

POLICY & RESOURCES COMMITTEE

27 JANUARY 2016

Is the final decision on the recommendations in this report to be made at this meeting?

No

MEDIUM TERM FINANCIAL STRATEGY 2016/17 ONWARDS – CAPITAL PROGRAMME

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|---------------------------------------|-----------------------------|
| Final Decision-Maker | Council |
| Lead Head of Service | Head Of Finance & Resources |
| Lead Officer and Report Author | Head Of Finance & Resources |
| Classification | Public Report |
| Wards affected | All |

This report makes the following recommendations to this Committee:

1. That the committee agrees the strategy's principles as set out in paragraphs 2.7 to 2.12;
2. That the Committee agrees the capital funding projection set out in Appendix B to this report;
3. That the Committee agrees the capital programme 2016/17 onwards as set out in Appendix C to this report;
4. That the Committee notes that in agreeing recommendations 2 and 3 above the Committee will set a prudential borrowing limit of £38,475,000 over the period of the programme which will be recommended to Council as part of the Treasury Management Strategy 2016/17 by the Audit, Governance & Standards Committee.

This report relates to the following 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. It reflects the Council's decisions on the allocation of resources to all objectives of the strategic plan.

The Capital Programme identifies key projects requiring long term funding to improve assets and regenerate the borough.

Timetable

| Meeting | Date |
|------------------------------|--------------------------------|
| Policy & Resources Committee | 27 th January 2016 |
| Policy & Resources Committee | 17 th February 2016 |
| Council | 2 nd March 2016 |

MEDIUM TERM FINANCIAL STRATEGY 2016/17 ONWARDS – CAPITAL PROGRAMME

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 To determine the strategy for developing the future capital programme, for 2016/17 onwards, as part of the consideration of the medium term financial strategy.
 - 1.2 To consider and approve the amount and allocation of capital resources for the delivery of the objectives of the strategic plan and other key strategies.
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2. INTRODUCTION AND BACKGROUND

INTRODUCTION

- 2.1 Attached at **Appendix A** is a summary of the current capital programme. The programme was originally approved by Council in March 2015. Subsequently, Policy & Resources Committee has approved amendments at its meetings that are reflected in Appendix A.
- 2.2 In regular spending reviews since 2010 the government has reduced the level of resources available for capital expenditure. The most direct effect for Maidstone to date has been seen in the area of support for affordable housing through the Homes and Communities Agency.
- 2.3 At the present time most of the balance of government funding is being directed through Local Enterprise Partnerships (LEP). Proposals must therefore be submitted as bids to the South East LEP if the resources are to be directed towards Maidstone initiatives. The Council has had some success in gaining funding for infrastructure schemes through bids to government by the SELEP and these are considered in the future programme.
- 2.4 As part of the Autumn Statement the Chancellor of the Exchequer confirmed a review of the New Homes Bonus system. The consultation has been announced to coincide with the ending of the first six year cycle of the grant. The major proposal is to make the award of new homes bonus more effectively linked to the incentive for growth in housing. Amongst the proposals are these key issues:
 - a) The reduction of the period of the cycle from six years to four, with immediate effect and backdated to cover six year payments currently being received;
 - b) An allowance for the natural growth in housing from normal levels of development for which new homes bonus will not be paid. Proposed currently at 0.25% annual increase;

- c) Restrictions on the award of New Homes Bonus where development is approved on appeal;
 - d) No New homes Bonus paid to authorities that do not have a current Local Plan.
- 2.5 It has been a principle of the Council's capital programme that New Homes Bonus receipts are used to support the capital programme and in particular the needs of the infrastructure delivery plan and commercialisation.
- 2.6 The principle of a 33% reduction in funding from New Homes Bonus has been the subject of previous debate when the government planned to implement a review in 2014/15 and the current capital programme assumed a 35% reduction in receipts from 2016/17. This assumption has been continued into the future planning of the programme.

