CAPITAL STRATEGY

INTRODUCTION

1.1 This Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It sets out the strategic direction for KCC's capital management and investment plans and is an integral part of our medium to long term financial and service planning and budget setting process. It establishes the principles for prioritising KCC's capital investment and incorporates requirements from the prudential system.

Capital Expenditure and Financing

1.2 Capital expenditure is where the Council spends money on assets, such as property, highways assets or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are deemed *de-minimis,* they are not capitalised and are instead charged to revenue in year.

1.3 Details of the Council's policy on capitalisation are included in the Council's annual Statement of Accounts, the relevant extract is set out below:

"Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

1.4 All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment above our *de-minimis* of £10k (£2k in schools) is capitalised on an accruals basis. In this context, enhancement means work that has substantially increased the value or use of the assets. Work that has not been completed by the end of the year is carried forward as "assets under construction".

Capital Strategy Principles

1.5 The core principles of the Council's Capital Strategy are as follows:

The Capital Strategy will:

- Be based on delivering the Council's strategic priorities,
- Set out and deliver its statutory responsibilities on a risk-based approach,
- Ensure the capital programme is long-term (10 years), deliverable, realistic and affordable,

- Exclude property investments where loans are provided to third parties, such as No Use Empty – these will be considered as part of the Treasury Management Strategy,
- Health and safety aspects of the Council's estate and roads will be monitored closely and prioritised accordingly, with emergency situations being dealt with.

The Council's Strategic Outcomes

1.6 *Reforming Kent 2025-2028* is KCC's new Strategic Statement, replacing the previous administration's strategy, *Framing Kent's Future*. The strategy sets out the challenges facing the Council over the next three years and the aims and objectives of the administration to meet these. The strategy is structured around four key aims, each supported by specific objectives and priorities:

1. Putting Kent Residents First
2. Reforming Kent County Council
3. Supporting Residents that Need Help
4. Building Better Communities

1.7 KCC's budget strategy for 2026/27 recognises the continuing economic challenges and the need to maintain a balanced financial position. Delivery of ambitions will take into account the requirement to prioritise financial sustainability, with delivery of ambitions phased appropriately across the strategic period. The Capital Strategy will mirror this approach, ensuring that capital investment remains closely aligned with the Council's budget strategy and process and demonstrates clear value for money in all decisions.

1.8 The Capital Strategy will be refreshed annually to incorporate the organisation's strategic direction. Business planning across the organisation will provide oversight of key activity across the Council that contributes to both strategic ambitions and financial sustainability. The capital programme will align itself to the business planning process.

1.9 Capital investment should also evidence how it will support the priorities and principles set out in significant strategies. The following are examples of the Council's key strategies:

- Local Transport Plan 5 – this plan sets out the county's strategic transport priorities
- Highways Asset Management Plan – this plan sets out approach to management of Kent's highways assets
- Raising ambition. Enabling curiosity. Building resilience – A Strategy for Education in Kent 2025-2030
- Commissioning Plan for Education Provision 2024-28 – this sets out changes to existing schools and commissioning of new schools
- Making a difference every day - Our strategy for Adult Social Care 2022 to 2027.
- Asset Management Strategy– this sets the framework for managing the Council's property portfolio effectively

- KCC Digital Strategy 2024-27 – this outlines the plans for digital transformation within the council
- KCC's People Strategy 2022-27 – this sets out how it will shape the future of work within the council
- KCC's Commercial Strategy 2026-28 – this sets out the approach to procurement and commercial activity within the council

Affordability

1.10 Capital plays an important role in delivering long-term priorities as it can be targeted in creative and innovative ways. However, capital is not unlimited or "free money" – capital funding decisions can have significant revenue implications. Every £10m of prudential borrowing costs approximately £0.9m per annum in revenue financing costs (including repayment of the principal) for 25 years, assuming an asset life of 25 years. For Information Technology projects the revenue financing costs are much higher per annum as the life is shorter. This is in addition to any ongoing maintenance and running costs associated with the investment. The more revenue that is tied up to repay borrowing, the less is available for service provision, and this is considered alongside revenue pressures.

