MAIDSTONE BOROUGH COUNCIL
CAPITAL STRATEGY 2023/24

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.

The Property Services section carries out a 5-year cycle of condition surveys of Council property which provide a costed programme of essential replacement or refurbishment of building elements to ensure the proper, compliant and efficient operation of the buildings in accordance with the Asset Management Plan. There is no financial return from the projects, but they do eliminate the accumulation of a backlog of maintenance, reduce the risk of failure and interruption of service and the cost of reactive maintenance. £1.75m is set aside for this project.

£1.5m has been set aside to allow further investment in Maidstone House to make it an attractive place to work for staff and tenants, to protect existing rental income streams and to encourage prospective new tenants.

The emerging Town Centre strategy action plan will present short-, medium- and long-term projects for improvements in the Town Centre, as part of a wider package of town centre projects. The capital programme includes an indicative sum of £5.5m to assist with delivery of these projects

Home 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 Leader of the Council announced his ambition to build 1,000 affordable homes in the shortest period possible. A development strategy setting out how this ambition can best be achieved was agreed by Policy & Resources Committee on 19th January 2022. It is likely that the whole programme will take ten years. The programme is likely to provide only Affordable Rented homes that will be let at 80% of market rent, capped at the Local Housing Allowance. The scheme has managed to secure a grant from the likes of Homes England of £58.6m and is estimated to cost £236.8m over this period. Expenditure in the initial years of the programme will be relatively modest as the focus will be upon land identification and acquisition, and the more costly works contracts will follow in the later years.

Private Rented Sector Housing Programme incorporates a number of schemes that are in the process of being developed. These will be the subject of separate committee reports at the point a decision to proceed or not is required. This budget includes the refurbishment works being undertaken at Granada House. Total cost of scheme is £48.2m.

The Council has a Temporary Accommodation programme to acquire housing on the open market for temporary accommodation, as it is more cost-effective to use our own property for this purpose and enables delivery of a revenue saving. It is proposed to buy further units in over the next three years to deal with the rising numbers of people who are being made homeless as a result of the current economic crisis. Cost of the project is £32m.

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. £8m 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.

£2.75m is set aside for investment within the Lockmeadow Leisure Complex due to the current economic environment, further investment in the site will be needed to encourage both existing tenants to continue to operate and to also attract new ones in the future, as well as continuing to make it an attractive place to visit. This will help protect existing rental income streams and possibly increase them in due course.

Leisure Provision budget of £12m is in the Capital Programme to be used for the ongoing repairs and maintenance to Maidstone Leisure Centre.

The Fleet Replacement Programme has a budget of £3m set aside to replace vehicle located at the depot. Funding comes from capital receipts, including the sale of older vehicles when they reach the end of their useful life.

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.

Mote Park Dam works have been ongoing for a couple of years to help prevent flooding to the park. There is a sum set aside of £20k for the completion of these works.

The Mote Park Kiosk has been closed for some time now, and works are required to enlarge it and the adjacent toilets to bring it up to standard and reopen it. Sums set aside for this project are £200k.

The Council works with the Environment Agency and Kent County Council as part of the Medway Flood Partnership to develop measures to manage and reduce flood risk. A capital budget of £1 million was set aside for a flood action plan following the last major floods in the Maidstone area in winter 2013/14. No large scale flood mitigation scheme was found to be feasible and individual household flood mitigation measures have been funded through central government grants. The residual budget of £550k is therefore being carried forward to fund further schemes that may be developed, including natural flood management schemes.

Play Areas and Parks Improvements have a budget of £610k to enable upgrades to play equipment and to allow for any works to be undertaken, particularly where there is a health & safety issue. There also Section 106 funded works for open spaces of £2m within the programme.

