

This Report will be made public on 2 February 2022

Report Number **C/21/79**

To: Cabinet
Date: 10 February 2022
Status: Key Decision
Head of Service: Charlotte Spendley - Director of Corporate Services
Cabinet Member: Councillor David Monk – Leader and Portfolio Holder for Finance

SUBJECT: UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME

SUMMARY: This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2027. The General Fund Medium Term Capital Programme is required to be submitted to full Council for consideration and approval as part of the budget process. The report also updates Members on the required capital budget and proposed funding for the Princes Parade scheme following the two stage procurement process for the construction contract and the anticipated residential development capital receipts.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because:

- a) It needs to be kept informed of the existing General Fund Medium Term Capital Programme position and take appropriate action to deal with any variance from the approved budget.
- b) Proposed extensions to existing schemes are required to be considered and approved before being included in the Council's Medium Term Capital Programme.
- c) The proposed Medium Term Capital Programme needs to be considered before it is submitted to full Council for approval as part of the budget process.
- d) The Council must also have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities when carrying out its duties under Part 1 of the Local Government Act 2003.

RECOMMENDATIONS:

1. To receive and note report C/21/79.
2. To seek Council's approval to the updated General Fund Medium Term Capital Programme as set out in appendix 1 to this report.

1. INTRODUCTION AND BACKGROUND

1.1 In line with the council's approved Budget Strategy for 2022/23, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five year period ending 31 March 2027. The report;-

- i) reviews and updates the existing approved Medium Term Capital Programme and incorporates the capital investment proposals agreed by Cabinet during the budget process for 2022/23,
- ii) introduces proposed new schemes and initiatives identified during the budget process but yet to be considered by Cabinet,
- iii) provides details of those existing capital schemes proposed to be extended by one year into 2026/27,
- iv) summarises the impact the proposed changes to the overall capital programme will have on the financing resources required to fund it.

1.2 The report also updates Members on the required capital budget and proposed funding for the Princes Parade scheme following the two stage procurement process for the construction contract and the anticipated residential development capital receipts considered by Cabinet on 26 January 2022 (minute 75 refers).

1.3 The capital expenditure plans for the Housing Revenue Account (HRA) were considered by Cabinet in a separate report on 26 January 2022 as part of the current budget process for 2022/23.

1.4 The overall capital expenditure plans for both the General Fund and HRA are required to be submitted to full Council for consideration and approval as part of the budget process.

1.5 Additionally, the Council's General Fund and HRA capital investment plans will feature in the Capital Strategy and Investment Strategy both of which are planned to be reported to Cabinet on 23 February 2022 ahead of being submitted to full Council for approval on the same day. This is a requirement of the CIPFA Prudential Code for Capital Finance in Local Authorities.

2. UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME

2.1 The latest projection for the total cost and funding of the General Fund capital programme from 2021/22 to 2026/27 is £149,784,000. Compared to the latest approved budget of £132,586,000 this represents an increase of £17,198,000. Full details are shown in **appendix 1** to this report and the following table summarises the position across the service units and also outlines the impact on the capital resources required to fund the programme:

General Fund Capital Programme	Latest Approved Budget	Latest Projection	Variance
	£'000	£'000	£'000
Service Units			
Operations	12,133	9,976	(2,157)
Corporate Services	3,966	4,503	537
Housing	7,527	8,587	1,060
Transformation & Transition Place	32,255	49,031	16,776
Economic Development	76,705	76,705	-
Governance, Law and Service Delivery	0	951	951
	0	31	31
Total Capital Expenditure	132,586	149,784	17,198
Capital Funding			
Capital Grants	(11,575)	(15,452)	(3,877)
External Contributions	(2,387)	(10,817)	(8,430)
Capital Receipts	(24,867)	(31,632)	(6,765)
Revenue	(3,209)	(3,870)	(661)
Borrowing	(90,548)	(88,013)	2,535
Total Funding	(132,586)	(149,784)	(17,198)

