

MAIDSTONE BOROUGH COUNCIL CAPITAL STRATEGY 2024/25

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1. INTRODUCTION

- 1.1. CIPFA's Prudential Code, which governs the Council's capital investment and borrowing, requires councils to have a Capital Strategy. This document should provide a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with a description of how associated risk is managed and the implications for future financial sustainability.
- 1.2. Accordingly, the Capital Strategy articulates in a single place a number of strategies and policies that the Council already addresses elsewhere: it is an overarching document linking the Strategic Plan, the Medium-Term Financial Strategy, the Treasury Management Strategy and the Asset Management Plan.
- 1.3. The strategy focuses upon the long-term ambition of the Council for its local area, residents and business, and is aligned with the Strategic Plan in this regard. It is not purely a financial document but a whole organisation approach setting out how investment will support the delivery of the Council's strategic goals.

2. CAPITAL EXPENDITURE AND LINKS TO OTHER CORPORATE STRATEGIES

Strategic Plan

- 2.1. Capital expenditure at Maidstone Borough Council 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.
- 2.2. The current Strategic Plan went through a thorough process of discussion and refinement over the period June – October 2018 and was approved by Council on 12 December 2018. It sets out four objectives, as follows:
 - Embracing Growth and Enabling Infrastructure.
 - Homes and Communities.
 - A Thriving Place.
 - Safe, Clean and Green.

The ways in which capital expenditure can support these priorities are described below.

Embracing Growth and Enabling Infrastructure

- 2.3. The Council has a vital role in leading and shaping our borough as it grows. This means being proactive in policy and master planning for key sites in the borough, and where appropriate, investing directly ourselves.
- 2.4. Separate objectives, set out below, address specifically the development of new housing, and other investments intended to make Maidstone a thriving place. In order to enable these developments to take place, investment in infrastructure will be needed. In general, infrastructure schemes are funded from the benefits gained from the development. To address any potential funding gap, the Council will enable infrastructure spending, to the extent that it meets our strategic priorities.

Home and Communities

- 2.5. The Strategic Plan seeks to make Maidstone a place where people love to live and can afford to live. This means a range of different types of homes, including affordable housing.
- 2.6. We aim, and are required by law, to address homelessness and rough sleeping. The Council has invested in temporary accommodation for homeless families, thereby ensuring a good standard of accommodation and providing a more cost-effective solution than is offered by the private sector.

A Thriving Place

- 2.7. The Strategic Plan seeks to make Maidstone a borough that is open for business, attractive for visitors and is an enjoyable and prosperous place to live for our residents. This can be achieved through investment in the County town and rural service centres.
- 2.8. There are a number of ways in which the Council will take the lead, including working with partners and through direct investment ourselves. The Council has a successful track record of acquiring property within the borough to support wider regeneration objectives. These acquisitions both generate a return that supports the viability of the investment and contribute to making Maidstone a thriving place. We will continue to seek good quality investment opportunities which deliver value and support our strategic goals.
- 2.9. Where appropriate, we will seek to achieve the necessary scale of investment by identifying joint venture partners. The amount available for direct investment by Maidstone Council is governed by the overall size of the capital programme, but we will adopt a flexible approach within this constraint in order to take advantage of investment opportunities that meet our criteria.

Safe, Clean and Green

- 2.10. The Council seeks to protect and where possible enhance our environment and to make sure our parks, green spaces, streets and public areas are of a high quality.

Capital Programme Proposals

- 2.11. Capital Programme proposals have been developed based on the principles set out above and reflect the strategic priorities agreed by Council when it set the current Strategic Plan. The Capital Programme 2024/25 to 2033/34 sets out the recommended programme for schemes which were programmed within the existing capital programme together with new schemes that it is now proposed to include within the capital programme. Details of some of the larger schemes are set out below.

Private Rented Sector Housing Programme - £99.8 million

This encompasses a number of schemes that are in the process of being identified and brought forward, where PRS housing will form part of a mix of tenures alongside Affordable Housing. This covers projects such as Maidstone East and Springfield library, but at this stage in the main are not contractually committed. These will be the subject of separate committee reports at the point a decision to proceed or not is required. All these PRS assets will be owned by the Council but leased (on a long-term basis) upon completion to Maidstone Property Holdings Limited to manage.