As part of the new waste collection contract the Council is planning to fund the capital costs of the new vehicle fleet, as it can access cheaper borrowing at lower rates than the contractor, and this will significantly reduce the costs of the contract. The budget sum of £5.8m in 2023/24 includes a contingency for potential material and labour cost increases during the manufacturing process. The capital cost of the fleet was included within the evaluation process to ensure value for money is achieved

A full list of the Council's Capital Programme can be found within Table 1 on page 14.

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. The Strategic Plan has been refreshed in light of the Covid-19 pandemic. The overall strategic priorities remain the same, but specific areas of focus for the next five years have been agreed. So far as recovery from Covid-19 is concerned, the Council's approach will be based around four themes: economic recovery, supporting resilience for communities and vulnerable people, adapting the way we work, and financial recovery.

2.4. The overall context for the MTFS is to consider the economic environment and the Council's own current financial position. The external environment is challenging because of an impending economic recession, high inflation and the state of the UK's public finances. The state of the international economy, with tensions between the superpowers, high energy prices and the continuing war in Ukraine, only serves to exacerbate these challenges. 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. In assessing the Council's current financial position attention therefore needs to be paid to its resilience, including the level of reserves that it holds 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 and supports the commitment to deliver 1000 affordable homes. 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 Corporate Services Policy Advisory Committee on 18th January 2023.

The draft MTFS was considered by the Executive on 23rd November 2022.

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. These specific aspects of the Treasury Management Strategy 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, along with external funding via grant funding and borrowing 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 currently has long-term loans with the PWLB, and whilst rates were starting to rise, it procured some forward funding to assist with the capital programme. Details of this borrowing can be found in 4.5 of this report.

2.9. The Prudential Code 2021 requires that Authorities include a long-term projection of external debt and the capital financing requirement (CFR). This projection should enable review of how the level of underlying borrowing for capital purposes (the CFR) is offset by other cash flows and balances, which (in nearly all authorities) reduce the level of actual debt required. This can be found within the Treasury Management Strategy Statement (TMSS) 2023/24.

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 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 £1.2 million for Corporate Property Improvements and improvements and £880k for works to industrial properties. There is also a provision of £2.75m for works 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
(c) Where schemes might improve the Environmental, Social and Governance (ESG) issues that are important to the Council. Some examples would be:
   - Promoting greater environmental sustainability
   - Local Community benefits
   - Ethical sourcing practices

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 the relevant 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 one-off funding such as New Homes Bonus for capital purposes (after any topslice to support the revenue budget), in line with the Council's strategic plan priorities;
(e) Council's strategic plan priorities'. This is because NHB is now partially replaced by the Funding Guarantee, so we need to make the wording more generic ;
(f) 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. Corporate Service Policy

Advisory 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 Investment Board, which meets regularly throughout the year. Membership of the board includes the Chief Executive (Chair), Director of Finance, Resources and Business Improvement, Director of Regeneration and Place, Monitoring Officer and Head of Finance.

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, however there are various borrowing options within the commercial sector which is open to the Authority. 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 Capital Programme 2023/24 to 2032/33 is set out in Table 1 below along with the planned funding for the programme in Table 2.

