

## **PART 1**

### **1.0 Introduction**

#### **1.1 Background**

- 1.1.1. This strategy is a high level summary of South Holland District Council's approach to longer term capital investment in the future of the district. It guides the development of service capital plans, and sets out the policies and practices that the Council uses to establish, monitor and manage its capital programme, in line with the Medium Term Financial Strategy (MTFS).
- 1.1.2 The Council's priorities provide the backdrop to the MTFS which in turn ensures all new resources, be they revenue or capital, are allocated through the principles on which they are based.
- 1.1.3 The early sections of this document describe the Council's financial position. These clearly suggest a need to ensure that the Council's Capital and Treasury Strategy supports the Council going forward. In addition, guidance around using capital for mixed/commercial purposes and a revision of treasury and investment guidance have recently been released to provide a platform to support and protect councils looking to work in different ways, driven by long term financial pressures. These are explored in the next sections of the document.
- 1.1.4 South Holland District Council produces and renews its Capital and Treasury Strategy on an annual basis. The Prudential Code 2021 recognises this as best practice and provides guidance to Local Authorities on how they should administer their Capital and Treasury activities.
- 1.1.5 The revised guidance will mean that the suite of documents that made up the Council's Treasury and Capital framework (the Treasury Management Strategy Statement, the Capital Strategy and Programme, and the Asset Management Strategic Framework) is incorporated into this single document. This includes the necessary Prudential Indicators and reference to the operational Treasury Management Practices that underpin how transactions will be conducted.
- 1.1.6 The Council expects continuous improvement in its performance and financial management. This requires strong executive leadership, strong challenge from scrutiny and commitment from employees. The Council's Organisational plans have provide the framework to help drive and embed the necessary improvements.
- 1.1.7 For the benefit of the reader the strategy has nine sections;
- Legislative and Best Practice Framework
  - About South Holland District
  - Aims of the Strategy
  - Financial Position Statement
  - Strategic Objectives
  - Capital Expenditure
  - Capital Resources, and Plans

- Stewardship
- Risk Management

1.1.8 We hope this document provides you with an understanding of how we will support the Council's Corporate Strategy and objectives with the capital resources at our disposal. There are inevitably more demands on the money needed than resources available, meaning that best value has to be sought by the Council on behalf of its residents, local businesses and users of services.

## **PART 2**

### **2.0 Legislative and Best Practice Framework**

#### **2.1 Relevant Legislation**

2.1.1 Councils have the power potentially to do almost anything. This is enshrined through the General Power of Competence (GPOC) in the Localism Act 2011. It is a very broadly expressed power, which overlaps other powers. GPOC, however, has important limits. It cannot be used in breach of other legislation, and is therefore supplemental to specific powers that allow councils to borrow and invest. Councils have the general power to borrow under Section 1 of the Local Government Act 2003. The power to invest is set out in the Local Government Act 2003, Section 12, which gives the Council the power to invest for any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs. The power that allows councils to spend for capital purposes is included in the Local Government Act 2003.

#### **2.2 Current Guidance & Best Practice**

2.2.1 The Prudential Code 2021 summarises the overriding matters that should be considered in determining a Capital Strategy. It is therefore necessary (and helpful) for the reader of this Strategy to familiarise themselves with the requirements of the Prudential Code which is available from the Public Sector Partnership Services Finance Team.

2.2.2 The Prudential Code makes it clear that councils' capital expenditure plans must be affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

## **PART 3**

### **3.0 About South Holland**

#### **3.1 Facts about the district**

3.1.1 South Holland is a local government district of Lincolnshire. The district council is based in Spalding. Other notable towns include Crowland, Holbeach and Long Sutton. The district is named after the historical division of Lincolnshire known as the Parts of Holland.

- 3.1.2 South Holland is a local government district of Lincolnshire. The district council is based in Spalding. It was formed on 1 April 1974, under the Local Government Act 1972, as a merger of the Spalding urban district with East Elloe Rural District and Spalding Rural District. All these were previously in the administrative county of Holland.
- 3.1.3 South Holland borders the borough of Boston to the north, The Wash and the county of Norfolk to the east, the county of Cambridgeshire and Peterborough unitary authority to the south, the Lincolnshire district of South Kesteven to the west, and the district of North Kesteven to the north-west.
- 3.1.4 Much of the district is low-lying and is kept free from inundation by land drainage.

