

Medium Term Financial Strategy – Capital Programme

Final Decision-Maker	Council
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Lead Officer and Report Author	Mark Green, Director of Finance and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

This report forms part of the process of agreeing a budget for 2019/20 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 12 December 2018. 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 2019/20 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 £55.524 million over the period of the programme which will be recommended to Council as part of the Treasury Management Strategy 2019/20.

Timetable

Meeting	Date
Policy and Resources Committee	23 January 2019
Council	27 February 2019

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 2018/19 – 2022/23 was approved by Council at its budget meeting on 7th March 2018 and totals £75 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 priorities 'Embracing Growth and Enabling Infrastructure' and 'Homes and Communities'.

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 Priorities;
 - (iii) Other schemes focused on Strategic Priorities; 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 is now only be paid on growth in excess of 0.4% per annum.

1.16 Given these principles, it was originally projected that New Homes Bonus payable in 2019/20 would be £3.4 million. The actual amount payable, announced in December 2018, is £3.8 million.

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. 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. For example, grant funding is currently being sought from the ERDF to help fund the proposed Innovation Centre at the Kent Medical Campus.

1.20 In addition, funding is also available through Local Enterprise Partnerships (LEP). Proposals are submitted as bids to the South East LEP.

Developer Contributions (S 106) and Community Infrastructure Levy

1.21 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.

1.22 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.

1.23 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.

1.24 Maidstone Borough Council implemented CIL in 2018. 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

1.25 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.

1.26 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.

1.27 The Prudential Code has been revised following concerns that some local authorities were making inappropriate use of their borrowing powers. The key change is the requirement for a Capital Strategy, which has to be formally reported to Members. The changes to the Prudential Code are not prescriptive and will not prevent the relatively limited use of prudential borrowing envisaged by Maidstone Borough Council. Because of the links with treasury management and borrowing, the Council's draft Capital Strategy is being considered by the Audit, Governance and Standards

Committee, alongside the Treasury Management Strategy, before being submitted to Council for approval.

1.28 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 be required at some point during the course of 2019/20. In total, the proposals set out in this report suggest a need to consider up to £55.5 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.

1.29 In considering the Treasury Management Strategy 2019/20, 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

1.30 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'.

Overall Funding Level

1.31 The resource available for the capital programme, based on the detail above, is given in Appendix A. The appendix shows total resources expected in the period 2019/20 to 2023/4 as £80,229,000.

Capital Programme Proposals

1.32 Capital Programme proposals have been developed based on the principles set out above and reflect the strategic priorities agreed by Council when it set a new Strategic Plan in December 2018. Details of the main capital projects (greater than £1 million) and how they support strategic priorities are as follows:

Strategic Priority	Budget Proposal	Total cost (£m)
Embracing Growth and Enabling Infrastructure	Housing Development and Regeneration	19.7
	Housing Delivery partnership	15.0
	Infrastructure delivery	3.0
Homes and Communities	Disabled Facilities Grants	4.0
	Temporary Accommodation	3.0
Safe, Clean and Green	Flood Action Plan	1.1
	Mote Park Dam works	2.0
A Thriving Place	Mote Park Visitor Centre	2.1
	Acquisition of Commercial Assets	12.5
	Kent Medical Campus – Innovation Centre	10.5
	Mall Bus Station redevelopment	1.5

- 1.33 Appendix B to this report sets out the 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. Further details are set out below.

Communities, Housing and Environment

- 1.34 Housing Development and Regeneration - Indicative Schemes - £17.0 million

Under the Housing Development and Regeneration Investment Plan agreed by Policy and Resources Committee at its meeting on 25 July 2017, developments are under way at Brunswick Street and Union Street, and completion of the purchase of Lenworth House is expected to take place before the end of financial year 2018/19. Future developments are envisaged, including one which is the subject of a Part B report elsewhere on this evening's agenda. These are included as indicative schemes in the capital programme.

- 1.35 Housing Development and Regeneration - Brunswick Street and Union Street - £2.7 million

These projects, which are currently on site, form part of the Housing Development and Regeneration Investment Plan. £2.7 million represents the investment required, net of expected sales and transfers to our social housing partner, to complete these schemes.

- 1.36 Housing Delivery Partnership - £15.0 million

At its meeting on 13 November 2018, the Communities Housing and Environment Committee endorsed a plan to set up a Housing Delivery Partnership with a registered social housing provider. This would involve both partners committing to delivering housing as part of the S106 affordable housing market and would be supported by new Affordable Housing Supplementary Planning Guidance. An indicative figure of £15 million is included in the capital programme, being the Council's contribution to the partnership.

- 1.37 Disabled Facilities Grants - £4.0 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 Temporary Accommodation - £3.0 million

The Council has acquired 17 homes for use as temporary accommodation over the past year. It is now proposed to buy a further 10 units in 19/20.

1.39 Housing Incentives - £875,000

There is a separate provision within the capital programme for to invest through grants or direct investment to enable housing improvements, in addition to the schemes described above.