1,000 Homes Affordable Housing Programme - £155.7 million

In the Autumn of 2021, The Leader of the Council announced his ambition to build 1,000 affordable homes in the shortest period possible. A

development strategy setting out how this ambition can best be achieved was agreed by Policy & Resources Committee on 19th January 2022. It is likely that the whole programme will take ten years to deliver. The programme is likely to provide only Affordable Rented homes that will be let at 80% of market rent, capped at the Local Housing Allowance. The expenditure shown includes grant receipts from the likes of Homes England that will be necessary to deliver the programme. Assumptions have been made around the level of funding that could be received and this is dealt with in the funding section of this report. During 2023/24 a number of sites were identified and they are schemes that are now being actively developed.

Temporary Accommodation - £20.0 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 and enables delivery of a revenue saving. It is proposed to buy further units in 2024/25 to help deal with the rising numbers of people who are being made homeless because of the current economic crisis.

Commercial and Community Developments £3.8m

The New Business and Housing Development team are in the process of preparing and submitting a planning application for the sites including Maidstone East, St Faiths Community Centre and Heather House Community Centre.

Disabled Facilities Grants - £8.0 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.

Parks Improvements - £1.1 million

This is an annual budget to allow for any works that are identified in the parks to be undertaken to improve the standard of the facilities for the public when they visit the parks.

Parks & Open Spaces Infrastructure Maintenance – £2.0 million

Ongoing investment in the infrastructure of the parks will enable the revenue budgets to remain focused on delivering the more regular maintenance such as shrub bed pruning, grass cutting, weeding etc and on ensuring the parks are safe and functional for residents and visitors. Poor maintenance of the parks infrastructure will also impact on the parks revenue budgets due to insurance claims or having to close sections of pathway.

Section 106 Funded Works Open Spaces – £4.0 million

This reflects open spaces capital projects that are funded by S.106 contributions. These works have been taking place for a number of years, but it is considered appropriate that the programme reflects this to show the total forecast capital expenditure.

Purchase of New Waste Collection Vehicles - £6.4 million

Funding is allocated within the Capital Programme for the purchase of the waste collection fleet that forms part of the new contract for Refuse Collection due to commence in March 2024. Replacement of the fleet is envisaged seven year later when the fleet acquired in March 2024 has reached the end of its useful life.

Existing Leisure Centre – Capital Improvements £2.2 million

Cabinet considered proposals for minor capital improvements to the Leisure Centre at its meeting on 8 February 2023. The purpose was to reduce costs and generate increased revenue over the likely extension period of the existing contract. This was agreed by Cabinet and built into the capital programme for 2023/24. As this work has been dependent on decisions about extension of the contract, it has not started as yet, and the majority of the expenditure is now likely to slip to 2024/25.

New Leisure Centre - £60.0 million

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

The existing Mote Park Leisure Centre is over 50 years old. It is becoming increasingly expensive to maintain and detracts from the Council's net zero carbon emissions objective. Modelling presented to this Committee's predecessor in February 2023 indicated that the optimum time for a replacement, or at the very least a significantly refurbishment, would be towards the end of the extension period for the existing leisure contract (which is subject to a separate report on this agenda). It was reported in February 2023 that projected capital costs for a new build leisure centre would be in the region of £40 million. A Passivhaus centre or more sophisticated design would cost in excess of £50m. Owing to the complexity of a major refurbishment, the capital costs arising would be at least £35 million, ie not significantly less than the cost of a complete replacement.

It is proposed to make provision in the capital programme for £60 million, which would offer the opportunity to build a new leisure centre commensurate with the Council's ambitions, given current prices. Expenditure is profiled over the next six years, with some initial investment in design and feasibility in 2024/25 and a build programme extending over the three years 2027/28 to 2028/29. All opportunities to source external funding to mitigate the cost to the Council will be explored. At this stage the proportion to be externally funded cannot be estimated, so the figure of £60 million represents the gross cost of a new leisure centre.

Asset Management / Corporate Property - £3.07 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.

