

Our Capital Strategy

2019 – 2029



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Foreword

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.

Introduction by the Leader



I am pleased to present a refresh of Medway Council's Capital Strategy, which should be viewed alongside the Medium Term Financial Strategy and Treasury Management Strategy. The document was introduced last year and was perhaps a bit technical, focussing on the 'how', rather than the 'what' and 'why'. This iteration is much more comprehensive and aligns with the Council's strategic priorities more closely.

The strategy again starts by setting out the context and explains the funding available to us, but is then much stronger in articulating what it is the Council wants to achieve and why the proposed investment in capital is essential to delivering these aspirations.

Our current capital programme is worth over £280 million, however gone are the days when we managed an £80 million programme to build new academies. These days, new Education provision is delivered through the free schools programme. The focus of the Council's programme now is to regenerate Medway, creating homes and jobs for our residents, but we can't deliver these lofty ambitions unless we continue to do the basics. We maintain 840km of highway, provided council housing for over 3,000 families, have stewardship over a number of historical significant heritage assets and in spite of the move to academies, we still have a duty to ensure that there are sufficient school places for our children. We also want to continue to ensure that our residents have access to good quality facilities, leisure centres, play parks and other green spaces and of course our libraries and community hubs.

This comprehensive document identifies the Council's capital investment priorities for the medium to longer term and sets out a broad framework of how we intend to deliver and pay for them, through formulation of a detailed capital programme to go alongside our revenue budget requirements.

These are exciting times for Medway and strong financial plans are integral to delivering our aspirations for Medway and its residents.

Councillor Alan Jarrett
Leader of the Council

Funding the Capital Programme

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 value of assets funded from the capital programme is reflected in the Council's balance sheet under long term assets. The asset register and its value at 31 March 2019 is summarised in Table 1.

Table 1: Summary of Long Term Capital Assets as at 31 March 2019

Asset Category	No. of Assets	Cost / Valuation	Depreciation / Disposal	Net Book Value
		£	£	£
Council Dwellings (HRA)	3,006	167,074,000	0	167,074,000
Other Land and Buildings				
- Offices	27	16,039,527	(859,455)	15,180,072
- Depots	5	3,710,900	0	3,710,900
- Libraries / Community Hubs	16	6,627,000	(386,311)	6,240,689
- Schools Related Assets	219	92,503,296	(4,767,880)	87,735,416
- Parks and Open Spaces	55	10,653,582	(185,285)	10,468,297
- Community Centres	21	6,486,800	(39,574)	6,447,226
- Land / Allotments	37	26,547,893	(81,997)	26,465,896
- Shops/Commercial	67	16,434,400	(229,654)	16,204,746
- Service Provision	122	30,214,820	(1,128,429)	29,086,390
- Memorials / Religious	31	9,422,916	(1,217,321)	8,205,595
- Infrastructure / Highways	2	80,000	0	80,000
- Car Parks	124	70,878,005	(2,124,226)	68,753,779
- Public Conveniences	34	1,804,432	(139,527)	1,664,905
- Sports / Leisure	108	70,106,343	(1,296,619)	68,809,724
- Theatres	10	10,114,200	(292,850)	9,821,350
- HRA Garages	863	3,931,031	0	3,931,031
Vehicles, Plant and Equipment	161	15,944,514	(10,546,204)	5,398,310
Community Assets				
- Parks and Open Spaces	115	5,011,799	(3)	5,011,796
- Land / Allotments	375	3,185,749	(9,479)	3,176,270
- Sports / Leisure	2	216,498	(1,570)	214,927
- Memorials / Religious	8	17,311	0	17,311
Infrastructure and Highways	189	351,428,126	(205,980,568)	145,447,558
Heritage Assets	36	17,436,228	0	17,436,228
Investment Properties	15	16,966,500	0	16,966,500
Intangible Assets	12	5,022,896	(3,180,936)	1,841,959
Total Assets	5,660	957,858,766	(232,467,890)	725,390,876

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.

There are a variety 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 and the advantages, disadvantages, conditions and opportunities associated with each explored in this strategy.

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. 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.

The current capital programme assumes £34.8 million of capital grant funding, principally £24.5 million Local Growth Fund (LGF) grants rolled forward from previous years, but also around £4.0 million of new Local Transport Plan (LTP) grants and around £5.0 million ESFA funding for schools basic need and condition works. As Central Government makes future funding announcement and grant determinations are issued, these funds will be added to the programme in accordance with the Council's constitutional governance arrangements.

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 usually specify a five year deadline for spend; prior to this date a 10 year deadline was the norm. 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. Table 2 outlines the current position with regard to capital Section 106 contributions.

Since this sum represents income that is dependent on all development being delivered as planned, a cautious view is generally taken when formulating the capital programme, so 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 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.

Table 2: Summary of Capital Section 106 Developer Contributions

Category of Section 106 Contributions	Balance at 31/03/2019	Agreed S106's	Projected Balance	Current Committed	Funds Available
	£,000	£,000	£,000	£,000	£,000
Highways, Footways and Street Furniture	1,261.0	680.9	1,942.0	332.5	1,609.4
Environmental Services	88.6	4,605.0	4,693.6	0.0	4,693.6
Education / Schools	1,293.6	9,606.5	10,900.0	5,116.2	5,783.8
Early Help, Youth and Inclusion	25.7	0.0	25.7	0.0	25.7
Adult Social Care	30.8	0.0	30.8	0.0	30.8
Strategic Property and Energy	44.4	0.0	44.4	0.0	44.4
Open Spaces, Play Parks and Public Realm	1,307.6	5,268.5	6,576.1	1,082.0	5,494.1
Safer Communities	2.5	141.2	143.6	0.0	143.6
Strategic Housing	500.0	0.0	500.0	0.0	500.0
Sport, Leisure, Tourism and Heritage	10.2	1,234.5	1,244.7	0.0	1,244.7
Totals	4,564.4	21,536.6	26,101.0	6,530.8	19,570.2

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 current capital programme assumes £3.781million of schemes will be funded from capital receipts based on sales completed in previous years.

Table 3: Estimate of Uncommitted Capital Receipts

Source of Capital Receipts	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m	£m
Medway Development Company Ltd.	0.000	0.000	2.600	4.500	7.500	0.000
Rochester Riverside	0.000	0.000	2.086	0.719	3.545	2.483
Other Capital Receipts	0.024	1.000	0.050	3.000	0.000	0.000
Totals	0.024	1.000	4.736	8.219	11.045	2.483

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 Council’s prudential indicators can be found in the Council’s Treasury Strategy.

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.

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 should be made first 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.

Our Capital Budget Setting Process

Medway's capital programme is developed alongside the revenue budget, through a process that begins in the summer of each year with the Medium Term Financial Strategy and Capital Strategy and continues through detailed work led by portfolio holders and senior Council officers. Cabinet presents its draft proposals to Overview and Scrutiny committees in November, with the final budget and capital programme for the next financial year being approved by Full Council in the February. The formal process for approval of the final revenue budget and capital programme is set out in the Council's Constitution, chapter 4.03, the budget and policy framework rules.

Our Current Capital Programme 2018-2022

The Council's capital programme for the 2019/20 year was approved by Full Council in February 2019. Full Council have also approved capital additions during the year, adding schemes as funding has been made available, resulting in the agreed capital programme set out in the table below.