2.2 The changes from the approved budget to the latest projection for the medium term programme are summarised below:

	£'000	£'000
1 Capital investments decisions approved by Cabinet on 15 December 2021 (Budget Strategy 2022/23)		
i) Replacement Asset Management System	60	
ii) Radnor Park Footpath Resurfacing	40	
iii) The Stade, Folkestone Rental Huts - fishermans style huts for rent on the Stade	100	
iv) Additional Toilet Cleaner's Van	20	
v) Replacement Park Keeper's Vehicle	40	
vi) Electoral Management System replacement	31	
vii) ICT improvement costs - externally hosted Revenues & Benefits system	192	
viii) Parking Services – upgrade of payment options	60	
	<hr/>	543
2 Existing annual programmes extended by one year to 2026/27		
i) Coast Protection - Annual monitoring of Coronation Parade, Folkestone met from Environment Agency grant.	4	

ii)	Coast Protection – Greatstone Dunes Management and Study met from Environment Agency grant.	15	
iii)	Royal Military Canal - Footpath improvement scheme.	20	
iv)	Lifeline units for customers.	50	
v)	Empty Properties Initiative (KCC) - Loans to landlords	300	
vi)	Disabled Facilities Grants, subject to Government funding.	1,000	
vii)	Home Safe Loans met from repaid Decent Homes Loans.	100	
viii)	Replacement technology	95	
		<hr/>	1,584
3	Other new schemes to approve		
i)	Folkestone and Hythe Green Business Grant Scheme	250	
ii)	CLLD ERDF 'Folkestone Community Works' Capital Projects met from Government Grant.	951	
iii)	Capitalised Transformation Costs	105	
		<hr/>	1,306
4	Other changes		
i)	Princes Parade Scheme – explained in section 3, below	16,335	
ii)	Removal of Greatstone Varne Holiday Lets Scheme as per separate report to Cabinet on 10 February 2022	(1,847)	
iii)	Coast Protection Beach Management – Budget adjusted to reflect the grant awarded by the Environment Agency for a 5 year programme of works from April 2020 to March 2025	(728)	
iv)	General Fund Property - Health and Safety Enhancements saving in 2021/22	(10)	
v)	Royal Military Canal footpath enhancements saving in 2021/22	(10)	
vi)	Lower Sandgate Road Beach Huts additional cost (loan to FPPG Charity)	27	
vii)	Disabled Facilities Grants - Occupational Therapist Service recommenced their home assessment visits part way through 2021/22.	(400)	
viii)	New Business Hub - Mountfield Road, New Romney budget adjustment for capital grant received in 2020/21	336	
ix)	Additional Home Safe Loans met from DFG grant not required for 2021/22.	60	
x)	Other small changes	2	
		<hr/>	

	13,765
Total net increase	<u>17,198</u>

2.3 **Otterpool Park** – the overall budget to deliver the scheme remains unchanged from the existing approved position. The majority of the budget will be used to support the delivery of the scheme by the Otterpool Park LLP with some provision made for further property acquisitions that may be required. In summary, the remaining budget is planned to be used towards the following elements of the scheme:

	£'000
i) Property acquisition	8,682
ii) Masterplanning	2,263
iii) Delivery – funding of Otterpool Park LLP	63,750
iv) Other consultancy costs	90
Total	<u>74,785</u>

2.4 **Folkestone and Hythe Green Business Grant Scheme** – The Council's Climate and Ecological Emergency Working Group recently agreed to support the allocation of £250,000 from the Climate Change Reserve to set up the Folkestone and Hythe Green Business Grant Scheme. The scheme is to support businesses that are located, or seeking to locate, in the district with implementing carbon reduction measures. Further information about this scheme is available on the Council's website.

2.5 **Community Led Local Development European Regional Development Fund (CCLD ERDF) Capital Grants** – The Council acts as the accountable body for the CLLD ERDF grant being used to support the Folkestone Community Works Programme. It is projected that £951,000 of capital funding will be utilised by the Programme during 2021/22 and it is an accounting requirement for this to be included within the Council's capital programme.

2.6 **Transformation Costs** - A temporary statutory provision allows local authorities incurring revenue expenditure for staff transformation programmes and other similar initiatives generating ongoing savings to be met from capital receipts received from the disposal of surplus assets. These costs are required to be classified as capital expenditure for accounting purposes. The proposed budget of £105k provides for staff redundancy and related pension costs.