Corporate Property Acquisitions - £25.0 million

It is envisaged that the Council will continue to seek further suitable opportunities to acquire assets which help deliver the Council's strategic objectives, following the previous acquisitions of the Lockmeadow Leisure Complex, Maidstone House and various industrial units. The capital programme includes this fund which is intended to give the capacity to pursue opportunities to enhance the corporate property portfolio. The Council continues to work with selected agents to identify suitable opportunities and these will be brought forward for member approval when identified.

Infrastructure Delivery - £10.0 million

Infrastructure schemes as outlined in the Local Plan are in general funded directly from the benefits gained from the development. However, in some cases, it is appropriate for the Council to invest directly in infrastructure, for example where viability assessments indicate a funding gap and where it is appropriate for the Council to meet the shortfall in order to enable strategic priorities to be met. An annual amount of £1.0 million has been set aside within the capital programme for this purpose. Including rolled up unspent budget from previous years, this gives a total allocation of £6.2 million over the lifetime of the capital programme.

Biodiversity & Climate Change - £14.867 million

This funding will be used for a number of projects including the purchase of electric vehicles along with investment in charging infrastructure, carbon offsetting, solar investment and looking to make the Council's buildings more energy efficient with a view to reducing both costs and carbon emissions.

Fleet Vehicle Replacement Programme - £3.248 million

Vehicle purchases have been capitalised previously but not included on the programme. Funding comes from capital receipts including the sale of vehicles when they reach the end of their useful life.

Planning, Infrastructure & Economic Development

A full list of the Council's Capital Programme can be found within Table 1 on page 14.

Medium-Term Financial Strategy

- 2.12. The Medium Term Financial Strategy (MTFS) sets out in financial terms how the Council will deliver its Strategic Plan over the next five years. The Council adopted a Strategic Plan for the period 2021 – 2045 in December 2018, and the existing MTFS for the period 2024/25 to 2028/29 reflects the Strategic Plan. The new MTFS will continue to reflect the Strategic Plan priorities.

- 2.13. The Strategic Plan depends on the Council's financial capacity and capability. Accordingly, the MTFs considers the economic environment and the Council's own current financial position. The external environment is challenging because of high inflation and the state of the UK's public finances. In assessing the Council's own financial position, attention is paid to its track record of budget management, current financial performance and the level of reserves that it holds. It is imperative that the MTFs both ensures Maidstone Council's continuing financial resilience and is sufficiently flexible to accommodate a range of potential scenarios. The Council has prepared financial projections under different scenarios, continuing a practice that has been followed for several years. The MTFs sets out financial projections based on the assumption that inflation will remain elevated and central government continues to give the council limited funding flexibility. The MTFs sets out a proposed approach which will address the budget gap in 2024/25. The position in future years is much more challenging and will require a more radical approach.
- 2.14. The Council's strategic priorities are met not only through day-to-day revenue spending but also through capital investment. The MTFs makes clear that the council's programme of building 1,000 Affordable Homes will be the principal element of the Capital Strategy.
- 2.15. Below is a table of the latest draft capital programme which is due to be discussed at Corporate Services Policy Advisory Committee on 17th January 2024.

The draft MTFs was approved by Cabinet on 20th September 2023.

Treasury Management Strategy

- 2.16. The Treasury Management Strategy sets out how the Council manages its investments and cash flows, including banking, money market and capital market transactions, and how optimum performance is assured whilst managing the risks associated with these activities.
- 2.17. These specific aspects of the Treasury Management Strategy addresses the Council's capital expenditure plans and how borrowing needs are met. Capital expenditure is funded from the internal resources, borrowing and third party contributions such as Section 106 and Community Infrastructure Levy (CIL) payments on new developments and grant funding, eg from Homes England. The Council allocates some internal resources to fund capital expenditure, including revenue funding and internal borrowing, along with external funding via grant funding and borrowing externally. Long term borrowing costs have been budgeted for within the MTFs. The Council currently has £5m of long-term loans with the PWLB, and has also committed to £80m long term funding through Aviva Life & Pensions UK Limited, paid in tranches over the next 3 years, the first £40m being received in February 2024.

