

# Our Capital Strategy

2018 – 2023



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## Introduction



I am pleased to present Medway Council's Capital Strategy; a new document, and one I very much welcome. It forms part of a trio of financial strategies, with the Medium Term Financial Strategy and Treasury Management Strategy, all designed to deliver our aspirations as set out in the Council Plan.

The strategy formalises our existing arrangements for formulating our capital programme; setting out the context, funding sources, the process for matching funding to our priorities and how we ensure we deliver value for money when spending capital funds.

We're proud of our track record of delivering on our capital priorities each year, with our capital programmes having delivered phenomenal benefits for the people of Medway. The first three academy schools in Medway were delivered through our capital programme with £80million of Government grant funding. We've made real and very visible progress on our ambitions to regenerate Medway, particularly in terms of our flagship waterfront sites. We've delivered new Community Hubs to serve as gateways, providing face-to-face contact for a variety of enquiries about council and partner services, and new Children and Family Hubs offering a range of services designed to ensure that all children get the best start in life and parents get the support and advice they need. We've done all this while continuing to maintain our roads and highways infrastructure, supplementing our Local Transport Plan funding with capital receipts and developer contributions to keep Medway moving.

We're hugely ambitious for Medway the place and its people and this strategy is another positive step to help us ensure we continue to deliver on those ambitions into the future.

***Councillor Alan Jarrett***  
***Leader of the Council***

## Our Capital Strategy

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy is a key document for the Council and forms part of the authority's financial planning arrangements, reflecting the priorities set out in the Council Plan and the Medium Term Financial Strategy. It provides a high level overview of how capital expenditure and the way it is financed contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance processes for approval and monitoring of capital expenditure.

### Capital Expenditure

Capital expenditure is incurred on the acquisition or creation of assets that yield benefits to the Council for a period of more than one year, or expenditure that enhances or adds to the life or value of an existing asset. It includes the purchase of land and buildings, the construction of new buildings and infrastructure, project management and design fees and the acquisition of vehicles and major items of equipment. This expenditure can be incurred on operational assets or for regeneration purposes and perhaps more recently on schemes specifically to generate investment returns. This is in contrast to revenue expenditure, which represents spending on day to day running costs, such as staff salaries and supplies and services.

The capital programme represents the Council's capital expenditure plans and may include schemes taking several years to complete. This will have implications for the Council's cash flow planning and may also increase the risks associated with capital expenditure. A comprehensive capital strategy is crucial in helping the Council to manage these risks effectively.

### Capital Expenditure versus Treasury Management Investments

Treasury Management investments arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Policy and the Annual Investment Strategy.

The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments.

### 'Growth for All' in Medway

By 2035, Medway aims to become the most successful area of economic regeneration in the South East; a leading waterfront university city celebrated for its revitalised urban centres, riverfront developments and natural and historic assets. Our ambitious regeneration programme aims to meet the housing requirements for Medway people and to create employment opportunities.

Medway Council currently serves a population of around 280,000. This number is growing fast and is estimated to rise by almost 12.8% and reach 317,500 people by 2035; this is higher than the projected growth rate for the South East, and England overall. Relocating to Medway is popular with families, in particular the net migration flow to Medway from London has increased in recent years with the 2017 inward flow from the capital of 2,477 people; almost 50% higher than in 2012.

As our population grows, so too have overall school pupil numbers, with the total number of pupils in primary schools increasing to 24,191 and these are predicted to rise to 25,706 over the next five years. This will eventually impact on secondary school rolls, with overall numbers expected to rise from 18,661 in 2015-16 to 21,602 by 2024-25. The Council has already provided an additional 3,075 primary school places between 2013 and up to 2018. Using its Basic Needs Grant, together with four planned free schools, it is forecast that the Council should be able to meet its requirement for primary, secondary and selective places for the next five years. However, with the expansion of the population anticipated to 2035, it will be necessary to ensure the delivery of further school places to service the new homes planned for the area.

A major regeneration programme focussing on three key housing sites, Rochester Riverside, Strood Waterfront and Chatham Waterfront aims to transform Medway's landscape bringing these new homes, many of them stunning riverfront developments, and significant new employment space to the area.

- Rochester Riverside will be developed over the next 15 years and will provide around 1,400 high quality new homes (including 25% affordable housing), over 10 acres of open space including parks, play areas and landscaping and over 108,000 square foot of non-residential floor space, including Station Square and Cory's Wharf with its Creekside shops and cafes. The development will also include a new primary school, leisure facilities, office space, shops and restaurants and a new hotel.
- The Council is investing in flood defence works to enable the development of Strood Waterfront. The Development Brief shows how the area will be transformed with up to 1,600 new homes, including affordable housing, new businesses and public spaces for recreational use.
- The Council has been granted planning permission to develop a high-quality, mixed-use development at the city centre's waterfront location which will act as a driver for further regeneration in the area. One of the early projects for the Medway Development Company Ltd is to deliver a site of mixed residential and commercial use. The plans are for the waterfront to complement other regeneration projects in the town including the Chatham Placemaking Project and build on the improvements to the city centre and river walk.

