

Medium Term Financial Strategy – Capital Programme

Timetable	
Meeting	Date
Communities Leisure and Arts Policy Advisory Committee	9 January 2024
Cabinet	24 January 2024
Council	21 February 2024

Will this be a Key Decision?	Yes
Urgency	Not applicable
Final Decision-Maker	Council
Lead Head of Service/Lead Director	Mark Green, Director of Finance, Resources and Business Improvement
Lead Officer and Report Author	Paul Holland, Senior Finance Manager (Client)
Classification	Public
Wards affected	All

Executive Summary

This report forms part of the process of agreeing a budget for 2024/25 and setting next year's Council Tax. It develops the outline of the capital programme and reconfirms the principles behind the Council's capital strategy, explains how the capital programme will be funded, and describes the individual schemes within the remit of this Committee.

The approved capital programme is not approval to spend. 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.

Purpose of Report

The report enables the Committee to consider and comment on capital programme schemes within its remit.

This report makes the following recommendations to the Communities Leisure and Arts Policy Advisory Committee:

That the Committee recommends to Cabinet that it:

1. Agrees the capital programme 2024/25 onwards as set out in Appendix B to this report;
2. Notes that agreement to recommendation 1 above will be subject to the prudential borrowing limit which will be recommended to Council as part of the Treasury Management Strategy 2024/25

Medium Term Financial Strategy – Capital Programme

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium-Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. Specifically, the capital programme allows for investment in long term projects that support the strategic plan objectives.	Section 151 Officer & Finance Team
Cross Cutting Objectives	The MTFS supports the cross-cutting objectives in the same way that it supports the Council’s other strategic priorities.	Section 151 Officer & Finance Team
Risk Management	This has been addressed in section 5 of the report.	Section 151 Officer & Finance Team
Financial	Set out in the report.	Section 151 Officer & Finance Team
Staffing	Staffing implications are taken into account when developing individual capital schemes.	Section 151 Officer & Finance Team
Legal	<p>Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.</p> <p>The Medium-Term Financial Strategy demonstrates the Council’s commitment to fulfilling its duties under the Act.</p> <p>Approval of the budget is a matter reserved for full Council upon recommendation by the Cabinet.</p>	Team Leader (Contentious and Corporate Governance)
Information Governance	The recommendations do not impact personal information (as defined in UK GDPR and Data Protection Act 2018) the Council processes.	Senior Information Governance Officer

Equalities	This report sets out the overall capital programme. When an individual capital scheme is developed, changed or reviewed, an evidence-based equalities impact assessment will be undertaken. Should an impact be identified appropriate mitigations will be identified.	Equalities and Communities Officer
Public Health	The resources to achieve the Council's objectives are allocated through the development of the Medium-Term Financial Strategy which sets the overall priorities for the capital programme.	Section 151 Officer & Finance Team
Crime and Disorder	The resources to achieve the Council's objectives are allocated through the development of the Medium-Term Financial Strategy which sets the overall priorities for the capital programme.	Section 151 Officer & Finance Team
Procurement	Procurement of the capital schemes described in section 2 of this report will be in accordance with the procurement provisions within the Council's constitution.	Section 151 Officer & Finance Team
Biodiversity & Climate Change	The capital programme includes provision for funding to deliver schemes which will help meet the Council's biodiversity and climate change objectives.	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

Background

- 2.1 The capital programme 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. The capital programme is now a rolling ten-year programme, so sets out over the medium term how the Council will invest its capital resources.
- 2.2 The current capital programme 2023/24 – 2027/28 was approved by Council at its meeting on 22 February 2023 and totals £201.9 million over five years. Details of schemes within the remit of this Committee are set out in Appendix A.
- 2.3 As part of the budget setting process the capital programme has been reviewed to ensure it is affordable and sustainable. To aid this we have increased the period of the capital programme to 10 years so we understand the longer term implications of borrowing. As part of setting the capital programme we have carried out challenge sessions to ensure projects meet the Council's defined core principles for the inclusion of schemes within the capital programme.
- 2.4 The 10 year programme totals £444.5m. Individual items within the programme will be subject to specific reports for approval to spend through relevant governance. Overall, it is considered that the expansion of the programme is affordable and sustainable and is required in order to deliver the Council's strategic objectives.

