

Medium Term Financial Strategy – Capital Programme

Final Decision-Maker	Council
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Classification	Public
Wards affected	All

Executive Summary

This report forms part of the process of agreeing a budget for 2018/19 and setting next year's Council Tax. It develops the outline of the capital programme that was set out in the Medium Term Financial Strategy, agreed by Council on 25 October 2017. It reconfirms the principles behind the Council's capital strategy, explains how the capital programme will be funded, and describes the individual projects that comprise the programme.

This report makes the following recommendations to this Committee:

It is recommended that the Committee:

1. Agrees the capital strategy principles set out in paragraph 1.4;
2. Agrees the capital funding projection set out in Appendix B to this report;
3. Agrees the capital programme 2018/19 onwards as set out in Appendix C to this report;
4. Notes that in agreeing recommendations 2 and 3 above the Committee will set a prudential borrowing limit of £44,651,000 over the period of the programme which will be recommended to Council as part of the Treasury Management Strategy 2018/19.

Timetable

Meeting	Date
Policy and Resources Committee	14 February 2018
Council	28 February 2018

Medium Term Financial Strategy – Capital Programme

1. INTRODUCTION AND BACKGROUND

Background

- 1.1 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 a rolling five year programme, so sets out over the medium term how the Council will invest its capital resources.
- 1.2 The existing capital programme 2017/18 – 2021/22 was approved by Council at its budget meeting on 1st March 2017 and totals £60 million over five years. Details are set out in Appendix A.
- 1.3 The largest element of the capital programme by value is devoted to housing development and regeneration, reflecting the strategic priority 'A Home for Everyone' and the refinement of the Council's housing development and regeneration plans over the past 18 months.

Capital strategy principles

- 1.4 The Council has developed some 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.
- 1.5 All schemes within the capital programme are subject to appropriate option appraisal. Any appraisal must comply with the requirements of the Prudential Code and the following locally set principles:
 - (a) Where schemes fit within a specific strategy and resources are available within the capital programme for that strategy, such as the Asset Management Plan, the schemes would also be subject to appraisal and prioritisation against the objectives of that strategy. These schemes must be individually considered and approved by the relevant service committee.
 - b) Where schemes can be demonstrated to be commercial in nature and require the use of prudential borrowing, a business case must first be prepared.

- 1.6 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 at paragraph 1.4 above.
- 1.7 If, following all considerations, there are a number of approved schemes that cannot be accommodated within the current programme, a prioritised list of schemes that can be added to the programme as future resources permit will be created and approved by Policy and Resources Committee, thus allowing officers to focus funding efforts on delivering schemes that are next in priority order.
- 1.8 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.
- 1.9 The MTFS principles require that the Council will maximise the resources available to finance capital expenditure, in line with the requirements of the Prudential Code, through:
 - a) The use of external grants and contributions, subject to maintaining a focus on the priority outcomes of its own strategies;
 - b) Opportunities to obtain receipts from asset sales as identified in the asset management plan and approved for sale by Policy and Resources Committee;
 - c) The approval of prudential borrowing when the following criteria also apply to the schemes funded by this method:
 - i. they are commercial in nature;
 - ii. the outcome returns a financial benefit at least equal to the cost incurred by borrowing to fund the schemes;
 - iii. after covering the cost of funding, a further financial or non-financial benefit accrues to the Council that directly or indirectly supports the objectives of the strategic plan or the medium term financial strategy.
 - d) The use of New Homes Bonus for capital purposes in line with the Council's strategic plan priorities;
 - e) The implementation of a community infrastructure levy (CIL) and the management of its use, along with other developer contributions (S106), to deliver the objectives of the infrastructure delivery plan.