In addition to quality homes, our regeneration programme aims to create jobs by creating new employment space and attracting new business to the area. Today it is estimated that more than 14,000 businesses have their home in Medway and we have a growing reputation as a hub for high tech engineering and creative businesses. The economic challenge for Medway is to continue to attract more quality jobs into the area. The number of businesses in Medway has grown steadily in the five year period between 2012 and 2017. Enterprises have increased by 31.1% from 6,425 in 2012 to 8,425 in 2017. This increase exceeds that of the South East (19.5%) and Great Britain (24.8%) over the same five year period. Local units in Medway have increased by 23.8% from 8,055 in 2012 to 9,970 in 2017. Again, this increase surpasses the South East and Great Britain's growth at 16.5% and 20.4% respectively between 2012 and 2017.

Medway's population profile is getting older; with a decrease in the proportion of people under 18 age group (24.1% in 2016 compared to 26.6% in 2001). The proportion of people of working age (16-64) remained static in the same period, while the population aged 65 and over has increased from 12.6% in 2001 to 15.5% in 2016. The number of people in the area over the age of 85 is projected to increase by 85% by 2030. It is estimated that by 2022, the number of people in England aged 65 and over with some disability will increase by 40% to 3.3 million. The number of people in Medway aged 65 and over with dementia is expected to increase by over 80% between 2010 and 2030, in line with the national trend. These demographic changes and the steady overall growth in the population will put pressure on existing services.

A higher proportion of Medway's population is of working age at 64.1% than the South East (62.0%) and England (63.1%). However Medway has a lower ratio of jobs per individual than the regional and national

average; Medway has a ratio of 0.60 jobs per individual aged 16-64, compared to 0.88 in the South East and 0.84 in Great Britain. According to the Office of National Statistics, Medway has a lower proportion of people employed in managerial, professional and technical roles compared to the South East, and has a higher proportion of people employed in administrative, trade, service, sales, plant and machinery and elementary occupations.

The economic challenge for Medway is to continue to attract more quality jobs into the area, building on the opportunities London Resort, The Lower Thames Crossing and our proximity to the capital bring. Skills and employment is a growing area of focus within the Council, with the new Skills and Employability plan set to launch in the winter. The plan will set out a suite of activities that will include hosting an inaugural Skills Summit, piloting training programmes with employers and exploring the need for an online portal, bringing employers, graduates and potential apprentices together. This will be a key work stream in bringing the benefits of growth to local people and businesses.

Transport is a key issue in Medway, affecting the economic success of the area and the social fabric of the environment. Our key priorities for improving transport are tackling congestion, improving public transport services and improving journeys to school and work. Our Highways service supports a network of 840km of highways including bridges, footbridges, subways and tunnels valued at over £1.8billion through programmes of planned and responsive maintenance, and through capital investment in the design and implementation of major improvements to the network. We recognise the reliance placed by many residents on our highways network and are proud that we have continued to invest in maintaining our network. Current investment levels have enabled Medway's key structures, including the Medway Tunnel to continue operating well, however as the assets age we are working on detailed modelling of lifecycle costs to fully understand the investment required to support these assets in the medium to long term. We are working to develop and identify funding for a programme of replacement of our street lighting columns, and aim to take the opportunity to reduce our energy use by installing LED lighting through this programme.

The Council itself is rapidly transforming, reshaping itself so we can continue to deliver high quality services to those who live, work in and visit Medway in spite of reductions in government funding and increasing costs. We currently employ 1,908 Full Time Equivalent staff to deliver services for Medway, but as our transformation programme delivers realigned, more efficient services we are reviewing how they are delivered and structured to capture the efficiencies of digitalisation. Our establishment could be reduced by as much as 10% over the course of the programme, with much of that reduction met through natural wastage. We are committed to training and developing staff within Medway to enable them to adapt and successfully deliver services in the new design and structure. There are increasing opportunities to work more flexibly, increasing home and remote working as digital solutions are progressed and this will impact on our property strategy, reducing demand on central officer space.

The Council maintains and operates a wide range of assets, including 157 operational buildings, 682 operational sites (including 71 car parks and 506 parks and greenspaces), 40 shops and business centres, three major regeneration sites, three civic amenity Sites, 13 cemeteries and a crematorium. Our property strategy aims to:

- Maximise the opportunities for regeneration and economic growth in Medway, through innovative use of our property portfolio;
- Rationalise our portfolio, by disposing of those properties which are either not required for the delivery of services or do not provide a financial or economic benefit to the Council;
- Continue to achieve average revenue returns on non-operational property of over 7% per annum;
- Create a flexible working environment that enhances professional practice and can be adapted to changes in staffing levels and service delivery models, including the shift to more digital channels;

- Implementing more sustainable energy solutions to save money and benefit the environment.