Table 1: Capital Programme 2023/24 to 2032/33

	Revised Estimate 2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	Total (5 years) £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000	2032/33 £000	Total (10 years) £000
Private Rented Sector Housing	2,273	3,090	6,765	6,832	9,578	6,861	**33,125**	6,046	6,046	2,015	970		**48,204**
1,000 Homes Affordable Housing Programme - Expenditure	7,600	6,123	20,080	22,825	25,487	22,442	**96,958**	27,890	27,239	31,040	30,609	23,094	**236,831**
Temporary Accommodation	4,330	12,000	12,000	8,000			**32,000**						**32,000**
Commercial Development - Maidstone East	200	156	623	623	468	100	**1,970**						**1,970**
Heather House Community Centre	150	319	701	351	75		**1,446**						**1,446**
Market Sale Housing Programme - Heather House & Pavilion Building													
Housing - Disabled Facilities Grants Funding	1,640	800	800	800	800	800	**4,000**	800	800	800	800	800	**8,000**
Springfield Mill - Phase 2	731												
Affordable Housing Programme - Trinity Place	500												
Acquisitions Officer - Social Housing Delivery P/ship	160	200					**200**						**200**
Street Scene Investment	70	50	50	50	50	50	**250**	50	50	50	50	50	**500**
Flood Action Plan	430	200	200	150			**550**						**550**
Electric Operational Vehicles	84												
Vehicle Telematics & Camera Systems	22												
Rent & Housing Management IT System	11												
Installation of Public Water Fountains	15												
Crematorium & Cemetery Development Plan	250												
Continued Improvements to Play Areas	126	50	50	60	60	60	**280**	60	60	60	60	60	**580**
Parks Improvements	152	50	60	70	70	80	**330**	80	80	80	80	80	**730**
Gypsy & Traveller Sites Refurbishment	1,421	600					**600**						**600**
Waste Crime Team - Additional Resources	25												
Section 106 funded works - Open Spaces	400	400	400	400	400	400	**2,000**	400	400	400	400	400	**4,000**
Expansion of Cemetery **(New scheme)**		80	120				**200**						**200**
Expansion of Crematorium **(New scheme)**		340					**340**						**340**
Purchase of New Waste Collection Vehicles **(New scheme)**		5,800					**5,800**			6,380			**12,180**
Communities, Housing & Environment Total	**20,589**	**24,468**	**38,730**	**38,871**	**28,737**	**24,733**	**155,539**	**29,057**	**29,935**	**29,366**	**29,519**	**16,294**	**289,710**
Mote Park Visitor Centre	1,307												
Mote Park Lake - Dam Works	486	20					**20**						**20**
Museum Development Plan		389					**389**						**389**
Leisure Provision	100	3,000	1,000	1,000	1,000	1,000	**7,000**	1,000	1,000	1,000	1,000	1,000	**12,000**
Tennis Courts Upgrade	20	20					**20**						**20**
Riverside Walk Works		250					**250**						**250**
Mote Park Kiosk Refurbishment & Extension **(New scheme)**	50	200					**200**						**200**
Town Centre Strategy **(New scheme)**		450	2,700	2,350			**5,500**						**5,500**
Economic Regeneration & Leisure Total	**1,963**	**4,329**	**3,700**	**3,350**	**1,000**	**1,000**	**13,379**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**18,379**

Asset Management / Corporate Property	1,261	875	175	175	175	175	**1,575**	175	175	175	175	175	**2,450**
Corporate Property Acquisitions	3,181	2,500	2,500	2,500	2,500	2,500	**12,500**	2,500	2,500	2,500	2,500	2,500	**25,000**
Kent Medical Campus - Innovation Centre	341		250				**250**						**250**
Lockmeadow Ongoing Investment	203	500	250	250	250	250	**1,500**	250	250	250	250	250	**2,750**
Garden Community	1,100	733	200	200	200	200	**1,533**						**1,533**
Infrastructure Delivery	1,000	1,000	1,000	1,000	1,000	1,000	**5,000**	1,000	1,000	1,000	1,000	1,000	**10,000**
Other Property Works	100	500	380				**880**						**880**
Biodiversity & Climate Change	250	2,788	1,540	500	500		**5,328**						**5,328**
Photovoltaic Panels		234					**234**						**234**
Feasibility Studies	122	50	50	50	50	50	**250**	50	50	50	50	50	**500**
Digital Projects	25	28	28	28	28	28	**140**	28	28	28	28	28	**280**
Software / PC Replacement	336	200	200	200	200	200	**1,000**	200	200	200	200	200	**2,000**
Maidstone House Works	1,000	500	250	250	250	250	**1,500**	250	250	250	250	250	**2,750**
Automation Projects	200												
New Ways of Working - Make the Office Fit for Purpose	40												
Fleet Vehicle Replacement Programme	900	456	457	270	96	250	**1,529**	300	300	300	300	300	**3,029**
Election Polling Booths **(New scheme)**	20												
Automation of Transactional Services **(New scheme)**		150					**150**						**150**
Corporate Services Total	**10,079**	**10,514**	**7,280**	**5,423**	**5,249**	**4,903**	**33,369**	**4,753**	**4,753**	**4,753**	**4,753**	**4,753**	**57,134**
Bridges Gyratory Scheme		206					**206**						**206**
Total		**206**					**206**						**206**
TOTAL	**32,631**	**39,517**	**49,710**	**47,644**	**34,986**	**30,636**	**202,493**	**34,810**	**35,688**	**35,119**	**35,272**	**22,047**	**365,429**