2.7 **Inflation** - The construction and engineering sector is expected to see inflation peak around 5% to 6% in 2022 due, in part, to a rise in the cost of materials. The construction related capital schemes in the General Fund capital programme typically have a 5% contingency sum included within their

budgeted cost. For those schemes expected to be completed over the next year inflation is unlikely to have a material impact to the budget. With Princes Parade the detailed work undertaken by the cost consultant has factored in the likely impact of inflation over the contract period. In the case of Otterpool Park it is anticipated the inflation risk from delivering the infrastructure for the proposed scheme can be mitigated by similar increases in land values as plots are sold for development.

- 2.8 The profiling of the capital programme budget is likely to be subject to some change over the medium term. Notably, the timing and profiling of the Otterpool Park Garden Town and Princes Parade schemes may be subject to change as the Council's plans for these develop going forward. Cabinet will be kept informed of any changes to the proposed profiling of expenditure for the capital programme through the budget monitoring process and future updates to the MTCP.
- 2.9 All proposed changes to the Council's General Fund MTCP are required to be approved by full Council as part of the budget setting process. The revenue implications of the of the MTCP are contained in either the proposed General Fund budget for 2022/23 or feature in the Council's approved Medium Term Financial Strategy.

3. PRINCES PARADE DEVELOPMENT

- 3.1 The Leisure centre, housing and open space development at Princes Parade is already included within the council's MTCP. Following significant preparatory work and investigations, an updated position was presented to Cabinet on the 26 January 2022. The respective report (C/21/75) can be found on the council's website at: [Agenda for Cabinet on Wednesday, 26th January, 2022, 5.00 pm - Folkestone & Hythe District Council \(folkestone-hythe.gov.uk\)](https://www.folkestone-hythe.gov.uk/agenda-for-cabinet-on-wednesday-26th-january-2022-5.00-pm-folkestone-hythe-district-council).
- 3.2 The report has provided the latest position on the development following site investigations, greater clarity on the costs of the scheme and also the result of procurement exercises which relate to the funding of the scheme. A number of other matters are considered within the report which were determined by Cabinet and do not directly impact on the MTCP.
- 3.3 The report sets out the increase in the required budget for the scheme, the changes in funding and the reasons for those changes. The overall cost of the scheme has risen to £45,400,579 as shown below. This includes the additional funding for solar panels for the leisure centre.

Table 1 – Costs of Project

Cost Heading	Cost
Construction Costs	£40,518,210
Consultant Fees, license fees, and other Council direct costs	£3,566,823

Contingency (3% of construction costs)	£1,215,546
Additional funding agreed for solar panels to leisure centre	£100,000
Total	£45,400,579

- 3.4 This is an increase in the project budget of £16,335,579 which was agreed in the 2019/20 MTCP. The main reasons for this increase are set out in the table below which compares current costs to the original capital programme budget agreed in 2019.

Table 2 – Cost Differences from January 2019

High Level Cost Differences between Jan 2019 and Jan 2022	Cost	Comment
January 2019 Cost Plan	£29,065,000	
Site remediation and ground works	£5,339,575	Costs now based on more extensive detailed ground investigations. These are the remediation costs required for the planned site.
Utility infrastructure (on and off site)	£1,433,075	Offsite reinforcement works are now required following detailed capacity assessments by utility companies.
Leisure centre cost	£1,057,019	Design detail improvements required to provide a high-quality leisure centre within the detailed planning consent.
Western open space and linear park	£1,529,117	These are now being completed directly by the Council rather than the residential developer to provide certainty to secure better land sales values for the council and complete these works at an earlier date.
Promenade	£916,553	
Seapoint Canoe Centre (SCC) works	£200,000	Enabling works to the Charity's facility which are required to allow the road to be built.
Normal inflation	£1,902,788	Increased inflation due to delay in delivering the project as a

		result of the planning Judicial Review.
Current market conditions	£3,857,452	Extraordinary inflation due to delay in delivering the project as a result of Covid, Brexit, material and labour shortages, energy prices, etc.
Additional funding for solar panels	£100,000	Agreed at Cabinet meeting of 26 January 2022
Total Increase	£16,335,579	
Total Project Cost (Excl VAT)	£45,400,579	