A complete condition survey of the Council's property portfolio identified required maintenance of around £10.5million for the next five years, which would require investment of around £2.0million per annum. In line with our strategy we will consider the overall cost versus benefits of each property comprising the portfolio prior to making any such investments.

## Our Capital Programme 2018-2022

The Council's capital programme for the 2018/19 year was approved by Full Council in February 2018. Full Council have also approved capital additions reports during the year, adding schemes as funding has been made available, resulting in the agreed capital programme set out in the table below.

**Table 1: Approved Capital Programme 2018/19**

<b>Expenditure</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>Total £m</b>
Children and Adult Services	11.468	2.200	1.247	1.000	15.915
Regeneration, Culture, Environment and Transformation	38.881	16.545	5.715	0.754	61.895
Housing Revenue Account	6.592	0.453	0.000	0.000	7.045
Business Support	17.448	39.470	30.242	55.562	142.722
Member Priorities	0.194	0.000	0.000	0.000	0.194
<b>Total Expenditure</b>	<b>74.583</b>	<b>58.668</b>	<b>37.204</b>	<b>57.316</b>	<b>227.771</b>
Prudential borrowing	6.475	0.360	0.010	20.171	27.016
Borrowing in lieu of capital receipts	23.993	41.604	30.378	36.145	132.120
Capital receipts	3.354	0.000	0.000	0.000	3.354
Right to Buy receipts	0.427	0.000	0.000	0.000	0.427
Grants	30.993	15.982	6.816	1.000	54.791
Revenue contributions	7.257	0.453	0.000	0.000	7.710
Devolved Formula Capital	0.250	0.000	0.000	0.000	0.250
Developer contributions	1.834	0.269	0.000	0.000	2.103
<b>Total Funding</b>	<b>74.583</b>	<b>58.668</b>	<b>37.204</b>	<b>57.316</b>	<b>227.771</b>

## Funding the Capital Programme

There are a whole range of funding sources and financing options available to meet the Council's capital expenditure requirements, most of which feature to a greater or lesser extent in funding the current capital programme. These are explained in this strategy and the advantages, disadvantages, conditions and opportunities associated with each explored.

### External Grant Funding

Whilst Government grant support for revenue expenditure has been reducing dramatically, there is still grant funding available for capital expenditure. Some of this comes to local authorities automatically through the financial settlement, whilst other grants have to be accessed through a bidding process. The table below identifies the capital grant funding that the Council expects to receive over the medium term

with a fair degree of certainty. Some of this funding has conditions attached regarding what it can be spent on, whilst other allocations are not ring-fenced. For example, the funding received via the Local Enterprise Partnership has very stringent conditions attached regarding timescales, milestones and ultimate outcomes and failure to meet these conditions could result in financial loss to the Council.

**Table 2: Capital Grants**

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Schools</b>						
Basic Need	1,696	4,911	0	0	0	6,607
Condition	1,011	600	250	0	0	1,861
Schools DFC	250	200	150	100	50	750
<b>Total Schools</b>	<b>2,957</b>	<b>5,711</b>	<b>400</b>	<b>100</b>	<b>50</b>	<b>9,218</b>
<b>Highways</b>						
LTP	4,576	4,576	4,576	4,576	4,576	22,880
Potholes	406	0	0	0	0	406
Medway Tunnel	537	0	0	0	0	537
Four Elms to Medway Tunnel	10,053	0	0	0	0	10,053
Strood Town Centre	5,885	0	0	0	0	5,885
Chatham Town Centre	1,503	0	0	0	0	1,503
Other Transport	2,268	0	0	0	0	2,268
<b>Total Highways</b>	<b>25,228</b>	<b>4,576</b>	<b>4,576</b>	<b>4,576</b>	<b>4,576</b>	<b>43,532</b>
<b>Physical &amp; Cultural Regeneration</b>						
Disabled facilities Grants	2,518	0	0	0	0	2,518
Rochester Airport	745	3,293	0	0	0	4,038
Civic Centre Flood Mitigation	2,378	0	0	0	0	2,378
Innovation Park	210	1,820	1,670	0	0	3,700
Other P&CR	1,314	583	0	0	0	1,897
<b>Total Physical &amp; Cultural Regeneration</b>	<b>7,165</b>	<b>5,696</b>	<b>1,670</b>	<b>0</b>	<b>0</b>	<b>14,531</b>
<b>Business Support Department</b>	<b>31</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>31</b>
<b>Total</b>	<b>35,381</b>	<b>15,983</b>	<b>6,646</b>	<b>4,676</b>	<b>4,626</b>	<b>67,312</b>

The current capital programme assumes £54.791million of capital grant funding, based on known grant determinations to date. The table above includes projections from the Council's medium term financial planning process where it is anticipated that further grant income will be received; those projections result in a possible further £12.521million funding for the Council's future capital priorities. These projections will be revised as government announcements and grant determinations are made and when there is more certainty around the funding, the process to allocate available resources to priorities, set out in the capital budget setting process section of this strategy below.



