

## PART 1

### 1.0 INTRODUCTION

South Holland District Council renews its Capital Strategy on an annual basis. This ensures a strategy that maintains a strong and current link to our Corporate Plan.

#### *Extract from Corporate Plan*

.....“South Holland District Council has always been a forward-thinking, entrepreneurial authority. We continue to strive for excellence and we deliver great value for money for our residents while making the most of the huge opportunities for economic growth in our district”.....

.....Corporate Plan priorities are:

- To develop safer, stronger, healthier and more independent communities while protecting the most vulnerable
- To have pride in South Holland by supporting the district and residents to develop and thrive
- Providing the right services, at the right time and in the right way
- Developing the local economy to be vibrant with continued growth

This Strategy aims to drive the authority’s capital investment ambition whilst ensuring capital expenditure, capital financing and treasury management are appropriately aligned and managed to support sustainable, long term delivery of services.

This strategy has been updated to incorporate the revised Ministry for Communities, Housing and Local Government (MCHLG) statutory guidance on Local Government Investments, included in the updated Chartered Institute of Public Finance Accountancy (CIPFA) Code of Practice on Treasury management and the Prudential Code) effective from 01/04/2018)

The key changes arising from the new guidance are:

1. The definition of an investment which now covers financial and non-financial investments
2. The extension of the role of the S151 Officer

The Council is currently reviewing its commercialisation agenda and various Capital Schemes are currently either underway or being reviewed.

The management and monitoring of the Treasury Management Policies and Prudential indicators (for financial and non-financial investments) remains the responsibility of Full Council (via the Governance and Audit Committee).

The Strategy is set out as follows:

- 1.0 Introduction
- 2.0 Core strategy principles
- 3.0 Strategic context
- 4.0 Non-financial investments
- 5.0 Capital resources and financing
- 6.0 Framework for management and monitoring
- 7.0 Risk and mitigation

## PART 2

### 2.0 CORE STRATEGY

This Core strategy explains how we will manage our capital resources to deliver our current and foreseeable capital programme. From 2019 to 2023 the Council is likely to need significant investment to advance the priorities stated within its corporate plan and will need to adopt a responsive and flexible approach to how it invests in services. In order to deliver the corporate plan priorities we need to deliver efficiencies, seek additional funding and periodically review both the consumption of our capital resources and our stated priorities. We will ensure this happens through these 5 core principles:

#### **Principle 1 – Managing the impact of investment decisions on our revenue budgets**

We will do this by,

- Ensuring capital investment decisions do not place additional pressure on Council Tax or our Medium Term Financial Plan
- Promoting capital investment which allows either invest to save outcomes or generates revenue/capital income to support the objectives of the Council
- Setting a rolling 3-5 year capital programme annually and identify future risks/unfunded items to support longer term decision making /prioritisation

#### **Principle 2 - Ensure decisions to invest are transparent and demonstrate the extent to which the capital invested is placed at risk including the impact of any potential losses on the financial sustainability of the Council is understood.**

We will do this by,

- Maintaining a schedule of financial and non-financial investments
- Using performance Indicators to ensure the proportionality of all investments so that the Council does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- Using Treasury Management Practices (TMP's) which specifically deal with how non treasury investments will be carried out and managed
- Ensuring that due diligence has been carried out on all non-financial investments and is in accordance with the risk appetite of the authority

#### **Principle 3 – Optimise the availability of capital funding where that funding supports the priorities of South Holland District Council**

We will do this by,

- Disposal of surplus or poor performing assets and use the funds to reinvest
- Having effective working relationships with potential funders
- Listening to and support effective partnering arrangements
- Accessing external funding wherever possible

#### **Principle 4 – Ensure we have an effective approval process and pre/post project appraisal**

We will do this by,

- Ensuring a system of competition exists for project approval – bid forms
- Due diligence in project appraisal, fully considering project risk
- Robust financial evaluation, carefully considering VFM and Efficiency of every project and outcomes
- Ensuring our capital schemes use appropriate project management tools appropriate to the project's size

## **Principle 5 – Ensure effective performance reporting and management of capital programme**

We will do this by,

- Reporting on the capital programme via monthly financial reporting and quarterly Cabinet reporting
- Ensuring responsibility for the delivery of the capital programme is clearly defined and the relevant parties have adequate expertise

### **PART 3**

#### **3.0 STRATEGIC CONTEXT**

##### **3.1 Aims of the Capital strategy**

The aim of this strategy is to ensure delivery of the Corporate Plan Priorities and ensure support for the delivery of the Council's core functions.