Table 4: Approved Capital Programme 2019/20

Funding Source	Children & Adults	RCET	HRA	Business Support	Member Priorities	Total Programme
	£m	£m	£m	£m	£m	£m
Prudential Borrowing	24.700	26.499	3.478	58.175	0.000	112.853
Borrowing in lieu of Capital Receipts	0.000	4.749	0.000	120.677	0.000	125.426
Capital Receipts	0.050	3.567	0.000	0.360	0.366	4.343
Capital Grants	3.216	34.822	0.000	0.005	0.000	38.043
RTB Receipts	0.000	0.000	1.235	0.000	0.000	1.235
S106 Contributions	5.116	1.415	0.000	0.000	0.000	6.531
Revenue / Reserves	0.019	0.001	6.557	0.862	0.000	7.439
Total Capital Programme	33.101	71.052	11.270	180.079	0.366	295.869

Medway: a place to be proud of

Transport and Highways

Transport is a key issue in Medway, affecting the economic success of the area 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. It is carried in the balance sheet at its depreciated historical cost, valued at £145 million, however its replacement cost is estimated at over £1.8 billion.

The network comprises four main road classifications:

- A Roads – Major roads intended to provide large-scale transport links within or between areas;
- B Roads – Roads intended to connect different areas, and to feed traffic between ‘A’ roads and smaller roads on the highway network;
- C Roads – Smaller roads intended to connect together unclassified roads with ‘A’ and ‘B’ roads, and often linking housing estates or a village to the rest of the highway network;
- Unclassified Roads – Local roads intended for local traffic, the vast majority of which serve housing estates or areas of local importance.

Table 5: Condition of Medway’s Highway Network

Road Classification	Total Network	Requiring Maintenance		National Comparator
A Roads	85.22km	1.96km	2.3%	3.0%
B Roads	31.63km	1.55km	4.9%	6.0%
C Roads	81.95km	3.36km	4.1%	6.0%
Unclassified Roads	640.00km	116.80km	20.0%	17.0%
Total	838.80km	123.67km		

We invest significant sums in our highway network, however the focus tends to be on our ‘A’, ‘B’ and ‘C’ roads. Medway’s key infrastructure, including the Medway Tunnel, is highly regarded by business and visitors to Medway, however we also need to recognise the importance of unclassified, residential streets to our residents and improve our performance in this regard. We also need to acknowledge that as the assets age, they require more investment to maintain them. At current investment levels and based upon detailed modelling of lifecycle costs, it is estimated that by 2027 around 241km of the network will require maintenance.

Each year, we spend around £6.0 million of revenue funding on maintaining our highways, together with £1.5 million of capital receipts, supplementing circa £2.5 million of LTP grant and several hundred thousand pounds of pothole grant and DfT Incentive funding. Around £500,000 per annum is allocated in the revenue budget to meet the annual maintenance and running costs for the Medway Tunnel, however the actual requirement is estimated at a further £700,000 for which no funding, revenue or capital, exists since the original endowment was exhausted. Representations have been made to the Department for Transport for additional grant funding, but as yet this has not been confirmed. The service estimates that in order to maintain the highway network and other key infrastructure at current levels, it would need the following revenue and capital budgets:

Table 6: Investment required to maintain the Highway Network at current levels

Expenditure Heading	2019/20 Budget £,000	2020/21 Forecast £,000	2021/22 Forecast £,000	2022/23 Forecast £,000	2023/24 Forecast £,000
Revenue Expenditure					
- Highway Maintenance (+3% pa)	5,334	5,494	5,659	5,829	6,003
- Tunnel Maintenance (+3% pa)	507	1,300	1,339	1,379	1,420
- White-lining (+3% pa)	120	216	223	229	236
	5,961	7,010	7,220	7,437	7,660
Capital Expenditure					
- Carriageways	1,700	3,600	3,600	3,600	3,600
- Medway Tunnel	0	1,100	300	1,500	0
- Footways	895	895	1,216	1,216	1,216
	2,595	5,595	5,116	6,316	4,816
Annual Budget Requirement	8,556	12,605	12,336	13,753	12,476

Local Growth Fund (LGF)

The current capital programme still includes around £28.6 million of LGF grant funded schemes for essential infrastructure to improve access and reduce journey times on the A289, in Chatham and Strood town centres and on Medway City Estate. It also includes £2.5 million to expand the cycling network.

Public Transport

The longer term solution to the congestion issues in Medway has to be through encouraging people to leave their cars at home and use public transport. In addition to our dynamic bus facility outside the Pentagon Centre in Chatham, we have seen Network Rail invest around £X million to improve our railway stations and create a real sense of arrival at an attractive and thriving destination. Over the longer term, we intend to explore other more innovative options including potentially trams, a monorail and the opportunity for a water taxi service, exploiting our waterfront location.

Street Lighting

The Street Lighting Network is composed of 25,667 street lights of which 4,526 (17%) will have been converted to LED by the end of the financial year. The composition of the lighting column stock, as it will be at March 2020, is summarised below:

Type of Column	No. Columns
Concrete	3,624
Steel	13,609
Aluminium	8,434
Total	25,667

In his budget speech on the 21 February 2019, the Leader of the Council stated his intention to replace all street lighting with LED lamps. However, in order to achieve this all concrete columns and a handful of the oldest steel columns will need to be replaced and it is estimated that the cost of a capital scheme to replace nearly 4,700 columns and over 21,000 lamps with LED lighting units, is likely to be around £14 million. A consultant has been engaged to carry out a full options appraisal and develop a specification for the project and it is anticipated that the energy saving generated will be sufficient to cover the cost of borrowing the capital funding required. The options appraisal will also look at the potential to implement a central management system (CMS) to maximise the energy savings through night time dimming, but also to enable the Council's wider 'Smart City' aspirations. It is hoped that the two year programme of column and lighting unit replacements will commence in April 2020.

Environmental Services

Waste collection and street cleaning affect every household in Medway and are key services upon which the authority is judged. It is consistently rated by residents among the top five Council services. There are over 18 million collections undertaken a year, 840km of public highway needs to be cleaned regularly and 339,000 household collections weekly. Annually the services cost the authority approximately £23 million for waste collection, waste disposal and street cleaning services. There is significant direct and indirect investment in infrastructure needed to support service delivery.

The collection service fleet comprises 46 vehicles, owned by Medway Council, but which will need to be maintained and operated by Medway Norse from October 2019. The fleet was purchased in 2013 for around £7 million and will need to be replaced in 2021. A direct 'like for like' replacement would cost somewhere in the region of £8-9 million, however in early 2019 the Government announced a series of consultations on the National Waste and Resource Strategy. We anticipate that this review will determine the future direction of waste services, influencing service design and the specification and number of vehicles required post-2021.

A new fleet of 36 street cleaning vehicles has been purchased via the Medway Norse joint venture at a value of approximately £2.4 million. Its life expectancy is between 6-7 years, depending on vehicle type and usage.

When the collection service transfers to Medway Norse in October 2019, we will no longer have access to Veolia's depot and so in April 2019 the Council agreed to borrow £9 million for a new depot facility. This new depot will be fit for purpose, on a site sufficiently large to accommodate future demand as the number of households in Medway grows. This will also enable co-location of all services currently delivered by Medway Norse including facilities management, SEN transport and green spaces.