## Developer Contributions

The development of new housing increases the number of people living in an area, and with that the demand on local services, such as schools, health services, parks, and transport. The Planning system recognises the need to address the impacts arising from development, and can use legal obligations, agreements and unilateral undertakings to secure acceptable development. Developer contributions therefore are intended to make development acceptable which would otherwise be unacceptable in planning terms.

The Council's current policy in respect of developer contributions is set out in the Medway Local Plan 2003, supplemented by the Medway Guide to Developer Contributions 2018.

Section 106 of the 1990 Act provides that anyone with an interest in land may enter into a planning obligation, which is enforceable by a local planning authority. An obligation may be created by agreement or by the party with an interest in the land making a unilateral undertaking. Obligations may:

- Restrict the development or use of land;
- Require operations to be carried out in, on, under or over the land;
- Require the land to be used in any specified way; or
- Require payments to be made to the local planning authority, either in a single sum or periodically.

Obligations run with the land and, providing all parties with an interest in the land enter into the agreement, affect everyone with an interest in it, including successors in title and are registered as Local Land Charges.

Where an obligation requires payments to the local authority, these can be made in the form of a lump sum, an endowment, or as phased payments related to dates, events or triggers i.e. the delivery of a specific number of proportion of properties making the receipt of this income very difficult to forecast. In addition developer contributions include a clause stating the deadline for expenditure of contributions; the developer can request repayment of the contributions (plus interest) if the council fails to deliver on the obligations in the agreement by this deadline. From 1 April 2017 new S106 agreements will usually specify a 5 year deadline for spend; prior to this date a 10 year deadline was the norm. The current capital programme primarily includes only payments already received and in addition to quarterly capital monitoring reports to Cabinet, the Planning Service reports quarterly to Planning Committee on developer contributions. These reports list information on S106 contributions received, and obligations included in all S106 agreements completed in that quarter. The Council also reports on developer contributions in its annual Authority Monitoring Report, which is published each December for the preceding financial year. The latest report (December 2017) states that In 2016/17 funding received through Section 106 agreements amounted to just over £779,000. Approximately 82% of the total funding went towards transport, education, open/playspace and Watermill Wharf.

The table below presents a summary of S106 agreements made since 1 April 2017 that, subject to the developer completing the schemes as planned, would result in payments being made to the Council to carry out works to mitigate the impact of the development in the following broad areas:

**Table 3: Developer Contributions included in S106 agreements completed from 1 April 2017 (subject to delivery of schemes)**

Section 106 Agreement mitigating impact:	Payment agreed (£'000)
Education	(8,210)
Transport, highways and public realm	(619)
Leisure, sport and heritage	(127)
Health and community development	(8,620)
Parks and open spaces	(4,491)
Affordable housing	(1,875)
Environment, waste and recycling	(1,319)
<b>TOTAL</b>	<b>(25,261)</b>

Since this sum represents income that is dependent on all development being delivered as planned, caution is taken when developing the capital programme that no schemes anticipated to be funded through developer contributions are added before there is reasonable certainty as to the receipt and timing of payments due. This £25million of potential future income represents both a challenge for the Council in working to accelerate development in the area, and an opportunity to shape how development in the area is mitigated for the benefit of residents.

During 2018/19, records of the Council's developer contributions will be transferred to a new ICT system; it is anticipated that this will enable better management and enhanced forecasting of this income in future years.

## Capital Receipts

A capital receipt represents the income received from the sale or disposal of an asset. The general principle is that such receipts should not be used to fund revenue expenditure, however from 2016/17 Local authorities were given the power to use capital receipts (excluding 'right to buy' receipts) on the revenue costs of transformational projects. In determining whether expenditure should be allowable under this new flexibility, the Council would be expected to deliver ongoing savings to the revenue budget as a result of the investment. It would have to demonstrate transformed public services, with reduced demand or reduced unit costs

Under Chapter 3, Part 4, Section 6.14 of the Council's Constitution, the Chief Legal Officer has delegated authority to manage the Council's land and property resources in compliance with current legislation and Council policy. This includes the authority to agree terms for the disposal or purchase of property and accept the highest tender/offer, provided that the relevant assistant director is satisfied it is the best price reasonably obtainable. This power is subject to the financial limits delegated to the director at Chapter 3, Part 5, Section 5.1 (see extract below):

*"Limit of authority for the Chief Executive and Directors to act – up to £100,000. Acquisitions and disposals above this value are a matter for the Cabinet unless contrary to the policy framework or contrary to, or not wholly in accordance with, the budget approved by Full Council. This limit does not apply to the acquisition and disposal of non-operational investment properties funded from provision made by the Council for this*

purpose in the Capital Programme. Cabinet land and property transactions over £500,000 to be reported to the next Council meeting for information.”