Specific aims are to ensure:

- Physical assets and related resources are efficiently and effectively used to support the South Holland District Council Corporate Plan.
- Issues related to property and other assets are fully reflected in the Council's planning, specifically adequate funds for maintenance are available and prioritised to the assets which generate the majority of income;
- The strategy itself is a useful tool to assist stakeholders understanding of the Council's decision making process and project management of its capital investments;
- Adequate provision is made for delivering corporate priorities and demonstrated through effective resource allocation;
- Invest to save and invest to earn projects and projects which generate an ongoing revenue return or economic benefits are encouraged;
- The Council works within the prudential code framework and demonstrates robust and linked capital and treasury management;
- The Investment Strategy provides an adopted position on how the Council will manage its cash, reserves and funding within a given timeframe to manage the risk of limited availability of cash and reserves whilst developing a balanced portfolio of investment opportunities to provide the potential for significant longer term return to the Council and the District, with associated benefits to the economy through rising wage levels and a better skilled workforce.
- Review of the asset management plans to identify surplus or poor performing assets which can move through a disposal process to generate new capital resources;
- Capital spending plans are affordable and integrated with the Medium Term Plan (MTP);
- Inward investment into the district is encouraged and innovative approaches to investment such as partnerships with the Private Sector, collaborative arrangements with other Local Authorities and creation of new delivery vehicles
- Resources are managed to meet our short, medium and longer term Corporate priorities

### **3.1 Strategic Links**

This strategy is a high level summary of South Holland District Council's approach to capital investment. It guides the development of service capital plans, and sets out the policies and practices that the authority uses to establish monitor and manage the Council's capital programme, in line with the MTP.

The priorities in the corporate plan provide the backdrop to the MTP which in turn ensures all new resources, be it revenue or capital, are allocated through the principles on which it is based.

This strategy is linked to a number of corporate strategies and initiatives, underpinned by the South Holland District Council Corporate Plan. The key strategies and initiatives impacting on capital are:

- Corporate Asset Management Strategy (part 4 of this strategy)
- Risk Management Policy (part 7 of this strategy)
- Investment Strategy
- Treasury Management and Investment Strategy
- Medium Term Financial Plan (MTP)
- ICT Strategy
- Digital Strategy
- Housing Strategy

### **3.2 ICT Strategy**

The ICT Strategy is used to manage the assets which are the communications and computer systems and infrastructure. Delivery of the service is managed by Compass Point Business Services Ltd. Funding is allocated for this in the capital programme and over the longer term the ICT service will provide revenue funding (through savings) to cover future capital investment.

### **3.3 Digital Strategy**

The strategy vision is to provide high quality, easy-to-use services that are designed with customers in mind, delivered efficiently with improved value for money. The strategy aims are to give staff and elected Members the right digital tools and training to work 'smarter', minimise internal costs of services and generate revenue by making it easier and more convenient to pay online and use digital marketing to promote our traded services. ICT is the foundation for delivery of the digital strategy and funding will be allocated in the capital programme as appropriate.

### **3.4 Housing**

This capital strategy can support the housing needs of the Council, stimulating good quality new build housing and enabling delivery of affordable housing and temporary accommodation. Section 106 affordable Housing Contributions will be applied to support the council's housing ambitions.

## PART 4

### 4.0 NON-FINANCIAL INVESTMENTS

#### 4.1 Corporate Asset Management Strategy

4.2 The Corporate Asset Management Strategy 2012-20 is a high level summary of the Council's overall approach to the strategic management of its land and building assets. It is linked to the vision and priorities of the Council to provide a policy direction for the effective and efficient use of the Council's assets for the benefit of the residents.