A key feature on this new site will also be the bulking, for onwards transfer, of recycle materials. Within the Medway's boundary there is currently only one site that can facilitate this transfer of materials. This is not a financially sustainable solution. By having a depot that can handle this material, we can regain ownership of these resources and be a better position to achieve value for money in our recycle sales. The new depot needs to be fully operational by October 2021.

Looking at the wider facilities for material treatment in Kent, there is a significant lack of waste processing facilities. Medway Council's waste alone is not of a high enough tonnage to attract investment for these types of facilities, but opportunities will be explored in partnership with Kent County Council for future developments. The timeframes for these discussions will vary. The MRF (materials recycling facility) contract is linked to the transfer station deal mentioned above and will run until the new depot is commissioned. The IVC (in vessel composting) contract for the treatment of mixed food and garden waste runs until 2025. A review on service needs should be undertaken in 2020/21 ahead of new fleet purchase and this will lay out our treatment requirements post 2025. Options will be to either continue with IVC or change the collection service to enable a mixture of traditional windrow composting for garden waste and Anaerobic Digestion (AD) for separately collected food waste. Opportunities may be available to work in partnership with KCC to build a facility within the Kent area. These options are likely to need capital investment, either directly or via longer-term contract arrangements.

The Waste disposal contract runs until 2035 with possible extension of up to five years. With the build of the new EFW (energy from waste) facility in Sittingbourne, it is unlikely that Medway will need investment into waste disposal with the term of this strategy.

Medway is relatively unusual as it has three housing waste recycling centres within its boundary, however each one of these facilities has a small foot print and no available room for expansion. With a 12.8% population growth by 2035, this will have a significant impact on these already stretched facilities. Annual footfall is over 500,000 and is only likely to increase.

In June 2019 KCC introduced charges for the disposal of 'non household waste' items, such as rubble, hard-core, plasterboard. Medway has entered into an agreement until the end of this financial year to allow usage of the sites by KCC residents. Capital work has been undertaken in early 2019 to change around the entrances to the sites to facilitate an ID checking process. Data is being gathered on KCC usage since June 2019 and will be available by the end of 2019. KCC is also planning on opening a new facility in the Tonbridge and Malling area, likely to be relatively close to Medway's boundary. The impact this will have to be assessed. but it could affect the viability of the Cuxton facility. This could provide an opportunity for conversion into a commercial waste site or offer a potential capital receipt. If the Housing Infrastructure Fund bid is successful, it may represent an opportunity to replace the Cuxton facility elsewhere in Medway to better serve our residents.

Green Spaces

Capital investment in Medway's green spaces is required to ensure that residents and visitors have access to safe equipment designed to meet the increasingly diverse range of user needs. The Open Space

Improvement Plan audited existing needs and has forecast and prioritised future capital investments. This work is complemented by a more immediate risk based report (Play Improvements Report). This sets out the top three priorities for play investment each year for three years. Improvements to play facilities are estimated to require a minimum of £300,000 per annum. This figure is in excess of the available green spaces budget. To ensure green space investment can be linked to growth, the Medway Guide to Developer Contributions and Obligations (May 2018) allocates £2,551 per new dwelling towards Section 106 compliant investments, i.e. those close to the proposed development, which are proportionate and have a direct link to the scheme. Often the priority play investments required do not mirror the contributions coming forward. Previous external funding, such as the Land Fill Tax and Heritage Lottery Fund, are no longer an option. The Capital Strategy should address the need for investment in play provision, in order to comply with risk assessments and to avoid site closures.

Sport and Leisure

We operate four sports centres across Medway plus the Strand open air swimming pool, generating £3.5m income and two million visits per year. In addition, we support two further centres at Lordswood and Kings Rochester. We bring national and international sporting events to Medway, and stage an array of activities from mass participation events such as the Medway Mile through to the annual Mini Youth Games primary schools competition. Some key information and the investment required to the assets is summarised in Table 7.

Table 7: Medway owned leisure centres

Leisure Services Assets	Membership Nos.	Visitor Nos. 2018/19	Turnover 2018/19 £	Investment Required £
Medway Park Leisure Centre	5,118	788,818	1,629,358	£5m
Strood Leisure Centre	2,197	295,453	899,521	£300,000
Splashes Leisure Centre	889	224,240	519,673	£8m - £22m
Hoo Leisure Centre	974	154,204	365,618	£16m - £22m
Total Assets	9,178	1,462,715	3,414,170	£30m - £50m

It is nine years since the Black Lion underwent an £11 million transformation into Medway Park regional centre of sporting excellence. Since opening Medway Park has staged international competitions, Olympic training camps as well as contributing nearly half the income of the sports centres each year, welcoming more than 750,000 visitors each year.

This places significant demands on the building and requires significant funding to maintain and enhance facilities. Investment has benefitted the main sports hall and (shortly) the swimming pool plant but an extension to the gym allied to an upgrading of the equipment will enhance the ability to compete with increasing private sector competition, particularly at the low-cost end of the market. Greater investment across the centre would enable Medway Park to continue attracting national and international sporting events, putting 'Medway On The Map'.

The refurbished Strood sports centre is not in need of wholesale capital investment, however there are areas which were not included in the £2m refurbishment. Upgrading the pool plant, refurbishing the changing rooms and reconfiguring the soccer centre to create 7-a-side pitches would benefit customers and help the centre in an increasingly competitive market.

Members recognise the need for a strategic vision to modernise Splashes through new facilities or extensive refurbishment of the current centre. An options and appraisal has been undertaken, looking at a

range of options from refurbishing and extending through to a completely new centre. These options ranged between circa £8 million and £22 million.

The development of a new sports centre on the Hoo peninsula is viewed by the administration as integral to its vision for this part of Medway. As part of the Housing Infrastructure Fund plans, an area of land has been earmarked for sports centre development close to the proposed new railway station. Detailed plans and the business operating model will be progressed in line with the overall planning and development on the peninsula, so a definitive timescale has not been determined. In the meantime, the Council will continue to operate the existing Hoo sports centre whilst seeking to minimise extensive capital outlay.

The Strand celebrates its 125th anniversary in 2021 and we will be seeking Green Flag status. The Council's greenspace development team have been looking at options for developing the parkland areas, while the sport, leisure, tourism and heritage service maintains responsibility for the outdoor swimming pool and neighbouring paddling pool. The focus is on replacing the outdated paddling pool with a modern, suitable fun play area using S106 funding due from the Chatham Waters development nearby.

Heritage Assets

Medway Council owns a significant number of heritage assets, held purely to increase the knowledge, understanding and appreciation of the area's history. They act as a backdrop for the Council's cultural and events offer and it's important that we cherish these assets. Those of significant financial worth are recognised in the Council's asset register and balance sheet using the latest insurance valuation. The value of these assets is summarised in Table 8.