Decisions to dispose of assets are taken in consultation with the Corporate Strategic Property Board, chaired by the Portfolio Holder for Resources. The latest projections for future capital receipts are summarised in Table 3.

**Table 4: Capital Receipts**

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23+ £'000	Total £'000
<b>General Fund Capital Receipts</b>						
Completed disposals	635	0	0	0	0	<b>635</b>
Likely disposals	2,733	2,461	1,000	50	10,793	<b>17,037</b>
Possible disposals	0	0	1,050	6,300	0	<b>7,350</b>
Not yet declared surplus	0	48	0	1,385	6,000	<b>7,433</b>
<b>Total General Fund Capital Receipts</b>	<b>3,368</b>	<b>2,509</b>	<b>2,050</b>	<b>7,735</b>	<b>16,793</b>	<b>32,455</b>
<b>RTB Capital Receipts</b>	<b>1,150</b>	<b>1,150</b>	<b>1,150</b>	<b>1,150</b>	<b>1,150</b>	<b>5,750</b>
<b>Improvement Loan Repayments</b>	<b>95</b>	<b>95</b>	<b>95</b>	<b>95</b>	<b>95</b>	<b>475</b>
<b>Total Capital Receipts</b>	<b>4,613</b>	<b>3,754</b>	<b>3,295</b>	<b>8,980</b>	<b>18,038</b>	<b>38,680</b>

The current capital programme assumes £3.781million of schemes will be funded from capital receipts based on sales completed in previous years. The table above includes projections from the Council’s Property Service and reflect estimates of potential income from both likely and possible future disposals and so are not as yet guaranteed, but results in a projected possible income in the region of £35million that has not yet been allocated to capital priorities. The table above does not include the anticipated receipts from sales of properties developed through the Medway Development Company; it is anticipated that across the programme this will deliver a return of 10% yielding capital receipts of £132million. Capital receipts in excess of the £120million borrowed to fund the programme and the Growing Places Fund Loan, with the remaining capital receipts available to support the Council’s capital priorities.

## Revenue Funding

Services may use their revenue budgets to fund capital expenditure, but the current policy is that this only happens in exceptional circumstances, typically where the conditions and requirements of a particular ring-fenced revenue grant are best service by incurring capital expenditure on the creation or enhancement of fixed assets.

## Prudential Borrowing

Where local authorities are unable to fund capital expenditure from external sources, such as capital receipts, grants and other external contributions, they can take out borrowing; however this is regulated. The Local Government Act 2003 refers to affordability and the requirement that local authorities in England and Wales keep under review the amount of money they can borrow for capital investment. Part 1 of the Act requires local authorities to have regard to CIPFA’s Prudential Code in the exercise of its duties.

The code requires that: *“The local authority shall ensure that all of its capital and investment plans and borrowing are prudent and sustainable. In doing so, it will take into account its arrangements for the repayment of debt (including through the MRP / repayment of loans fund) and consideration of risk and the*

*impact, and potential impact, on the authority's overall fiscal sustainability. While indicators for sustainability are required to be set over a minimum three year rolling period, indicators should be set in line with a capital strategy and asset management plan that is sustainable over the longer term. Where statutorily ring-fenced resources such as the HRA or Police Fund exist, the indicators should be separately set for these areas."*

The current policy is that any service wishing to avail itself of prudential borrowing in order to fund capital investment must be able to demonstrate that it can afford the repayments and interest incurred on the loan from its revenue budget. This generally means that prudential borrowing is limited to 'invest to save' schemes; i.e. those schemes which are expected to produce savings and/or additional income that will, as a minimum, fund the costs of borrowing.

A business case would need to be prepared, with the support of the Finance Strategy team, to demonstrate the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be measured against the prudential indicators required by CIPFA's Prudential Code. These are summarised in Table 4.