Table 2: Capital Financing

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000	2032/33 £000	Total 23/24 to 32/33 £000
External sources	1,500	2,470	2,832	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,802
Own resources - incl Internal borrowing	7,950	5,450	5,450	5,450	5,450	5,450	4,450	4,450	4,450	4,450	4,450	49,500
External Borrowing	23,181	31,597	41,428	40,694	28,036	23,686	28,860	29,738	29,169	29,322	16,097	298,627
TOTAL	**32,631**	**39,517**	**49,710**	**47,644**	**34,986**	**30,636**	**34,810**	**35,688**	**35,119**	**35,272**	**22,047**	**365,429**

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

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000	2032/33 £000	Total £000
MRP	865	1,251	2,900	3,634	4,151	4,524	4,808	5,068	5,327	6,225	6,484	45,237
Capital receipts	1,400	300	300	300	300	300	300	300	300	300	300	4,400
TOTAL	**2,265**	**1,551**	**3,200**	**3,934**	**4,451**	**4,824**	**5,108**	**5,368**	**5,627**	**6,525**	**6,784**	**49,637**

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

4.4. The 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 £240m over the next 10 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

	22/23 £000	23/24 £000	24/25 £000	25/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000	2032/33 £000
Brought forward	62,987	88,048	119,335	159,113	197,423	222,558	242,970	268,272	294,193	319,284	343,631
Capital Expenditure	32,631	39,517	49,710	47,644	34,986	30,636	34,810	35,688	35,119	35,272	22,047
External funding	-1,500	-2,470	-2,832	-1,500	-1,500	-1,500	-1,500	-1,500	-1,500	-1,500	-1,500
Own resources	-4,300	-4,200	-4,200	-4,200	-4,200	-4,200	-3,200	-3,200	-3,200	-3,200	-3,200
MRP	-865	-1,251	-2,900	-3,634	-4,151	-4,524	-4,808	-5,068	-5,327	-6,225	-6,484
TOTAL CFR	**88,953**	**119,644**	**159,113**	**197,423**	**222,558**	**242,970**	**268,272**	**294,193**	**319,284**	**343,631**	**354,494**

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. Due to increasing interest rates, the Council secured £80m of long term borrowing through Aviva Life & Pensions UK Limited to fund the increasing capital programme at a cost of 2.89%. The forward borrowing will be received due to be received on the following dates:

- February 2024 £40m
- February 2025 £20m
- February 2026 £20m

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

	31.03.23 forecast £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000	31.03.28 budget £000	31.03.29 budget £000	31.03.30 budget £000	31.03.31 budget £000	31.03.32 budget £000	31.03.33 budget £000
Debt (excl.PFI & leases)	32,181	63,778	105,206	145,900	173,936	197,622	226,482	256,220	285,389	314,711	330,808
Capital Financing Requirement	88,953	119,644	159,113	197,423	222,558	242,970	268,272	294,193	319,284	343,631	354,494

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.