Table 8: Heritage Assets

Heritage Asset	No. of Assets	Valuation
		£,000
Rochester Castle Keep	1	2,690,749
Temple Manor	1	2,275,801
Eastgate House	1	6,174,711
Brook Pumping Station	1	557,816
Various Clocks and Memorials	13	74,083
Art, Furniture, Gold, Silver and Other	19	5,663,067
Total Assets	36	17,436,228

In addition to those under direct ownership, the Council is also responsible for the care and maintenance of other heritage assets within Medway, not least the Elizabethan defences at Upnor Castle, but also surviving elements of the original city wall around Rochester. These assets have survived for hundreds and in some cases over a thousand years and so in trying to prioritise scarce resources, provision for their care can be neglected. The most important issue though, in the care of these assets, is public health and safety and so it is right that they should feature in a comprehensive capital strategy.

The Council's most significant heritage buildings – Rochester Castle, Temple Manor and Upnor Castle – are maintained through a local management agreement with English Heritage, under which essential maintenance work is commissioned by the Council, but the cost shared 50/50 with English Heritage. The current capital programme includes £500,000 over a five year period to fund this work, however a recent survey of Rochester Castle by external consultants identified circa £1.5 million of restoration works.

The number of visitors annually to Rochester Castle is considerably below those to places such as Leeds Castle and Dover Castle. To address this the heritage team has been talking to English Heritage about options to develop the attraction to increase visitor numbers and create the cornerstone of Medway's

heritage offer. Detailed plans have yet to be produced and it is recognised any development will need to be tackled sensitively and sympathetically, but with Rochester Castle celebrating its 900th anniversary in 2027, this sets a timeframe for any work.

The chalet used by Charles Dickens to write many of his later novels sits in the grounds of Eastgate House. It has deteriorated to the point where access to the chalet is not permissible. Three previous funding bids to the Heritage Lottery Fund have been unsuccessful. Basic renovation of the structure is estimated at £300,000 and it is hoped that work may be possible in 2020, when Medway commemorates the 150th anniversary of Dickens' death.

The 17th Century Guildhall Museum building needs updating and refurbishment in both visitor and staff areas. Detailed plans have yet to be prepared, however in his budget speech the Leader allocated £120,000 of the capital receipt from sale of the Conservancy Building towards this work

River Walls

The Council owns and is responsible for several areas of river frontage within Medway, some of which serve to protect against flood risk. These include Chatham Waterfront, Rochester Riverside and Strood Riverside. As a coastal protection authority, the Council has permissive powers under the Coastal Protection Act 1949 to protect the coast from erosion and encroachment by the sea. The legislation does not make it a statutory requirement to defend the coast, but most coastal councils choose to be active in coastal protection. The CPA 1949 explicitly defines Medway Council's area of responsibility for this remit from Horseshoe Point, Isle of Grain to the westernmost point of Dagnum Saltings in Allhallows. Therefore, the responsibility for asset management of river walls does not strictly sit under this legislative role or executive function.

There are no records of any historic maintenance of the Rochester Riverside river wall since its construction, however during 2017, Barn Nuttall undertook a quantity surveying exercise to establish the long term costs of maintenance, based on an assessment and forecast of maintenance requirements for the next 70 years. Inclusive of inspection requirements, incidental repairs and scheduled maintenance, including replacement costs during the lifetime of the assets, this exercise estimated a total potential cost of £5.2 million. Section 106 funding of around £4.5 million should be available and there will be an additional income of approximately £60,000 per year in rent charges once the scheme is completed in 2028.

The river walls at Strood Riverside (including Canal Road and Civic Centre) are due for completion in June 2019. The ongoing maintenance requirements have not yet been established, although potentially the costs could be paid for via a maintenance charge to new residents.

It is clear that the Council needs to put in place arrangements for the management of these assets and officers are considering two options. The first would be to engage a third party consultancy via the highway infrastructure contract with Volker. The other option would be to out source the surveying, inspection, contract management and site supervision work to the East Kent Engineering Partnership (EKEP), established by the four East Kent coastal authorities.

Libraries and Community Hubs

The Council has a long standing ambition to transform its Libraries into Community Hubs. Thus far, hubs have been created at Gillingham, Chatham, Rochester, Strood and most recently Twydall.

The principle of Community Hubs is to sweat the highly regarded library spaces, providing the public with facilities at which they can access a variety of other services and make direct contact with the Council to make enquiries, report issues and apply and pay for services. As well as improving the customer

experience, the investment serves to improve the fabric of the buildings and make improvements to the interior layout making them more accessible and comfortable for visitors.

Improvements to the layout provides more flexible space for local community groups to run activities and engage with their customers. Also, the hubs offer access to computers and free internet use and Council officers are available to provide assisted digital support, as well as support from staff and volunteer 'computer buddies'.

The next stage of the Community Hub programme is the creation of a hub at Wigmore Library. The proposed new hub is being managed through a Member and officer board. The Capital Programme includes £250,000 for the creation of this hub and plans are being put in place for completion by the end of the financial year. The board are also considering further potential developments at the Rainham and Hook Meadow Libraries.

Maximising regeneration and economic growth

Homes for All

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.

The Council is tackling this challenge head on, with a major regeneration programme focussing on three key housing sites, Rochester Riverside, Strood Waterfront and Chatham Waterfront. Other sites will also be developed though our own housing company.

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. After repaying the 'Growing Places' funding and other debt incurred in the scheme and paying almost 69% of the residual receipts to Homes England, the Council should be left with around £8.8 million of uncommitted capital receipts, not to mention £15.8 million of Section 106 developer contributions to fund future capital investment.

Table 9: Rochester Riverside

Rochester Riverside Receipts	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
	£m	£m	£m	£m	£m	£m	£m
Total capital receipts due	2.897	2.067	8.205	2.291	11.297	7.912	34.719
Initial receipts required to repay borrowing	(2.897)	(2.067)	(1.557)	0.000	0.000	0.000	(6.571)
Share of receipts due to Homes England (68.62%)	0.000	0.000	(4.562)	(1.572)	(7.752)	(5.429)	(19.315)
Share of receipts available to Council (31.38%)	0.000	0.000	2.086	0.719	3.545	2.483	8.833
Total Section 106 contributions due	2.540	2.698	2.223	2.712	2.987	2.607	15.767
Total funds available to the Council	2.540	2.698	4.309	3.431	6.532	5.090	24.600

Strood Waterfront will developed over a period of 8 - 12 years, depending on the developer and method of construction used, and will deliver c. 1,200 new homes on the Medway owned sites of Strood Riverside and the former Civic Centre site. A developer is likely to begin construction on the former Civic Centre site by December 2021 and Riverside in January 2023. Both sites were at considerable risk of river tidal and

surface water flooding and required protection works before they could be redeveloped. Now these works are complete, there is the potential to transform the waterfront into an area of prime, high quality residential led mixed use development, with potential for premium housing, offering fantastic views of Rochester Castle and Rochester Cathedral and access to the River Medway. Regeneration of the waterfront will provide employment land, targeted at SMEs, encouraging local cafes, restaurants and independent retailers. The combination of the flood defence works, housing development and commercial use will create an estimated 2,000 jobs.

Medway was awarded £3.5 million funding from the Government's Local Growth Fund (LGF) round 3 in 2018 for the flood defence works on the former Civic Centre site, which is to be developed as a priority as it by far the council's most prestigious development site. Medway has invested a further £8.5million to complete the flood defence works, and prepare the land for residential development. Capital receipts of £3.6 million on the Civic Centre site, and £179,000 on the Riverside site are likely to be realised over the build period, however these figures could change depending on the market at time of sale.