MEDIUM TERM FINANCIAL STRATEGY PRINCIPLES

- 2.7 The medium term financial strategy for capital is approved annually by Council and includes the principles set by the Council for the development and control of the programme. These principles require amendment to reflect the current governance structure of the Council and are proposed as:

Appraisal of Schemes

- 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 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 following the approval of the full programme.
 - b) Where schemes can be demonstrated to be commercial in nature and require the use of prudential borrowing, a business case must first be presented to the relevant service committee. The relevant service committee will recommend approved proposals to the Policy and Resources Committee for final approval of the prudential borrowing.
- 2.9 Where schemes do not fit within the criteria above but an appropriate option appraisal has been completed, evaluation and prioritisation will remain as previously approved by Council and set out below:

1st For statutory reasons;

- 2nd Fully or partly self-funded schemes focused on strategic plan priority outcomes;
- 3rd Other schemes focused on strategic plan priority outcomes; and
- 4th Other priority schemes with a significant funding gearing

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 Policy and Resources Committee thus allowing officers to focus funding efforts on delivering schemes that are next in priority order.

2.11 The MTFS requires the Council to identify actual funding before commencement of schemes and that, 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.

Resources

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 assets sales as identified in the asset management plan and approved for sale by the Cabinet Member for Corporate Services;
- c) The approval of prudential borrowing when the following criteria also apply to the schemes funding by this method:
 - i. they are commercial in nature;
 - ii. the outcome returns a financial benefit at least equal to the cost incurred by borrowing to fund the schemes;
 - iii. after covering the cost of funding, a further financial or non-financial benefit accrues to the Council that directly or indirectly supports the objectives of the strategic plan or the medium term financial strategy.
- d) The use of New Homes Bonus for capital purposes in line with the Council's strategic plan priorities.
- e) The implementation of a community infrastructure levy (CIL) and the management of its use, along with other developer contributions (S106), to deliver the objectives of the infrastructure delivery plan.

AVAILABLE RESOURCES

- 2.13 The funding assumptions made in the development of the future capital programme are essential to the development of the budget and specific detail in relation to each source is set out in the paragraphs below. Appendix C to this report sets out the projected funding levels over the five year period of the MTFS.

Capital Grants & Contributions

- 2.14 This funding source is the main focus of the Government's controls over the level of capital expenditure. In fact a number of the grants that were available to the council for funding capital projects no longer exist.
- 2.15 Recent projects that have received support through grants and contributions include the Museum, Mote Park, and the High Street. Some government grants are annual sums, such as the disabled facilities grant, but the majority of sums are one-off and scheme specific.
- 2.16 The estimated grant for disabled facilities grants is set in the programme at £0.45m per annum. This is the only grant assumed to be received in the future.
- 2.17 Contributions have been received from a number of sources previously and the programme assumes £2,000,000 in contributions from partners involved in some of the regeneration projects under consideration.

Capital Receipts

- 2.18 The Council occasionally sells assets that are surplus to requirements and the receipts from such sales must be treated as available only for capital purposes. The programme assumes only those receipts that have already been received, totalling £589,320.
- 2.19 No currently held assets are considered surplus to all requirements and no receipts are expected in the medium term.

Revenue Support (New Homes Bonus)

- 2.20 The New Homes Bonus grant is considered to be a revenue grant and its use for capital expenditure is a local decision by this Council. It is therefore properly accounted for as revenue support to the capital programme.
- 2.21 The resources available to the programme are tabulated by year in Appendix B and the estimates total £15,451,345 in receipts over the five year period from 2016/17 to 2020/21.

CIL & Developer Contributions

- 2.22 No estimates are provided for potential receipts from community infrastructure levy or developer contributions (s106). These resources form part of infrastructure delivery plan's resource base and as such are

central to the delivery of the objectives of the integrated transport strategy and the infrastructure delivery plan.