Capital Strategy

- 2.5 Under CIPFA's updated Prudential Code, the Council is required to produce a Capital Strategy, which is intended to give an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 2.6 The Capital Strategy is being considered by Audit, Governance & Standards Committee at its meeting on 15th January 2024 and will subsequently be agreed by Council at its meeting on 21st February 2024. The Strategy describes how the Capital Programme is developed and the key points are set out below.
- 2.7 The Council has defined 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, e.g., 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.

2.8 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 are also subject to appraisal and prioritisation against the objectives of that strategy. These schemes must be individually considered and approved by the relevant Policy Advisory 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) Schemes will be evaluated against Environmental, Social and Governance objectives, within the overall Strategic Plan priorities. Schemes where this might be relevant would include those which offer:

- Greater environmental sustainability
- Local community benefits
- Implementation of ethical sourcing practices.

2.9 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.

2.10 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 Cabinet, thus allowing officers to focus funding efforts on delivering schemes that are next in priority order.

2.11 The Medium-Term Financial Strategy (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.

2.12 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 Cabinet;

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 and Funding Guarantee 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.

2.13 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 Policy Advisory Committee appraises the proposals based on a comparison with corporate priorities. The Cabinet then recommends the capital programme which is then presented to Council in February each year.

2.14 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.

Funding the Capital Programme

2.15 All capital expenditure must be financed, either from external sources (grant funding and other contributions), the Council's own resources (revenue contributions, earmarked reserves, internal borrowing and capital receipts) or debt (external borrowing and other forms of corporate finance).

2.16 The Council currently has external borrowing of £5 million, representing Public Works Loan Board borrowing plus we have also committed to borrow £80 million in advance over the period 2024 to 2026 at an affordable rate. With internal resources expected to be fully utilised in future, the Council will look to increase external borrowing to a maximum of £359.9m over the 10-year lifetime of the capital programme. Over this time the Council will seek a mixture of long term and short-term debt to minimise the risk of refinancing. The Director of Finance, Resources & Business Improvement may look to procure forward borrowing terms ahead of requiring funding for the capital programme. This is to lock into preferential rates in case of future rate rises.

- 2.17 The Council has hitherto used the New Homes Bonus to fund capital expenditure. The allocation for 2024/25 onwards has been reduced to £1.9 million, so to ensure that there is sufficient funding to support the viability of the 1,000 New Homes programme it is envisaged that this will be topped up from the Funding Guarantee that was announced as part of the Local Government Financial Settlement in December 2023.
- 2.18 External funding is sought wherever possible. The Council has received funding from the Government via the UK Shared Prosperity Fund, some of which is allocated to capital schemes, and funding will be sought in particular to support the Affordable Housing Programme.
- 2.19 Funding is also available through developer contributions (S 106) and the Community Infrastructure Levy (CIL).

Capital Programme Proposals

- 2.20 Capital Programme proposals have been developed based on the principles set out above and reflect the strategic priorities agreed by Council when it set the current Strategic Plan.
- 2.21 Appendix B to this report sets out the recommended programme for this Committee. This includes schemes which were programmed for 2024/25 – 2028/29 within the existing capital programme together with new schemes that it is now proposed to include within the capital programme. Further details are set out below.
- 2.22 Museum Development Plan - £180,000

The Maidstone Museums Forward Plan 2022-27 was presented to this Committee's predecessor Committee in July 2022. The Forward Plan set out an ambitious programme, inspired by a mission to inspire, educate and challenge its visitors and users through the use of its collections, staff and buildings. A first step in delivering this plan was a new archaeology gallery, due to open in early Summer 2024. Nearly £700,000, including contributions from external funders, will have been invested in this gallery and this forms part of the existing capital programme.

The immediate next steps in the Development Plan are as follows.

Upgrading Local History Gallery

It is planned to improve the Local History Gallery, which adjoins the new archaeology gallery, to make it more attractive and consistent in standard with the new gallery. A proposal is being developed to an external funder to carry out this work, which is expected to cost £100,000.

Accessibility

It is part of the museum's mission to ensure that its collections are available to all. It is therefore proposed to install a flexi-step and ramp for more inclusive access to the natural history and dinosaur galleries, at an estimated cost of £80,000.

