

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,
- No new borrowing is undertaken – affordability across the medium to long term is key.
- 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 *Framing Kent's Future* – Our Council Strategy 2022-2026, is KCC's Strategic Statement. *Framing Kent's Future* sets priorities to ensure we are harnessing the opportunities and addressing the challenges being faced by KCC as an organisation and by the residents of Kent over the next four years. It is structured around four strategic priorities that KCC will aim to deliver - Levelling Up Kent, Infrastructure for Communities, Environmental Step Change and New Models of Care and Support. The overall budget strategy, articulated through *Securing Kent's Future* has recognised that due to the economic consequences of global and national circumstances there will be policy and service decisions that must be taken to balance the budget which could run counter to the priorities and ambitions set out in *Framing Kent's Future*. This applies equally to the capital strategy. This means that delivery of some of the ambitions may be deferred until later in the four-year period, with a greater focus in the short-term on ensuring the Council's financial position is sustainable in the medium term, with a particular focus on the New Models of Care and Support priority.
- 1.7 The Capital Strategy will be refreshed annually to incorporate the organisation's strategic direction. Business planning across the organisation will adapt to the council's circumstances for 2024-25. *Securing Kent's Future* will be developed into the strategic council business plan, and it will be underpinned by divisional business plans. The capital programme will align itself to the revised business planning process.
- 1.8 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 4 – this plan sets out the county's strategic transport priorities. Local Transport Plan 5 is currently in development.
 - Highways Asset Management Plan 2021/22 to 2025/26.
 - Commissioning Plan for Education Provision 2024-28 – this sets out changes to existing schools and commissioning of new schools.
 - Kent's environment strategies – including the Energy and Low Emissions Strategy and Net Zero Action Plan.
 - 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.
- Making a difference every day - Our strategy for Adult Social Care 2022 to 2027.

Affordability

- 1.9 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 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.
- 1.10 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 following the reporting requirements of the 2021 Prudential Code.
- 1.11 In 2024-25, the Council is planning capital expenditure of £340.5m as shown in the following table:

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

	2022-23 actual	2023-24 forecast	2024-25 budget	2025-26 budget	2026-27 budget
General Fund services	251.4	299.1	340.5	267.6	206.4
Capital investments*	6.3	0.5	0.0	0.0	0.0
TOTAL	257.7	299.6	340.5	267.6	206.4

*Represents spend on service investments.

- 1.12 The main General Fund capital projects for 2024-25 include: investments in highways and other transport improvements (£91m), highways, structures & waste enhancement (£74m), additional school places to increase capacity (£69m), other school projects (£57m), modernisation and improved utilisation of council premises (£34m), economic development initiatives (£14m), 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.

- 1.13 **Governance:** Service managers bid to include projects in the Council's capital programme. Capital finance colleagues provide advice during this process. 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 Team in Corporate Finance who calculate the financing cost (which can be nil if the project is fully externally financed). These are then discussed as part of 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 being encouraged to mitigate against the challenging global and national financial situation.

Statutory Requirements

- 1.14 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

- 1.15 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

- 1.16 Maintenance of the estate and highway roads and structures network is coming under increasing pressure following years of reactive works. The development of a longer-term capital planning period will help 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 works.
- Full details of the Council’s capital programme are set out in Appendices A and B.

FUNDING

- 1.17 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. This largely represents a continuation of the existing programme, with no new borrowing added.

Table 2: Capital financing in £millions

	2022-23 actual	2023-24 forecast	2024-25 budget	2025-26 budget	2026-27 budget
External sources*	167.8	240.2	235.5	181.5	168.7
Own resources	22.2	20.8	15.9	24.2	6.6
Borrowing	67.7	38.6	89.1	61.9	31.1
TOTAL	257.7	299.6	340.5	267.6	206.4