Prudential Borrowing

- 2.23 The Council has the power to borrow to finance capital expenditure subject to the guidance set out in the Prudential Code. This code of practice is published by the Chartered Institute of Public Finance and Accountancy and covers the full range of capital planning not just borrowing. Compliance with the code is a statutory requirement and the Council's MTFS has been developed to ensure compliance. In summary the key objectives of the code are:
- a) To ensure within a clear framework that capital expenditure plans are affordable, prudent and sustainable;
 - b) That treasury management decisions are taken in accordance with good professional practice;
 - c) That local strategic planning, asset management planning and proper option appraisal are supported; and
 - d) To provide a clear and transparent framework to ensure accountability.
- 2.24 In 2012 the Council approved in principle expenditure of up to £6m through prudential borrowing for acquisition of commercial property, acquisition of property to alleviate homelessness and action to enable stalled development to progress.
- 2.25 To date the Council has not borrowed to finance the capital programme as the value of borrowing was outweighed by the benefit of using the Council's own resources due to the variance between borrowing and lending rates of interest.
- 2.26 The proposals set out in this report suggest a need to consider up to £38,475,000 of prudential borrowing over the life of the programme. This level of borrowing would remain subject to the principles set out in paragraphs 2.7 to 2.12.
- 2.27 In considering the Treasury Management Strategy 2016/17, for recommendation to Council, the Audit Governance & Standards Committee has been made aware of the potential for an increased level of prudential borrowing that would arise from the approval of the recommendations in this report.
- 2.28 The Committee expressed concerns about the risks related to prudential borrowing of this magnitude. These include:
- a) The potential interest rates for long term borrowing in the future;

- b) The initial cost of borrowing during the period leading up to the receipt of a return on the scheme, as this will not be financed by the scheme at the time that it requires repayment;
- c) The levelling of the demand for prudential borrowing over the period of the programme as the indicative figures show a significant increase in the early years of the programme.

2.29 While these are significant risks the Committee should be aware that mitigation is more appropriately considered on a scheme by scheme basis and individual business cases should address these risks in line with the principles set out in paragraphs 2.7 to 2.12.

Overall Funding Level

2.30 The resource available for the capital programme, based on the detail above, is given in Appendix B. The appendix shows total resources expected in the period 2016/17 to 2020/21 as £19,701,345 plus prudential borrowing proposed at £38,475,000.

THE PROGRAMME

The Current programme

- 2.31 The currently approved programme is set out at Appendix A and has previously been approved at Council with minor amendments agreed at Policy and Resources Committee.
- 2.32 As a consequence of better information about the needs of the programme and some changes in emphasis such as the acquisition of housing property for temporary accommodation this programme has been slightly modified in developing the recommended programme for the period 2016/17 to 2020/21.

The Recommended Programme

- 2.33 **Appendix C** to this report sets out a recommended programme, based on proposals that have been developed to date, as set out below.
- 2.34 A number of schemes exist in the current programme that should be carried forward. At this time it is proposed to retain the current budgets for these schemes. These are:
- a) Ongoing housing support: This covers private sector grants, support to registered providers and, after modification of the programme, acquisition of temporary accommodation. The total budget is in line with previous approvals. Part of the 2015/16 budget is being used for the acquisitions.
 - b) Flood Defence: This budget is intended to create a sum of money to contribute towards flood defence work. One objective is to support the work required to promote works to areas affected by the recent floods (2013).

- c) Play Areas: Funding for the completion of all the works has been set in 2016/17 and 2017/18 and a procurement exercise is in its final stages.
- d) Information and Communications Technology (ICT) & Asset Management: These budgets cover maintenance of the Council's own ICT and property assets and expenditure should reflect the two strategies. Funding for the ICT programme reflects the changes expected to occur as the shared service develops integrated software and hardware providing economies of scale.
- e) Commercialisation: Of the current schemes that form the commercialisation strategy two have ongoing funding set aside for them. Mote Park and the Crematorium.
- f) Acquisition of Commercial Assets: There remains a balance from the original funding for commercial acquisitions and this has been maintained in order for the Council to acquire further assets of this type as part of the strategy for revenue efficiency gains.
- g) Infrastructure Schemes: There are three schemes specifically listed in the programme for infrastructure: The work to the High Street and the balance of previous funding has been allocated to the next phase; The Council contribution to the bridges gyratory scheme; and the Riverside Towpath.

