strategy. Most loans are capital expenditure and purchases will therefore also be approved as part of the capital programme.

6. COMMERCIAL ACTIVITIES

6.1 The Council originally developed a Commercialisation Strategy in 2014, in response to the withdrawal of Revenue Support Grant and the freedoms and flexibilities offered to local authorities through the Localism Act. A review of the Strategy in November 2016 indicated that it had been successful in promoting a more business-like approach to the Council's revenue generating activities, but new initiatives had met with varying degrees of success.

6.2 It was decided by Policy and Resources Committee, on the basis of this review, to refocus the strategy on housing and regeneration, which provided the opportunity both to generate a financial return for the Council and to support its strategic priorities. As a result, a Housing Development and Regeneration Plan, to which reference has already been made here, was developed and adopted in July 2017. Similarly, the Council's Commercial Property Investment Strategy is intended to support the local economy and regeneration objectives, as well as to generate a financial return.

6.3 Accordingly, none of the Council's capital investment is undertaken for purely commercial purposes.

7. KNOWLEDGE AND SKILLS

7.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Director of Finance and Business improvement is a qualified accountant with over 15 years' experience in local government, the Corporate Property Manager and the team are experienced in Property Management and the Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury),and ACCA.

7.2 The Council currently employs Link Asset Services as treasury management advisers and a number of property consultants including Harrisons Property Surveyors Limited and Sibley Pares Limited. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

7.3 The Council carries out consultation as part of the development of the MTFS in order to establish the wider community's priorities for budget spending. In addition, consultation is carried out each year on the detailed budget proposals with individual Service Committees about budget proposals relating to the services within their areas of responsibility.

8. RISK MANAGEMENT

8.1 The capital programme forms an increasingly important part of the Council's strategy for delivering its overall priorities. Accordingly, it is of fundamental importance that the associated risks are managed actively. The Council has a comprehensive risk management framework, through which risk in relation to capital investment is managed at all levels.

Corporate

8.2 Corporate risks are identified and reported on a quarterly basis to the Corporate Leadership Team and twice a year to the Policy and Resources Committee. Risks are owned by named Directors and controls developed to mitigate risk. Risks at this level may be generic, relating to a number of capital projects, although it is possible that a single capital project could pose a corporate risk.

Financial

8.3 A Budget risk register seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is updated regularly and is reviewed by the Audit, Governance and Standards Committee at each meeting.

8.4 Typically, risks in this area would relate to funding of the capital programme and over/underspending on individual capital projects.

8.5 For all risks shown on the Budget Risk Register, appropriate controls have been identified and their effectiveness is monitored on a regular basis.

Service

8.6 Individual service areas maintain risk registers, with identified risk owners and details of controls to mitigate risk.

Project

8.7 The Council's project management framework requires managers to maintain risk registers at a project level.