**Table 5: Summary prudential indicators**

	2018/19	2019/20	2020/21	2021/22	Total
	£m	£m	£m	£m	£m
Capital Expenditure	73,648	58,668	37,204	57,316	226,836
Prudential Borrowing	6,475	360	10	20,171	27,016
Borrowing in Advance of Capital Receipts	24,143	41,604	30,378	36,145	132,270
<b>Total In Year Borrowing Requirement</b>	<b>30,618</b>	<b>41,964</b>	<b>30,388</b>	<b>56,316</b>	<b>159,286</b>
External Borrowing					
Brought Forward	232,940	263,558	302,144	328,508	
In Year Requirement	30,618	41,964	30,388	56,316	
Repayments	0	(3,378)	(4,024)	(5,315)	
<b>Carried Forward</b>	<b>263,558</b>	<b>302,144</b>	<b>328,508</b>	<b>379,509</b>	
Capital Financing Requirement					
Brought Forward	255,044	282,284	320,224	345,297	
Capital Expenditure Funded by Borrowing	30,618	41,964	30,388	56,316	
Minimum Revenue Provision	(3,378)	(4,024)	(5,315)	(6,015)	
	<b>282,284</b>	<b>320,224</b>	<b>345,297</b>	<b>395,598</b>	
<b>Under-borrowing</b>	18,726	18,080	16,789	16,089	

It is delegated to the Chief Finance Officer to determine whether the borrowing should be from internal cash balances or whether to enter into additional external borrowing.

## Leasing

The Chief Finance Officer may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made and the Chief Finance Officer must be certain that leasing provides the best value for money method of funding the scheme. Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

## Management of Risk

## Risk Management

Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully. Through a risk management process, risks should be identified and the potential consequences evaluated, with a view to determining the most effective action to manage them. The aim of such action is to reduce the likelihood of adverse risk events occurring, minimise the severity of their consequences if they do occur and to consider whether risk can be transferred to other parties.

The Prudential Code recognises that in making its capital investment decisions the authority must have explicit regard to option appraisal and risk.

*"The capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed and the implications for future sustainability."*

The Council's project management methodology requires that each project should have its own risk register to manage operational risk, however this section of the Capital Strategy focusses on strategic risks to the Council, resulting from its capital investment activity.

## Financial Risk

This is an area where there is significant overlap between the Capital Strategy and Treasury Strategy and broadly falls into three categories.

**Credit Risk:** This is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot pay us our investment returns or complete the agreed contract. Accordingly, the Council will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

**Liquidity Risk:** This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will occur as early as possible.

**Fraud, Error and Corruption:** This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the Council's policies and procedures. The Council has an on-going programme of 'Doing the Right Thing' through our values, principles and appropriate behaviour. This is supported by the Employee Code of Conduct and detailed policies such as Anti-Fraud and Corruption, Anti Money Laundering, Whistle Blowing and Declaration of Interests.

## Due Diligence

For all capital investments, the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered. Due diligence process and procedures will include:

- effective scrutiny of proposed investments by the relevant board / committee;
- identification of the risk to both the capital sums invested and the returns;
- understanding the extent and nature of any external underwriting of those risks;
- the potential impact on the financial sustainability of the Council if those risks come to fruition;
- identification of the assets being held for security against debt and any prior charges on those assets;

- where necessary independent and expert advice will be sought.

The Chief Finance Officer will ensure that members are adequately informed and understand the risk exposures being taken on.

### Legal and Regulatory Risk

This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Council will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

Capital Schemes must comply with legislation, such as the Disability Discrimination Act, and also Council policies, Contract Procedure Rules and Financial Regulations. Reference should also be made to other strategies and plans of the Council:

- Council Plan;
- Corporate Property Asset Management Strategy;
- Local Transport Plan;
- Procurement Strategy;
- Financial Regulations;
- Contract Procedure Rules;
- Treasury Management Strategy;
- Minimum Revenue Provision Policy;
- Individual Service Plans.

### Partnerships and Relationships with other Organisations

As stated previously, the Council has embarked upon an extensive and ambitious programme of regeneration. It is also a very lean organisation and whilst it employs skilled, professional officers, they do not have the capacity to deliver this programme at pace and on their own. The Capital Strategy therefore relies on working with a broad range of partners, to share risk and reward through a 'mixed economy' of self-delivery, joint work with public sector partners through 'One Public Estate', partnerships with the private sector and alternative delivery vehicles such as our joint ventures with Norse and our own Medway Development Company.

### Our Capital Budget Setting Process

Medway's Draft Revenue Budgets and Capital Programme are developed through a process that begins in the summer of each year with the development of the Medium Term Financial Strategy, through a series of officer groups and member lead informal meetings to the passage of the draft budget through Cabinet and Overview and Scrutiny Committees. The Final Budget and Capital Programme are finally approved by Full Council in February of each year in advance of the financial year to which it relates. The formal process is for approval of the final capital programme within the revenue and capital budget is set out in the Council's Constitution, chapter 4.03: Budget and policy framework rules.