## **PART 4**

### **4.0 Aims of the Strategy**

4.1 The specific aims of this strategy are to ensure:

- Physical assets and related resources are efficiently and effectively used to support South Holland District Council's priorities. These inputs will then be reviewed against the outputs from capital schemes to demonstrate Value for Money;
- Issues related to property and other assets are fully reflected in the Council's planning, specifically adequate funds for maintenance are available;
- The strategy itself is a useful tool to assist stakeholders' understanding of the Council's decision-making processes and project management of its capital investments;
- Provision is made for delivering corporate priorities and this is demonstrated through effective resource allocation;
- Invest to save projects are encouraged;
- The Council works within the Prudential Code framework and demonstrates robust and linked capital and treasury management;
- Review of the Asset Management Strategic Framework to identify surplus assets which can move through a disposal process to generate new capital resources;
- Capital spending plans are affordable and integrated with the Medium Term Financial Strategy;
- We work effectively with our partners in the South and East Lincolnshire Councils Partnership (SELCP), sharing expert resources and maximising funding opportunities, increasing the voice of the sub-region; and,
- Support for our partners by acting as an enabler in drawing down external funding for community projects. To further act as a match fund provider.

## **PART 5**

### **5.0 Financial Position Statement**

#### **5.1 Financial overview**

5.1.1 When taking financial decisions the considerations are multi-faceted. This means a single decision may impact upon revenue, capital, treasury and assets. These areas

are all interlinked and should be fully understood to ensure plans are in place to maintain the Council's financial standing.

## 5.2 Revenue

5.2.1 Through to 2030/31 the Council anticipates pressure on revenue budgets due to significant inflationary pressures, changes in customer requirements and reductions in income post covid and due to international events. Each year the ability to balance the budget is becoming more challenging, with options ranging from becoming more efficient, raising additional income and/or reducing services. The Council has an ongoing programme to develop plans to address the known challenges. In addition to this the impacts of changes to the localised business rate retention system, this is an area of focus as we seek to understand the changes within the yield, particularly as a result of economic impacts and recent changes in Government policy so this income stream has a significantly higher level of risk. There are no signs of an upturn in Council or indeed Government finances to provide optimism. Therefore the Council must continue to look to become self-financing by seeking alternative sources of finance. The Council will look towards its capital and treasury activities to mitigate and contribute towards relieving pressure on its future revenue budgets.

## 5.3 Capital

5.3.1 Annually the Council is required to invest in assets and projects which have a life of longer than one year. This investment, be it in IT systems, vehicles, property or equipment, must be funded. The Council will look towards its capital and treasury activities to provide medium and long term resources for future capital expenditure. The Council also needs to consider ways of innovation that limit the amount of investment required during the timescale of this strategy in light of the significant pressures upon its resources, which will include new borrowing.

## 5.4 Treasury

5.4.1 The Council holds surplus cash during the year. These funds are largely monies held in reserves or short term cash holdings before payments are made to major preceptors and currently average approximately £35m. Whilst cash is held it is invested with full appreciation of the Prudential Code which requires Councils to consider security, liquidity and yield (in that order). In addition, many councils participate in borrowing to fund their capital programme. The Council will look towards its treasury activities making the best use of borrowing and investing with all decisions being undertaken having an appropriate approach towards prudence and proportionality, as well as security, liquidity and yield. Treasury management will be expected to make a positive contribution towards both revenue and capital pressures.

## 5.5 Asset Management

5.5.1 The Council has a balance sheet with fixed assets valued at circa £294m. The Council has focused its attentions on areas such as investment in Housing Companies, disposal of surplus assets and developing its Organisational plans. In addition the Council has been successful in bidding for funding both as part of the SELCP partnership and in its own right. These funds have and will significantly bolster the Councils capital programme and support future plans.

## **PART 6**

### **6.0 Strategic Objectives**

#### **6.1 Strategic fit**

6.1.1 The financial strategies must support and empower the corporate strategy and priorities of the Council. This intrinsic link works both ways. By adopting the new strategy the Council will be looking to ensure the ongoing provision of both statutory and discretionary services to local residents and businesses. It must have due regard to legislation and guidance. All strategies adopted must also have full regard to the legislative framework and best practice guidance adopted by the sector. These offer clear boundaries and exemplify considerations for decision making and risk management.

6.1.2 This strategy links to a number of other corporate strategies and plans:

- Treasury Management Policy and Strategy Statement
- The Local Plan
- Medium Term Financial Strategy
- Risk Management Strategy
- Economic Development Strategic Framework
- Homelessness Strategy
- Asset Management Plan
- Crime and Disorder Strategy
- Housing Strategy
- HRA Business Plan

## **PART 7**

### **7.0 Capital Expenditure**

#### **7.1 Definition and considerations**

7.1.1 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
- 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

7.1.2 For the purposes of this strategy document, capital expenditure is defined as expenditure to acquire or upgrade assets (such as property, plant and equipment), so that future economic benefit or service potential will flow from the asset for more than one year.

7.1.3 The Council has set a de minimis limit of £10,000 for expenditure to be considered for capitalisation. The following categories of expenditure will require capital resources to fund their purposes:

1. The acquisition, reclamation, enhancement or laying out of land exclusive of roads, buildings or other structures
2. The acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
3. The acquisition, installation or replacement of movable or immovable plant, machinery and apparatus and vehicles and vessels
4. The making of advances, grants or other financial assistance towards expenditure incurred or to be incurred on items detailed in points 1 to 3 above or on the acquisition of investments
5. The acquisition of share capital or loan capital in any corporate body
6. The issue of loan instrument in respect of which not all repayments by the authority are due within 1 year of issue
7. Works to increase substantially the thermal insulation of a building
8. Works to increase substantially the extent to which a building can be used by a disabled or elderly person
9. The acquisition of computer software, plus the in-house preparation of it, provided that the intention is to use the software for at least 1 year

7.1.4 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.