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.

Medway Development Company Ltd.

Medway Council is making considerable investments into its urban spaces and the development of new housing is an integral part of this process. With Medway becoming increasingly attractive, the Council as a significant land holder can play an important role in helping to alleviate this pressure. New homes also reinforce economic growth for local businesses and good quality housing can revitalise areas.

Consequently, Medway Council has created Medway Development Company Ltd to bring forward housing sites. Having a directly owned company gives Medway Council the ability to control the specification and quality of new developments and align them to the Council's regeneration aspirations. As importantly, it allows the Council to retain that element of the cost that would ordinarily go to the developer and this can be as much as 30% of the cost. Since the company commenced its operations in 2018, it has obtained planning approval for 354 homes and MDC will commence building out the first phase of its £120 million programme later this year. Table 10 provides a summary of the early phases and the net capital receipts that the Council can expect over the next few years.

Table 10: Medway Development Company Ltd. five year programme

Development Sites	Progress	Anticipated Commencement	Anticipated Completion	Estimated Financial Return
Whiffens Avenue Car Park and White Road	Planning approved. Schemes progressing towards construction phase.	Start on site Autumn 2019 subject to appointment of contractor.	Autumn 2021 - Winter 2021	£2.6m
Chatham Waterfront and Britton Farm	Planning approved. Enabling works in progress.	Started on site August 2019, Contract Management contractor appointed.	Winter 2021 - Spring 2022	£4.5m
Rochester High Street (two car park sites)	Some early analysis completed	Summer 2021	Summer 2023	£1.5m - £2m
Mountbatten House	Some early analysis completed	Autumn 2021	Winter 2023	£6m

Social Housing

Following announcements from the Government in Autumn 2018, the borrowing cap for the Housing Revenue Account (HRA) has been abolished. What this means in practice is that the HRA can borrow additional money to fund housing development. Capacity for additional borrowing is tested against the HRA business plan to ensure that the HRA can generate enough income to service the additional borrowing, as

well as managing and maintaining the existing housing stock. Work is ongoing to identify appropriate vacant sites within the HRA, as well as opportunities for estate regeneration with the aim of creating additional homes that are owned and managed by the HRA.

The HRA is currently in the second of a three year maintenance programme (2018/19 – 2020/21 inclusive). The capital requirements of the stock have been mapped over a 30 year time period and this data factored in to the HRA business plan, with funding coming from major repair reserves, topped up with contributions from HRA revenues.

Disabled Facilities Grant

The Disabled Facilities Grant (DFG) is a means tested grant of up to £30,000 to provide adaptations in people's homes that will make them more accessible works can include, but are not limited to, stair lifts, ramps and bathroom adaptations . The grant is entirely funded as part of the Better Care Fund and amounts to around £1.8 million per annum.

Temporary Accommodation

The Council continues to explore cost effective mechanisms to provide temporary accommodation provision, a statutory duty that arises from the Housing Act for certain households. In order to provide greater certainty for both cost and supply of accommodation, options are being explored for the Council to intervene more directly in the market. Whilst the specifics of the model are still being developed a potential option would be for the Council to purchase houses that could be used to fulfil this obligation.

Town Centres and High Streets

Medway has a high concentration of town centres, with its population serviced by five separate High Streets. A national picture of declining town centre retail represents a particular challenge for local authorities and so our High Streets must be a focal point for investment. To this end, we have submitted bid proposals to the Local Growth Fund, Future High Streets Fund and High Streets Heritage Action Zones Fund for Gillingham, Chatham and Rochester respectively.

Medway Council submitted an expression of interest to the Government in March, in relation to its Future High Streets Fund, for a share of £675 million to further transform Chatham High Street. We are one of just 51 areas across the country to be taken through to the second phase of the process. The Future High Streets Fund could unlock £14 million, which would be invested in Chatham to promote economic growth, increase housing, create more jobs and provide a vibrant town centre experience. Officers are in the process of drawing up more detailed proposals.

We will also continue to work on proposals to build upon the exciting opportunities presented by our purchase of the Pentagon Centre head lease and through the pipeline of sites to be developed by MDC Ltd. we will focus new residential development in areas that will directly support our High Streets.

Innovation Park Medway and the Enterprise Zone

In addition to quality homes, our regeneration programme aims to create jobs by creating new employment space and attracting new business to the area. Innovation Park Medway (IPM) will make a significant contribution towards this aim.

IPM presents an important opportunity to help shape the economic future of the region, attracting investment and growth to the area by bringing forward 3,300 high quality jobs and enabling businesses to realise the benefits offered from operating in an Enterprise Zone. To date the IPM project has been awarded £8.89 million funding from the Government's Local Growth Fund (LGF), Growing Places Fund (GPF) and Sector Support Fund, through the South East Local Enterprise Partnership (SELEP):

- £4.4million for the enabling infrastructure improvements at Rochester Airport (LGF round 2);

- £3.7m for the enabling infrastructure and utilities on phase 1 of the northern site (LGF round 3);
- £650,000 for the initial phase of delivery of the southern site (GPF);
- £141,000 grant from the Sector Support Fund, supplementing £422,500 of the Council's own money, towards the development of a masterplan and Local Development Order (LDO).

An allocation of £1.5m has also been made from the LGF round 3b for enabling infrastructure on phase two of the northern site. The full business case was submitted in July for presentation at the SELEP Accountability Board in September.

However, realising the Council's vision and maximising the full potential of IPM will require further capital investment to encourage sustained growth in line with the design ambitions set out in the Masterplan, Design Code and LDO. In order to attract the businesses who will deliver this vision, the following additional elements have been identified as priority interventions to encourage investment in the site, setting the standard of high quality development and gateway buildings, and giving early adopters confidence of delivery:

- £14.5 million to build a landmark six storey building on the northern site. Council have already agreed this funding, with repayment of the loan being met from the rental income generated;
- £3.7 million for public realm at the Northern gateway (phase 1). This will be covered by capital receipts from the disposal of sites on long leaseholds;
- A further £6.6 million for infrastructure and public realm on the Northern site (phase 2). This will again be met from capital receipts generated from site disposals.

The rent from the landmark building is expected to generate around £22.9 million over the next 25 years, whilst overall business rates income from the whole site is estimated at around £64.0 million over the same period, representing over £5.0 million per annum by 2042. We expect the phased sale of plots on long leaseholds to generate capital receipts of between £22 million and £37 million over the period to 2034, however in the early years these will be used to repay borrowing in order to protect the revenue budget.

Housing Infrastructure Fund Bid

The Council awaits an announcement from the Ministry of Housing, Communities and Local Government on Medway's £170 million Housing Infrastructure Fund (HIF) bid, which will support investment in road, rail and strategic environmental schemes. Once confirmed, the Council will establish a dedicated team to coordinate and deliver the HIF programme between 2019 and 2024. HIF is set to cover 100% of the proposed road, rail and strategic environmental investment costs. It is not a loan and no direct match is required, it will however be complemented by developer contributions. The HIF scheme will be based on a retrospective claims process, with evidenced claims for works completed and money paid, being made to MHCLG. It has been calculated that based on a 3% interest rate, the need to support retrospective claims will expose the treasury budget to interest costs of around £675,000 over four years. Any HIF related overspends will need to be addressed by the local authority.