- 2.18. The Prudential Code 2021 requires that Authorities include a long-term projection of external debt and the capital financing requirement (CFR). This projection should enable review of how the level of underlying borrowing for capital purposes (the CFR) is offset by other cash flows and balances, which (in nearly all authorities) reduce the level of actual debt required. This can be found within the Treasury Management Strategy Statement (TMSS) 2024/25.

Asset Management Plan

- 2.19. The longer term maintenance of the Council's capital assets is addressed by the Council's Asset Management Plan. The Asset Management Plan ensures that the Council's assets, as a resource, support the delivery of the Council's objectives by:-
- Providing a suitable standard of accommodation for services including those shared with other authorities
 - Maintaining property assets and ensuring that they continue to represent an appropriate investment for the Council
 - Providing an asset management service to the property holding company
 - Meeting the needs of the local community by maintaining assets in parks and open spaces and other community assets
 - Safeguarding local heritage through ownership and preservation of historic and scheduled ancient monuments.

The current capital programme includes a provision of £1.2 million for Corporate Property Improvements and improvements and £880k for works to industrial properties. There is also a provision of £2.75m for works to the offices of Maidstone House, based on the requirements of the Asset Management Plan.

The Asset Management Strategy is currently under review for the Council's Housing and Property Portfolios. This work is due to be completed during 2024.

3. GOVERNANCE FRAMEWORK

Background

- 3.1. Capital expenditure proposals are developed in response to the Council's strategic priorities, as described in the previous section. Individual schemes are incorporated in the capital programme, which is included within the Council's Medium Term Financial Strategy.
- 3.2. The MTFS states that capital schemes will be reviewed and developed so that investment is focused on strategic priorities. The MTFS is updated on an annual basis, as part of the annual budget cycle.

- 3.3. Subsequent to preparation of the MTFs and its approval by Council each year, capital estimates form part of the annual budget that is submitted to Council for approval.

Developing capital expenditure proposals

- 3.4. The development of capital expenditure proposals follows 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.
- 3.5. 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 require the use of prudential borrowing, a business case must first be prepared setting out the viability and justification in terms of necessity or contribution to the delivery of strategic goals
 - (c) Where schemes might improve the Environmental, Social and Governance (ESG) issues that are important to the Council. Some examples would be:
 - Promoting greater environmental sustainability
 - Local Community benefits
 - Ethical sourcing practices
- 3.6. 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 above.
- 3.7. 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 the relevant Committee, thus allowing officers to focus funding efforts on delivering schemes that are next in priority order.

- 3.8. 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.
- 3.9. 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. financial viability of the schemes can be clearly evidenced;
 - ii. the outcome returns economic value commensurate to the cost incurred by borrowing to fund the schemes;
 - iii. after covering the cost of funding, a further benefit accrues to the Council that directly or indirectly supports the objectives of the strategic plan or the medium term financial strategy.
 - (d) The use of residual one-off funding such as New Homes Bonus for capital purposes (after any topslice to support the revenue budget), in line with the Council's strategic plan priorities;
 - (e) Council's strategic plan priorities'. This is because NHB is now partially replaced by the Funding Guarantee, so we need to make the wording more generic ;
 - (f) 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.
- 3.10. Service managers submit proposals to include projects in the Council's capital programme. Bids are collated by the Finance Section who calculate the financing cost (which can be nil if the project is fully externally financed). Each Committee appraises the proposals with reference to corporate priorities set out in the strategic plan. Corporate Service Policy Advisory Committee recommends the capital programme which is then presented to Council in March each year.
- 3.11. 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.
- 3.12. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and

Private Finance Initiative). Further details are set out in section 4 of the Capital Strategy.

Performance Monitoring

- 3.13. The Council has a corporate project management framework that applies to most of the projects included within the capital programme. This provides for designation of a project manager and sponsor, and includes a mechanism for progress on corporate projects to be reported quarterly to a Corporate Projects Board.
- 3.14. The delivery of the capital programme and emerging schemes are also subject to oversight by the Strategic Investment Board, which meets regularly throughout the year. Membership of the board includes the Chief Executive (Chair), Director of Finance, Resources and Business Improvement, Director of Regeneration and Place, Monitoring Officer and Head of Finance.
- 3.15. Financial monitoring of capital projects is addressed by the Council's Financial Procedure Rules. Individual Member Service Committees receive quarterly reports on capital expenditure for the services for which they are responsible.