1.40 Gypsy Site Improvement Works - £42,000

A saving can be made from transferring the two Gypsy and Caravan sites that we operate to Kent County Council. KCC operate a number of sites across the county, and therefore have relevant experience and enjoy economies of scale that we do not have. The one-off costs to be incurred at the sites prior to transfer are recognised by the inclusion of this item in the capital budget proposals.

1.41 Street Scene Investment - £50,000

It is proposed to extend this rolling capital programme, which allows for (eg) the provision of new bins, for a further two years.

1.42 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 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. £100,000 of this budget has been released for a number of natural flood management schemes, where Maidstone's contribution will complement funding from other sources. It is also envisaged that matched funding will be provided for phase 2 of the Middle Medway Flood Resilience Scheme, which will address those properties at severe risk of flooding where property level flood resilience measures, such as replacement doors, are not appropriate.

Heritage, Culture & Leisure

1.43 Crematorium and Cemetery Development Plan - £270,000

The Crematorium Car Park was expanded in 2018 as part of this Development Plan. It is now proposed to use the residual capital funding to carry out improvement works at the Cemetery.

1.44 Mote Park Visitor Centre - £2.1 million

A contract is due to be let shortly for the new Visitor Centre at Mote Park. The scope of the work has been expanded to include toilet facilities that meet 'Changing Places' standards.

1.45 Mote Park Dam Works - £2.0 million

Mote Park Lake is effectively a reservoir retained by a dam at its western end. A review of dam safety under the Reservoirs Act 1975 included a

mandatory recommendation that the spillway capacity be increased to reduce the risk of dam failure due to overtopping. This work therefore comes under the first heading set out in paragraph 1.4, 'required for statutory reasons'. Consultants have designed a suitable scheme and a planning application to carry out the work was submitted at the end of 2018. The scope of the work has had to be extended to include a replacement sluice. The work is likely to take place in Summer 2020 and current estimates are that the total scheme cost will be around £2 million.

1.46 Museum Development Plan - £389,000

This amount represents the balance of funding set aside for development projects at Maidstone Museum. Specific proposals for the funding remain to be developed and are likely to rely on match funding from external sources.

Policy & Resources

1.47 Asset Management / Corporate Property - £2.1 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.

1.48 Feasibility Studies - £250,000

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.

1.49 Infrastructure Delivery -£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.

As part of the revenue budget proposals, growth of £48,000 per annum is sought to help enable infrastructure schemes.

1.50 ICT capital programme - £411,000

This programme provides for the upgrade and replacement of Maidstone's IT hardware and software.

1.51 Digital Projects - £100,000

This programme is for hardware and software development carried out in-house by the Digital team, such as website re-design, new webcasting facilities, and investment to streamline ways of working.

1.52 Acquisition of Commercial Assets - £12.5 million

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 Commercial Investment Strategy. The Council is working with selected agents to identify suitable opportunities and these will be brought forward for member approval when identified.

1.53 Kent Medical Campus - Innovation Centre - £10.5 million

Policy and Resources Committee agreed at its meeting on 24 October 2018 to the development of an Innovation Centre at the Kent Medical Campus, subject to confirmation of ERDF grant funding for £4.84 million of the capital cost.

1.54 Mall Bus Station Redevelopment - £1.5 million

It has long been recognised that the bus station requires upgrading in order to improve its efficiency and attractiveness to customers, and to encourage greater bus patronage. A procurement exercise is due to commence shortly for the appointment of an architect and employer's agent for the work. The majority of the project costs will be funded through third party contributions from Capital and Regional, Arriva and the 2018/19 Business Rates Retention Pilot.

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 13 February 2019.

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 27 February 2019, 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 – around £80 million over 5 years - 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 27 June 2018 and has subsequently received further reports on the development of the budget for 2019/20.
- 5.2 Consultation is currently being carried out on the broader budget proposals for 2019/20. 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 13th February 2019, 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 2019/20 is set out below.

<i>Date</i>	<i>Meeting</i>	<i>Action</i>
January 2019	All Service Committees	Consider 19/20 budget proposals

23 January 2019	Policy and Resources Committee	Agree 19/20 budget proposals for recommendation to Council
27 February 2019	Council	Approve 19/20 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	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. The Medium Term Financial Strategy demonstrates the Council's commitment to fulfilling its duties under the Act. The Council has a statutory obligation to set a balanced	Team Leader (Corporate Governance), MKLS

	budget and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	
Privacy and Data Protection	None.	Section 151 Officer & Finance Team
Equalities	Where appropriate, Equalities Impact Assessments are carried out for specific budget proposals.	Section 151 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: Existing Capital Programme 2018/19 to 2022/23
- Appendix B: Estimated Capital Resources 2019/20 to 2023/24
- Appendix C: Proposed Capital Programme 2019/20 to 2023/24

9. BACKGROUND PAPERS

There are no background papers.