

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 2020/21 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 18 December 2019. 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 2.6;
2. Agrees the capital funding projection set out in Appendix B to this report;
3. Agrees the capital programme 2020/21 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 £81.418 million over the period of the programme which will be recommended to Council as part of the Treasury Management Strategy 2020/21.

Timetable

Meeting	Date
Policy and Resources Committee	22 January 2020
Council	26 February 2020

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. The Medium Term Financial Strategy demonstrates the Council's commitment to fulfilling it's duties under the Act.</p> <p>The Council is required to set a council tax by the 11 March in any year and has a statutory obligation to set a balanced budget. The budget requirements and basic amount of Council Tax must be calculated in accordance with the requirements of sections 31A and 31B to the Local Government Finance Act 1992 (as amended by sections 73-79 of the Localism Act 2011).</p> <p>The Council is required to determine whether the basic amount of council tax is excessive as</p>	Mid Kent Legal Services

	<p>prescribed in regulations - section 52ZB of the 1992 Act as inserted under Schedule 5 to the Localism Act 2011. The Council is required to hold a referendum of all registered electors in the borough if the prescribed requirements regarding whether the increase is excessive are met.</p> <p>Approval of the budget is a matter reserved for full Council upon recommendation by Policy and Resources Committee on budget and policy matters.</p>	
Privacy and Data Protection	Privacy and Data Protection is considered as part of the development of new capital schemes. There are no specific implications arising from this report.	Policy and Information Team
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 Corporate Policy 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.	Public Health Officer
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

2. 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 current capital programme 2019/20 – 2023/24 was approved by Council at its meeting on 25th September 2019 and totals £109 million over five years. Details are set out in Appendix A.
- 1.3 The largest elements of the capital programme by value comprise (a) housing development and regeneration and (b) commercial property investment, and support respectively the strategic priorities 'Homes and Communities' and 'A Thriving Place'.

Capital Strategy

- 1.4 Under CIPFA's updated Prudential Code, the Council is now 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.
- 1.5 A Capital Strategy was approved by Council at its meeting on 25 September 2019. The Strategy describes how the Capital Programme is developed and the key points are set out below.
- 1.6 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, 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.
- 1.7 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.

1.8 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.

1.9 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.

1.10 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.

1.11 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.

1.12 Service managers submit proposals to include projects in the Council's capital programme. Bids are collated by Corporate Finance who calculate the financing cost (which can be nil if the project is fully externally financed). Each Committee appraises the proposals based on a comparison with corporate priorities. Policy & Resources Committee recommends the capital programme which is then presented to Council in February each year.

1.13 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

1.14 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).

1.15 In the past, local authorities have principally relied on prudential borrowing, usually through the Public Works Loan Board, to fund capital expenditure. However, it was announced in October 2019 that the cost of borrowing from the PWLB would be increased by 100 basis points across the board, with the clear intention of dampening demand for funds. This meant, for example, that the annual interest on a 50 year loan, repayable on maturity, increased from 1.8% to 2.8%. Given that borrowing costs in the market generally remain very low, it is considered likely that local authorities will be able to continue to borrow cheaply from other lenders, if not from the PWLB.

1.16 Until recently, Maidstone Borough Council had not borrowed to fund its capital programme, instead relying primarily on revenue contributions from the New Homes Bonus. Nevertheless, the Council had approved the use of prudential borrowing, provided that it meets the criteria set out in the principles described above, in anticipation of future borrowing requirements. Accordingly, £7 million of borrowing was undertaken when completing the purchase of Lockmeadow in November 2019. Further borrowing is likely to be required in subsequent years. The cost of any borrowing is factored into the MTFS financial projections.

1.17 To the extent that New Homes Bonus continues to be available, the Council will continue to use it to fund capital expenditure. There has been 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 and 2019/20. The government announced allocations of New Homes Bonus for 2020/21 as part of the Provisional Local Government Funding Settlement in December 2019, but the allocations were for one year only with no ongoing legacy payments. Under the new Local Government funding regime, to be implemented from 2021/22, a new, unspecified mechanism for incentivising housebuilding is envisaged.

- 1.18 External funding is sought wherever possible and the Council has been successful in obtaining Government Land Release Funding for its housing developments and ERDF funding for the Kent Medical Campus Innovation Centre.
- 1.19 Funding is also available through developer contributions (S 106) and the Community Infrastructure Levy (CIL). The Community Infrastructure Levy was introduced in Maidstone in October 2018.
- 1.20 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 2020/21 to 2024/5 as £XXXXX.

