APPENDIX E3

MAIDSTONE BOROUGH COUNCIL
CAPITAL STRATEGY 2022/23

CONTENTS

1. INTRODUCTION

1.1. CIPFA's Prudential Code, which governs the Council's capital investment and borrowing, requires councils to have a Capital Strategy. This document should 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.

1.3. The strategy focuses upon the long-term ambition of the Council for its local area, residents and business, and is aligned with the Strategic Plan in this regard. It is not purely a financial document but a whole organisation approach setting out how investment will support the delivery of the Council's strategic goals.

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, £5 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.

A further £10m has been earmarked for the acquisition of property, allowing for the Council to invest in business premises within the borough where appropriate, enabling the speculative acquisition of employment property in support of the Economic Development Strategy.

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.

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. The Council plans to deliver 1,000 affordable new homes over the next 5 years at an estimated cost of £110m.

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 within the borough to support wider regeneration objectives. These acquisitions both generate a return that supports the viability of the investment and contribute to making Maidstone a thriving place. We will continue to seek good quality investment opportunities which deliver value and support our strategic goals.

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 to redevelop a key site next to the railway station, ongoing investment in leisure and entertainment at Lockmeadow, (£1.8m), and delivery of the museum development plan at a cost of £0.4m.

In 2021, the Council delivered the Innovation Centre at Kent Medical Campus, after securing grant funding of £10.5 to match the Council's own investment. This facility will support growing businesses in the life science, healthcare and med tech sectors and ongoing investment in car parking facilities is planned for completion in 2022.

Longer term, provision has been made for a £30m investment in leisure in preparation for the expiry of the current contract with Serco for Maidstone Leisure Centre.

The Council has already made a significant investment in improving the public realm in the Town Centre, including working with partners to deliver improvements to the bus station in 2021.

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 further development of our flagship local park, Mote Park. Construction is under way for a new Visitor Centre which is hoped to be completed within spring 2022 at a cost of £2.8m. Mote Park Lake is effectively a reservoir and works were undertaken in the summer of 2020 due to the risk of the lake overtopping the dam at its western end this was at a cost of £1.7m.

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 £750,000.

Medium-Term Financial Strategy

2.3. The Medium Term Financial Strategy (MTFS) sets out in financial terms how the Council will deliver its Strategic Plan over the next five years. The Council adopted a Strategic Plan for the period 2021 - 2045 in December 2018; this has been refreshed annually since. In in February 2021 the specific areas of focus for the five year period from 2021/22 to 2025/26 were updated to reflect the significant change in context arising from the Covid19 public health emergency. The Strategic Plan now operates alongside the Council's Recovery and Renewal strategy, which will focus on addressing the impacts of Covid-19 within the borough, and investing in opportunities which have emerged from the pandemic, such as technology to support new ways of working.

2.4. 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. COVID-19 has led to a massive increase in public expenditure and has had an impact on income streams. Even though there has been some recovery, with some areas recovering more quickly than others. The MTFS supports the Council's need to become financially self-sufficient.

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

Property investment will build on the Council's existing property portfolio and assumes that we will continue to expand the portfolio, where appropriate, subject to identifying viable opportunities which support regeneration and economic development, as outlined within the Economic Development Strategy and the Local Plan.

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

2.6. Below is a table of the latest draft capital programme which is due to be discussed at Policy and Resources Committee on 22nd January 2022.

A copy of the Council's medium Term Financial Strategy can be found in the link below:

Medium Term Financial Strategy 22-23 to 25-26

Treasury Management Strategy

2.7. 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.

2.8. 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 internal resources, borrowing and third party contributions such as Section 106 and Community Infrastructure Levy (CIL) payments on new developments. The Council allocates some internal resources to fund capital expenditure, including revenue funding and internal borrowing, but following the purchase of the Lockmeadow Leisure Complex, it has been necessary to borrow externally. Long term borrowing costs have been budgeted for within the MTFS, although borrowing was initially short term in nature, for liquidity purposes. The Council has recently taken out long-term loans with the PWLB, and whilst rates are currently at historically lows, the Council are looking to offset short-term borrowing with secure long term funding. This strategy provides greater certainty over longer term capital financing costs.

2.9. 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.

