



## **1.0 INTRODUCTION**

In line with best practice South Holland District Council (SHDC) renews its Capital Strategy on an annual basis, ensuring the strategy maintains a strong and current link to our Corporate Plan.

For the benefit of the reader the strategy has 3 key parts;

- Introduction
- Core Strategy
- Strategic Context

Please have a read of our strategy, we hope it provides you with the understanding you seek with regards to how we will manage the increasingly limited capital resources at our disposal to deliver our priorities.

The Strategy focuses on core principles that underpin capital investment. It gives a position statement with regards to capital expenditure and the resources available in terms of funding. The Strategy projects where the Council will be in five years' time and importantly how it intends to get there. It also includes some of the key issues and risks that may impact on the delivery of the Capital Investment Strategy, and that the correct governance framework is in place to ensure the Strategy is delivered.

## **2.0 CORE STRATEGY**

The core strategy explains how we will manage our capital resources to deliver our proposed capital programme.

From 2013-14 to 2017-18 the Council is likely to need investment to advance the priorities stated within its Corporate Plan, whilst recognising the reductions in funding as a result of the situation in the wider economy. In order to do this we will need to deliver efficiencies, seek additional funding, and periodically review both the consumption of our capital resources and our stated priorities. With fewer resources we may well be unable to maintain assets' obligatory long term maintenance needs. We will manage this through four core principles, as set out in Appendix 1.

## **3.0 STRATEGIC CONTEXT**

### **3.1 Strategic Links**

This strategy is a high level summary of SHDC's approach to capital investment in the future of the district. It is driven by the Corporate Plan which lays out South Holland's visions and priorities for the period 2011-2015. The Corporate Plan is supported by Service Business Plans. The delivery of our

priorities is closely monitored in accordance with the council's performance framework.

Capital projects are required to demonstrate a clear link with the Council's corporate objectives.

### 3.2 Capital Resources

#### Balance of Funding

The Council needs to consider how its future capital requirements can be financed. It also needs to consider ways of innovation that maximise resources, especially given the expected further reductions in available funding over the coming years. The Council is required to have regard to the Prudential Code for Capital Finance in Local Authorities, to demonstrate that proposals are affordable, sustainable and prudent.

A brief description of the resources available to fund capital expenditure is given in Appendix 2.

#### Current Funding Situation

The medium term financial plan details the General Fund Capital Programme and financing over the next 5 years, with the HRA capital spending plans being contained within its 30 year Business Plan.

A summary of the combined General Fund and HRA Capital Programme is shown below:

Resources	2013-14	2014-15	2015-16	2016-17	2017-18
	£'000	£'000	£'000	£'000	£'000
Total Capital Programme	8,968	9,904	7,456	7,764	8,175
Finance applied	(8,968)	(9,714)	(7,246)	(7,574)	(7,985)
Financing to be identified	-	190	210	190	190

The Council has limited resources available for funding future programmes. By March 2018, the Capital Receipts reserve will stand at £1.6m. £100,000 is already earmarked for the Housing Company and £365,000 for the Crowland Investment. At this stage we have been prudent and have not forecast any additional Capital Receipts over the medium term.

S106 monies are available for capital schemes which meet the conditions of the individual planning agreements. There will be additional capital schemes brought into the Capital Programme which meet the S106 criteria and utilise this valuable resource.

The Council has earmarked revenue reserves, which can be used for financing capital investment.

The Council will pro-actively seek out external grants and contributions to enhance the infrastructure and environment within the District.

Currently borrowing rates are relatively low and the Council may need to consider this form of funding to expand the Capital Programme.

The Council has sufficient resources to maintain its existing housing stock to decent homes plus standard and to invest in a programme of new build to meet social housing needs in its area,

### **3.3 Disposals Policy**

The Council's Asset Management Plan details the approach to asset disposal. As a principle, the Council releases funding from under utilised assets. Asset Management is a key component in the Council's efficiency strategy.

Generally the Council seeks to achieve 'best consideration' in disposing of assets, via a sale subject to competition. In certain circumstances it may be for less than best consideration, normally where the disposal will contribute to the achievement of the promotion or improvement of the economic, social or environmental well being of the whole or part of the area.