1.11 In assessing affordability, indicators set by the Prudential Code and the Council's own internal set of fiscal indicators are considered. The fiscal indicator "net debt costs should not exceed 10% of net revenue spending" is considered a suitable indicator to help ensure long-term affordability of the capital programme. The Council is also following the reporting requirements of the 2021 Prudential Code.

1.12 In 2026-27, the Council is planning capital expenditure of £339m as shown in the following table:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £millions

	2024-25 actual	**2025-26 forecast**	**2026-27 budget**	**2027-28 budget**	**2028-29 budget**
General Fund services	272.05	322.61	350.51	296.02	218.79
Capital investments*	0.05	0.04	0.00	0.03	0.00
TOTAL	272.10	322.65	350.51	296.05	218.79

*Represents spend on service investments.

1.13 The main General Fund capital projects for 2026-27 include: investments in highways and other transport improvements (£124m), highways, structures & waste enhancement (£97m), additional school places to increase capacity (£54m), other school projects (£34m), modernisation and improved utilisation of council premises (£27m), economic development initiatives (£13m), community projects (£1m) and adults, social care and health (£1m). The

Council does not incur capital expenditure on investments primarily for financial return which is in line with the 2021 Prudential Code.

1.14 **Governance**: Service managers bid to include projects in the Council's capital programme. Projects must come forward with alternative options for delivering outcomes, and with a variety of funding options. All projects must be supported by a business case, using the agreed template which captures this information. The business case must also show realistic phasing of the proposed project, with project plans to support this. If a project slips, funding assigned to that project could have been attributed to other worthy projects that were ready to proceed. A critical element of the business case is to identify revenue costs and revenue savings as these will be integral to the budget setting process. Bids are collated by the Capital Finance Team in Corporate Finance who calculate the financing cost (which can be nil if the project is fully externally financed). The bids are taken through the budget process, and the final capital programme is presented to Cabinet in January and to County Council in February each year for approval. Bids requiring KCC funding are not currently being encouraged to mitigate against the challenging global and national financial situation, other than invest/spend to save bids.

Statutory Requirements

1.15 The Council will ensure that appropriate capital funding is allocated on a risk-based approach, to meet immediate statutory requirements, such as basic need, health and safety, Disability Discrimination Act (DDA) and other legal requirements. Increasingly, it is anticipated that satisfying statutory requirements and avoidance of legal challenges will need to play a more prominent role in capital investment decisions. Nonetheless, whilst there may be a statutory requirement, capital bids will still need to explore alternative options to satisfy the affordability requirement. Capital spend may not always be necessary to achieve the minimum or required outcomes. Funding for capital projects will be applied in the most logical and efficient way, for example, to use specific grants for their intended purpose or time limited funding first, and where grant is not sufficient other sources of external funding will be explored, before using the Council's resources.

Invest/Spend to save bids

1.16 Invest/spend to save bids are encouraged as these will be integral to achieving additional savings/income which is increasingly important to ease the pressure on the revenue budget, although not at the expense of meeting the Council's statutory obligations and strategic priorities. Any bids under this category will be rigorously reviewed and challenged to ensure all relevant costs including any costs of borrowing or other revenue impacts have been adequately accounted for and the identified savings are realistically achievable within a reasonable period.

Enhancement of Existing Estate and Roads

1.17 Maintenance of the estate and highway roads and structures network is coming under increasing pressure following years of reactive works. The 10-year capital planning period helps provide the service with future funding stability and the ability to highlight forthcoming pressures for early consideration by Members. In addition to the investment set out in Appendices A and B, funding will be made accessible if required for urgent/emergency "safety vital" works.

