

**CAPITAL PROGRAMME 2024 – 2029****1. INTRODUCTION AND BACKGROUND**

- 1.1 In line with the Council's approved Budget Strategy for 2024/25, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five-year period ending 31 March 2029. 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 2024/25,
  - ii) provides details of those existing capital schemes proposed to be extended by one year into 2028/29,
  - 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 2024/25.
- 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 28 February 2024 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 MEDIUM TERM CAPITAL PROGRAMME (MTCP)**

- 2.1 While Revenue Budget expenditure is concerned with the day-to-day running of services, the Capital Programme is concerned with investment in the assets required to deliver services or the delivery of new income streams. The Medium-Term Capital Programme sets out how capital resources will be used to achieve the Council's vision and corporate priorities.
- 2.2 The strategic objectives of the Council's Capital Programme can be summarised as follows:
- i) To maintain a five-year rolling Capital Programme which remains within the approved affordable, sustainable, and prudential limits;
  - ii) To ensure capital resources are aligned with our strategic vision and corporate priorities by ensuring all schemes are prioritised according to the Council's prioritisation methodology;
  - iii) To identify opportunities for investment in new schemes that result in capital growth and/or new revenue income streams;
  - iv) To maximise available resources by actively seeking external funding to support Council priorities and disposing of surplus assets; and
  - v) To use internal resources alongside external resources where

appropriate to support the Capital Programme and minimise any borrowing costs.

- 2.3 That decisions on the financing of the capital programme are taken with consideration to the impact on the revenue budget, the treasury management strategy, and the investment strategy.
- 2.4 The latest General Fund Programme, shown in Appendix 1, amounts to around £108.6m of investment over five years. The current Capital Investment Strategy was reported to Cabinet in February 2023, and it sets out a framework for funding and investment decisions in respect of capital assets, in the context of the Council vision and priorities and available financial resources. The Capital Investment Strategy demonstrates that the Council take capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability, and affordability.
- 2.5 The Council forecasts its Capital Programme over a 5-year period. The full details are shown in **Appendix 1** to this report and the table below summarises the position across the service units and outlines the impact on the capital resources required to fund the programme:

Service Area and Scheme	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£'000	£'000	£'000	£'000	£'000	£'000
Operations	8,018	1,490	127	109	89	
Governance, & Law	27	-	-	-	-	-
Otterpool Park Garden Town	10,287	7,500	13,000	13,000	13,000	9,750
Place	2,875	17,498	8,668	5,500	500	12,500
Housing	1,630	1,400	1,400	1,400	1,400	0
Corporate Services	1,449	365	365	115	115	55
<b>Total Capital Programme</b>	<b>24,286</b>	<b>28,253</b>	<b>23,560</b>	<b>20,124</b>	<b>15,104</b>	<b>22,305</b>
<b>Capital Funding</b>						
Government Grant	(5,946)	(18,595)	(3,256)	(1,519)	(1,519)	(1,000)
Other External Contributions	(406)	(597)	-	-	-	-
Capital Receipts	(2,823)	(1,111)	(1,249)	(400)	(400)	0
Revenue Contributions	(2,223)	(205)	(1,055)	(205)	(185)	(55)
Borrowing	(12,888)	(7,745)	(18,000)	(18,000)	(13,000)	(21,250)
<b>Total Funding</b>	<b>(24,286)</b>	<b>(28,253)</b>	<b>(23,560)</b>	<b>(20,124)</b>	<b>(15,104)</b>	<b>(22,305)</b>

### 3. Capital Programme - Revenue Budget Implications

- 3.1 With the exception of earmarked s106 funds, the Council no longer has significant capital reserves, therefore, while a small number of schemes will continue to be funded from capital grants and other contributions, the majority of the approved Capital Programme must be funded through prudential borrowing.
- 3.2 The costs of repaying this borrowing fall on the revenue budget as treasury

management costs within the Corporate Service budgets. Treasury management budgets have been updated to reflect the costs of borrowing for the approved Capital Programme for 2024/25 onwards net of interest on forecast balances and loan repayments. Details are set out in the Treasury Management Strategy for 2024/25 that will be approved in February 2024.