4.7. 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 6: Prudential Indicators: Authorised limit and operational boundary

Authorised Limit

	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	31.03.28 budget £m	31.03.29 budget £m	31.03.30 budget £m	31.03.31 budget £m	31.03.32 budget £m
Borrowing	47.181	78.778	120.206	160.900	188.936	212.622	241.482	271.220	300.389	329.711
Other Long Term Liabilities	1.473	0.905	0.309	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	**48.654**	**79.683**	**120.51**	**160.9**	**188.94**	**212.622**	**241.482**	**271.22**	**300.389**	**329.711**

Operational Boundary

	31.03.23 forecast £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m	31.03.27 budget £m	31.03.28 budget £m	31.03.29 budget £m	31.03.30 budget £m	31.03.31 budget £m	31.03.32 budget £m
Borrowing	37.181	68.778	110.206	150.900	178.936	202.622	231.482	261.220	290.389	319.711
Other Long Term Liabilities	1.473	0.905	0.309	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	**38.654**	**69.683**	**110.51**	**150.9**	**178.94**	**202.622**	**231.482**	**261.22**	**290.389**	**319.711**

4.8. 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.

4.9. 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 7: Treasury Management Investments

	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	31.03.28 budget £000	31.03.29 budget £000	31.03.30 budget £000	31.03.31 budget £000	31.03.32 budget £000
Short-term investments	8,000	30,000	20,000	20,000	4,000	4,000	4,000	4,000	4,000	4,000
Longer-term investments	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Total	**10,000**	**32,000**	**22,000**	**22,000**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**

4.10. In years 2023/24 to 2025/26, it is envisaged short term balances will be high due to the forward loans with Aviva Life & Pensions UK Ltd which will be received in February of each financial year. This is expected to be short term as the funds will be utilised within the capital programme.

4.11. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance, Resources 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.

4.12. 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 8: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
Financing costs (£m)	0.759	2.024	4.733	6.616	7.884	8.481
Proportion of net revenue stream (%)	3.266	8.305	18.338	24.950	28.938	30.298

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

4.14. The Authority is required ti estimate and measure the Liability Benchmark which

Other Long Term-Liabilities

4.15. 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.

4.16. 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 which is due to be finished in 2025/26. 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.

5. Investment Strategy

Service Investments: Loans

5.1. 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.

5.2. The Council has made loans to Kent Savers for £25,000 in 2017/18 which is repayable in 2027/28 at an interest rate of 1% and an interest free loan of £60,000 to One Maidstone CIC Limited which is to be repaid in 2022/23. A loan to Cobtree Manor Estates Trust towards the construction of the new car park which had been agreed in 2019/20 for an amount of £323,000 repayment over 5 years at an annual interest rate of 3%. There has been no agreement to enter into further service loans in the immediate future.

5.3. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. As these loans are very small materially, no loss allowance is required to be accounted for.

5.4. The Authority assesses the risk of loss before entering into a loan agreement assessing the borrower's ability to repay the loan, based on past financial performance. This is monitored over the period of the loan in line with the agreed repayment terms.

Commercial Investments: Property

5.5. The Council does not currently have any investments in property that are considered to be purely commercial in nature, i.e. primarily for yield. Acquisitions are limited to properties situated within the borough, with the intention of supporting the local community, housing and regeneration objectives rather than for the exclusive purpose of generating profits. All property investments are therefore classified as general fund capital projects.

5.6. The Director of Finance, Resources and Business Improvements confirms the authority has complied with paragraphs 51 to 53 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest for the primary purpose of financial return.

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 16 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, Resources 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.

6.4. Staff are kept updated on latest developments on Treasury, Non-Treasury and Capital through email bulletins and training courses through the Council's advisors Link Asset Services. The Council is also part of the Kent Treasury Benchmarking Group which meet to discuss ongoing issues every 6 months.

6.5. Training is offered to all Members on Treasury, Non-Treasury and Capital to prior to decision making on the relevant Strategies. The training is arranged for every 2 to 3 years.

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.