

This Report will be made public on 17 January 2023

Report Number **C/22/75**

**To:** Cabinet  
**Date:** 25 January 2023  
**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 2028. 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.

**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/22/75.
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 2023/24, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five-year period ending 31 March 2028. 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 2023/24,
  - ii) provides details of those existing capital schemes proposed to be extended by one year into 2027/28,
  - iii) summarises the impact the proposed changes to the overall capital programme will have on the financing resources required to fund it.
- 1.2 The capital expenditure plans for the Housing Revenue Account (HRA) are due to be considered by Cabinet in a separate report on this agenda as part of the current budget process for 2023/24.
- 1.3 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.
- 1.4 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 22 February 2023 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 2022/23 to 2027/28 is £143,739,000, an increase of £3,732,000 compared to the latest approved budget of £140,007,000. Full details are shown in **appendix 1** to this report and the following table summarises the position across the service units and 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
<b>Service Units</b>			
Operations	52,377	53,455	1,078
Governance, Law and Service Delivery	9	27	18
Place	76,722	77,793	1,071
Housing	7,155	8,555	1,400

Corporate Services	3,744	3,909	165
<b>Total Capital Expenditure</b>	<b>140,007</b>	<b>143,739</b>	<b>3,732</b>

### Capital Funding

Capital Grants	(11,303)	(11,555)	(252)
External Contributions	(9,835)	(9,823)	12
Capital Receipts	(31,557)	(32,620)	(1,063)
Revenue	(3,041)	(4,095)	(1,054)
Borrowing	(84,271)	(85,646)	(1,375)
<b>Total Funding</b>	<b>(140,007)</b>	<b>(143,739)</b>	<b>(3,732)</b>

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

	£'000	£'000
<b>1 Capital investments decisions approved by Cabinet on 14 December 2022 (Budget Strategy 2023/24)</b>		
a) Lifeline Capitalisation	100	
b) Hawkinge Depot Upgrade	75	
c) Funding of Folkestone Coastal Park Play Area Refurbishment (FPPG Charity)	40	
d) Replacement of HI-AB Crane	75	
e) Staff Welfare Facilities New Romney Depot	7	
f) Leas Cliff Hall Car Park - CCTV	13	
g) Replacement Tractor	85	
h) Replacement Cherry Picker Vehicle and Trailer	100	
i) Replacement Weed Barge	85	
j) Replacement Sports Mower (East Cliff Area)	9	
k) Replacement Transit Van	28	
l) Migrate IKEN Legal System to Cloud Hosted Service	18	
m) Rural England Prosperity Fund Capital Grants Scheme	571	
n) UK Shared Prosperity Fund Capital Grants Scheme	500	
o) Upgrade eFinancials Financial Ledger System to Cloud Hosted Service	70	
		<b>1,776</b>
<b>2 Existing annual programmes extended by one year to 2027/28</b>		
a) Coast Protection - Coronation Parade annual monitoring	4	
b) Coast Protection - Greatstone Dunes Management & Study	15	
c) Lifeline Capitalisation	50	

d) Empty Properties Initiative (KCC) - Loans to landlords	300	
e) Disabled Facilities Grants (DFGs) & Loans	1,000	
f) Home Safe Loans	100	
g) Replacement IT	95	
		<b>1,564</b>

### **3 Other changes**

a) Hythe to Folkestone Beach Management Works - use of white diesel for vehicles and plant met by EA grant	336	
b) District Street Lighting - additional cost to complete the scheme	48	
c) Lifeline Capitalisation - additional expenditure in 2022/23	20	
d) Play Area Equipment (COMF) scheme - saving	(12)	
		<b>392</b>
<b>Total net increase</b>		<b>3,732</b>

2.3 **Princes Parade Leisure and Housing Scheme** – Cabinet took the decision on 14 December 2022 to undertake just the necessary works to implement the planning permission for the scheme (minute 52 refers) while the operational delivery of the project has been paused. It is not possible to profile when the majority of the remaining budget for the scheme is projected to be incurred and this, along with the associated capital funding, is shown in appendix 1 to the report as ‘to be determined’.

2.4 **Inflation** in the current economic climate is clearly a risk to the delivery of the MTCP. In general terms, cost inflation poses a much greater risk for future construction related schemes than it does for the one-off replacement of vehicles and equipment. Except for Princes Parade and Otterpool Park, there are new no major construction related capital schemes in the proposed MTCP where cost inflation is likely to be a major risk. 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. Capital grants and loans schemes are not subject to direct inflation as spending is limited to the approved budget only. Equally, coastal defence schemes are required to be managed within the approved grant funding from the Environment Agency, who will separately consider variation orders for additional costs before expenditure can be committed.