Capitalisation

- 3.16. Accounting principles govern what counts as capital expenditure. Broadly, it must yield benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of non-current assets which are charged directly to service revenue accounts.
- 3.17. The Council has adopted a minimum threshold of £10,000 for capitalisation.

Asset Disposals

- 3.18. The Council's policy for asset disposals is set out in a policy adopted by Policy and Resources Committee at its meeting on 25th July 2017.
- 3.19. The policy distinguishes between the following categories.
- Operational Property held and used by the Council for the direct delivery of services for which it has either a statutory or discretionary responsibility. Assets may be disposed of if they have reached the end of their economic or useful life.
 - Investment Property held by the Council for revenue generation purposes, which should be assessed by its potential for improved rates of return by either better asset management, or disposal and re-investment of the receipt.

- Community assets such as open space. The Council will not usually dispose of areas of parks or other areas which are classed as public open space.
- 3.20. Certain schemes within the capital programme are partially funded through sale of some of the completed asset(s) to partner organisations. In this case, the capital scheme value is shown net of these receipts in the capital programme, as the receipt is ringfenced for this purpose.

4. FINANCING THE CAPITAL PROGRAMME

- 4.1. Typically, local authorities fund capital expenditure by borrowing from the Public Works Loan Board, however there are various borrowing options within the commercial sector which is open to the Authority. All capital expenditure must be financed, either from external sources (government grants, including New Homes Bonus, and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and other long-term liabilities). The planned Capital Programme 2024/25 to 2033/34 is set out in Table 1 below along with the planned funding for the programme in Table 2.

Table 1: Capital Programme 2024/25 to 2033/34

	2024/25	2025/26	2026/27	2027/28	2028/29	5 Year Total	2029/30	2030/31	2031/32	2032/33	2033/34	10 Year Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Housing, Health & Environment												
Private Rented Sector Housing (Gross cost)	21,065	31,879	25,574	12,370	7,274	98,161	1,656					99,817
1,000 Homes Affordable Housing Programme (Gross cost)	31,096	42,722	25,921	13,908	14,995	128,643	10,251	4,711	5,487	4,026	2,576	155,693
Temporary Accommodation	20,000					20,000						20,000
Other Property - Community and Commercial	1,809	1,089	663	143	100	3,804						3,804
Housing - Disabled Facilities Grants Funding	800	800	800	800	800	4,000	800	800	800	800	800	8,000
Street Scene Investment	50	50	50	50	50	250	50	50	50	50	50	500
Flood Action Plan	200	150				350						350
Continued Improvements to Play Areas	50	60	70	80	80	340	80	80	80	80	80	740
Parks Improvements	260	70	80	90	100	600	100	100	100	100	100	1,100
Parks Improvements - Infrastructure Maintenance	200	200	200	200	200	1,000	200	200	200	200	200	2,000
Grounds Maintenance Machinery Replacement Programme	100	110	105	123	42	480	75	75	75	75	75	855
Waste Crime Team - Additional Resources	20	10	10			40						40
Open Spaces - Section 106 funded works	400	400	400	400	400	2,000	400	400	400	400	400	4,000
Improvements to Cemetery	120					120						120
Purchase of New Waste Collection Vehicles								6,380				6,380
Total	76,170	77,540	53,873	28,163	24,041	259,787	13,612	12,796	7,192	5,731	4,281	303,398
Communities, Leisure & Arts												
Museum Development Plan	180					180						180
Leisure Provision	2,250					2,250						2,250
New Leisure Centre	500	500	2,000	15,000	29,000	47,000	13,000					60,000
Mote Park Kiosk Refurbishment & Extension	250					250						250
Total	3,180	500	2,000	15,000	29,000	49,680	13,000					62,680