### **3.4 Capital Expenditure, Risks and Opportunities**

The key issues facing the Council in relation to Capital expenditure are summarised in Appendix 3.

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

It is important, given the risks surrounding Capital Projects, that the appropriate Governance framework is in place hence the following processes are in place:

- The Capital Strategy itself to be presented annually alongside the Medium Term Financial Strategy at Council;
- The overall Capital Programme and financing is subject to approval by the Cabinet and Council, with due diligence paid to the application of scarce capital resources;
- Progress on the Capital Programme and its financing will be reported to Cabinet on a quarterly basis;
- An option appraisal methodology for proposed new schemes is used which gives each bid a score, ensuring accordance with corporate objectives and best use of assets;

**CORE PRINCIPLES**

<b>Principle 1 – Managing the impact of investment decisions on our revenue budgets</b>
We will do this by,
<ul style="list-style-type: none"> <li>• Ensuring capital investment decisions do not place unnecessary additional pressure on Council Tax or Housing Rents</li> <li>• Promoting capital investment which allows “invest to save” outcomes</li> </ul>
<b>Principle 2 – Optimise the availability of capital funding where that funding supports the priorities of SHDC</b>
We will do this by,
<ul style="list-style-type: none"> <li>• Disposing of surplus assets and using the proceeds to reinvest in our priorities</li> </ul>
<ul style="list-style-type: none"> <li>• Developing effective working relationships with potential funders</li> </ul>
<ul style="list-style-type: none"> <li>• Listening to and supporting effective partnering arrangements</li> </ul>
<ul style="list-style-type: none"> <li>• Having clear policies for the consumption of our reserves</li> </ul>
<b>Principle 3 – Ensure we have effective pre and post project appraisal</b>
We will do this by,
<ul style="list-style-type: none"> <li>• Ensuring a system of competition exists for project approval</li> </ul>
<ul style="list-style-type: none"> <li>• Building into project appraisal recognition of environmental sustainability</li> </ul>
<ul style="list-style-type: none"> <li>• Fully considering project risk</li> </ul>
<ul style="list-style-type: none"> <li>• Carefully considering Value for Money and Efficiency of every project</li> </ul>
<ul style="list-style-type: none"> <li>• Ensuring all projects are supported by an affordable business plan</li> </ul>
<ul style="list-style-type: none"> <li>• Reviewing projects on completion taking account of any corporate learning opportunities</li> </ul>
<b>Principle 4 – Performance manage our capital programme</b>
We will do this by,
<ul style="list-style-type: none"> <li>• Integrating the capital programme into our performance management framework</li> </ul>
<ul style="list-style-type: none"> <li>• Ensuring our capital schemes use appropriate project management tools</li> </ul>
<ul style="list-style-type: none"> <li>• Clearly defining responsibility for the delivery of the capital programme</li> </ul>
<ul style="list-style-type: none"> <li>• Making sure our assets perform at an optimal level through effective ongoing asset management, consistent with levels of investment</li> </ul>

## FUNDING SOURCES

Capital Resource	Implications with regards to future funding
Capital Receipt	The Council holds a limited number of valuable assets that could be transferred into cash. The Council needs to balance cost of maintaining an asset with potential benefits arising from disposal, in light of delivering Corporate Objectives, and this is therefore politically sensitive.
Section 106 – Planning Obligations	The Council has powers under Section 106 to provide for infrastructure and facilities to support the local community alongside planning and development projects. In some cases the Council is able to receive cash amounts in lieu of developers providing for these requirements directly.
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. The Council is also in receipt of Government Grant to support its Disabled Facility Grant programme and is heavily reliant upon this to help it deliver these mandatory grants for which there is a significant demand from its residents.
Revenue Contributions	<p>The Medium Term Financial Strategy and Plan, currently assumes an annual (and reducing) revenue contribution in support of General Fund capital expenditure. The affordability of any revenue contribution needs to be considered in context of balancing the General Fund budget.</p> <p>The 30 year HRA business plan indicates that annual revenue surpluses will be generated which will allow the current programme for major repairs to housing assets to be fully funded and provides the opportunity for further capital investment.</p>
Balances and Reserves	<p>SHDC holds both general and specific reserves, earmarked to support specific service areas. The value of reserves available to support capital expenditure is limited and set to reduce in the coming years.</p> <p>The HRA business plan shows that after funding the capital programme, significant balances will accrue. These will generate investment income for the HRA. Future investment plans may draw on these balances and the business plan will need to reflect the impact on the revenue account. This includes the Major Repairs Reserve</p>
Borrowing	The Council currently holds £67.456m of Long Term HRA debt following the introduction of the HRA Self-Financing