➢ Full details of the Council's capital programme are set out in Appendices A and B.

FUNDING

1.18 All capital expenditure must be financed, either from external sources (government grants, developer contributions and other external funding), the Council's own resources (revenue, reserves and capital receipts from sale of assets) or borrowing. The planned financing of the above expenditure is shown in the following table.

Table 2: Capital financing in £millions

	2024-25 actual	2025-26 forecast	2026-27 budget	2027-28 budget	2028-29 budget
External sources*	193.3	256.27	261.25	229.95	187.03
Own resources	51.9	31.47	12.42	7.01	6.98
Borrowing	26.9	34.91	76.84	59.09	24.78
TOTAL	**272.1**	**322.65**	**350.51**	**296.05**	**218.79**

*External sources include funding from loan repayments. The Council operates several revolving loan schemes, the majority of which are funded from external sources. However, this will also include an element of funding that was originally from the Council's own resources but cannot now be separately identified.

Grants

1.19 The challenging financial environment means that national government grants are reducing or changing in nature and becoming more heavily prescribed. These prescriptions reduce the freedom to decide where and how to spend grants – they are largely tied to specific service areas such as education or highways and must be closely monitored. The Council's aim is to use other, less specific grants for their intended purpose in a way that meets statutory obligations. Where the grant is not sufficient, other sources of external funding such as Central Government grants and s106/Community Infrastructure Levy

(CIL) will be explored first, before using the Council's resources such as capital receipts and borrowing.

Developer Contributions: Community Infrastructure Levy (CIL),S106 & S278 agreements

1.20 Developer contributions assist in mitigating the impact of new development on infrastructure. Funding can only be secured if it meets the three statutory tests set out in Regulation 122 of the Community Infrastructure Levy Regulations 2010 (Statutory Instrument 2010/948). The nature of s106 agreements means that once the total funding figure has been secured with a s106 contract, in some cases, the funding is received by the County Council in staged payments as the development is built out, with the full funding potentially not received until the development has been fully completed. Depending on size, a development can take several years to be fully completed. Developer contributions will be built into the programme at the point they are secured within s106 agreements, but it must also be recognised that at this point there are still risks around the timing that funding is received. Careful monitoring of expenditure against funding triggers is therefore a critical factor to be considered when profiling capital spend that includes developer contributions.

1.21 KCC secures s106 contributions towards primary and secondary education, Special Education Needs and Disabilities (SEND), highways and transportation, adult social care, sustainable urban drainage, strategic waste disposal services, libraries, adult education and integrated children's services. In most instances KCC will have ten years to allocate funding received.

1.22 Any forward funding arrangements of developer contributions must be approved to ensure appropriate debt costs of forward funding are built into the repayments. The repayment schedule must be formalised by being built into the s106 agreement. It is always difficult to predict when a development will commence and how long it takes to be completed. Therefore, ongoing engagement between Infrastructure and the Development Investment Team, alongside the monitoring of development progress, is critical to ensure infrastructure is delivered at the most efficient time.

1.23 Several districts in Kent have adopted the Community Infrastructure Levy (CIL), a flat rate tariff charge based on the floorspace of the development being proposed. CIL rates are set by districts, as the Charging Authorities, through their CIL Charging Schedules. They are also responsible for collection and spend of the levy. The share of CIL funding which the County Council will receive varies across the County and also depends on the individual CIL governance that is set up and the decisions of district council administered CIL Spending Boards. This means that the future CIL income is unknown and cannot currently be forecast, as unlike s106 agreements, KCC does not automatically receive a share.

1.24 KCC, as the local highway authority, is responsible for the maintenance and development of the local road network within its borders. If planning permission has been granted for a development that requires changes or improvements to public highways, then KCC will often enter into a Section 278 (s278) agreement with the developer. As with s106 agreements this can only take place when the requested improvements are compliant with the CIL 122 regulations. A s278 agreement enables changes to be made to highway capital assets that the developer pays for and constructs. Examples of works that may be featured in a s278 agreement include roundabouts, improved facilities for pedestrians and cyclists, and traffic calming measures.