4.3 The Council has split the management of its Operational Assets into the Place portfolio and the Investment Assets into the Commercialisation portfolio to recognise the different requirements of the asset base. For the investment asset portfolio an assessment of the level of maintenance required for the properties has been made and this assessment will feature in both capital and revenue budgets, as it is important that the quality of the stock is maintained in order to sustain performance. The available capital budgets will be prioritised to those assets which generate the majority of income. The income generated by the Commercial Property Account supports other spending in the district and helps keep the council tax low.

4.4 The Authority continually seeks to identify assets that are surplus and to undertake disposals accordingly. This not only brings in a capital receipt but maintenance costs and liabilities are reduced. As a principle we will review and dispose of underutilised or poor performing assets and ensure that the top performing assets are adequately maintained. Assets that fail to meet the required yield that will be sought to be disposed of so that the capital receipt can be re-invested into other higher performing assets to create a stronger return profile and generate additional revenue income

4.5 The table below provides the gross book values of the council's Assets including those assets which are held primarily for financial return (non-financial investments).

Table 1 – South Holland District Council's Fixed Assets

Asset Type	Valuation	
	£'000s 2018	£'000s 2017
Community	816	816
Heritage	107	107
Infrastructure	589	726
Investment	740	739
Intangible	170	329
Property Plant & Equipment	175,338	174,942
Assets Held for Sale	1,391	768
<b>Total</b>	<b>179,151</b>	<b>178,427</b>

This table sets out the gross value of assets by category as at 31<sup>st</sup> March for the last 2 years.

4.7 When seeking to make Commercial Investments, the Council will ensure the same robust procedures for the consideration of risk and return are applied as is for Treasury Investments.

4.8 In respect of security of investment, the Council will use a scoring matrix as an indicator of whether to pursue a commercial investment and then undertake further due diligence if appropriate. Whilst yield is a determining factor, due consideration will be given to the risks relating to:

1. failure to create income/exposure to market changes
2. covenant strength/possibility of arrears
3. ongoing management/maintenance of the asset
4. lease arrangements
5. exposure in one sector
6. exposure to one/few tenants
7. exposure to one locality

On an ongoing basis, following purchase of an asset, risks will be monitored. Risks 1-4 above are operational risks currently reported on through the Council's performance reporting system, Pentana (as detailed at 4.11). Risks 5-7 will be reported on Pentana from 01/04/2019 as operational risks. If risks are red for two quarters they will get flagged and potentially be raised as strategic risks.

The risks will be defined and measured as follows:

- Exposure in one sector – market information will be monitored and an assessment made as to whether that impacts at a local level. eg local and national sector forecasts, investment activity and yields from professional journals/agents
- Exposure to one/few tenants – If one tenant equates to 10% or more of the rental income stream then we will review the investment decision and existing tenants will be kept under review in respect of this threshold.
- Exposure to locality – The Council's Commercial investment strategy focuses investment in the South Holland District but market information will be monitored and an assessment made as to whether that impacts at a local level eg local and national sector forecasts, investment activity and yields from professional journals/agents

Liquidity of investments is considered at 4.10 below as part of the wider issue of proportionality.

The Performance Indicators are monitored at Performance Board, which is officer based group chaired by the Director of Strategy and Governance. Services are asked to attend this board when indicators are Red or Amber in order to escalate issues and seek explanations. This is a monthly board. Alongside Performance Board, Performance Indicators (PI) are reported to Overview and Scrutiny Committee on a quarterly basis where the Corporate Improvement team provide members with context in the report such as issues as to why the PI is red or amber and what the service is doing to try and improve performance.

4.9 All bids for funding including non-financial investments will be appraised in line with the project evaluation criteria set out in section 6 and significant projects will adopt the Council's risk management framework and use the risk scoring matrix to assess risk

4.10 In respect of commercial investments, new indicators are included in the Treasury Management strategy to monitor the extent to which the Council relies on income generating activity to achieve a balanced budget (proportionality indicator). Proportionality in this sense describes the size and risk of commercial activities with regards to the Council's operating and reserves activities. May need to add more words here depending on finance board feedback re setting maximum ratio of cash v commercial investments for example

4.11 The Council recognises the importance of managing the performance of its assets and the Corporate Asset Management Strategy is currently being reviewed.

