By:	Cabinet Member for Finance and Business Support – John Simmonds Corporate Director of Finance and Procurement – Andy Wood
To:	Policy and Resources Committee
Date:	22 November 2012
Subject:	Capital Strategy
Classification:	Unrestricted

Summary: This report sets out the background and proposals made that have formed the attached capital strategy

FOR COMMENT

1. INTRODUCTION AND BACKGROUND

1.1 We are in a very different and difficult financial climate and it is appropriate therefore, to completely re-examine and review our capital strategy.

1.2 In March, Cabinet Member for Finance and Business Support, John Simmonds requested that a Capital Strategy Working Group (CSWG) be set up to devise a new capital strategy. This group mainly consisted of senior officers from highways, property, policy, procurement, regeneration and finance.

1.3 A discussion paper on the strategy was completed by the end of September. This set out a number of questions and recommendations, presenting options for discussion and debate based on the changing financial climate, our strategic priorities and some historical statistics. This paper went to the Corporate Management Team on the 9 October.

1.4 On 16 October the strategy was debated by CMT and Cabinet at the capital away day.

2. THE STRATEGY

2.1 The strategy can be found in Appendix 1. The main points are highlighted below.

2.2 The main catalyst for shaping our capital strategy is our fiscal indicator in relation to debt costs. This states that our debt costs should not exceed

15% of our net revenue budget. For 2012/13 the prediction is that it will reach 13.6% and is rising, exceeding this fiscal indicator in 2013/14. This is partly due to the fact that our net revenue budget is predicted to reduce over the Medium Term Plan, so even if our annual debt costs stayed the same the % would rise. For every £10m borrowed there is a revenue cost of around £1m per annum, depending on the asset type that the borrowing is funding.

2.3 The recommendation of the CSWG is to maintain the 15% ‘cap’ on borrowing, given the funding outlook for local government in the medium term. This cap should remain until at least 2017/18.

2.4 In practice this means that we should not plan for any additional borrowing that is not already in the programme, over the next 5 years. The Medium Term Plan currently shows £175.3m of additional borrowing. At the capital away day on 16 October £24.5m of new bids were considered without a funding source. It was agreed that these should not be funded from borrowing but should seek other funding sources, predominantly capital receipts. After other adjustments and roll forwards from 11-12 our revised Medium Term Plan figure for borrowing is £172m. This will take us to our 15% cap.

2.5 The Authority is proposing to take a transformational stance in relation to its capital strategy. This involves setting aside some capital projects in favour of others that are more in-line with current strategic priorities. This stance will enable maximum flexibility but could also result in increased capital spend. This may be funded through the introduction of rigorous capital receipts targets, better targeted invest to save projects and other innovative funding streams but not through increased borrowing, which would have a negative impact on our fiscal indicator and revenue budget.

2.6 It is also proposed that a pot of £5m should be set aside to fund smaller, more innovative schemes; this will not be funded from borrowing, so other sources of funding will be sought.

2.7 Our previous capital strategy has been highly successful in delivering new roads, new schools, new libraries etc. The ‘cap’ on borrowing should not be seen as a reflection on previous decisions, but of the huge financial challenge facing the Authority over the medium term.

3. WHAT NEXT?

3.1 In order to make the strategy work we will need to review the processes that are currently in place. This will involve a detailed piece of work, including a thorough review of the business cases and having a weighted scoring system that meets our strategy.

3.2 There also needs to be clear governance that ensures the capital programme meets our strategy and ensures that decisions are made promptly to meet KCC objectives as set out in Bold Steps and other strategy documents.

3.3 Clear communication channels will need to be developed between the business, property, finance, procurement and policy to ensure all possible scenarios are covered and to reduce any associated risks.

4. RECOMMENDATIONS

4.1 Members are asked to comment on the proposed capital strategy.

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