2.5 The profiling of the capital programme budget is likely to be subject to some change over the medium term. Factors including planning consents, procurement processes and external grant approvals can affect the timeframes to deliver capital schemes. Notably, the timing and profiling of the Otterpool Park Garden Town may be subject to change as the Council’s plans for this develops 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.

2.6 **Otterpool Park LLP Loan Funding** – Within the Otterpool Park Garden Town budget is provision for loan funding currently up to £75m from the Council to Otterpool Park LLP to support the infrastructure work for the project. Interest is charged at 3% above that the Council can borrow from the PWLB. The loan and its interest will be repaid from the proceeds the LLP generate from selling serviced plots of land to the housing developers over the life of the project. Given the variable and fluid nature of both the infrastructure works and the land sale receipts, the Council's loan funding to the LLP is in the form of a revolving credit facility (RCF). The RCF allows the LLP to repay part or all of its outstanding loan to the Council when it receives income from the sale of land, avoiding the LLP holding significant cash balances and reducing the credit risk to the Council. As the LLP continues to undertake further infrastructure work for future phases of the project it can call on the RCF for further loan funding up to the current maximum amount of £75m. The budget approval for the RCF is already in place through the existing MTCP. Otterpool Park LLP have recently submitted their updated business plan which is anticipated to be considered by Cabinet in February. The updated business plan seeks additional funding to be made available through the revolving loan facility. This request is currently being considered and will be reported to Cabinet in due course, with any implications explored and the MTCP considered by Full Council in February updated if necessary.

2.7 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 2023/24 or feature in the approved Medium Term Financial Strategy.

### **3. IMPACT ON CAPITAL RESOURCES**

3.1 The proposed MTCP requires approximately £86m 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 capitalising 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 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.

3.2 Prudential borrowing is planned to be used to fund the following capital schemes where the Council will receive a net revenue benefit after allowing for interest costs:

<b>Scheme</b>	<b>Borrowing</b>
	<b>£'000</b>
Princes Parade Leisure & Housing	7,257
Otterpool Park	74,508
Oportunitas Phase 2 Funding	2,470
Waste Contract Vehicles Funding	274
Temporary Accommodation	107
Coast Drive Seafront Development	883
Coastal Park Toilets & Concession	147
<b>Total</b>	<b>85,646</b>

3.3 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 will need to be factored into its net revenue outcome.

3.4 The latest position regarding the Council's available capital receipts to fund capital expenditure is shown in the following table:

<b>Capital Receipts Position Statement</b>	<b>£'000</b>
Total receipts in hand at 30 November 2022	10,242
Less:	
Committed towards General Fund capital expenditure	(3,965)*
Committed towards HRA capital expenditure	(5,758)
Contingency for urgent or unforeseen capital expenditure	(500)
<b>Balance available to support new GF capital expenditure</b>	<b>19</b>

\*Excludes Princes Parade

3.5 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 the Home Safe Loans scheme are to be met from investing repaid loans from previous tranches of these schemes.

3.6 Additionally, the Council's continuing prudent financial management means it is able 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 £4.095m committed towards funding the MTCP.

<b>Revenue Resources to Fund the MTCP</b>	<b>£'000</b>
Vehicle, Equipment and Technology Reserve	699
Economic Development Reserve	1,389
Climate Change Reserve	798
Carry Forward Reserve	164
General Reserve	1,045
<b>Total</b>	<b>4,095</b>

3.7 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.

#### **4. CONCLUSIONS**

4.1 The MTCP has been reviewed and updated in accordance with the approved budget strategy for 2023/24.

4.2 The revenue consequences of the MTCP are reflected in the Council's General Fund budget and Medium Term Financial Strategy.

4.3 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.

4.4 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.

4.5 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.

#### **5. RISK MANAGEMENT ISSUES**

5.1 A summary of the perceived risks follows:

<b>Perceived risk</b>	<b>Seriousness</b>	<b>Likelihood</b>	<b>Preventative action</b>
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.

## **6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### **6.1 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.

## **6.2 Finance Officer's Comments (LW)**

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

## **6.3 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.

## **6.4 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.

## **7. 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  
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The following background documents have been relied upon in the preparation of this report:

None

Appendix:

1) Proposed General Fund MTCP to 2027/28