2.10. Further details are set out in Section 4.

Asset Management Plan

2.11. 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 property assets and ensuring that they continue to represent an appropriate investment for the Council
- 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 £4.3 million for Corporate Property Improvements and improvements to the offices of Maidstone House, based on the requirements of the Asset Management Plan.

The Asset Management Strategy is currently under review.

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 require the use of prudential borrowing, a business case must first be prepared setting out the viability and justification in terms of necessity or contribution to the delivery of strategic goals

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. financial viability of the schemes can be clearly evidenced;
ii. the outcome returns economic value commensurate to the cost incurred by borrowing to fund the schemes;
iii. after covering the cost of funding, a further 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 residual New Homes Bonus for capital purposes (after a £1m topslice to support the revenue budget), 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 with reference to corporate priorities set out in the strategic plan. 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. The delivery of the capital programme and emerging schemes are also subject to oversight by the Strategic Capital Investment Board, which meets regularly throughout the year. Membership of the board includes the Chief Executive (Chair), Director of Finance and Business Improvement, Director of Regeneration and Place, Monitoring Officer, Head of Finance, Head of Regeneration and Economic Development and Head of Commissioning and Business Improvement.

3.15. 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

3.16. 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.

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

Asset Disposals

3.18. 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.

3.19. 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.

3.20. 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 1: Capital Programme 2022/23 to 2026/27

FIVE YEAR CAPITAL PROGRAMME 2022/23 - 2026/27	2021/22 £000	**Five Year Plan** 2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total 22/23 to 26/27 £000
Housing - Disabled Facilities Grants Funding	1,017	1,500	800	800	800	800	4,700
Temporary Accommodation	3,008	1,560					1,560
Brunswick Street	233						
Union Street	217						
Springfield Mill - Phase 1 & 2	2,045	200					200
Private Rented Sector Housing Programme	1,125	2,316	4,632	11,579	11,579	16,211	46,317
Affordable Housing Programme	750	6,694	17,040	32,225	21,163	32,521	109,642
Acquisitions Officer - Social Housing Delivery P/ship	160	160	160	160	160	160	800
Granada House Refurbishment Works	20	980	1,000				1,980
Street Scene Investment	50	50	50	50	50	50	250
Flood Action Plan	244	200	200	200	150		750
Electric Operational Vehicles	84						
Vehicle Telematics & Camera Systems	35						
Rent & Housing Management IT System	19						
Installation of Public Water Fountains	15						
Crematorium & Cemetery Development Plan	378						
Continued Improvements to Play Areas	200						
Parks Improvements	149	50	50	50	50	50	250
Gypsy & Traveller Sites Refurbishment	50	1,900					1,900
Waste Crime Team - Additional Resources		25					25
Sub-total Communities, Housing & Environment	**9,798**	**15,635**	**23,932**	**45,064**	**33,952**	**49,792**	**168,374**
Mote Park Visitor Centre	1,233	1,543					1,543
Mote Park Lake - Dam Works	672						
Mall Bus Station Redevelopment	1,006						
Museum Development Plan		389					389
Leisure Provision		100	100	500	14,300	15,000	30,000
Cobtree Golf Course New Clubhouse		4	111	333			449
Tennis Courts Upgrade		20					20
Riverside Walk Works		250	250				500
Section 106 funded works - Open Spaces		400	400	400	400	400	2,000
Sub-total Economic Regeneration & Leisure	**2,910**	**2,706**	**861**	**1,233**	**14,700**	**15,400**	**34,901**

FIVE YEAR CAPITAL PROGRAMME 2022/23 - 2026/27	Five Year Plan						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total 22/23 to 26/27
	£000	£000	£000	£000	£000	£000	£000
Corporate Property Acquisitions	11,809	2,500	2,500	2,500	2,500	2,500	12,500
Kent Medical Campus - Innovation Centre	3,000	250					250
Lockmeadow Ongoing Investment	932	500	1,300				1,800
Garden Community	1,613	200	200	200	200	200	1,000
Infrastructure Delivery		1,000	1,000	1,000	1,000	1,000	5,000
Asset Management / Corporate Property	1,653	175	175	175	175	175	875
Other Property Works		980					980
Biodiversity & Climate Change	100	1,400		500	500	500	2,900
Feasibility Studies	162	50	50	50	50	50	250
Digital Projects	25	25	25	25	25	25	125
Software / PC Replacement	342	200	200	200	200		800
Maidstone House Works		1,000					1,000
Automation Projects		200					200
New Ways of Working - Make the Office Fit for Purpose		40					40
Archbishop's Palace		400	400				800
Fleet Vehicle Replacement Programme	748	149	456	457	270	96	1,428
Sub-total Policy & Resources	**20,384**	**9,069**	**6,306**	**5,107**	**4,920**	**4,546**	**29,948**
Bridges Gyratory Scheme	86	120					120
Sub-total Strategic Planning & Infrastructure	**86**	**120**					**120**
TOTAL	**33,179**	**27,530**	**31,099**	**51,404**	**53,572**	**69,738**	**233,343**