### Identifying the need for capital investment

The Council's Medium Term Financial Strategy (MTFS) is refreshed annually, with the process beginning in the spring of each year. All senior managers with budgetary responsibility are engaged in the process to identify both capital and revenue expenditure requirements for the coming year and make projections for requirements into the medium term.

A number of strands of work that take place across the council inform the capital requirements reflected in the MTFs. Our ambitious plans to continue the regeneration of the Medway area are set out in the Medway 2035 strategy and these are reflected in the MTFs, along with any additional opportunities to source funding and deliver further regeneration identified. Driven by our Property Strategy and Transport Strategy, detailed condition surveys of our property portfolio and highways infrastructure are commissioned to determine the scale and timescales for investment required. Our School Place Planning and condition surveys identify new build and maintenance works required to provide suitable classrooms for the projected increases in Medway's pupil cohort. Finally officers and Members working together to plan the future delivery of services may identify opportunities to deliver capital projects that will generate revenue income to contribute to the funding of services.

### Consideration of schemes to be included in the capital programme

Unless Council decides to remove any capital schemes from the programme, the future years' delivery and funding of schemes in the current year programme are rolled forward along with any underspends to form the basis of the new capital programme each year. Available capital funding will be matched to aspirations for new schemes to be added to the capital programme, with consideration of the following principals:

#### **Prudence:**

- Does the organisation have the capacity to deliver the proposed scheme?
- Does the organisation have the appropriate knowledge and skills available to deliver the proposed scheme, and is this in line with the Council's appetite for risk?
- Does the scheme support the delivery of the Council's future vision and plans?
- Where schemes are delivered for or through commercial purposes, are there arrangements to ensure effective due diligence, expert advice and scrutiny in place?
- Is the scheme in line with the Council's treasury management Strategy?

#### **Affordability:**

- Has appropriate funding been identified, i.e. specific grants/external funding?
- Have any revenue impacts of the scheme proposed on the Medium Term Financial Strategy been identified, and how are these funded?
- Does the scheme impact on the Council's borrowing position i.e. projections of external debt and on the use of internal borrowing to support capital expenditure?

#### **Sustainability:**

- Has a long-term view of capital expenditure plans, where long term is defined by the financing strategy of and risks faced with reference to the life of the project/assets;
- Has provision for the repayment of debt over the life of the underlying debt been made, as set out in the Minimum Revenue Provision policy;
- Is the scheme in line with asset management planning including maintenance requirements and planned disposals?
- Has the Chief Finance Officer taken an overall view on the prudence, affordability and sustainability of the overall borrowing level required if the scheme is included in the capital programme?

### Options Appraisals, Feasibility Studies and the Gateway Review Process

As part of the process of producing a list of potential schemes for the capital programme service managers should complete option appraisals to determine the most cost effective and best service delivery options.

By submitting the project the service manager is agreeing to fund all operational and running costs of the scheme and to find any necessary capital resources to fund the scheme or make the Cabinet aware of the full requirement of the use of corporate resources.

Some projects may require a feasibility study. As part of any feasibility study an assessment of the maintenance costs per annum averaged over the whole life of the asset should be calculated. As a minimum this will be based on the RICS (Royal Institute of Chartered Surveyors) recommended benchmark figure prevailing at the time.

For major, complex and strategic projects, as part of setting the capital programme for new schemes and additions a Gateway Review process will operate. This will operate in the following four stages:

#### **Stage One – Project Initiation**

- the initial scheme submitted would be to enable the preparation of the initial project brief;
- at the culmination of this stage a detailed Gateway Review would be undertaken to sign off the direction of travel, noting the project risks and the initial projection of investment required to realise the project;

#### **Stage Two – Project Development**

- approval would be sought to proceed to the next stage with resource allocated to enable the project to be taken forward to a fully developed design;
- at the culmination of this stage a detailed Gateway Review would be undertaken to sign off the direction of travel, noting the project risks and the projection of investment required to realise the project;

#### **Stage Three – Project Implementation**

- approval would be sought to proceed to the next stage with resource allocated to take the project through the technical design stage to project tendering;
- at the culmination of the tendering stage a review would be undertaken against the approved budget and the investment decision agreed for the appointment of the main contractor;

#### **Stage Four – Project Review**

- a final Gateway Review would be undertaken considering whether the project has met its initial objectives and reviewing all lessons learned.
- further resources to progress any of these gateway schemes will need to be approved separately by Cabinet and/or as part of the annual review of the capital programme and would be subject to the relevant resources being available.

### **Governance and Member approval process**

In advance of the formal approval of the capital programme, a range of formal and informal officer and member groups contribute to its development through consideration of proposals for schemes. In addition these groups may consider proposals for additions to the capital programme during the year as opportunities or the need arises. These are presented below in a chronological order in terms of the development of the capital programme, however not all schemes will flow through each stage/group.