- 3.5 The associated funding has also increased to £38,775,010 and this is also explained below.
- 3.6 The overall funding required for the project has changed significantly since the project was last considered in the 2019 Cabinet report. The delay in the project, together with inflation alongside other factors, has increased the costs as described above. In addition, the delay in the project resulted in the loss of the Homes England Accelerated Construction Programme Grant of £1,977,879 that was awarded in 2019. During the summer of 2021, a new grant was made available for local authorities to bid for through One Public Estate (DLUHC / formally MHCLG). This was the Brownfield Land Release Fund (BLRF) and the Council was successful in applying for a grant of £2 million to support the project and the costs of remediation. This was not a like-for-like replacement however it has helped the overall funding of the project. Further grant funding opportunities will continue to be sought, with approval for submitting and accepting funds being delegated to the Director for Housing and Operations in consultation with the Leader of the Council, and reported to council as part of the normal budget monitoring processes.
- 3.7 The ongoing work has sought to identify all sources of relevant funding to address the current position of the project. In particular, the residential land values have increased and provide a greater level of financial support for the scheme (see above in relation to residential values) and the successful leisure centre operator means the Council will receive an average positive cash flow in addition to removing the heavy liability of the current pool. Set out below are the key funding sources to meet the overall costs of the project:

Table 3 – Funding

Item	£
Nickolls Quarry – Section 106 (with indexation as at the time of writing)	5,309,010
Hythe Imperial Section 106 (Affordable Housing)	1,416,000

CIL Funding	2,500,000
Play area funding (CIL)	650,000
SCC funding (offset expenditure)	200,000
Income from residential sales	26,600,000
BLRF Grant	2,000,000
Funding for solar panels from Climate Change reserve	100,000
Total Funding	38,775,010

- 3.8 The detail above identifies a funding gap of £6,625,569. The award of the new leisure centre contract will generate an average positive cash position estimated at £175,000 per annum over the period of the contract. Also, there will be no requirement to fund the existing Hythe Pool once this closes. This will save a further £165,000 per annum (excluding fixed costs and any exceptional costs, such as emergency / unplanned maintenance which is increasingly found to be necessary due to the age and deteriorating condition of the building). Overall this will provide a revenue turnaround estimated at £340,000 per annum which will be sufficient to cover the costs of funding approximately £10 million of additional borrowing if required. Revenue turnaround has not been included in the tabulated figures above but is part of the overall business case for consideration.
- 3.9 In summary, the above sets out the project requiring an increase in its capital budget and has a funding gap of £6,625,569. It should be noted that the costs include an allowance of £430,000 for interest charged whilst the development is being undertaken. The total budget required for the development is £45,400,579.

4. IMPACT ON CAPITAL RESOURCES

- 4.1 The proposed MTCP requires approximately £88m of prudential borrowing to support it with about £75m of this for the Otterpool Park scheme. Ordinarily the investment in Otterpool Park would put a significant pressure on the General Fund budget for additional interest costs. However, the Council is able to capitalise its borrowing cost for expenditure on the land assembly for the site until the land is ready for its intended use. As the land is sold the Council can then look to repay its borrowing. Additionally, the Council is receiving a net rental income stream from some of the properties it has acquired to date. The borrowing cost to the Council for the planned loan and equity investment in Otterpool Park LLP, the delivery vehicle for the project, will be covered by the accrued interest to be charged on the loan in the first instance.
- 4.2 Prudential borrowing is also planned to be used to fund the following capital schemes where the Council will receive a net revenue benefit after allowing for interest costs:

Scheme	Borrowing
	£'000
Princes Parade Leisure & Housing	6,625
Otterpool Park	74,785
Oportunitas Phase 2 Funding	3,510
Waste Contract Vehicles Funding	1,729
Lower Sandgate Road Beach Huts	47
Temporary Accommodation	274
Coast Drive Seafront Development	893
Coastal Park Toilets & Concession	150
Total	88,013

- 4.3 The borrowing cost to the Council for the Princes Parade scheme during the construction phase will be capitalised and has been factored into the proposed capital budget for the scheme. In the long term the annual capital financing cost for the scheme is expected to be contained within the net revenue savings to the General Fund to be generated from it.
- 4.4 The latest position regarding the Council's available capital receipts to fund capital expenditure is shown in the following table:

General Fund Capital Receipts Position Statement	£'000
Receipts in hand at 30 November 2020	(10,145)
Less, HRA capital receipts	5,669
General Fund capital receipts in hand	(4,476)
Contingency for urgent or unforeseen capital expenditure	500
Ring-fenced for specific purposes:	78
*Applied to capital expenditure in 2021/22 & 2022/23	3,424
Balance available to support new capital expenditure	(474)