	2024/25	2025/26	2026/27	2027/28	2028/29	5 Year Total	2029/30	2030/31	2031/32	2032/33	2033/34	10 Year Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Corporate Services												
Asset Management / Corporate Property	1,695	175	175	175	175	2,395	175	175	175	175	175	3,270
Corporate Property Acquisitions	2,500	2,500	2,500	2,500	2,500	12,500	2,500	2,500	2,500	2,500	2,500	25,000
Kent Medical Campus - Innovation Centre	350					350						350
Lockmeadow Ongoing Investment	100	100	100	100	100	500	100	100	100	100	100	1,000
Garden Community	1,187	630	83	82		1,982						1,982
Infrastructure Delivery	1,000	1,000	1,000	1,000	1,000	5,000	1,000	1,000	1,000	1,000	1,000	10,000
Other Property Works	800	200				1,000						1,000
Carbon Reduction to Maidstone B.C. Estate	5,542	2,616	2,493	1,641	1,075	13,367	300	300	300	300	300	14,867
Parkwood Property Investment to meet EPC targets	785	440				1,225						1,225
Feasibility Studies	50	50	50	50	50	250	50	50	50	50	50	500
Digital Projects	30	30	30	30	30	150	30	30	30	30	30	300
Software / PC Replacement	200	200	200	200	200	1,000	200	200	200	200	200	2,000
Maidstone House Works	400	100	100	100	100	800						800
Leeds Langleys					1,000	1,000						1,000
Fleet Vehicle Replacement Programme	478	470	200	300	300	1,748	300	300	300	300	300	3,248
Total	15,116	8,511	6,931	6,178	6,530	43,267	4,655	4,655	4,655	4,655	4,655	66,542
Planning, Infrastructure & Economic Development												
Public Realm & Greening relating to the Town Centre	1,000					1,000						1,000
Medway Street Car Park	195					195						195
Total	1,195					1,195						1,195
TOTAL	95,661	86,551	62,803	49,342	59,571	353,928	31,267	17,451	11,847	10,386	8,936	433,814

Table 2: Capital Financing

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/24	Total 24/25 to 33/34
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
External sources	1,605	5,421	2,979	13,486	21,356	9,963	1,200	1,200	13,900	1,200	1,200	71,905
Own resources - incl Internal borrowing/MRP	2,649	4,553	6,568	8,477	9,611	9,993	10,523	12,462	13,412	13,482	13,754	102,836
External Borrowing	37,670	85,687	77,004	40,840	18,376	39,615	19,544	3,789	-15,466	-4,297	-6,018	259,074
TOTAL	41,924	95,661	86,551	62,803	49,342	59,571	31,267	17,451	11,847	10,386	8,936	433,814

- 4.2. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue, which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is set out below; no assumptions have been made here about capital receipts.

Table 3: Replacement of debt finance

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
MRP	1,399	3,108	5,318	7,227	8,361	8,743	9,273	11,212	12,162	12,232	12,504	91,540
Capital receipts	0	0	1,200	0	0	0	0	0	0	0	0	1,200
TOTAL	1,399	3,108	6,518	7,227	8,361	8,743	9,273	11,212	12,162	12,232	12,504	92,740

- 4.3. The Council's full minimum revenue provision statement is included within the Treasury Management Strategy.
- 4.4. The cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £258m over the next 10 years. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Brought forward	72,841	110,511	196,002	273,006	313,846	332,222	371,837	391,381	395,170	379,704	375,407
Capital Expenditure	41,924	95,661	86,551	62,803	49,342	59,571	31,267	17,451	11,847	10,386	8,936
External funding	-1,605	-5,421	-2,979	-13,486	-21,356	-9,963	-1,200	-1,200	-13,900	-1,200	-1,200
Own resources	-1,250	-1,250	-1,640	-1,250	-1,250	-1,250	-1,250	-1,250	-1,250	-1,250	-1,250
MRP	-1,399	-3,108	-5,318	-7,227	-8,361	-8,743	-9,273	-11,212	-12,162	-12,232	-12,504
TOTAL CFR	110,511	196,392	272,616	313,846	332,222	371,837	391,381	395,170	379,704	375,407	369,390