2.23 Existing Leisure Centre – Capital Improvements £2.25 million

This Committee considered proposals for minor capital improvements to the Leisure Centre at its meeting on 7 February 2023. The purpose was to reduce costs and generate increased revenue over the likely extension period of the existing contract. This was agreed by Cabinet and built into the capital programme for 2023/24. As this work has been dependent on decisions about extension of the contract, it has not started as yet and the majority of the expenditure is now likely to slip to 2024/25.

2.24 New Leisure Centre - £60.0 million

The Council is committed to providing leisure services that are accessible to all the borough's residents. This follows from the Council's strategic priorities, and in particular the cross-cutting priority of addressing and reducing health inequalities.

The existing Mote Park Leisure Centre is over 50 years old. It is becoming increasingly expensive to maintain and detracts from the Council's net zero carbon emissions objective. Modelling presented to this Committee's predecessor in February 2023 indicated that the optimum time for a replacement, or at the very least a significantly refurbishment, would be towards the end of the extension period for the existing leisure contract (which is subject to a separate report on this agenda).

It was reported in February 2023 that projected capital costs for a new build leisure centre would be in the region of £40 million. A Passivhaus centre or more sophisticated design would cost in excess of £50m. Owing to the complexity of a major refurbishment, the capital costs arising would be at least £35 million, ie not significantly less than the cost of a complete replacement.

It is proposed to make provision in the capital programme for £60 million, which would offer the opportunity to build a new leisure centre commensurate with the Council's ambitions, given current prices. Expenditure is profiled over the next six years, with some initial investment in design and feasibility in 2024/25 and a build programme extending over the three years 2027/28 to 2028/29.

All opportunities to source external funding to mitigate the cost to the Council will be explored. At this stage the proportion to be externally funded cannot be estimated, so the figure of £60 million represents the gross cost of a new leisure centre.

2.25 Mote Park Kiosk Refurbishment & Extension - £250,000

£200,000 was included for this project in the existing capital programme for 2023/24. The intention was to provide clean and safe facilities to replace the existing toilet block on the northern side of Mote Park Lake, to complement the new café facility on the opposite side. This work has not yet commenced so will slip to 2024/25.

3. AVAILABLE OPTIONS

- 3.1 Recommend the capital programme proposals as presented for approval by the Cabinet and then for consideration by Council.
- 3.2 Recommend amendments or deletion to some or all of the proposals and make any new alternative projects for consideration by the Cabinet.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The preferred option is that the Committee recommends the proposed capital programme (option 3.1) to the Cabinet.

5. RISKS

Funding

- 5.1 From now on, the capital programme will primarily be funded through prudential borrowing. For the capital programme as a whole, the funding risk has been mitigated by committing to borrow £80 million in advance over the period 2024 to 2026 at an affordable rate. This has given some assurance about delivery of the capital programme in the short term. The main item of expenditure during this period the Affordable Housing Programme, which will therefore benefit from these relatively low borrowing costs. However, it is difficult to predict likely interest rates over the period of peak expenditure on the new leisure centre. With interest rates at their current elevated levels, it is not worth locking in a future borrowing commitment at this stage. We will use our Treasury Management Strategy to manage the cost of subsequent borrowing but there is a risk that funding costs could remain at current levels, thus putting at risk the viability of the scheme.

Delivery

- 5.2 The scale of the capital programme, at £62.7 million for this Committee alone, will require considerable capacity for delivery and project management.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Corporate Services PAC received an initial report on the MTFs at its meeting on 12 July 2023. This Committee was then consulted on the revenue

budget proposals within its remit at its meeting on 5 September 2023 and on Fees and Charges and the budget consultation at its meeting on 5 December 2023. This consultation identified that the most popular area amongst respondents for new investment was infrastructure, with flood prevention and the street scene cited as examples in the survey to illustrate what 'infrastructure' means. The other PACs are considering the budget proposals relating to capital schemes within their portfolios during January 2024.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 The timetable for setting the budget for 2023/24 is set out below.

<i>Date</i>	<i>Meeting</i>	<i>Action</i>
24 January 2024	Cabinet	Agree Capital Programme
21 February 2024	Council	Approve Revenue Budget 2024/25 and Capital Programme

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Existing Capital Programme 2023/24 to 2027/28
 - Appendix B: Proposed Capital Programme 2024/25 to 2033/34
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9. BACKGROUND PAPERS

There are no background papers.