- 3.3 Any new capital scheme to be included in the programme will need to contribute to the objectives set out in section 1.3 of this report. New General Fund capital scheme proposals covering between 2024/25 – 2028/29 are shown in Appendix 1 to this report. In summary, £37.0m proposed capital growth will be funded from government grant, capital receipts and prudential borrowing. The new capital projects are shown within the table below-

#### 2024/25 Capital Programme Growth Bids

Service Area and Scheme	2024/25	2025/26	2026/27	2027/28	2028/29	Future Commit.
	£'000	£'000	£'000	£'000	£'000	£'000
Handheld computers	-	18	-	-	-	-
3 Ride on Mowers	90	-	-	-	-	-
Trimax Pegasues	26	-	-	-	-	-
Stump Grinder	30	-	-	-	-	-
Tractor mounted Hedge	40	-	-	-	-	-
Excavator	40	-	-	-	-	-
FOLCA 2	-	5,000	5,000	-	-	-
Leisure Centre dev.	-	-	500	500	12,500	12,500
Financial Mgt. System	250	250	-	-	-	-
PC Replacement Prog.	55	55	55	55	55	-
<b>Total</b>	<b>531</b>	<b>5,323</b>	<b>5,555</b>	<b>555</b>	<b>12,555</b>	<b>12,500</b>

- 3.4 **Princes Parade Leisure and Housing Scheme** – Cabinet took the decision on 14 December 2022 to pause the Princes Parade project and just to do the necessary works to implement the planning permission. In May 2023, the new administration immediately made their intentions clear to “save” the site and the Leader subsequently agreed to the submission of a non-material amendment application to the LPA to extend the implementation date by 3 years. This extension of time provides opportunity for the new Administration to reconsider options and allow engagement with the community and their representatives on the future uses of the site before further formal decisions are made.
- 3.5 The Administration has also made it clear that they would like the hoarding removed as soon as practicable. As the council is aware that contaminants exist it is not immediately possible to remove the hoardings without fuller consideration of how the site can be made safe for public access, or partial access. It is anticipated that costs associated with the removal of the hoarding and erection of a new fence will be met from the existing capital budget.
- 3.6 Following the immediate work outlined above, officers will work closely with Members to prepare an engagement plan to consult with the public for the future use of the site. Cabinet is advised that until such time that formal decisions are made, the full financial implications of the wider capital project spend to date remains unclear.
- 3.7 **Bigginwood** was acquired with the objectives of boosting the local economy, increase job opportunities and providing more homes (including

affordable homes) and is anticipated to deliver 77 residential units, 660m<sup>2</sup> of commercial office units and 5,142m<sup>2</sup> of light industrial units. The Council has undertaken remediation and infrastructure works to the site to enable it to be sold for the planned redevelopment; it is currently in the process of being sold.

- 3.8 **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. Apart from Otterpool, there are two new major projects (i.e., FOLCA 2 and the Leisure center development) 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.
- 3.9 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 FOLCA 2, Leisure center development, Otterpool Park Garden Town may be subject to change as the Council's plans for these projects 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.
- 3.10 **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.
- 3.11 The latest development is that of the proposed new town at Otterpool Park and options are being explored to generate future revenue and capital streams. A full financial model was completed in 2019 to consider the long-term potential returns from the development. During 2020 the Council acquired its partner's stake in the site and now has full control of the project.
- 3.12 The draw-down of funds from the Council will be linked to key milestones contained in separate detailed funding agreements, to regulate the milestones for draw down, the terms for repayment, security, and all other provisions which it would be prudent to include. The MTFS incorporates

income from Otterpool Park, which is represented as interest on the loans the Council will make to the LLP to facilitate infrastructure and land acquisition. This is a volatile area with many dependencies affecting the financial position, the sums do have an impact upon the MTFS itself, so will be monitored closely.