Funding the Capital Programme

- 1.10 Typically, local authorities rely on prudential borrowing, usually through the Public Works Loan Board, to fund capital expenditure. Maidstone Borough Council has taken a different course, having set aside the annual New Homes Bonus that has been received from central government since 2011 to fund its capital programme. This has allowed the Council to avoid the financial costs of borrowing and the requirement to make provision for loan repayment.
- 1.11 However, it has been recognised for some time by the Council that the scale of its capital programme, together with the progressive reduction in New Homes Bonus funding, means that this approach is not sustainable in the medium term. The Council has therefore approved the use of prudential borrowing provided that it meets the criteria set out in the MTFS principles (see paragraph 1.9 above). Accordingly, prudential borrowing may be used for capital schemes such as the following:
- 1) Acquisition of commercial property;
 - 2) Acquisition of property in order to meet statutory obligations in relation to homelessness;
 - 3) Action to enable stalled development to progress;
 - 4) Self-funding developments that support the objectives of the Council's Strategic Plan and the Medium Term Financial Strategy.
- 1.12 The use of prudential borrowing is subject to an approved business case that evidences a benefit above that required to repay any debt over the life of the activity. The additional benefit may be financial or non-financial but must support the objectives of the strategic plan.
- 1.13 The Council maintains a principle of prior funding of schemes. Although commitment to a scheme is given by its inclusion in the programme the strategy requires that funding is identified in advance of formal commencement of the work. The quarterly monitoring of the capital programme enables Policy and Resources Committee to take effective decisions based on current levels of funding before major projects commence.
- 1.14 The funding assumptions made in the development of the future capital programme are essential to the development of the budget. Specific detail in relation to each source is set out in the paragraphs below.

New Homes Bonus

- 1.15 It has been a principle of the Council's capital programme that New Homes Bonus receipts are used to support the capital programme. The scale of New Homes Bonus payments was reduced in the Local Government Finance Settlement 2017/18, which included a reduction of the period for which New Homes Bonus would be paid from six years to five in 2017/18 and then to four in 2018/19. An allowance was also made in calculating New Homes

Bonus for the natural growth in housing from 'normal' levels of development. This means that New Homes Bonus will now only be paid on growth in excess of 0.4% per annum.

- 1.16 Given these principles, it was projected that New Homes Bonus payable in 2018/19 would be £3.1 million. The actual amount payable, announced in December 2017, is £3.2 million, and is projected to be £3.4 million in 2020/21.
- 1.17 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.

Capital Grants and Contributions

- 1.18 Many of the grants that were available to the council for funding capital projects in the past no longer exist. However, recent projects have received support through grants and contributions, eg 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.
- 1.19 The government's objective of building new homes has meant that grants are potentially available through sources such as the Housing Infrastructure Fund and the Land Assembly Fund. The Council seeks to identify opportunities wherever possible to bid for money from these funds where there is a gap in funding from other sources.
- 1.20 In addition, funding is also available through Local Enterprise Partnerships (LEP). Proposals must be submitted as bids to the South East LEP if the resources are to be directed towards Maidstone initiatives.
- 1.21 The estimated grant for disabled facilities grants is included within the calculation of overall capital programme funding. As other grants are subject to a bidding process, the outcomes of which cannot be predicted with certainty, this is the only grant assumed to be received in the future.

Developer Contributions (S 106) and Community Infrastructure Levy

- 1.22 The Council may seek to secure benefits to an area or restrict uses or activities related to a proposed development through the negotiation of a 'planning obligation' with the developer. Such obligations, authorised by section 106 of the Town and Country Planning Act 1990, generally either improve the quality of the development, or overcome difficulties which would otherwise result in planning permission being refused. A planning obligation must be:
- (a) necessary to make the development acceptable in planning terms;
 - (b) directly related to the development; and
 - (c) fairly and reasonably related in scale and kind to the development.

1.23 The Council may therefore receive funds to enable it, or the relevant public authority, to undertake works arising from these planning obligations. Examples of the use of planning obligations are the:

provision of affordable housing;
improvement to community facilities, eg - public open space / play areas, educational facilities;
improved transport facilities;
public art;
renewable energy measures;
specific measures to mitigate impact on a local area - parking restrictions, landscaping or noise insulation.

1.24 Local Authorities in England and Wales can now charge Community Infrastructure Levy (CIL) on new developments in their area. The levy is designed to be fairer, faster and more transparent than the previous system of agreeing planning obligations between local Councils and developers under S 106. In areas where a CIL is in force, land owners and developers must pay the levy to the local Council. The charges are set by the Council, based on the size and type of the new development and the money raised from the community infrastructure levy can be used to support development by funding infrastructure that the Council, local community and neighbourhoods want, such as new or safer road schemes or park improvements.