*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

- 1.18 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

- 1.19 Developer contributions continue to be a challenging issue and need careful consideration when they are put forward to fund major projects. 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 housing development and realisation of the funding. Careful monitoring of expenditure against this funding is critical.
- 1.20 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. Delays in housebuilding due to Covid-19 and additional costs to builders to ensure covid-safe workplaces means there is likely to be even greater requirements for forward funding, and renegotiation of agreements. In addition to this, it is also difficult to predict when a development will commence and how long it takes to be completed.
- 1.21 Several districts in Kent have adopted the Community Infrastructure Levy (CIL), a flat rate tariff charge. CIL rates are set by districts, through their CIL Charging schedules as the Charging Authorities. 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.
- 1.22 The "pooling restriction" has been removed in recent regulations. This had previously prevented local authorities using more than five section 106 obligations to fund a single infrastructure project. This is a positive move as a single infrastructure project can now be funded by a number of Section 106 agreements and also CIL and will therefore help to unlock funds. However, the monitoring requirements have increased significantly, and revised arrangements will need to be put in place to ensure compliance with the new regulations.
- 1.23 Emerging Government policy and legislation, including the Levelling Up and Regeneration Act 2023, may potentially have a significant impact on the way developer contribution funding is collected and distributed in the future. The Act introduces a new Infrastructure Levy that will replace the Section 106 and

CIL regime. However, this will require secondary legislation which does not yet have an appointed commencement date and the Government has yet to publish its response to a consultation on the Levy that concluded earlier this year. Initial indications were that it could create a significant forward funding requirement which would need to be carefully managed by the Council as well as wider financial risks.

Borrowing

- 1.24 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 debt during the medium-term planning period is as follows:

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

	2022-23 actual	2023-24 forecast	2024-25 budget	2025-26 budget	2026-27 budget
MRP	58.3	59.4	60.0	61.9	63.6

- The Council’s full minimum revenue provision statement is at Appendix P.
- 1.25 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.
- 1.26 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 £20.8m during 2023-24 to £1.272bn. Based on the above figures for expenditure and financing, the Council’s estimated CFR is shown in table 4:

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

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
TOTAL CFR	1,292.4	1,271.6	1,300.8	1,300.8	1,268.4

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

There will be an impact on the CFR of approximately £17m as at 31.03.2024 due to IFRS16. This will be monitored and reviewed regularly.

Asset Management and Capital Receipts

1.27 To ensure that capital assets continue to be of long-term use, the Council at the time of writing is finalising the drafting of the 2024-2030 to replace its present Asset Management Strategy 2018-2023. This current outgoing Strategy and its replacement provides the framework for managing the property portfolio effectively over the next 3 to 6 years. It will align to KCC’s wider statutory duties, policies and corporate strategies and guide future strategic property decisions. It will ensure the property portfolio is managed sustainably and efficiently so that it can adapt to remain fit for the future and support frontline delivery. Property assets are an important part of supporting and enabling the Council to transform the way public services are delivered with partners and it is therefore essential that an innovative and forward-thinking strategy is in place.

The Council’s current asset management strategy can be read here:

- <https://www.kent.gov.uk/about-the-council/strategies-and-policies/corporate-policies/asset-management-strategy>

1.28 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council has had a rigorous disposal programme over the past few years which has helped to minimise the level of borrowing. Going forward the same level of receipts will not be achievable as many surplus assets have already been sold. Increasingly capital receipts will need to be generated from underutilised assets rather than surplus assets. In some cases this may require additional capital investment to develop these assets which would need to be included and approved on an individual scheme basis as part of refreshing future capital programmes. The Council’s Infrastructure division will continue to work with service directorates and public sector partners to explore options to release property and maximise capital receipts, with a view to creating a sustainable pipeline of funds in the future.

1.29 The Council plans to use up to £8m 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) as a one-off measure to balance the 2024-25 revenue budget. This reduces the level of receipts available to fund capital expenditure.

- 1.30 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	2024-25 budget	2025-26 budget	2026-27 budget
Application of asset sales	16.1	9.6	18.2	0.6
Loan repayments	58.4	14.4	10.1	14.2

Treasury Management

- 1.31 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.
- 1.32 As documented in the proposed treasury management strategy for 2024/25, the budget for net investment income in 2024-25 is £13.0m, based on an average investment portfolio of £426m at an average interest rate of 4.88%.¹ The budget for debt interest payable in 2024-25 is £32.5m, based on an average debt portfolio of £748.3m at an average interest rate of 4.35%. If actual levels of investments and borrowing, or actual interest rates, differ from forecast, performance against budget will be correspondingly different.
- 1.33 **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

¹ Gross investment income for 2024-25 is estimated to be £20.8m including £7.8m attributable to other bodies.