2.35 In addition there are other schemes that require funding based on previous commitments.

- a) Brunswick Street: This scheme has been considered as one of the possible commercialisation projects and preliminary / viability work must commence this year. The proposal is to fund this scheme from prudential borrowing and as such it must be commercially viable before work commences.
- b) Mote Park Essential Maintenance: As a direct consequence of the Council's commitment to Mote Park following the commercial activity that has commenced, the proposed works will prepare the park for increased visitor numbers and provide improvements to some areas that are in need.
- c) Other Parks Essential Maintenance: In line with the works at Mote Park it is proposed to invest in some improvements to other parks.
- d) Mote Park Visitor Centre: This scheme forms part of the major investment in Mote Park. The development will be funded through prudential borrowing as part of the overall commercial activity in the Park.
- e) Museum Development Plan: Following the zero based budgeting exercise completed on the Museum's revenue budget this year and the medium term additional funding agreed as part of the revenue budget, this work forms part of the developing 20 year strategy for the Museum.

- f) Maidstone East / Sessions Square: In order to achieve the Council's town centre policies, the Council is working with other partners to secure the investment needed to unlock this redevelopment and to deliver the commercial return required to repay the borrowing needed to lever funding from partners.
- g) Union Street: This is a commercial proposal that officers are currently developing. At a future date a report will be brought to this Committee for approval to commence with the project. As this is a commercial project it is proposed that funding should be through prudential borrowing.
- h) Enabling Work for the Mall Redevelopment: In order to achieve the Council's town centre policies, the Council is working with other partners to secure the investment needed to unlock this redevelopment and to deliver the commercial return required to repay the borrowing needed to lever funding from partners.
- i) Town Hall Webcast & Speaker Replacement: The procurement work on this scheme has been delayed by the real potential of a reduction in cost through partnership working. The figure assumed in the programme is the highest indicative cost that has been provided.
- j) Infrastructure Delivery: This is not in the programme at Appendix C and is not a single identified scheme but the Committee should be aware that the Infrastructure Delivery Plan will support the Local Plan regulation 19 consultation. The Infrastructure Delivery Plan and related Integrated Transport Strategy will be funded mainly from other public sector organisations and developer contribution but will require recognition in the planning the capital programme.