1.25 Maidstone Borough Council has approved a CIL charging schedule and expects to implement CIL in October 2018. In approving the CIL charging schedule, the Council has specified infrastructure projects that may be funded wholly or partly through CIL. These include, for example, strategic green and blue infrastructure measures and improvements, such as open space, improvements and mitigation required to make the development acceptable in planning terms. No CIL funded projects are included in the capital programme at this stage, but with the implementation of CIL they are likely to form an increasingly important component of the Capital Programme.

Prudential Borrowing

1.26 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.

1.27 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.

- 1.28 The Government has recently consulted on proposed changes to the Prudential Framework, following concerns that some local authorities were making inappropriate use of their borrowing powers. The proposed changes, as circulated for consultation, are not considered so restrictive as to prevent the relatively limited use of prudential borrowing envisaged by Maidstone Borough Council. It was originally anticipated that the new Framework would apply from 2018/19, but following representations from the local government sector it now appears that implementation of the new Framework will be delayed.
- 1.29 In 2012 the Council approved in principle the use of prudential borrowing, but it has not yet needed to undertake any. Current cash flow projections indicate that prudential borrowing will not be required until 2019/20.
- 1.30 The proposals set out in this report suggest a need to consider up to £44.6 million of prudential borrowing over the life of the programme. This level of borrowing would be subject to the principles set out in paragraph 1.10.
- 1.31 In considering the Treasury Management Strategy 2018/19, for recommendation to Council, the Audit Governance & Standards Committee has been made aware of the potential for the level of prudential borrowing that would arise from the approval of the recommendations in this report.

Internal Borrowing

- 1.32 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. So long as the Council is holding cash balances, there is no merit in borrowing externally, given the margin between borrowing and lending rates of interest. This is termed 'internal borrowing'. It is anticipated that the Council will continue to be able to rely on internal borrowing in 2018/19.

Overall Funding Level

- 1.33 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 2018/19 to 2022/3 as £73,652,000.

Capital Programme proposals

- 1.34 Appendix C to this report sets out a recommended programme. This includes schemes that already form part of the existing capital programme together with new schemes that it is now proposed to include within the capital programme. New schemes and schemes whose scope has been significantly expanded are indicated below.

Communities, Housing and Environment

- 1.35 Housing Development and Regeneration - £34.2 million

The Housing Development and Regeneration Investment Plan agreed by Policy and Resources Committee at its meeting on 25 July 2017 envisages development by the Council of new homes, including the existing planned developments at Brunswick Street and Union Street, together with future developments, potentially undertaken in partnership with the social housing sector in order to maximise the impact of the programme. This will contribute to the delivery of the Local Plan and help to complement market provision of new housing, particularly affordable housing.

In addition, where appropriate, direct purchases will be made of existing properties where these meet strategic objectives such as town centre regeneration, eg purchase of Lenworth House. The identification of sites for future development will have regard to other relevant Council initiatives, including the Regeneration Opportunity Areas project and the development of the Maidstone East site.

The costs included in the capital programme include both land acquisition costs, where applicable, and construction costs.

1.36 Temporary Accommodation – £6.9 million

MBC has acquired 14 homes for use as temporary accommodation over the past year. It is now proposed to buy a further 15 units in 18/19, at an average fully inclusive cost of £300,000 each. It is projected that the net return will be sufficient to cover the cost of funds in the form of prudential borrowing. Additionally, the use of these properties will reduce our reliance on nightly paid temporary accommodation. To allow for potential further acquisitions, an amount of £600,000 per annum has been included thereafter.

1.37 Disabled Facilities Grants – £4.4 million

The Council works with Kent County Council Social Services to deliver adaptations and facilities to enable disabled people to remain at home. This element of the capital programme therefore has a directly beneficial impact for individual local residents. Assistance under this budget is not funded by the Council but is funded from the Department of Health Better Care Fund (BCF) as a specific capital grant.