APPENDIX O

financial return and therefore retains full access to the Public Works Loan Board.

- 1.34 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 (cash balances).

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

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Other Long-term Liabilities	187.5	178.3	168.0	156.8	145.9
External Borrowing*	773.5	744.1	715.9	684.8	660.6
Total Debt	961.0	922.4	883.9	841.6	806.5
Capital Financing Requirement	1,292.4	1,271.6	1,300.8	1,300.8	1,268.4
Internal Borrowing (cash balances)	331.4	349.2	416.9	459.2	461.9

*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.

- 1.35 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.
- 1.36 **Liability benchmark:** To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This is shown in the Treasury Management Strategy at Appendix M.
- 1.37 **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 M.

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

	2023-24 limit	2024-25 limit	2025-26 limit	2026-27 limit
Authorised limit – borrowing	946.0	1,260.6	1,270.7	1,248.1
Authorised limit – other long-term liabilities	232.0	168.0	156.8	145.9
Authorised limit – total external debt	1,178.0	1,428.6	1,427.5	1,394.0
Operational boundary – borrowing	896.0	1,160.6	1,170.7	1,148.1
Operational boundary – other long-term liabilities	232.0	168.0	156.8	145.9
Operational boundary – total external debt	1,128.0	1,328.6	1,327.5	1,294.0

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 its own ultimate borrowing requirement.

The lease liability figure on the balance sheet will increase by approximately £17m as a result of IRFS16 as at 31.03.2024. Under this new standard the treatment of leases will change from the current distinction between operating and finance leases, leading to more leases being recognised on the balance sheet.

- 1.38 **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.
- 1.39 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 particular in Money Market Funds, with the government, other local authorities or selected high-quality 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 particular investments to buy, and the Council may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Near-term investments	324.2	257.4	183.1	169.3	200.8
Longer-term investments	172.0	170.0	171.7	173.4	175.2
TOTAL	496.2	427.4	354.8	342.7	376.0

➤ Further details on treasury investments are in the Treasury Management Strategy at Appendix M.

1.40 **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.

1.41 **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 with half-yearly and annual reports going 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

1.42 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.

1.43 **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 N.

Commercial Activities

1.44 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 N.

1.45 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 2023 were valued at £30.5m (not yet audited).

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

1.47 **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 N.

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

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Total net income from service and commercial investments £m	8.6	6.8	8.5	5.6	5.5
Proportion of net revenue stream (%)	0.72	0.52	0.60	0.37	0.36

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

Liabilities

- 1.48 In addition to the forecast debt of £771.9m detailed in table 6 above, the Council is committed to making future payments to cover its pension fund deficit (valued at £62.4m as at 31.03.23). It has also set aside £43.2m in general reserves to cover unforeseen risks as identified in the Reserves Policy – Appendix H to this document. This is after significant drawdown to fund the revenue budget overspend in 2022-23, which the Council intends to repay over the next two years (2024-26). The Council has identified a number of budget risks but has not put aside any money because the Council has sufficient reserves to cover these eventualities should they arise. These risks are identified in the Budget Risks Register at Appendix J to this document.
- 1.49 **Governance:** Decisions on incurring new discretionary 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

- 1.50 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

	2022-23 actual	2023-24 forecast	2024-25 budget	2025-26 budget	2026-27 budget
Proportion of net revenue stream	8.40	8.21	7.52	7.21	6.72

- 1.51 **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

- 1.52 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Corporate Director of Finance is a Fellow of the Association of Chartered Certified Accountants (FCCA) with 20 years' post-qualification experience, and the Council's finance team at the last review included a number of qualified accountants who are members of professional accountancy bodies including ACCA, CIMA, CIPFA and ICAEW. In addition, KCC Finance is an approved employer with professional accreditations from ACCA and CIPFA.
- 1.53 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.
- 1.54 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.

Governance Arrangements

- 1.55 The governance arrangements for the capital programme are as set out in the Council's constitution.