## **PART 5**

### **5.0 CAPITAL RESOURCES AND FINANCING**

#### **5.1 Capital Resources**

The Local Government Act 2003, which includes the legislation for the capital finance system, does not specify what precisely constitutes capital expenditure. Instead it:

- Refers to “expenditure of the authority which falls to be capitalised in accordance with proper practices”.
- Enables the Secretary of State to prescribe by regulation which local authority expenditure shall be treated as capital expenditure and which shall not be treated as capital expenditure (SI 3146 as amended)
- Enables the Secretary of State to prescribe by regulation that the spending of a particular local authority shall, or shall not, be treated as capital expenditure

The Council will set a de-minimus limit of £10,000 for expenditure to be considered for capitalisation providing it meets the criteria for capitalisation as per the capital regulations (SI 3146) and the CIPFA accounting code.

Regulations state that expenditure on repair and maintenance which does not increase the life, value or extent of use of an asset is not deemed as capital expenditure. The de-minimus is not applicable to capital grants which may be of any value and are made as a contribution to a larger capital scheme. The Council sometimes receives directives that grant contributions are to be applied as Capital expenditure. Should such directives be received, the Council will treat the grant as capital expenditure if the spend is deemed to meet grant conditions. From time to time the Council needs to buy vehicles and equipment and a de-minimis of £10,000 is applicable to vehicles and equipment

Table 2 sets out the position of the Capital Financing Requirement (CFR), adjusted for expected capital programme spend and forecast sources of funding as at January 2019.

There is an underlying need to borrow from 2022/23 as shown in table 2. Borrowing will only take place after full consideration of the need for and the implications of borrowing. Table 2 represents the Council's spending ambitions but release of funding is subject to approval. The scope for new investment is limited unless additional capital receipts or funding is generated or external borrowing takes place. The Council will support the principle of lending on to Welland Homes or a separate entity which will create a funding need by the Council to ensure funding for projects is delivered in the most cost effective way and will consider any requests on an individual basis. In addition it will fund on a project by project basis, if appropriate to improve Treasury returns. Whilst all projects within the capital programme are



approved, the funding is not released until a detailed report or if appropriate a Project Initiation Document (PID) is approved (see section 6).

The CFR will need to be monitored closely to ensure future capital expenditure remains affordable, prudent and sustainable. Any future decision on borrowing for capital projects would only be supported if the business case for the projects does not place additional cost pressure on the tax payer through the council tax charge. The council would not undertake any unsupported borrowing whilst it still has reasonable capital receipt resources available. However regulations require the Council to approve its 'Prudential Indicators' at least annually.

Table 2

£000's	2017/18 Actual	2018/19 Latest Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
<b>Capital Financing Requirement</b>						
CFR – HRA	68,439	68,439	68,439	68,439	68,439	68,439
CFR – Non HRA	1,440	1,440	1,440	1,440	1,440	1,440
Commercial activities/ non-financial investments*	2,407	4,115	6,952	8,410	9,883	9,883
<b>Total CFR</b>	<b>72,286</b>	<b>73,994</b>	<b>76,831</b>	<b>78,289</b>	<b>79,762</b>	<b>79,762</b>
<b>Movement in CFR</b>	<b>1,120</b>	<b>1,708</b>	<b>2,837</b>	<b>1,458</b>	<b>1,473</b>	<b>0</b>

£67.456m of the total CFR relates to the borrowing taken out with the Public Works Loan Board (PWLB) as part of the Housing Self Financing changes. The projected increases in the CFR through to 2022/23 are the additional loans and equity stakes in Welland Homes which are classed as capital expenditure and financed from internal cash balances.

## 5.2 Capital Receipts

The forward availability of capital receipts is an important part in both the timing and scope of the capital programme. The Council is looking to manage it's assets in such a way as to obtain best value and is looking at innovative ways of creating income. Surplus and poor performing assets are reviewed for potential disposal as part of the Council's Corporate Asset management Strategy (see section 4) with re-investment in higher performing assets and the Council's focus on Commercialisation will ensure maximum return from council assets.