3.13 The Cabinet at its meeting on Wednesday, 18<sup>th</sup> October 2023 considered a paper on Otterpool Park LLP. The report presents an update on Otterpool Park and details outcomes of the governance, finance, and management reviews to ensure the successful continuation of this important significant project. The Cabinet resolved that the Council explores third-party investment (public and/or private sector) on a joint venture basis, reporting the outcome to Cabinet for further consideration and decision. The broad principles on which this should be based are proposed as:

- A Joint Venture (JV) between the Council and third party on a strategic, site-wide basis.
- The JV partner to demonstrate a track record of facilitating development at scale, and a commitment to delivering the vision for Otterpool Park.
- The JV partner to share the role, risk, and responsibility as Master Developer for the whole site.
- The Council retaining a significant stake - preferably 51% control.
- The JV partner makes a financial contribution to costs already incurred by the Council.
- The JV agreement to release an early capital repayment to the Council.
- Future profit / returns to be on a shared 'risk and reward' basis; and
- Delivery and financial risk to the Council mitigated to an acceptable level of tolerance.

3.14 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 2024/25 or feature in the approved Medium Term Financial Strategy.

#### **4. IMPACT ON CAPITAL RESOURCES**

4.1 The proposed MTCP (2024/25 to 2028/29) requires approximately £91m of prudential borrowing to support the programme, with about £56m of this for the Otterpool Park scheme, £10m for FOLCA2 and £26m for the Leisure Centre development. Ordinarily the investment in Otterpool Park, FOLCA2 and the Leisure Centre would put a significant pressure on the General Fund budget for additional interest costs pending surplus assets disposal and receiving the Capital Receipts.

4.2 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.

- 4.3 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:

Scheme	Borrowing
	<b>£'000</b>
Princes Parade Leisure & Housing	550
Otterpool Park	56,250
Waste Contract Vehicles Funding	245
FOLKA2	10,000
Leisure Centre Development	24,000
<b>Total</b>	<b>91,045</b>

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

Capital Receipts Position Statement	£'000
Opening Balance at 1 April 2023	7,859
<u>Less:</u>	
Committed towards General Fund capital expenditure	(5,983)
Committed towards HRA capital expenditure	(3,489)
Contingency for urgent or unforeseen capital expenditure	(500)
Anticipated capital receipts to be received in 2023/24	3,373
<b>Balance available to support new GF capital expenditure</b>	<b>1,260</b>

- 4.5 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 £4.179m committed towards funding the MTCP to 2028/29.

Revenue Resources to Fund the MTCP	£'000
Vehicle, Equipment and Technology Reserve	799
Economic Development Reserve	1,789
Climate Change Reserve	641
High Street Reserve	450
General Reserve	500
<b>Total</b>	<b>4,179</b>

- 4.6 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.