1.38 Flood Action Plan - £1.1 million

The existing capital programme includes £1 million for flood defences. Maidstone Borough Council is part of the Medway Flood Partnership, which includes the Environment Agency and Kent County Council, and has recently published a Flood Action Plan setting out a range of initiatives. The Partnership plans to spend at least £19 million over the next five years in the Medway catchment area on schemes to manage and reduce flood risk. In many cases, partnership funding from local authorities is essential in order to secure matching funds from central government and other agencies. Maidstone's proposed contribution of £1 million is expected therefore to leverage significant further funding.

1.39 Public Realm capital improvements - £0.2 million

With an increasing population and new development and growing pressure on the public realm, there is a need to upgrade equipment such as litter bins and mechanical sweepers, above and beyond the normal end-of-life replacement of existing assets. This will improve help the Council maintain the public realm efficiently and well, and will improve the quality of the public realm.

1.40 Commercial waste expansion - £0.2 million

The commercial waste service has proved to be successful in generating income for the Council. In particular, it provides a valuable service to small businesses that do not have access to nationwide waste collection contracts. In order to expand the service an additional refuse collection vehicle is required at a cost of £180,000, which would be funded through the additional income generated.

Heritage, Culture and Leisure

1.41 Mote Park Dam works - £1.9 million (new)

Mote Park Lake is effectively a reservoir retained by a dam at its western end. A recent review of dam safety under the Reservoirs Act 1975 included a mandatory recommendation that the spillway capacity is increased to reduce the risk of failure due to overtopping. The Council must carry out the necessary work by June 2020 to avoid enforcement action by the Environment Agency. This work therefore comes under the first heading set out in paragraph 1.4, 'required for statutory reasons'. Consultants have been commissioned to design a suitable scheme for upgrading the spillway. Current estimates are that the cost will be in the order of £1.4 million to £1.9 million. The higher figure has been used for the purposes of capital planning, but detailed work is needed in order to arrive at a scheme budget. Member approval will in any case be sought for expenditure on the scheme.

1.42 Mote Park Visitor Centre - £1.6 million

An allowance has been made in the capital programme for a visitor centre as part of the strategy to develop a sustainable future for Mote Park. Plans are now well advanced for its construction.

1.43 Mote Park Adventure Zone and Other Improvements - £0.9 million

The Adventure Zone forms part of the current capital programme. It is linked to improvements intended to increase parking capacity within the park.

1.44 Continued improvements to play areas - £0.9 million

The rationale of this project is to establish a standard for play across the borough, such that 'most residents will live within 12 minutes' walk of a good quality play area'. As some of these strategically important play areas are owned by parish councils it is proposed that these parishes be

offered a £10,000 grant towards improving their play areas. The total cost of this grant would be £200,000. S106 money is available to be used towards improving play areas.

1.45 Museum Development Plan - £0.4 million

As part of the ongoing development of the museum, a number of further projects are envisaged.

1.46 Crematorium Development Plan - £0.4 million

A number of schemes are proposed to upgrade the crematorium including the provision of additional parking.

1.47 Other Parks Improvements - £0.1 million

These works are to update aging infrastructure.

Policy and Resources

1.48 Property Investment Strategy - £12.4 million (expanded)

The Council has a successful track record of acquiring commercial assets, which generate a return that has helped to support the revenue budget and contribute to the local economy. The capital programme includes a fund of £12.5 million which is intended to give the capacity to pursue investment opportunities in line with the Property Investment Strategy. These may include the acquisition of new investment properties in the short term and, over the longer term, development projects such as the Kent Medical Campus.

1.49 Infrastructure Delivery Plan - £3.0 million

It is expected that infrastructure schemes as outlined in the Local Plan will be funded directly from the benefits gained from the development. However, viability assessments of expected developments suggest that there will be a funding gap. The Council is prepared to support that infrastructure need in order to deliver its strategic priorities. Accordingly, £3 million has been set aside within the capital programme to contribute towards a range of schemes, to be identified in due course, to provide local infrastructure.

1.50 Town Centre Public Realm improvements - £2.5 million

Following Phases 1 and 2 of the High Street regeneration, further improvements are proposed for Week Street and Gabriels Hill.

1.51 Asset Management / Corporate Property - £1.5 million

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. An additional allowance has been included for forthcoming one-off remedial work including that at Heather House.