Table 2: Capital Financing

	21/22	22/23	23/24	24/25	25/26	26/27	Total
	£000	£000	£000	£000	£000	£000	£000
External sources	3,713	1,950	1,250	1,250	1,250	1,250	10,663
Own resources - incl Internal borrowing	13,884	5,026	3,514	4,568	5,699	6,582	39,275
External Borrowing	15,582	20,554	26,335	45,586	46,623	61,906	216,585
TOTAL	**33,179**	**27,530**	**31,099**	**51,404**	**53,572**	**69,738**	**266,522**

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

	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	26/27 £000	Total £000
MRP	889	1,474	2,338	3,115	4,276	5,159	17,253
Capital receipts	0	0	0	0	0	0	0
TOTAL	**889**	**1,474**	**2,338**	**3,115**	**4,276**	**5,159**	**17,253**

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 £190.6m over the next 5 years. 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

	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	26/27 £000
Brought forward	49,511	75,093	95,983	123,121	169,786	217,459
Capital Expenditure	33,179	27,530	31,099	51,404	53,572	69,738
External funding	-3,713	-1,950	-1,250	-1,250	-1,250	-1,250
Own resources	-2,995	-3,216	-373	-373	-373	-373
MRP	-889	-1,474	-2,338	-3,115	-4,276	-5,159
TOTAL CFR	**75,093**	**95,983**	**123,121**	**169,786**	**217,459**	**280,414**

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 0.5%) and long-term fixed rate loans where the future cost is known but higher (currently 1.4 to 1.75%).

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

	31.03.22 forecast £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000
Debt (excl.PFI & leases)	26,582	47,136	73,471	119,056	165,679	227,585
Capital Financing Requirement	75,093	95,983	123,121	169,786	217,459	280,414

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. Actual debt in reality is likely to be lower due to slippage within the capital programme.

Table 6: Borrowing and the Liability Benchmark

	31.03.22 forecast £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000
Outstanding borrowing	26,582	47,136	73,471	119,056	165,679	227,585
Liability benchmark	12,345	37,136	67,471	113,056	159,679	221,585

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

Authorised Limit

	31.03.22 forecast £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m	31.03.27 budget £m
Borrowing	40.582	67.136	93.471	139.056	185.679	247.585
Other Long Term Liabilities	2.010	1.473	0.905	0.309	0.000	0.000
Total	**42.592**	**68.609**	**94.376**	**139.37**	**185.68**	**247.58**

Operational Boundary

	31.03.22 forecast £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m	31.03.27 budget £m
Borrowing	30.582	57.136	83.471	129.056	175.679	237.585
Other Long Term Liabilities	2.010	1.473	0.905	0.309	0.000	0.000
Total	**32.592**	**58.609**	**84.376**	**129.37**	**175.68**	**237.58**

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

	31.03.22 forecast £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000
Short-term investments	14,237	8,000	4,000	4,000	4,000	4,000
Longer-term investments	0	2,000	2,000	2,000	2,000	2,000
Total	**14,237**	**10,000**	**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. Full budget provision is made for capital financing costs within the Council's revenue budgets. This is based on estimates derived from the capital programme, and projected 50 year borrowing costs.

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

	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Financing costs (£m)	0.072	0.448	0.929	1.957	3.123	4.670
Proportion of net revenue stream (%)	0.365	1.982	4.287	8.390	12.867	18.506

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. KNOWLEDGE AND SKILLS

6.1. 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.

6.2. The Council also employs Link Asset Services for Treasury Management advice, who support with the provision of training to members.

6.3. 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.

7. RISK MANAGEMENT

7.1. 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

7.2. Corporate risks are identified and reported on a quarterly basis to the Corporate Leadership Team and 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

7.3. 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.

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

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

Service

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

Project

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