regime in 2012. The new regime also enables the Council to borrow an additional £4.4m to finance capital schemes or repay debt at some point in the future.

As non borrowing capital resources diminish, if it is to maintain a General Fund capital programme, the Council will need to resort to borrowing. Current projections expect this to commence during 2014-15 to support the replacement of the refuse fleet.

The Council's Treasury Management Strategy includes a borrowing strategy and demonstrates the affordability and sustainability of any borrowing on the Medium Term Financial Plan, through the application of the Prudential Code.

The Council will ensure its Minimum Revenue Provision (MRP) policy reflects the costs of borrowing included in the Medium Term Financial Plan.

## CAPITAL PROGRAMME ISSUES

Area	Issue
Asset Management Strategy	<p>The Council's Asset Management Strategy supports its Capital Strategy. Annual reviews of assets aligned to the Strategy may identify surplus assets, which may in turn generate capital receipts for future capital investment. Expenditure pressures are similarly identified where assets need replacing or enhancing.</p> <p>The HRA Asset Management Strategy has been developed to complement the HRA Business Plan by formalising the Council's approach to asset management in respect of its housing stock.</p>
Risk Management	<p>Each significant capital project will have its own risk log, including political, economic, legal and organisational as well as financial risks, which are recorded and managed throughout the life of the project.</p> <p>Monitoring and control of exempt input tax is essential for the council. Where exempt input tax exceeds the 5% de minimus 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.</p>
Sustainability and Carbon & Waste Reduction	<p>A Sustainability Appraisal has been developed from the Local Development Framework. Key capital programmes will be evaluated against sustainability objectives.</p> <p>Where possible, consideration has been made in respect of carbon and waste reduction. This includes consideration of energy use, transport and fuel use, water use, production and disposal. The installation of solar panel at the Priory Road offices is an example of investment that will generate income to offset our carbon footprint over the next 25 years.</p>
Procurement	<p>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 consistently reviewed</p>
Housing	<p>There is increasing pressure with regards to the Council's statutory obligation concerning Disabled Facilities Grants (DFGs). In recent years the Council has supplemented government funding with contributions from its own resources in order to maintain a manageable waiting list for these grants. The sustainability of this needs review in light of the Medium Term Financial Plan.</p> <p>Investment in the adaptation of its own Council Housing stock will also increase as part of the HRA business plan.</p> <p>A number of grants and loans are available to home owners</p>

	<p>and tenants in South Holland to continue investment in the quality and energy efficiency of the district's housing stock. Although currently supported from past receipts of external funding, the affordability of supporting these programmes over the longer term needs careful review.</p> <p>The Council has established South Holland Homes (a Local Housing Company) to develop affordable homes. The company's future business plans will look to innovative approach to exploit and maximise resources available to it to deliver its aims.</p>
Partnership working	<p>The integration of our capital strategy with those who we seek to work with will be necessary to deliver the shared visions we hold. Given the opportunities of the Localism Act and working with local communities and the voluntary sector, looking at joint asset use will be increasingly important. The arrangements with Compass Point Business Services and Breckland District Council, as well as the lease of Council Offices to several outside bodies are good examples of this. The Council will actively seek opportunities to transfer community assets to local groups or parish councils.</p>
Invest to save schemes and VFM	<p>Whilst there are revenue implications for investing in capital schemes, the Council is keen to invest in areas that result in long-term revenue savings and 'invest to save' schemes. The significant resources applied to capital expenditure require the adopted principles of value for money (VFM) to be at the heart of our capital strategy and returns on investment are one aspect of VFM.</p>