1.52 Software / PC replacement - £0.5 million

This is for replacement of hardware and software within the remit of Maidstone Borough Council (MBC). It is used wholly for MBC assets and is not available to any other partner within the MKS ICT shared service. It may however be used to pay a proportion of costs (related to MBC) for a shared service initiative.

1.53 Maidstone East - £0.3 million

This amount is to fund ongoing work to facilitate short term uses for the Maidstone East site.

1.54 Feasibility Studies - £0.1 million

An allowance has been included in the capital programme for feasibility works on schemes that are not yet ready to be included in the main programme.

Strategic Planning, Sustainability and Transportation

1.55 Bridges Gyratory Scheme - £0.3 million

This amount is the balance of funding for the Bridges Gyratory Scheme. This project is now substantially complete and the balance of the funding will be used for flood prevention measures in the area.

2. AVAILABLE OPTIONS

- 2.1 Agree the capital strategy principles, funding arrangements and detailed proposals as set out in section 1 above.
- 2.2 Amend or delete some or all of the proposals, and agree alternative proposals.
- 2.3 Defer a decision on the proposals to this Committee's meeting on 14 February 2018.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 The preferred option is that the Committee agrees the proposals set out in section 1. Whilst a final decision is not required until Council sets a budget

on 28 February 2018, an early decision by this Committee will allow advance planning to commence and will potentially allow the benefits of investment to be realised more quickly.

4. RISKS

- 4.1 From 2019/20, the capital programme will require funding through prudential borrowing. Many of the schemes outlined above are projected to be self-funding. However, this assumes that the income assumptions on which they are based are reliable. In an increasingly uncertain economic environment, there is a significant risk that the cost of borrowing and the requirement to make provision for repayment will not be covered.
 - 4.2 The scale of the capital programme – in excess of £60 million of expenditure over five years – is much greater than has been attempted by Maidstone Council in recent years. It will require considerable capacity for delivery and project management.
 - 4.3 At present it is anticipated that funding will be available for the capital programme. Typically, local authorities rely for funding on the Public Works Loan Board. There is a risk that, alongside the implementation of a more rigorous Prudential Framework, the Government may seek to limit Public Works Loan Board funding directly. Whilst other funders, including the commercial sector, could provide alternative sources of capital in such a scenario, the cost of borrowing would be likely to increase, thus putting at risk the viability of more marginal schemes.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Policy and Resources Committee received an initial report on the MTFS at its meeting on 28 June 2017 and has subsequently received further reports on the development of the budget for 2018/19.
 - 5.2 Consultation is currently being carried out on the broader budget proposals for 2018/19. Individual Service Committees are considering the budget proposals relating to capital schemes within their areas of responsibility. There will be an opportunity for Policy and Resources Committee to consider the outcomes of consultation at its meeting on 14th February 2018, before submitting final budget proposals to Council.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The timetable for setting the budget for 2018/19 is set out below.

Date	Meeting	Action
January 2018	All Service Committees	Consider 18/19 budget proposals
14 February 2018	Policy and Resources Committee	Agree 18/19 budget proposals for recommendation to Council
28 February 2018	Council	Approve 18/19 budget

7. 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
Risk Management	See section 4 above.	Section 151 Officer & Finance Team
Financial	Set out in report.	Section 151 Officer & Finance Team
Staffing	None.	Section 151 Officer & Finance Team
Legal	The Council has a statutory obligation to set a balanced budget. Allocation of resources in the way set out in this report supports achievement of a balanced budget.	Legal Team
Privacy and Data Protection	None.	Section 151 Officer & Finance Team
Equalities	Where appropriate, Equalities	Section 151

	Impact Assessments are carried out for specific budget proposals.	Officer & Finance Team
Crime and Disorder	None.	Section 151 Officer & Finance Team
Procurement	Procurement of the capital schemes described in section 1 of this report will be in accordance with the procurement provisions within the Council's constitution.	Section 151 Officer & Finance Team

8. REPORT APPENDICES

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

- Appendix A: Current Capital Programme 2017/18 to 2021/22
 - Appendix B: Estimated Capital Resources 2018/19 to 2022/23
 - Appendix C: Proposed Capital Programme 2018/19 to 2022/23
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9. BACKGROUND PAPERS

There are no background papers.