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1.25 The Community Infrastructure Levy(amendment) (England) (no.2) Regulations 2019 place a duty on Local Authorities to provide a summary of all financial and non-financial developer contributions that they have been involved with over the course of a given financial year. The annual Infrastructure Funding Statement also demonstrates the amount of developer contributions being held by the authority for expenditure on specific capital projects. Over the last five years KCC has received an average of £33.4m each year, demonstrating that developer contributions form a key component of securing the Council's financial sustainability and funding infrastructure for our growing population and communities.

Borrowing

1.26 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Borrowing is a combination of external loans and internal borrowing (from cash reserves). Debt is usually only repaid when a loan matures. Occasionally the Council can refinance debt with replacement borrowing at a lower rate of interest, this is rare as there are usually excessive penalties to repay loans earlier than their normal maturity. Planned MRP during the medium-term planning period is as follows:

Table 3: Replacement of debt finance (MRP) in £millions

	2024-25 actual	**2025-26 forecast**	**2026-27 budget**	**2027-28 budget**	**2028-29 budget**
MRP	64.5	61.5	62.0	65.6	64.6

- The Council's full minimum revenue provision statement is at Appendix Q.

1.27 The level of borrowing to fund the capital programme considers the revenue implications and the requirements of the prudential code. In line with the Code, borrowing is not undertaken in advance of need. The 10-year capital programme planning period will assist in more effective management of borrowing levels over the longer-term.

1.28 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with repayments from MRP and capital receipts used to replace debt. The CFR is expected to decrease by £26.6m during 2025-26 to £1.269bn. Based on the figures in tables 1 and 2 for expenditure and financing, the Council's estimated CFR is shown in table 4:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement £millions

	31.3.2025 actual	**31.3.2026 forecast**	**31.3.2027 budget**	**31.3.2028 budget**	**31.3.2029 budget**
TOTAL CFR	1,295.9	1,269.3	1,284.2	1,277.7	1,237.8

The in-year movement in the total row equals borrowing from table 2 less MRP from table 3.

As a result of International Financial Reporting Standard (IFRS)16 the forecast CFR as at 31.03.26 may be affected as a result of in-year changes in leases. The impact of which will not be quantified until after the year end, however it is not expected to be material.

Asset Management and Capital Receipts

1.29 **Strategic Asset Management Framework**

To ensure that capital assets remain useful in the long term and deliver maximum value, the Council has adopted the 2024–2030 Asset Management Strategy (AMS), replacing the previous 2018–2023 strategy. This updated AMS provides a robust framework for managing the Council's owned, tenanted, and leased assets over the next six years, aligning with statutory duties, corporate policies, and service priorities.

The Strategy focuses on optimising and flexibly using assets, so they are appropriately located, efficiently utilised, and adaptable to changing service needs. It incorporates short-, medium-, and long-term planning to future-proof the estate and maintain sustainability. While environmental considerations, including energy efficiency and renewable energy adoption, remain important, the AMS places equal emphasis on improving operational efficiency and ensuring assets deliver maximum value for services.

Digital transformation is a key enabler, with smart building technologies and advanced data analytics used to optimise performance, enable predictive maintenance, and support informed decision-making. The Strategy also promotes community and partnership working through co-location and shared use of facilities with public sector partners, reducing costs, improving service accessibility, and enhancing collaboration.

Overall, the AMS prioritises efficient use of KCC's assets and encourages partnership working to deliver statutory and essential services effectively. Securing the short- and medium-term position is critical for sustainable future planning, and property assets play a pivotal role in enabling the Council to transform public service delivery, making an innovative and forward-thinking approach essential.