#### **June – October:**

- **Informal – Departmental and Corporate Management Teams** – Through a range of activities including reviewing financial and council plan performance monitoring, formulation of strategy and plans to progress services and benchmarking with other service providers, senior management



identify proposals for future capital schemes, including invest to save opportunities where capital expenditure can yield ongoing revenue savings in future years.

- **Informal – Regular Cabinet Portfolio Holder and Senior Management meetings** – Medway’s lead members work closely with senior management in their respective areas, receiving briefings on progress against plans and strategies, and on progress towards the formulation of savings and spending proposals towards delivering a balanced budget.
- **Informal – Regeneration Boards** – Attended by Lead Members from the administration along with representatives from the opposition group, a series of Boards monitor the Council’s progress against its objectives in delivering the major regeneration schemes the and senior officers
- **Informal – Transformation Board** – Attended by Lead Members with Transformation responsibilities, along with senior officers, this board manages the progress against the Council’s ongoing transformational change programmes, and considers proposals for the capital expenditure and commitment of future capital funds to the programme.
- **Formal – Cabinet Advisory Groups** – The Cabinet has established nine Advisory Groups to support the Cabinet in decision making and the development of policies, including one focussing on the Regeneration, Culture and Environment capital programme and another on the Children and Adults capital programme. While these groups have no decision making powers, they play a key role in reviewing, analysing and scrutinising progress against the agreed capital programmes in these areas.

Where these groups consider proposals for capital schemes for inclusion in the budget, at this stage funding details are sometimes unavailable, as Government funding allocations are announced later in the year. Where appropriate schemes will be reported to Members based on the schemes being subject to external funding approval.

#### **November to February:**

Based on the activities earlier in the year, a proposed overall capital programme total is then reported to Cabinet and Overview and Scrutiny Committees as part of the annual budget process, who then make recommendations on the overall capital programme.

- **Cabinet** – The Cabinet receive the draft Capital budget draft in November each year which is then subject to scrutiny via all the relevant scrutiny committees. Then the Cabinet receive the updated Capital budget in February each year and in turn make their recommendations to Full Council. Members approve the overall borrowing levels at the budget meeting in February each year as part of the Treasury Management Strategy. The taking of loans then becomes an operational decision for the Chief Finance Officer who will decide on the basis of the level of reserves and money market position whether borrowing should be met internally from the Capital Reserve/Capital Receipts or whether to enter into external borrowing.
- **Overview & Scrutiny Committees** – The Constitution sets out that Overview and Scrutiny Committees may assist the Council and the Cabinet in the development of the budget and policy framework by in-depth analysis of policy issues.
- **Council** – Full Council consider and approve the final capital programme within the capital and revenue budgets at their February meeting each year.

Once the Council has approved the capital programme, then expenditure can be committed against these approved schemes subject to the normal contract procedure rules and the terms and conditions of funding. Whether capital projects are funded from grant, contributions, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets or identified (and underwritten) savings or income streams.

## In Year Opportunities

In some instances, capital expenditure requirements and/or additional capital funding are identified outside of the budget setting process. Following consideration of the principals set out and having been endorsed via the governance strands set out above, formal approval is sought via a Capital Additions report to Council.

Requests for approval of revisions to the profiling of scheme expenditure across financial years and the movement of budget between schemes (known as a virement) will be considered by Cabinet at the appropriate points during the financial year.

Once the Capital Programme is approved by Council, the responsibility for ensuring that expenditure for each capital scheme remains within the approved budgets falls to the Cabinet in accordance with the scheme of delegation.

## Procurement and Value for Money

Medway Council's Category Management approach to procurement seeks to ensure the Council achieves value for money with its financial resources and complies with statutory requirements and regulations. Procurement processes the team undertakes on daily basis enable the Council to deliver its priorities as outlined in the Procurement Strategy 2016-2021. In procuring works, goods and services, the Council continuously seeks to deliver best value and to have a transparent process, which is open to scrutiny at all levels. The Council's Category Management Team support officers responsible for delivering the capital programme to ensure value for money is achieved, and that all procurement activities comply with EU procurement directives and adhere to the relevant requirements stipulated in directives.

## Monitoring of the Capital Programme Expenditure

Once detailed capital programmes have been approved by members, the financial spend is monitored and reported on a quarterly basis.

## Conclusions

Through the Council Plan and Medium Term Financial Strategy the Council has set its corporate objectives and identified a range of proposals and plans to deliver them, whilst ensuring that the Council manages its resources effectively. During the months leading up to the Council meeting on 21 February 2019, these plans will be formulated and consulted upon and the figures refined to produce a balanced budget and capital programme for 2019/20 and beyond.