Capital Programme Proposals

- 1.21 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.
- 1.22 Appendix C 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

- 1.23 Affordable Housing Programme - £30.9 million

In 2018 the Communities Housing and Environment Committee endorsed a plan to set up a Housing Delivery Partnership with a registered social housing provider. Following market testing, the Committee agreed to modify the plan by establishing a 'Council Affordable Housing Programme', under which the Council itself would deliver 200 affordable homes over a five year period. A separate line in the capital programme envisages the recruitment of an Acquisitions Officer to ensure delivery of these homes, with the costs of the post and ancillary costs capitalised and charged to the programme. Grants or direct investment to enable housing improvements will be made as part of this programme, building on the Council's existing housing incentive scheme and in accordance with its Housing Assistance Policy.

- 1.24 Housing Development and Regeneration Investment Plan - £25.3 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. In addition, Lenworth House was acquired in 2018/19, the purchase of a new development of 14 flats at Springfield Mill was agreed by this Committee in January 2019, and finally in October 2019 it was agreed to add a roof top extension to Granada House, which would create additional residential units for market rent. Further developments are envisaged and these are included under the heading 'indicative schemes' in the capital programme.

1.25 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.

1.26 Temporary Accommodation - £2.2 million

The Council has a programme to acquire housing on the open market for temporary accommodation, as it is more cost-effective to use our own property for this purpose. It is proposed to buy a further 7 units in 2020/21, being 6 three bedroom houses and one large property to support the Rough Sleeper initiative.

1.27 Flood Action Plan - £900,000

The Medway Flood Partnership, which includes the Environment Agency and Kent County Council as well as Maidstone Borough Council, 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. A major element of the programme is a project to increase the capacity of the Leigh Flood Storage Area, as reported to this Committee in September 2019. This Council has contributed £1.1 million to the Flood Action Plan, of which £100,000 has been allocated to date for a number of natural flood management schemes. Priorities for the balance of the funding are being reviewed in the light of the floods at Christmas 2019 and a report on the outcomes will be brought to this Committee as soon as possible.

1.28 Crematorium and Cemetery Development Plan - £130,000

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

1.29 Electric Operational Vehicles - £100,000

The existing vehicle replacement programme does not provide sufficient funding to cover the higher cost of electric vehicles. It is proposed to expand the vehicle replacement programme by £100,000 to enable the purchase of five electric vehicles for environmental services and infrastructure.

1.30 Housing Rent Management IT System - £50,000

The current rent and housing management IT system, provided by Capita, will no longer be supported from September 2020 and a proposal has therefore been made for capital funding for a replacement system.

1.31 Street Scene Investment - £25,000

This capital programme item allows for items such as the provision of new bins.

1.32 Installation of Public Water Fountains - £15,000

A capital budget is proposed for the installation of three water fountains – two in the Town Centre and one at Mote Park – as part of an initiative to reduce plastic waste within the borough, Water Refill. The scheme involves providing free tap water and the installation of three water fountains for refilling bottles.

1.33 Gypsy Site Improvement Works - £42,000

The Council plans to transfer the two Gypsy and Caravan sites that we operate to Kent County Council. 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, although the likely actual cost has still to be determined.

Economic Regeneration & Leisure

1.34 Mote Park Visitor Centre and Estate Services Building - £2.7 million

Planning permission has recently been obtained for the new Visitor Centre at Mote Park and work is expected to get under way in 2020/21. The scope of the work has been expanded to include toilet facilities that meet 'Changing Places' standards.

1.35 Mote Park Dam Works - £1.8 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 2.6, 'required for statutory reasons'. Consultants have designed a suitable scheme and planning permission has been obtained. Preliminary work is currently under way, with most of the work taking place in Summer 2020.

1.36 Museum Development Plan - £389,000

This amount represents the balance of funding set aside for development projects at Maidstone Museum. It will be used to complement funding sought via a Heritage Lottery Fund bid which was submitted in November 2019.

Policy & Resources

1.37 Acquisition of Commercial Assets - £12.5 million

It is envisaged that the Council will continue to seek further suitable opportunities to acquire commercial assets, following the acquisition of the

Lockmeadow Leisure Complex in November 2019. These acquisitions both generate a return that helps to support the revenue budget and supports the Council's strategic priorities. 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 continues to work with selected agents to identify suitable opportunities and these will be brought forward for member approval when identified.

1.38 Kent Medical Campus - Innovation Centre - £9.8 million

Policy and Resources Committee agreed in October 2018 to the development of an Innovation Centre at the Kent Medical Campus. ERDF grant funding for £4.84 million of the capital cost was confirmed in November 2019, a contractor has been appointed and work will start in 2020.