1.30 **Capital Receipts and Disposal Strategy**

When an asset is no longer required, a full options appraisal will determine its future. Disposal remains an option, with proceeds (capital receipts) reinvested into new assets, repay debt, or fund revenue transformation projects as allowable under the Government direction. While previous disposal programmes have successfully minimised borrowing future receipts will increasingly come from underutilised assets rather than surplus ones. This may require targeted investment to unlock value, subject to rigorous business case assessment and alignment with capital programme priorities.

KCC will also explore alternative income generating models, such as joint ventures, leasing arrangements, and repurposing assets for community benefits, ensuring financial resilience and long-term sustainability.

1.31 **Capital Investment Principles**

The AMS requires that all business cases for new non-school buildings must take a comprehensive approach by considering whole-life costs, including upfront delivery expenses, ongoing operational costs, and the environmental impact of the project. Each proposal should include mandatory contributions to a capital reserve to cover long-term maintenance, as the current Modernisation of Assets budget is insufficient for the scale of KCC's estate. In addition, investments should demonstrate alignment with sustainability objectives while prioritising operational efficiency and service delivery. Future investment will also focus on digital systems and smart technologies on an "invest-to-save" basis, supported by robust evidence of efficiency gains and cost savings.

1.32 **Governance and Performance Monitoring**

To ensure accountability and continuous improvement, KCC will implement a robust governance framework that includes Key Performance Indicators (KPIs) to measure asset utilisation, energy performance, and financial returns. The Council will conduct annual reviews of the Asset Management Strategy to maintain alignment with corporate priorities and respond to emerging service needs, ensuring the strategy remains relevant and effective.

Capital Receipts

1.33 The Council plans to use up to £9m of capital receipts (under the Government direction that allows revenue costs of projects that will reduce costs, increase revenue or support a more efficient provision of services to be funded from asset sale proceeds) to balance the 2026-27 revenue budget. This reduces the level of receipts available to fund capital expenditure.

1.34 Repayments to the Council of capital grants, loans to third parties and investments also generate capital receipts. The timing of when capital receipts are banked and applied to fund the capital programme will not necessarily match, and where necessary, timing differences will be managed through short term internal borrowing from cash balances. The following table shows when the Council plans to apply capital receipts and loan repayments to fund the capital programme in the coming financial years:

Table 5: Capital receipts to be applied in £millions

	Prior Years	**2026-27 budget**	**2027-28 budget**	**2028-29 budget**
Application of asset sales	15.94	0.35	0.48	0.55
Loan repayments	75.51	10.37	7.59	9.11

Treasury Management

1.35 Treasury management is concerned with keeping sufficient, but not excessive, cash available to meet the Council's spending needs while managing the risks involved. Surplus cash is invested earning revenue income until required, while any liquidity shortage would be met by short-term borrowing to avoid excessive overdraft fees. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

1.36 As documented in the proposed treasury management strategy (appendix N) for 2026-27, the budget for external borrowing costs for 2026-27 is £24.6m based on the Council's current external debt portfolio (anticipated to be £625.1m at 31 March 2027) and assuming no new external borrowing is undertaken during 2026-27. The budget for net investment income in 2026-27 is £11.5m, based on an average investment portfolio of £506.6m at an average interest rate of 4.08%.[1] If actual levels of investments and borrowing, or actual interest rates, differ from forecast, performance against budget will be correspondingly different. The resultant net cost of treasury (interest payable costs less net investment income) is expected to be £13.1m for 2026-27.

1.37 **Borrowing strategy:** The Council's main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. The Council does not borrow for the primary purpose of financial return and therefore retains full access to the Public Works Loan Board.

1.38 Projected levels of the Council's total outstanding debt comprising external borrowing and other long-term liabilities identified in the balance sheet (including PFI liabilities, leases, etc) are shown below, compared with the capital financing requirement (see above) and the resulting balance funded from internal borrowing.