Supporting Medway's people to realise their potential

The basic need for school places

The Council has a statutory responsibility to ensure that there are sufficient school places in Medway for all of its children. Medway's Local Plan, which is due to be published in 2020, highlights the need for an additional 29,000 homes across Medway up until 2035. The total population is expected to increase from 278,000 to 317,500 during that time.

Primary places are generally healthy, with sufficient places available across the majority of Medway for the next five years. The area around Hoo and Chattenden, where there continues to be significant housing development, represents a localised pocket of emerging need. Whilst there are available places in the

neighbouring areas of Peninsula East and Strood, the distance pupils may need to travel to access these areas from Hoo is far from ideal. There are options to provide additional places in the area at local schools, but this will require approximately £2 million, which the capital programme currently does not have.

The Council could borrow in advance of future developer contributions to provide the additional places in the area, but the amount and timing of these contributions is not guaranteed. An alternative strategy would be to wait until sufficient funding is available for further expansions and accept that pupils will have to travel to schools in either Strood or Peninsula East. This could result in additional traffic in the Four Elms area and may incur additional transport costs of around £25,000 a year to the revenue budget.

Longer term, housing development flowing from the Local Plan will further increase demand for primary school places across Medway and it is expected that significant additional primary school places will need to be delivered through a mix of both new free schools and expansions. Whilst it will be dependent upon the locations and timings of the new developments, Medway is likely to need an extra 24 forms of entry over the next 20 years, requiring up to £60 million of capital investment. Much of that cost should be met through S106 contributions, however these cannot be guaranteed and the timing of receipts is unlikely to match demand.

Table 11: Primary school places

Year	Pupils	Places	Surplus	Surplus %
2018	24,331	25,732	1,401	5%
2019	24,784	26,031	1,247	5%
2020	25,038	26,335	1,297	5%
2021	25,031	26,585	1,554	6%
2022	24,850	26,805	1,955	7%
2023	24,664	26,960	2,296	9%
2024	24,575	27,085	2,510	9%

Whilst Table 11 indicates a sufficiency of primary places overall, it is expected that the numbers of pupils will rise with the arrival new housing developments particularly those in the latter half of the table.

Table 12: Non-selective year 7 places

Year	Pupils	Places	Surplus	Surplus %
2018	2,371	2,390	19	1%
2019	2,412	2,390	(22)	-1%
2020	2,518	2,500	(18)	-1%
2021	2,546	2,500	(46)	-2%
2022	2,639	2,680	41	2%
2023	2,642	2,680	38	1%
2024	2,556	2,680	124	5%
2025	2,550	2,680	130	5%
2026	2,574	2,680	106	4%
2027	2,657	2,680	23	1%
2028	2,498	2,680	182	7%

The increase in primary school pupils will eventually transfer into secondary, as illustrated in Table 12. The additional places provided by the two new free schools funded by Central Government, should mean sufficient places over the next ten years. Naturally, the impact of the new housing will need to be monitored and over time new provision will be required, again through a mix of new and expanding provision. It is likely that around 18 additional forms of entry will be required, requiring around £70 million

to deliver. The cost of these will need to be met through either S106 contributions or free school bids, as future rounds are announced.

Table 13 shows that, despite recent expansions at three schools, there remains significant pressure on grammar school intakes, with expected oversubscription every year going forward.

Table 13: Selective year 7 places

Year	Pupils	Places	Surplus	Surplus %
2018	1,049	942	(107)	-11%
2019	1,072	1,025	(47)	-5%
2020	1,119	1,055	(64)	-6%
2021	1,132	1,055	(77)	-7%
2022	1,173	1,055	(118)	-11%
2023	1,174	1,055	(119)	-11%
2024	1,136	1,055	(81)	-8%
2025	1,133	1,055	(78)	-7%
2026	1,144	1,055	(89)	-8%
2027	1,181	1,055	(126)	-12%
2028	1,110	1,055	(55)	-5%

No new grant funding will be made available to local authorities for grammar school expansions and legislation does not permit the establishment of new selective schools. Therefore, options to provide additional places are limited:

- Recent changes to admissions criteria for grammar schools will mean that over time the numbers of out of area pupils taking grammar school places will reduce;
- The Council could borrow around £7 million to provide additional capacity within current grammar schools. However, this would impact on the general fund revenue budgets and as our grammar schools are reaching site saturation, it is estimated that only a further three forms of entry could realistically be provided in this way;
- We could support academy trusts in bidding for Central Government's Selective Schools Expansion Fund (SSEF) to acquire funding to self-deliver additional capacity;
- We could look to establish an annexe to one of the current grammar schools, ideally in the Strood or Peninsula area, which could provide the additional places and reduce travel patterns and times for those 1,100 pupils that travel across the river to attend grammar schools each day. This would however require an estimated £25 million to build the school and a suitable site would need to be identified, as well as a lengthy process to acquire DfE approval;
- Reduce the numbers of pupils eligible for places so that only the available places are filled. This would mean increasing the pass mark, creating a super selective system and potentially reducing social mobility.

Perhaps the most urgent and pressing issues affecting the education system in Medway is the availability of special school places. To assess the extent of this, a needs analysis has been undertaken which highlights a particular need for pupils with Autistic Spectrum Disorder (ASD), Social Emotional and Mental Health (SEMH) and Severe Learning Difficulties (SLD)/ Profound and Multiple Learning Difficulties (PMLD).

Wherever possible, children with SEND should be placed within a mainstream setting with appropriate support in place. However, compared with other local authority areas in the South East our mainstream schools are less inclusive, with only 36.7% of our SEND pupils supported in mainstream education, compared to around 46.7% nationally. This ranks Medway 122 out of 151 for inclusion nationally, and third from the bottom compared with our statistical neighbours.

Officers are currently working with the DfE and the Parallel Learning Trust (PLT) to explore the option of relocating and expanding the Inspire Free School from its current restricted site to a larger site at Cornwallis Avenue in Gillingham. This will provide 160 places for pupils with the range of needs highlighted above, creating a 'learning village' environment. This will be funded via the DfE's free school programme, with the Council contributing the site.

Beyond this, more provision will be required going forward as numbers increase. The government has made available £2.3m for Medway to provide additional provision over a three year period, and this funding is allocated to projects which will increase the supply of places in the system.

Further rounds of free school bidding may become available in the future and the Council must look to ensure that it is well placed to tender a successful bid, however at this time we are not aware when the next round will be.

In the past developer contributions from S106 agreements have not been allocated to SEND projects, however, going forward SEND projects will be considered for the use of this funding. Whenever a new mainstream school is being built, consideration should be given to including additional SEND provision within the scheme.

Giving value for money

The Corporate Property Strategy

The Council maintains and operates a wide range of assets, representing a significant proportion of our overall asset register. We provide services from 340 operational buildings and a further 581 operational sites, including 65 car parks and 425 parks and greenspaces, 33 shops and business centres, four 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.

Maintaining our Operational Buildings

A complete condition survey of the Council's property portfolio in 2017 identified a maintenance need of around £9.2 million over a five year period, including priority 1 health and safety requirements, which would have needed planned investment of almost £1.8 million per annum. Taking into account the planned maintenance budget within the Medway Norse core contract, there is around £500,000 available each year to fund the Council's repairs and maintenance requirement. Furthermore, in his February 2019 budget speech the Leader allocated a further £500,000 of capital receipts to deliver some of the major works required, including essential works at Splashes leisure pool. The MTFs goes some way to addressing the gap, but not all of it.