3. AVAILABLE OPTIONS

- 3.1 Option 1: the Committee could chose to confirm the recommendations proposed in this report.
 - 3.2 Option 2: the Committee could chose not to approve a capital programme at this time, leaving the decision to February's Committee meeting when the programme is included in the final decision on the 2016/17 budget recommendations to Council. This option is not advised as considering the programme at this time and revisiting that decision in February allows all Councillors adequate opportunity to raise concerns and questions to ensure they are prepared for the final decisions at this Committee's meeting in February 2016 and Council in March 2016.
 - 3.3 Option 3: the Committee could amend the principles, programme or funding levels. The option is not recommended as the proposals set out in this report have been developed on the basis of fit to the Council's strategic priorities, overall delivery of the full programme and represents the best information available at this time.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Option 1 is the recommended option. The amendments to the principles of the medium term financial strategy regarding capital projects are essential as they reflect the governance changes already in place. The funding proposals are based upon best estimates given current knowledge about government's proposals. The programme has been developed by officers and approved by service committees as meeting the needs of their services in full awareness of the principles that must be met.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The three other service committees have considered their element of the capital programme at their meetings in January 2016 and the programme set out in Appendix C reflects their decisions.
- 5.2 The Strategic Planning, Sustainability and Transport Committee, in referring their proposals to the Policy and Resources Committee, have raised the issue of funding for the Infrastructure Delivery Plan.
- 5.3 In previous versions of the capital programme it has been recognised that resources held from New Homes Bonus receipts were available to support the future needs of the Infrastructure Delivery Plan. Over time the resources have been partly used to finance commercial acquisitions so that the full benefit of income from the assets can support the revenue account. The alternative is that this income would be required to finance the repayment of prudential borrowing.
- 5.4 The balance between resources and the full programme is set out at the bottom of Appendix C and shows net resources available of £6,300,000 which could still be directed towards infrastructure plans.
- 5.5 At this time the Infrastructure delivery Plan and the funding to become available from Community Infrastructure levy / Developer Contributions has not been matched. It is intended that further detail on the Infrastructure Delivery Plan's need for resources will have been produced in time for the Committee's meeting in February 2016.
- 5.6 Audit Committee consideration of the Treasury Management Strategy led them to raise concerns over the potential risks of the programme and its reliance on prudential borrowing. These concerns have been set out and responded to in paragraphs 2.27 to 2.29.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The decision of this Committee will form part of the final report on the medium term financial strategy and budget for 2016/17. This will be considered by this Committee at its meeting on 17 February 2016 and the

committee will formulate its recommendations to Council on the budget for 2016/17 and the level of Council Tax at that time.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
|---------------------------------------|---|-----------------------------|
| Impact on Corporate Priorities | <p>The medium term financial strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. It reflects the Council's decisions on the allocation of resources to all objectives of the strategic plan.</p> <p>The Capital Programme identifies key projects requiring long term funding to improve assets and regenerate the borough.</p> | Head of Finance & Resources |
| Risk Management | <p>Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk.</p> <p>The proposed capital programme as set out in this report supports the council's strategic priorities and the medim term financial strategy. As recognised by the Audit Governance and Standards Committee the programme contains significant risks.</p> <p>Mitigation of this risks arises from the appropriate use of the principles set out in paragraphs 2.7 to 2.12 of this report.</p> | Head of Finance & Resources |
| Financial | <p>The MTFS impacts upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.</p> <p>The prudential borrowing</p> | Head of Finance & Resources |

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| | proposed in this report is governed by the Prudential Code for Capital Finance in Local Authorities and is governed by a number of principles that are set out in the Council's published medium term financial strategy. | |
| Staffing | No specific impact. | Head of Finance & Resources |
| Legal | <p>The Council has an obligation under Part 1 of the Local Government Act 2003 to have regard to the Prudential Code for Capital Finance in Local Authorities. Under the code the Council has an obligation to ensure that all borrowing is affordable and this is publically reported through the indicators that form part of the Council's Treasury Management Strategy.</p> <p>Subject to the decision of the Committee on this report the Treasury Management Strategy has been considered and approved by Audit Governance and Standards Committee for recommendation to Council. Their concerns relating to risk have been raised in this report.</p> | Head of Finance & Resources |
| Equality Impact Needs Assessment | The objective of the MTFs is to match available resources to the priorities set out in the Strategic Plan. Delivery of those priorities should enable delivery in line with the impact assessment of the strategic plan. | Head of Finance & Resources |
| Environmental/Sustainable Development | None identified | Head of Finance & Resources |
| Community Safety | None identified | Head of Finance & Resources |
| Human Rights Act | None identified | Head of Finance & Resources |
| Procurement | None identified | Head of |

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| | | Finance & Resources |
| Asset Management | Resources for management and maintenance of the Committee's assets are included within the proposed programme. | Head of Finance & Resources |

8. REPORT APPENDICES

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

- Appendix A: Current Capital Programme 2015/16 to 2019/20
- Appendix B: Estimated Capital Resources 2016/17 to 2020/21
- Appendix C: Proposed Capital programme 2016/17 to 2020/21

9. BACKGROUND PAPERS

None