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £millions

	31.3.2025 actual	**31.3.2026 forecast**	**31.3.2027 budget**	**31.3.2028 budget**	**31.3.2029 budget**
Other Long-term Liabilities	230.3	209.5	194.7	180.7	165.1
External Borrowing*	706.0	624.7	600.6	593.3	586.1
Total Debt	936.3	834.2	795.3	774.0	751.2
Capital Financing Requirement**	1,295.9	1,269.3	1,284.2	1,277.7	1,237.8
Internal Borrowing	359.6	435.1	488.9	503.7	486.6

*The Council manages debt on behalf of Medway Council that was transferred to it following the reorganisation that created Medway Council. The value of this debt has been excluded from external borrowing shown in table 6 in accordance with the Prudential Code.

1.39 Statutory guidance is that total debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

1.40 **Liability benchmark:** To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the

[1] Gross investment income for 2026-27 is estimated to be £20.7m including £9.2m attributable to other bodies.

lowest risk level of borrowing. This is shown in the Treasury Management Strategy at Appendix N.

1.41 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. Both limits are set with reference to the Council's plans for capital expenditure and financing. The authorised limit provides headroom over and above the operational boundary sufficient for unusual cash movements.

- Further details on borrowing are in the Treasury Management Strategy – see Appendix N.

Table 7: Prudential Indicator: Authorised limit and operational boundary for external debt in £millions

	2025-26 limit	**2026-27 limit**	**2027-28 limit**	**2028-29 limit**
Authorised limit – borrowing	1,059.8	1,089.5	1,097.0	1,072.7
Authorised limit – other long-term liabilities	209.5	194.7	180.7	165.1
Authorised limit – total external debt	1,269.3	1,284.2	1,277.7	1,237.8
Operational boundary – borrowing	959.8	989.5	997.0	972.7
Operational boundary – other long-term liabilities	209.5	194.7	180.7	165.1
Operational boundary – total external debt	1,169.3	1,184.2	1,177.7	1,137.8

The operational boundaries and authorised limit include capacity for managing the transferred debt belonging to Medway Council as referred to under table 6. This ensures that the Council has sufficient capacity to manage it's own ultimate borrowing requirement.

1.42 **Treasury Investment strategy:** Treasury investments arise from receiving cash before it is paid out again, including balances of reserves. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

1.43 The Council's policy on treasury investments is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults, the liquidity of investments and the risk of receiving unsuitably low investment income. Cash that is likely to be spent in the near term is invested securely, in Money Market Funds, with the government or selected highquality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, equity and property funds, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy, and the Council may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2025 actual	31.3.2026 forecast	31.3.2027 budget	31.3.2028 budget	31.3.2029 budget
Near-term investments	254.6	103.1	76.6	143.4	167.0
Longer-term investments	177.5	184.1	155.0	115.0	90.0
TOTAL	**432.1**	**287.2**	**231.6**	**258.4**	**257.0**

- Further details on treasury investments are in the Treasury Management Strategy at Appendix N.

1.44 **Risk management:** The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

1.45 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Director of Finance and finance staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented to Governance and Audit Committee in the form of treasury strategy mid-year update and annual treasury outturn reports, which are subsequently reported to County Council. The Treasury Management Group (TMG) is responsible for scrutinising treasury management decisions. This is a Member group supported by officers and chaired by the Cabinet Member for Finance, Corporate and Traded Services.

Investments for Service Purposes

1.46 The Council makes investments to assist local public services, including making loans to or buying shares in other organisations (service investments). In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to generate a surplus after all costs.

1.47 **Governance:** Decisions on service investments are made by the relevant service manager after consultation with and approval of the Corporate Director of Finance and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on service investments are in the Investment Strategy at Appendix O.

Commercial Activities

1.48 With central government financial support for local public services declining, the Council has, in the past, strategically invested in commercial property purely or mainly for financial gain. Some of these are still held, and all details are available in the Investment Strategy at Appendix O.