## 5.3 Section 106 – Planning obligations

When the Council adopts land for open space or play area the developer pays a commuted sum under a 'section 106 agreement'. This is held on the balance sheet and the interest earned offsets the future maintenance costs of the recreation asset. The Council also seeks to secure the provision of infrastructure and facilities to mitigate the effects of development under section 106.

## **5.4 External Grants and Contributions**

The partnership approach to service delivery is a core belief of the Council. Through its services, partnership working, supportive funding and innovation, the Council will seek to attract investment into the District. We seek to maximise external funding to support our programme. This tends to be for specific purposes. Working with public and private sector partners we are able to make better use of Council money. Central government funding is likely to be constrained as capital for existing and new programmes continues to be reduced or deleted.

## **5.5 Revenue contributions**

The Council's budget and MTP sets out the approach to the allocation of reserve balances and this Council's approach to managing its surplus cash. The budget makes provision for annual revenue contributions in support of some capital expenditure e.g. Vehicle Replacement. Where applicable specific contributions are identified from reserves or revenue contributions from specific services (such as ICT).

## **5.6 Balances and Reserves**

South Holland District council continues to hold a healthy level of specific reserves. This reflects the robust financial management and policy decisions made in recent years and enables internal borrowing and cash flow to be managed. However, reserves are mostly earmarked for specific projects, limiting funding for new initiatives.

# **PART 6**

## **6.0 Framework for managing and monitoring performance**

Following approval of a capital project (as set out in section 2), there are several functions associated with the management of the approved Capital Programme:-

- Allocation of capital funding
- Release of capital funding
- Monitoring and reporting of delivery of the capital programme

Allocation of Capital Funding involves these functions:

- The assessment of the available funding resources
- Assessment of proposed schemes and business cases
- Prioritisation of schemes
- Recommendations of approval of schemes within the programme
- Approval of change control to Capital schemes where this changes funding requirements

These functions will be undertaken by Executive Management Team, Cabinet and Council. In summary the capital budget is agreed annually along with any revenue implications, which are factored into revenue planning. The budget is set in accordance with the timetable laid out in the Medium Term Financial Plan. The programme is approved by Council in January/February to allow schemes to commence during the following year. A Bidding Form is used for all capital projects to enable indicative funding to be allocated to projects.

Release of Funding will be by the Finance Board upon receipt of an appropriate report or PID document (depending on the scale of the project) to ensure it is deliverable. Key staff charged with responsibility for delivery of the project will be invited to attend Finance Board as appropriate.

Monitoring and reporting of progress of the delivery of Capital Programme involves these tasks:

- Regular review of project progress and forecasting including achievement of key milestones, outputs and outcomes with post project reviews taking place depending on the scale of the project.
- Management of risks and issues
- Removal of barriers to delivery
- Approval of any changes to schemes not requiring funding changes
- Reporting on required funding changes
- Post implementation review taking account of any corporate learning opportunities

These tasks will be monitored and reported monthly in the Capital Financial Performance Report and through the Council's Performance System (Pentana) if deemed appropriate.

Budgets for individual schemes are assigned to lead officers who are responsible for delivering the project on time and to budget. The lead officers are responsible for managing capital projects, including Capital bid forms, risk assessment, checking parameters, PID's, procurement, contract management, and post implementation reviews.

Progressing schemes in accordance with agreed timescales is an important aspect to managing the capital programme. Costs incurred compared to budget are monitored on a monthly basis in line with revenue budgetary control.

Financial progress against the capital programme is reported to Cabinet on a quarterly basis as a minimum and more often as required. This allows a continuous cycle of monitoring and forecasting. The bidding round will be conducted annually so that every year the 4 year programme is reviewed and refined and reflects the latest corporate priorities.