1.39 Lockmeadow ongoing investment - £5.0 million

It was noted when Policy and Resources Committee approved the acquisition of the Lockmeadow Leisure Complex that retaining Odeon as an anchor tenant, paying a suitable rent, would involve conversion of the cinema to the 'Luxe' format, with the Council as landlord contributing to the cost of the conversion. This cost was factored into the financial modelling that supported the business case for the acquisition. It was also recognised that further investment in the building and surroundings would be needed to realise the Council's objectives for the site. An allowance of £5 million is therefore included in the capital programme for ongoing investment at Lockmeadow.

1.40 Garden Community - £3.3 million

This project was agreed in principle by Policy and Resources Committee in September 2019. The capital investment comprises capitalised staffing and consultancy costs, plus option fees payable to landowners if the Council takes on responsibility for site assembly. The capital investment and a financial return would be recovered when the land is transferred to a development partner. The Council will be seeking a contribution to these costs when the next opportunity arises to bid from funds from Homes England and / or MHCLG.

1.41 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, in some cases, viability assessments of expected developments may indicate a funding gap, whether temporary or ongoing. The Council is therefore prepared to meet this funding gap in appropriate circumstances in order to deliver its strategic priorities. £3 million has been set aside within the capital programme for this purpose. At this stage the only allocation from this funding stream has been a contribution of £500,000 to Kent County Council's works to improve Newcut and Bearsted Roundabouts, as agreed by Policy and Resources Committee in June 2017. This amount will be repaid by the landowner when certain trigger points are reached.

1.42 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.

1.43 Biodiversity and Climate Change funding - £1.0 million

In April 2019 the Council declared twin emergencies in Biodiversity and Climate Change. P&R then set up a Member led working group to produce an action plan for agreement in April 2020. In order to fund that action plan directly and to provide pump prime funding and funds for embedding biodiversity and climate change actions across the authority, a pot of funding is required. This pot will fund the action plan items directly, each of which will be costed where relevant, and will provide a reserve pot for other initiatives to bid into. A revenue proposal has also been put forward for an officer to support this work.

1.44 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.

1.45 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.

Strategic Planning & Infrastructure

1.46 Mall Bus Station Redevelopment - £750,000

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. The majority of the project costs will be funded through a contribution from the 2018/19 Business Rates Retention Pilot.

1.47 Bridges Gyratory Scheme - £121,000

Residual funding from the Bridges Gyratory Scheme, which was completed in 2017, will be used to build a barrier to prevent flood water entering the lower end of Medway Street through the A229 underpass.

2. AVAILABLE OPTIONS

- 2.1 Agree the capital strategy principles, funding arrangements and detailed proposals as set out in section 2 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 12 February 2020.
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3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 The preferred option is that the Committee agrees the proposals set out in section 2. Whilst a final decision is not required until Council sets a budget on 26 February 2020, 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.
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4. RISKS

- 4.1 From now on, the capital programme will primarily be funded 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 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 – over £100 million - 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. In the past, local authorities have relied for funding on the Public Works Loan Board. PWLB borrowing has recently become more expensive, and whilst alternative sources of finance are currently available at lower rates, there is a risk that funding could become more expensive generally, 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 23 July 2019 and has subsequently received further reports on the development of the budget for 2020/21.
- 5.2 Consultation is currently being carried out on the broader budget proposals for 2020/21. 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 12th February 2020, before submitting final budget proposals to Council.

- 5.3 Public consultation on the budget has been carried out, as described in the report on revenue budget proposals elsewhere on the Committee's agenda. This 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.
- 5.4 As can be seen, the capital programme includes a significant sum for flood prevention. So far as the street scene is concerned, the Council has just completed a £2.8 million project to upgrade Week Street and Gabriels Hill. In general, the capital programme will make a significant contribution to the borough's infrastructure in its own right, as well as unlocking further investment in infrastructure from partners.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The timetable for setting the budget for 2020/21 is set out below.

<i>Date</i>	<i>Meeting</i>	<i>Action</i>
January 2020	All Service Committees	Consider 20/21 budget proposals
12 February	Policy and Resources Committee	Agree 20/21 budget proposals for recommendation to Council
26 February 2020	Council	Approve 20/21 budget

7. REPORT APPENDICES

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

- Appendix A: Existing Capital Programme 2019/20 to 2023/24
 - Appendix B: Estimated Capital Resources 2020/21 to 2024/25
 - Appendix C: Proposed Capital Programme 2020/21 to 2024/25
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8. BACKGROUND PAPERS

There are no background papers.