1.49 With financial return being the main objective, the Council accepted higher risk on commercial investment than with treasury investments. The principal risk exposures include void periods when properties are empty and reductions in market value. These risks were managed by a rigorous appraisal process prior to any acquisition decision. Total commercial investments as at 31st March 2025 were valued at £33.9m.

1.50 In line with Government expectations, the Authority will not be pursuing commercial investments going forward.

1.51 **Governance:** Decisions on commercial investments and disposals have been made by the Director of Infrastructure in accordance with the Councils constitution, and more relevantly the Property Management Protocol, and following consultation with and approval of the Corporate Director of Finance. Property and most other commercial investments are also capital expenditure and purchases have also been approved as part of the capital programme. The proportion of net income from commercial and service investments to net revenue stream are shown in Table 9.

- Further details on commercial investments and limits on their use are included in the Investment Strategy – Appendix O.

Table 9: Prudential indicator: Net income from commercial and service investments to net revenue stream

	2024-25 actual	**2025-26 forecast**	**2026-27 budget**	**2027-28 budget**	**2028-29 budget**
Total net income from service and commercial investments £m	4.9	7.5	6.8	6.9	6.9
Proportion of net revenue stream (%)	0.34	0.49	0.41	0.40	0.39

- The Council also has commercial activities in several trading companies, details of which are included in the Investment Strategy – Appendix O.

Liabilities

1.52 In addition to the forecast debt detailed in table 6, the Council is committed to making future payments to cover its pension fund deficit (valued at £29.3m as at 31.03.25). It has also set aside £48m in general reserves, which is the estimated balance as at 31.03.26 after an assumed drawdown to fund a 2025-26 overspend, based on the 2025-26 Quarter 3 revenue monitoring. This reserve balance is to cover unforeseen risks as identified in the Reserves Policy – Appendix M to this document. The Council has identified a number of budget risks but has not put aside any money because the Council has sufficient reserves (before any drawdown to fund a 2025-26 overspend) to cover these eventualities should they arise. These risks are identified in the Budget Risks Register at Appendix K to this document, which includes the risk of the impact on reserves of the 2025-26 overspend.

1.53 **Governance:** Decisions on incurring new discretional liabilities are taken by service managers after consultation with and approval of the Corporate Director of Finance. The risk of liabilities crystallising and requiring payment is monitored by Corporate Finance and included in monitoring reports.

Revenue Budget Implications

1.54 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2024-25 actual	2025-26 forecast	2026-27 budget	2027-28 budget	2028-29 budget
Proportion of net revenue stream	7.38%	6.67%	5.93%	5.90%	5.71%

1.55 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Corporate Director of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable because of the rigour which has been applied to the appraisal of schemes and the application of an affordable future borrowing strategy based on an absolute fiscal limit that the costs of borrowing cannot exceed 10% of the annual revenue budget. The Capital Programme will be reviewed and revised annually to ensure it is affordable in the medium term.

Knowledge and Skills

1.56 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The wider finance team includes a number of qualified accountants who are members of professional accountancy bodies including the Association of Chartered Certified Accountants (ACCA), Chartered Institute of Management Accountants (CIMA), Institute of Chartered Accountants in England and Wales (ICAEW) and the Chartered Institute of Public Finance and Accountancy (CIPFA). In addition, KCC Finance is an approved employer with professional accreditations from ACCA and CIPFA.

1.57 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Link Group as treasury management advisers, and Amey/Kier/Skanska as property consultants/facilities management contractors. The Council will use the services of other specialists and consultants as necessary. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

1.58 The Council's policy on the use of external advisers is that where a contract for a consultant is estimated to cost £50,000 or more, details of the proposed award must be forwarded to the relevant Cabinet Member prior to the appropriate officer making the award.

APPENDIX P

Governance Arrangements

1.59 The governance arrangements for the capital programme are as set out in the Council’s constitution.