## **Project Evaluation**

All capital projects need to be appraised according to existing project management guidance to inform the decision making process. Options appraisals are also required to ensure value for money in achieving the project objectives and realising benefits. Matters to be considered within the capital bidding process are:

- Council Objective/Priority
- Whole life cost of the proposal including the revenue effects \*
- Affordability and source of funding
- Partnership involvement
- Options appraisal
- Risks
- Improvements in service delivery
- Customer facing outcomes
- Other benefits and success criteria
- Efficiencies and ongoing returns/capital receipts
- In principle support from the Director and Portfolio Holder
- Exit strategy
- Timescales

\*Whole Life Costing (WLC) is defined in ISO Standard 15686-5. WLC shifts the emphasis of capital appraisal from comparing alternative construction/acquisition costs to a Value for Money approach by reviewing comparative costs over the life of the scheme. WLC will not always be appropriate for all prescribed aspects of the Council's capital programme.

Project evaluation should include the following activities:

- Feasibility
- Appraisal (to include report, financial appraisal, risk appraisal)
- Budget
- Monitoring and review
- Outturn

This will ensure that any capital scheme that feeds into the programme will comply with the principles of the Prudential Code:

- Affordability
- Sustainability
- Prudence

## **PART 7**

### **7.0 RISK**

The Council is faced with diminishing capital finance and reduced access to grants and external funding which means the Council will need to monitor spend against available funds carefully to ensure that it does not spend or commit in advance of receiving funding. The Capital Financing Requirement (CFR) will need to be monitored carefully. Risk is therefore addressed throughout this strategy by setting out clearly how projects will appraised, approved, monitored and reported on. The strategy is closely aligned to the Treasury Strategy which contains key performance indicators.

Significant capital projects will be managed through the council's performance system if appropriate. All risks that may affect a project are considered. These can include political, economic, legal, technological, environmental and reputational as well as financial. Large projects will use appropriate project management tools in accordance with the size of the project.

Disinvestment initiatives will be followed through to ensure they perform as expected and as the Council diversifies its capital investment into areas such as loans to Welland Homes, exposure to non-repayment will be carefully managed through the contract management arrangements in place.

A specific risk as a VAT registered body is the recovery of exempt VAT only up to a value of 5% of all the VAT it incurs. This is known as the de-minimis limit. Monitoring and control of exempt input tax is essential for the council as where exempt input tax exceeds the 5% limit the whole amount is irrecoverable and will represent an additional cost to the council. Each capital investment will be closely reviewed to assess its VAT implications.

### **7.1 Sustainability**

South Holland District Council is always mindful of proposals put forward by the MHCLG. In conjunction with targets being proposed for all new homes to meet energy/carbon standards.

### **7.2 Procurement**

The purchase of capital assets should be conducted in accordance with the Procurement Strategy, ensuring value for money, legality and sustainability at all times. Contract standing orders and rules governing the disposal or write off of assets are contained in the Constitution which is continuously reviewed. Where capital spend involves a specific procurement process which differs from the standard process, we will adopt the principal that by approving the capital project we are also approving the specific procurement process.

### **7.3 Value for Money**

The Council recognises that effective procurement lies at the heart of delivering value for money and is essential if the Council is to obtain real improvements to quality and service costs. The Council seeks to achieve value for money by applying rigorous procurement standards in the selection of suppliers and contractors to ensure efficiency, economy and effectiveness is received throughout the life of a contract. The significant resources applied to capital expenditure require the adopted principles of value for money to be at the heart of our capital strategy. Specifically we will seek to strengthen the outcome indicators as part of post project reviews.

## 7.4 Disposals

Any proceeds from the disposal of assets such as land in excess of £10,000 are determined as a 'capital receipt'. The policy to sell small pockets of land often brings in income of less than £10,000. This income is classed as 'revenue income' and is posted to the revenue income and expenditure account.

## 7.5 Borrowing

If borrowing was required to fund a capital programme this would also have an impact on the Revenue budget.

Borrowing of £1m over 10 years would have the following revenue cost per year:

	<b>Year 1 (£)</b>	<b>Cumulative 10 Year (£)</b>
Interest (based on PWLB rate of 1.88%)	21,400	121,435
Provision for repayment of principal	90,744	1,000,000
<b>Total Revenue Cost</b>	<b>112,144</b>	<b>1,121,435</b>