These condition surveys were commissioned from external consultants, based on the portfolio at the time and without necessarily understanding the Council's longer term plans for certain assets. Through the Portfolio Holder led Corporate Strategic Property Board and the wider budget setting process, Members and officers continue seeking opportunities to reduce the cost of this programme. The work is ongoing and involves:

- Prioritising repairs and maintenance in the context of our wider Property Strategy;
- Identifying assets that have no future in the Council's medium term plans for service delivery and disposing of them to generate capital receipts;
- Reviewing services that have a commercial opportunity through outsourcing and in so doing, passing responsibility for the maintenance of buildings to the out-sourced provider;
- Our category management approach to procurement to reduce maintenance costs;
- Implementing more sustainable energy solutions to save money and benefit the environment. Officers have started working with the Government backed Local Partnerships organisation, to explore the potential for energy efficient 'invest to save' schemes under its RE:FIT programme.

Property Investment Strategy

Investment property is defined as property that is used solely to generate revenue from rents or for capital appreciation. This definition is not met if the property is used in any way to facilitate the delivery of Council services. Investment properties are not depreciated, but revalued annually to reflect their fair value based on market conditions.

The Council's asset register identifies 15 assets classified as investment property, however this list includes, for example, Gillingham Business Park, which can be broken down into many more separately identifiable units. This portfolio of assets is managed by the Corporate Property team and generates net revenue of over £810,000 per annum.

The recent purchase of the head lease on the Pentagon Centre for £34.9 million plus fees and stamp duty is not included in this list, as the primary motive for its acquisition was to facilitate the regeneration of Chatham as our city centre. This asset does however generate around £2.6 million per annum, easily covering the annual £1.6 million cost of borrowing.

The Council's capital programme incorporates Council approval to borrow up to £20 million to invest in property for commercial gain, however it has been difficult to identify the right property, meeting our agreed investment criteria, and to date we have spent only £6.8 million on the Bobby's Food distribution portfolio. This yields total income of £442,700 per annum, against annual borrowing costs of just £255,400.

Finding the best digital innovation and using it to meet residents' needs

Corporate ICT Strategy

Medway ICT has recently undergone a full service review, which has resulted in a new management team and staffing structure and contributes annual savings of over £400,000 towards meeting the directorate's transformation target. The future ICT requirements within Medway were reviewed as part of this process. This has provided a clear direction for the team and identified some priority areas for investment to allow Medway ICT to provide the appropriate technical solutions and infrastructure to support Medway to transform and deliver services.

There has been much consideration given to the future of the data centre and a possible move to 'the cloud'. It was concluded that moving all systems to the cloud was not really feasible and even if it were possible, a totally cloud based solution would be considerably more expensive than maintaining the on premise data centre.

The main benefit of moving to the cloud would have been the opportunity for the Council to move to smaller premises. The Council will not be moving from Gun Wharf in the foreseeable future so we will therefore be pursuing a hybrid strategy to leverage the benefits of the cloud where appropriate alongside the on premise data centre.

Maintaining the data centre also provides an opportunity for the Council to generate revenue by continuing to host services for other organisations. To achieve these benefits and to avoid the costs of migrating to the cloud, there will need to be two principle strands of work: refurbishment of the data centre and upgrading the server infrastructure. The estimated cost of the proposed refurbishment is circa £185,000 and would involve the following:

- The data centre floor has collapsed in some areas and is in need of replacement. In addition to this, additional floor venting is required to reduce the negative pressure being created by the under-floor air-conditioning;
- Leaks in the ceiling have resulted in water dripping close to servers and other electrical equipment. It is essential that the ceiling is replaced if we're to market the facilities effectively;
- Direct access to the data centre, without the need of caretakers to open the building, would reduce our 'out of hours' costs to existing users and is a 'must have' for prospective customers;
- Two air conditioning units are in need of urgent repair. Whilst the room is currently maintaining a constant temperature, there are warning alarms on the units when visitors, including prospective customers, are present.

Having now determined the future of the data centre, officers are clear that there will need to be significant capital investment to upgrade the servers and other crucial hardware and infrastructure. There are a number of strands to this work and the total cost will be in the region of £2 million, some of which will need to be incurred this year:

- In July 2019, extended support for SQL Server 2008 R2 ended. In January 2020, Microsoft will also end extended support for Windows Server 2008 R2. To maintain Public Service Network (PSN) compliance, and ensure uninterrupted access to central government and partners, Medway must upgrade, replace, migrate, or decommission all business systems running on Windows 2008 application servers. This affects 100 application servers within Medway, which must all be replaced by January 2020, at an estimated cost of £240,000;
- Failure to replace any of the batteries, fans and capacitors may result in a loss of incoming mains electricity, triggering a power outage in the data centre. This would result in a loss of access and potential data loss;
- Rather than replacing end-of-life file servers, and to leverage the existing investment in Office 365, we will instead migrate documents to SharePoint. This is a significant project for ICT to achieve so additional resource would be required;
- Medway Council's existing Wi-Fi network is available across 40 locations and is now 10 years old. The increase in mobile working places a strain on the current network infrastructure affecting Wi-Fi connection. To support the agile way in which staff are now working we need to replace the current wireless solution and expand the corporate wireless coverage to approximately 105 locations across Medway, at a cost of around £150,000;
- The thin client hosting servers are in excess of five years old, out of warranty and are unable to support any extension of the thin client environment. In the meantime there has been a shift towards mobile devices such as laptops and tablets, however these would be an expensive option if rolled out to all Medway staff. The strategy needs to provide the appropriate solution for the wide range of roles we employ in a local authority. Upgrading the thin client solution, whilst maintaining support for those staff on mobile devices will require capital investment of around £750,000.
- There is a need to change the current telephony infrastructure within Medway as handsets are at their end of life and the licensing contract needs to be renewed. An options appraisal is currently being undertaken, however it is likely that a hybrid solution of cloud and on premise hosting would provide the best solution for Medway, requiring capital investment of around £900,000.

Transforming our Car Parks

There are a total of 161 'pay and display' machines across Medway (on street and off street). Currently only a small percentage accept both card and coin payments. None of the current 'pay and display' machines give change and whilst short stay car parks remain predominately cash based, payment trends show that within long stay commuter car parks customers are predominately paying for their parking sessions using RINGO.

The majority of the Pay & Display units (100) operate through the 2G network, scheduled to be switched off within the next two years (exact date not known), at which point these machines will have to be replaced. Three options are being considered in the context of the Council's wider transformation and the need to address shortfalls against budgeted income:

Option 1: Upgrade all 149 pay and display machines and keep RINGO. It is estimated that this option would require capital investment of around £800,000 but have little impact on revenue budgets.

Option 2: Upgrade just the 100 2G Metric Accent and Aura machines and keep RINGO. It is estimated that this option would require capital investment of around £540,000 but again have little revenue impact.

Option 3: Do not replace pay and display machines, but instead gradually phase them out and encourage use of RINGO. No capital, but it would be necessary to incur additional revenue costs to promote RINGO.