Appendix 3 - General Fund Medium Term Capital Programme to 2028/29										
Item No.	Service Area and Scheme	Latest Approved MTCP Budget £'000	Latest Projection 2023/24 £'000	Latest Projection 2024/25 £'000	Latest Projection 2025/26 £'000	Latest Projection 2026/27 £'000	Latest Projection 2027/28 £'000	Latest Projection 2028/29 £'000	To be determined £'000	Total Projection 2023/24 - 2028/29 £'000
<b>Operations</b>										
1	Coast Protection - Coronation Parade, Folkestone	742	742	-	-	-	-	-	-	742
2	Coast Protection - Coronation Parade annual monitoring	20	4	4	4	4	4	-	-	20
3	Coast Protection - Greatstone Dunes Management & Study	75	15	15	15	15	15	-	-	75
4	Coast Protection - Hythe to Folkestone Beach Management	1,027	572	455	-	-	-	-	-	1,027
5	Royal Military Canal footpath enhancements	80	20	20	20	20	-	-	-	80
6	Lifeline Capitalisation	350	70	70	70	70	70	-	-	350
7	Public Toilet Enhancement Programme	113	113	-	-	-	-	-	-	113
8	New Public Toilets (Changing Places Fund)	205	205	-	-	-	-	-	-	205
9	Biggins Wood Site Land Remediation Works	1,657	1,657	-	-	-	-	-	-	1,657
10	Ship Street Site Folkestone (GF Element)	192	192	-	-	-	-	-	-	192
11	Princes Parade Leisure & Housing Development	40,661	550	-	-	-	-	-	550	1,100
12	Electric Vehicle Charging Points	40	40	-	-	-	-	-	-	40
13	District Street Lights	401	401	-	-	-	-	-	-	401
14	Coast Drive Seafront Development	844	844	700	-	-	-	-	-	1,544
15	Coastal Park Play Equipment	19	19	-	-	-	-	-	-	19
16	Coastal Park Toilet and Concession	128	128	-	-	-	-	-	-	128
17	East Cliff Landfill Protection (FPPG Charity)	1,198	1,198	-	-	-	-	-	-	1,198
18	Hawkinge Depot Upgrade	143	143	-	-	-	-	-	-	143
19	Replacement Asset Management System	60	60	-	-	-	-	-	-	60
20	Radnor Park Footpath Resurfacing (FPPG Charity)	13	13	-	-	-	-	-	-	13
21	The Stade, Folkestone Rental Huts	100	100	-	-	-	-	-	-	100
22	Additional Toilet Cleaners Vans	33	33	-	-	-	-	-	-	33
23	Replacement Park Keeper's Vehicle	27	27	-	-	-	-	-	-	27
24	Units 1-5 Learoyd Road New Romney	196	196	-	-	-	-	-	-	196
25	Connect 38 CAT A Works	234	234	-	-	-	-	-	-	234
26	Funding of Folkestone Coastal Park Play Area Refurbishment (FPPG Charity)	40	40	-	-	-	-	-	-	40
27	Replacement of HI-AB Crane	75	75	-	-	-	-	-	-	75
28	Staff Welfare Facilities New Romney Depot	7	7	-	-	-	-	-	-	7
29	Leas Cliff Hall Car Park - CCTV	13	13	-	-	-	-	-	-	13
30	Replacement Tractor	85	85	-	-	-	-	-	-	85
31	Replacement Cherry Picker Vehicle and Trailer	100	100	-	-	-	-	-	-	100
32	Replacement Weed Barge	85	85	-	-	-	-	-	-	85
33	Replacement Sports Mower (East Cliff Area)	9	9	-	-	-	-	-	-	9
34	Replacement Transit Van	28	28	-	-	-	-	-	-	28
35	On Street Pay and Display Parking Machines	-	-	-	18	-	-	-	-	18
36	3 Ride on Mowers	-	-	90	-	-	-	-	-	90
37	Trimax Pegasus	-	-	26	-	-	-	-	-	26
38	Stump Grinder	-	-	30	-	-	-	-	-	30
39	Tractor mounted Hedge Flail	-	-	40	-	-	-	-	-	40
40	Excavator	-	-	40	-	-	-	-	-	40
<b>Total - Operations</b>		<b>49,000</b>	<b>8,018</b>	<b>1,490</b>	<b>127</b>	<b>109</b>	<b>89</b>	<b>-</b>	<b>550</b>	<b>10,383</b>
<b>Governance, Law and Service Delivery</b>										
41	Electoral Management System	9	9	-	-	-	-	-	-	9
42	Migrate IKEN Legal System to Cloud Hosted Service	18	18	-	-	-	-	-	-	18