Borrowing Strategy

4.5. The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. Due to increasing interest rates, the Council secured £80m of long term borrowing through Aviva Life & Pensions UK Limited to fund the increasing capital programme at a cost of 2.89%. The first tranche totalling £40m is due to be received in February 2024, with the remainder on the following dates:

- February 2025 £20m
- February 2026 £20m

4.6. Projected levels of the Council's total outstanding debt (which comprises borrowing and other long-term liabilities) are shown below, compared with the capital financing requirement

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000	31.03.28 budget £000	31.03.29 budget £000	31.03.30 budget £000	31.03.31 budget £000	31.03.32 budget £000	31.03.33 budget £000	31.03.34 budget £000
Debt (excl.PFI & leases)	37,670	123,356	200,360	241,200	259,576	299,191	318,735	322,524	307,058	302,761	296,743
Capital Financing Requirement	110,511	196,392	272,616	313,846	332,222	371,837	391,381	395,170	379,704	375,407	369,390

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 5, the Council expects to comply with this.

- 4.7. The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 6: Prudential Indicators: Authorised limit and operational boundary**Authorised Limit**

	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m	31.03.27 budget £m	31.03.28 budget £m	31.03.29 budget £m	31.03.30 budget £m	31.03.31 budget £m	31.03.32 budget £m	31.03.33 budget £m	31.03.34 budget £m
Borrowing	60.000	150.687	232.690	278.530	301.906	346.521	371.065	379.854	369.388	370.092	369.074
Other Long Term Liabilities	0.905	0.309	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	60.905	150.996	232.69	278.53	301.906	346.521	371.065	379.854	369.388	370.092	369.074

Operational Boundary

	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m	31.03.27 budget £m	31.03.28 budget £m	31.03.29 budget £m	31.03.30 budget £m	31.03.31 budget £m	31.03.32 budget £m	31.03.33 budget £m	31.03.34 budget £m
Borrowing	50.000	140.687	222.690	268.530	291.906	336.521	361.065	369.854	359.388	360.092	359.074
Other Long Term Liabilities	0.905	0.309	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	50.905	140.996	222.69	268.53	291.906	336.521	361.065	369.854	359.388	360.092	359.074

- 4.8. Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
- 4.9. The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the short term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 7: Treasury management investments

	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000	31.03.28 budget £000	31.03.29 budget £000	31.03.30 budget £000	31.03.31 budget £000	31.03.32 budget £000	31.03.33 budget £000
Short-term investments	25,000	25,000	20,000	10,000	4,000	4,000	4,000	4,000	4,000	4,000
Longer-term investments	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Total	25,000	30,000	25,000	15,000	9,000	9,000	9,000	9,000	9,000	9,000

- 4.10. In years 2023/24 to 2025/26, it is envisaged short term balances will be high due to the forward loans with Aviva Life & Pensions UK Ltd which will be received in February of each financial year. This is expected to be short term as the funds will be utilised within the capital programme.
- 4.11. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance, Resources and Business Improvement and staff, who must act in line with the treasury management strategy approved by council. Quarterly reports on treasury management activity are included within the budget monitoring reports which are presented to the Council's Corporate Services Policy Advisory Committee with the half yearly and annual reviews which are scrutinised by Audit, Governance and Standards Committee then recommending to Full council. The Audit, Governance and Standards Committee is responsible for scrutinising treasury management decisions.
- 4.12. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. Full budget provision is made for capital financing costs within the Council's revenue budgets. This is based on estimates derived from the capital programme, and projected 50 year borrowing costs.

Table 8: Prudential Indicator: Proportion of financing costs to net revenue stream

	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget	2028/29 budget
Financing costs (£m)	-0.550	5.510	9.171	10.304	10.676	11.469
Proportion of net revenue stream (%)	-9.026	21.350	34.586	37.819	38.139	40.969

- 4.13. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend beyond 5 years into the future. The Director of Finance, Resources and Business Improvement is satisfied that the proposed capital programme is prudent, affordable and sustainable.
- 4.14. The Authority is required to estimate and measure the Liability Benchmark which

Other Long Term-Liabilities

- 4.15. This section deals with other long term liabilities to which the Council has committed itself in order to secure capital investment. The Council has no Private Finance Initiative Schemes, but the following scheme is a similar contract as it is defined as a service concession arrangement.
- 4.16. The Council entered into an agreement during 2009/10 with Serco, the managing contractor of Maidstone Leisure Centre, to undertake a major

refurbishment of the centre. Under the terms of the agreement Serco have initially funded the cost of the works through a loan, and the Council are then repaying this loan over a 15 year term, by equal monthly instalments which is due to be finished in 2025/26. The principal element of this loan is reflected on the Council's Balance Sheet and will be written down annually by the amount of principal repaid. Interest paid on the loan is charged to revenue.