Since Medway started using RINGO, use of the app has grown, increasing from 240,000 sessions to 525,000 over the twelve months to March 2019, with £1.3 million income received through this method over the same period. Option 3 would represent a more aggressive push towards cashless car park and significant savings could be achievable:

- No capital investment required, saving between £540,000 and £800,000;
- Potential staff savings of two posts at a current cost of £104,000;
- Reduction in cash collection contract, saving £110,000 per annum;
- No annual maintenance contract for the machines, saving £41,600 per annum;
- No further losses from 'break ins' – insurance excesses of £18,900 were incurred last year.

A fuller business case will need to be prepared, that takes into account the impact to the parking account of going completely cashless. There could be a material reduction in PCN Income and the Council would no longer benefit from the additional revenue collection from machines that do not give change.

CCTV Strategy

The Control Centre, operated by MCG Ltd., monitors a large number of static and pan, tilt and zoom CCTV cameras located around Medway. In December 2018, the Regeneration, Culture and Environment Overview and Scrutiny Committee received a report on the condition of the stock at that time. Of the 442 cameras owned by the Council, 25% were no operational. Attention was focussed on those cameras in public spaces and specifically retail environments, transport hubs and areas of the night time economy.

The decision was taken to decommission a significant number of cameras and then to formulate a priority programme of repairs and replacements. An initial sum of £80,000 was added to the capital programme to replace the highest priority cameras, but further investment will now be required. There are currently 318 cameras, which will need to be replaced over the next seven years at a cost of around £1,750 per camera or £750 for a static camera. The draft budget requirement for the outline programme of replacements is included at Table 14.

Table 14: CCTV Replacement Programme

CCTV Cameras	2018/19 Actual	2019/20 Forecast	Within 2 Years	Within 4 Years	Within 7 Years
Number of camera replacements	27	18	32	88	169
Capital budget requirement	£47,250	£31,500	£43,000	£105,750	£181,750

‘Smart Cities’

The term ‘Smart City’ could be defined as the effective integration of the physical, digital and human systems in the built environment; one that makes optimal use of all the interconnected real-time information available to better understand and control its operations and optimise limited resources.

Through the vision for the emerging Local Plan and Medway 2035 document, there is a clear aspiration for Medway to be the leading smart city in the South East, investing in smart technology across all disciplines and promoting and supporting take up by our partners. To achieve this, we will be ‘smart aware’, exploring and progressing modern technological responses to infrastructure and social needs and opportunities, such as transport and social health care.

In preparation for the UK City of Culture 2025 bid, the Business Change Team will be working collaboratively across the Council, Government organisations, local businesses and engaging with the private sector, to commence work on a robust and forward-thinking ‘Smart City’ strategy for Medway.

A key feature of smart cities is that they create efficiency, with the view to enhancing residents’ quality of life, leveraging the power of data and the ‘Internet of Things’, which is a connected network of sensors exchanging real-time information. By implementing smart solutions, Medway Council can lay the foundations to provide:

- More effective, data-driven decision making;
- Enhanced engagement with Government and our residents;
- Safer communities;
- Reduced environmental footprint to support our climate change strategy;
- Improved traffic management;
- Increased digital equity;
- New economic development opportunities;
- More efficient public utilities;
- Improved infrastructure;
- Increased workforce engagement.

It is important to recognise this aspiration in our Capital Strategy, as we need to consider now how our capital investment in new assets can support our ‘Smart City’ ambitions. New street lighting and other highway infrastructure, CCTV cameras, new buildings and electric vehicles could all carry the technology required, as part of the ‘Internet of Things’.

Working in partnership where this benefits our residents

One Public Estate

In order to provide better facilities and more effective and joined up services for the people of Medway, the Council works closely with its public sector partners. One strand of this work is to explore opportunities for more efficient use of public buildings. The One Public Estate programme has allowed the Council and its partners to access funding to undertake feasibility studies and prepare business cases to this end. We have successfully bid for feasibility funding for three separate projects, between the Council and other public

sector partners. If taken forward these schemes should reduce revenue expenditure, generate capital receipts, deliver housing units and create jobs.

Some of these schemes are now coming to fruition such as Britton Farm, where we are going to complete £850k of works to convert the former Budgens retail site in Gillingham into office accommodation for the Kent and Medway Partnership Trust (KMPT). This scheme will release capital and reduce annual running costs.

White Road is a 20 unit housing scheme that should start this summer. It will provide affordable housing linked to the Whiffens Avenue scheme in Chatham. We have worked with MHS who will purchase the site from the Council when complete.

Other schemes are still in the planning stage. The South East Coast Ambulance Service (SECAMB) is looking at a former fire station in Gillingham for a “make ready site”. They are leading that scheme and have just received some Wave 4 capital funding via the NHS Sustainability and Transformation Partnership to complete the works. All schemes are being monitored through the Medway One Public Estate Board chaired by the Council’s Monitoring Officer.

Medway Norse

The Council’s most significant partnership is through the Medway Norse joint venture with Norse Commercial Services. The joint venture delivers facilities management services across most of the Council’s operational property portfolio and is responsible for maintaining these assets. Working closely with Medway Council officers and directed by the Corporate Strategic Property Board, Medway Norse plan and deliver a programme of revenue and capital works funded from the Building Repairs and Maintenance Fund (BRMF) referred to earlier in this strategy.

Medway Norse also looks after the Council’s many green spaces and through this partnership the Council has seen the joint venture invest around £3.6 million in plant and machinery to deliver these services. It also operates a fleet of vehicles to deliver SEN transport on a number of significant special school routes.

Finally, in October 2019 Medway Norse will take over the Council’s waste collection and street cleansing services and this capital strategy deals in some detail with the capital investment requirements for these services over the medium to long term.

Management of Risk

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.”

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 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.

Risk	Description	Action to avoid or mitigate risk	Risk rating
Financial risks impacting on the capital programme	<p>Credit risk: the risk that the company delivering the capital scheme becomes insolvent.</p> <p>Liquidity risk: the risk that cash flows could be affected by delays, inflation, interest rates or exchange rates.</p> <p>Fraud, error and corruption.</p>	<p>The Council exercises due diligence in the award of contracts.</p> <p>Mitigated by sound budget monitoring and treasury management.</p> <p>The Council has robust controls in place over procurement, project management and financial management.</p>	
Legal and regulatory risk affecting delivery of capital schemes	<p>Capital Schemes must comply with legislation, eg: DDA, as well as Council policies, contract procedure rules and financial regulations.</p> <p>There is a 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 inadvisable or even illegal.</p>	<p>Before incurring capital expenditure or making capital investments, the Council will understand the powers under which the investment is made.</p> <p>Upcoming changes to relevant legislation and regulation will be kept under review and factored into any capital bidding and programme monitoring processes.</p>	
Capacity constraints to deliver an ambitious capital programme	<p>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</p>	<p>The Capital Strategy 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.</p>	

Conclusions

Through the Council Strategy the Council has set its corporate objectives and the financial challenges and expenditure requirements to deliver these objectives articulated in the Medium Term Financial Strategy and Capital Strategy. Over the next few months, more detailed financial plans in the form of the Revenue Budget and Capital Programme will be formulated for approval in February, alongside the refreshed Council Plan.