*Excludes Princes Parade

- 4.5 The Princes Parade Leisure and Housing scheme relies on the Council receiving about £26.6m in capital receipts from the sales of serviced land for housing development adjacent to the proposed leisure centre and from the disposal of the existing Hythe Pool site. The planned continued capital investment in the 'No Use Empty' joint initiative with Kent County Council and also the Home Safe Loans scheme are to be met from investing repaid loans from previous tranches of these schemes.
- 4.6 Additionally, the council's continuing prudent financial management means it is in a position to use its other internal resources (cash reserves and balances) to fund the MTCP that is not already met from external grants and contributions without resorting to new borrowing. The table below

summarises the council's revenue resources of £3.87m committed towards funding the MTCP.

Revenue Resources to Fund the MTCP	£'000
Vehicle, Equipment and Technology Reserve	702
Economic Development Reserve	1,960
Climate Change Reserve	798
General Reserve	410
Total	3,870

- 4.7 This level of capital investment will be a significant draw upon the Council's available reserves and balances and it is unlikely this could be repeated in the future. For this reason it is important that a thorough and robust assessment is undertaken for the new major capital investment proposals to ensure best use of the Council's limited financial resources.

5. CONCLUSIONS

- 5.1 The MTCP has been reviewed and updated in accordance with the approved budget strategy for 2022/23.
- 5.2 The revenue consequences of the MTCP are reflected in the Council's General Fund budget and Medium Term Financial Strategy.
- 5.3 The proposed General Fund MTCP requires a substantial level of prudential borrowing to fund it. The impact to the General Fund of this will be mitigated through a combination of capitalising interest costs where permissible, charging interest to third parties on capital loans met from borrowing and generating additional net revenue streams from capital investments met from borrowing.
- 5.4 The level of new capital investment in the proposed MTCP will be a significant draw upon on the Council's available reserves and balances and is unlikely to be repeated in the future. Future major capital investment initiatives are likely to require further prudential borrowing to help fund them.
- 5.5 Cabinet is asked to recommend full Council to approve the changes to the MTCP outlined in this report to reflect the latest projected outturn shown in appendix 1 to this report.

6. RISK MANAGEMENT ISSUES

- 6.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Capital resources not available to meet the cost of the new projects.	High	Low	Schemes or elements of those schemes relying on future capital receipts or external grants and contributions will not commence until an agreed disposal plan or funding agreement is in place.
Cost of new projects may exceed the estimate	High	Medium	A review of existing approved capital schemes has been undertaken as part of the update to the MTCP to assess the impact of current inflationary pressures affecting construction and engineering sector. Capital monitoring procedures in place allowing prompt early action to be taken to manage the risk effectively.
Expenditure planned to be met by grant is ineligible under the terms of the funding agreement	High	Low	Prior to commitments being made the project manager to agree in advance grant eligible expenditure with the funding body.

7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

7.1 Legal Officer's Comments (TH)

There are no legal implications arising directly out of this report. Part 1 of the Local Government Act 2003 gives the Council the power to borrow and to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs. It also requires the Council to act

prudently when carrying out these activities, including an obligation to determine and keep under review how much money it can borrow. In addition, the Council is required by the Local Government Finance Act 1992 to produce a balanced budget. Generally the Council must take into account its fiduciary duties to local tax payers and its continuing obligation to ensure it has the funding required to perform its statutory undertakings.

7.2 Finance Officer's Comments (LW)

This report has been prepared by Financial Services. There are no further comments to add.

7.3 Diversities and Equalities Implications (DA)

The report does not cover a new service/policy or a revision of an existing service or policy therefore does not require an EIA.

7.4 Communication Officer's Comments (JW)

There are no communication issues arising directly from this report.

7.5 Climate Change Implications (AT) [*Pilot reporting period*]

There are no climate change implications arising directly from this report. It updates Cabinet on this position following decisions taken at Cabinet and Full Council. Climate change implications of the various projects referenced in the report will be assessed as part of the development and implementation phases of those projects through the appropriate decision-making process.

8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Lee Walker, Capital and Treasury Senior Specialist
Tel: 01303 853593. e-mail: lee.walker@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

None

Appendix:

- 1) Proposed General Fund MTCP to 2026/27