<b>Total - Governance, Law and Service Delivery</b>		<b>27</b>	<b>27</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27</b>
<b>Place</b>										
	Otterpool Land and Property Acquisition	11,113	787	-	-	-	-	-	-	787
	Otterpool Park Delivery	55,424	9,500	7,500	13,000	13,000	13,000	9,750	-	65,750
	Otterpool Park Garden Town Delivery Mechanism	-	-	-	-	-	-	-	-	-
	Otterpool Park Master planning Costs	-	-	-	-	-	-	-	-	-
43	Otterpool Park Garden Town	66,537	10,287	7,500	13,000	13,000	13,000	9,750	-	66,537
44	Waste Contract - Acquisition of Vehicles and Equipment	260	15	245	-	-	-	-	-	260
45	Area Officer Vans	20	20	-	-	-	-	-	-	20
46	CLLD ERDF Capital Projects	853	853	-	-	-	-	-	-	853
47	Rural England Prosperity Fund Capital Grants Scheme	571	143	428	-	-	-	-	-	571
48	UK Shared Prosperity Fund Capital Grants Scheme	463	113	350	-	-	-	-	-	463
49	Folkestone - A Brighter Future Project (LUF)	21,874	1,731	16,475	3,668	-	-	-	-	21,874
50	FOLCA 2	-	-	-	5,000	5,000	-	-	-	10,000
51	Leisure centre development	-	-	-	-	500	500	12,500	12,500	26,000
<b>Total - Place</b>		<b>90,578</b>	<b>13,162</b>	<b>24,998</b>	<b>21,668</b>	<b>18,500</b>	<b>13,500</b>	<b>22,250</b>	<b>12,500</b>	<b>126,578</b>
<b>Housing</b>										
52	Empty Properties Initiative (KCC) - Loans to landlords	1,525	325	300	300	300	300	-	-	1,525
53	Temporary Accommodation (invest to save)	94	94	-	-	-	-	-	-	94
54	Disabled Facilities Grants (DFGs) & Loans	5,000	1,000	1,000	1,000	1,000	1,000	-	-	5,000
55	Home Safe Loans	611	211	100	100	100	100	-	-	611
<b>Total - Housing</b>		<b>7,230</b>	<b>1,630</b>	<b>1,400</b>	<b>1,400</b>	<b>1,400</b>	<b>1,400</b>	<b>-</b>	<b>-</b>	<b>7,230</b>
<b>Corporate Services</b>										
56	PC Replacement Programme	175	35	55	55	55	55	55	-	310
57	Server Replacement Programme	300	60	60	60	60	60	-	-	300
58	ICT improvement costs (externally hosted Revenues & Benefits system)	53	53	-	-	-	-	-	-	53
59	Website CMS replacement	26	26	-	-	-	-	-	-	26
60	Folkestone & Hythe Green Business Grant Scheme	220	220	-	-	-	-	-	-	220
61	FHDC Transformation	15	15	-	-	-	-	-	-	15
62	Oportunitas Loan and Share Capital Phase 2	970	970	-	-	-	-	-	-	970
63	Upgrade financials Financial Ledger System to Cloud Hosted Service	70	70	-	-	-	-	-	-	70
64	Financial Management System	-	-	250	250	-	-	-	-	500
<b>Total - Corporate Services</b>		<b>1,829</b>	<b>1,449</b>	<b>365</b>	<b>365</b>	<b>115</b>	<b>115</b>	<b>55</b>	<b>-</b>	<b>2,464</b>
<b>Total GF Medium Term Capital Programme</b>		<b>148,664</b>	<b>24,286</b>	<b>28,253</b>	<b>23,560</b>	<b>20,124</b>	<b>15,104</b>	<b>22,305</b>	<b>13,050</b>	<b>146,682</b>
<b>Capital Funding</b>										
65	Government Grant	(29,435)	(5,946)	(18,595)	(3,256)	(1,519)	(1,519)	(1,000)	-	(31,835)
66	Other External Contributions	(9,362)	(406)	(597)	-	-	-	-	-	(1,003)
67	Capital Receipts	(31,839)	(2,823)	(1,111)	(1,249)	(400)	(400)	-	-	(5,983)
68	Revenue Contributions	(3,893)	(2,223)	(205)	(1,055)	(205)	(185)	(55)	-	(3,928)
69	Borrowing	(74,135)	(12,888)	(7,745)	(18,000)	(18,000)	(13,000)	(21,250)	(13,050)	(103,933)
<b>Total Funding</b>		<b>(148,664)</b>	<b>(24,286)</b>	<b>(28,253)</b>	<b>(23,560)</b>	<b>(20,124)</b>	<b>(15,104)</b>	<b>(22,305)</b>	<b>(13,050)</b>	<b>(146,682)</b>