5. Investment Strategy

Service Investments: Loans

- 5.1. The Council can make investments to assist local public services, including making loans to local service providers, local small businesses to promote economic growth, Charities and the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to provide value for money to the tax payer.
- 5.2. The Council has made loans to Kent Savers for £25,000 in 2017/18 which is repayable in 2027/28 at an interest rate of 1%. A loan to Cobtree Manor Estates Trust towards the construction of the new car park which had been agreed in 2019/20 for an amount of £323,000 repayment over 5 years at an annual interest rate of 3%. Current balance owing is £139,293. There has been no agreement to enter into further service loans in the immediate future.
- 5.3. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. As these loans are very small materially, no loss allowance is required to be accounted for.
- 5.4. The Authority assesses the risk of loss before entering into a loan agreement assessing the borrower's ability to repay the loan, based on past financial performance. This is monitored over the period of the loan in line with the agreed repayment terms.

Commercial Investments: Property

- 5.5. The Council does not currently have any investments in property that are considered to be purely commercial in nature, i.e. primarily for yield. Acquisitions are limited to properties situated within the borough, with the intention of supporting the local community, housing and regeneration objectives rather than for the exclusive purpose of generating profits. All property investments are therefore classified as general fund capital projects.
- 5.6. The Director of Finance, Resources and Business Improvements confirms the authority has complied with paragraphs 51 to 53 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest for the primary purpose of financial return.

6. KNOWLEDGE AND SKILLS

- 6.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Director of Finance and Business Improvement is a qualified accountant with over 16 years' experience in local government, the Corporate Property Manager and the team are experienced in Property Management and the Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury), and ACCA.
- 6.2. The Council also employs Link Asset Services for Treasury Management advice, who support with the provision of training to members.
- 6.3. Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance, Resources and Business Improvement and relevant committee (where appropriate) and must meet the criteria and limits laid down in the investment strategy. Most loans are capital expenditure and purchases will therefore also be approved as part of the capital programme.
- 6.4. Staff are kept updated on latest developments on Treasury, Non-Treasury and Capital through email bulletins and training courses through the Council's advisors Link Asset Services. The Council is also part of the Kent Treasury Benchmarking Group which meet to discuss ongoing issues every 6 months.
- 6.5. Training is offered to all Members on Treasury, Non-Treasury and Capital to prior to decision making on the relevant Strategies. Training is arranged at least every year, maybe earlier for new Members.

7. RISK MANAGEMENT

- 7.1. The capital programme forms an increasingly important part of the Council's strategy for delivering its overall priorities. Accordingly, it is of fundamental importance that the associated risks are managed actively. The Council has a comprehensive risk management framework, through which risk in relation to capital investment is managed at all levels.

Corporate

- 7.2. Corporate risks are identified and reported on a quarterly basis to the Corporate Leadership Team and Policy and Resources Committee. Risks are owned by named Directors and controls developed to mitigate risk. Risks at this level may be generic, relating to a number of capital projects, although it is possible that a single capital project could pose a corporate risk.

Financial

- 7.3. A Budget risk register seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is

updated regularly and is reviewed by the Audit, Governance and Standards Committee at each meeting.

- 7.4. Typically, risks in this area would relate to funding of the capital programme and over/underspending on individual capital projects.
- 7.5. For all risks shown on the Budget Risk Register, appropriate controls have been identified and their effectiveness is monitored on a regular basis.

Service

- 7.6. Individual service areas maintain risk registers, with identified risk owners and details of controls to mitigate risk.

Project

- 7.7. The Council's project management framework requires managers to maintain risk registers at a project level.