## 7.2 Future expenditure plans

7.2.1 The Council has approved a five year (short/medium term) funded capital programme. Beyond this time capital resources will be limited unless funded through revenue support or external grants. In addition, the Council will have an ongoing need for capital expenditure for replacement and renewal of its key assets used in delivering services.

7.2.2 Future capital projects will need to be subject to suitable business cases which will include how such schemes support corporate/strategic priorities. One way of creating capital resources can be through the borrowing of funds and then spending it on capital or through internal borrowing supported by a Minimum Revenue Provision requirement.

## 7.3 Capital Loans

7.3.1 The council has discretion to make loans for a number of reasons, primarily for housing development. These loans are treated as capital expenditure.

7.3.2 In making loans the council is exposing itself to the risk that the borrower defaults on repayments. The council, in making these loans, must therefore ensure they are prudent and risk implications have been fully considered

7.3.3 The council will ensure that a full due diligence exercise is undertaken, and adequate security is in place. The business case will balance the benefits and the risks. All

loans are agreed by Cabinet. All loan arrangements will be subject to close, regular monitoring and reporting.

## **PART 8**

### **8.0 Capital Resources, and Plans**

#### **8.2 Capital Expenditure and the Minimum Revenue Provision**

8.2.1 One important area of the Capital and Treasury guidance is the Minimum Revenue Provision (MRP) requirement. Where a Council undertakes capital expenditure, financed by borrowing, there is an expectation that each year the Council's revenue account should make a contribution to a reserve which will build up over time so that when the borrowing has to be repaid, money is there to do so. Where the Council chooses to invest in assets which will not, or are unlikely to, have sufficient realisable value at the point of redemption to repay the borrowing, then this is essential for prudent management of the Council's affairs. The Council will ensure a suitable MRP policy is in place.

#### **8.3 Other Capital Considerations**

##### Capital Receipts

8.3.1 The forward availability of capital receipts will play an important part in both the timing and scope of the capital programme. The Council is looking at ways of obtaining capital receipts through the active marketing of its surplus assets and a review of how assets will be needed in the future to provide value for money services to the community

##### Section 106 – Planning obligations

8.3.2 The Council has powers under Section 106 to provide for infrastructure and facilities to support the local community alongside planning and development projects.

#### **8.4 External Grants and Contributions**

8.4.1 A partnership approach to service delivery is a core approach for the Council. Through its services, partnership working, supportive funding and innovation, the Council will seek to attract investment into the District. Acquiring grants and external funding is of increasing importance given lower levels of resources through core government funding.

#### **8.5 Borrowing**

8.5.1 Under the 'Prudential' framework for local authority capital, the Council can determine what level of long term borrowing it wishes to undertake to finance its capital priorities, within the framework of prudent, sustainable and affordable borrowing. Given the diminishing resources available to it the Council has to make appropriate decisions regarding servicing the financing costs before it undertakes any new borrowing. Regulations require the Council to approve its 'Prudential Indicators' at least annually, and they are included with the Treasury Management Strategy Statement. As the

Council is required to have a balanced revenue budget over the medium term it will be important that the Council robustly reviews future spending proposals and likely resources available before borrowing to finance future capital investment.

## 8.6 Revenue contributions

8.6.1 The Council's budget and MTF5 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. Where applicable specific contributions are identified from reserves or revenue contributions from specific services.

## 8.7 Balances and Reserves

8.7.1 South Holland District Council holds limited levels of both general and specific reserves.

## 8.8 New sources

8.8.1 The Council is aware of the need to be innovative and to work closely with the Private, Public and Voluntary Sectors to deliver outcomes for local people at a time when there will be reduced levels of capital resources.

# **PART 9**

## **9.0 Stewardship**

### 9.1 General Governance Issues

9.1.1 Annually the Council produces a medium term (five years) revenue budget, a medium term (five years) capital programme which is supported by a capital strategy, a treasury management and investment strategy. Sitting behind these are the financial procedure rules within the constitution and treasury management practices which provide day to day operational guidance. Cabinet and Scrutiny Committees are not excluded from shaping these documents however the Governance and Audit Committee is charged with reviewing and recommending most of these documents to Full Council for approval. The requirement for Full Council to be involved is enshrined within statute.

9.1.2 The Council has adopted a risk management strategy which places the Council as having an open and aware approach towards risk.

### 9.2 Internal Governance

9.2.1 The Capital Programme will continue to be monitored through regular meetings between finance staff and project owners and sponsors with additions to the programme approved by Cabinet, as part of its quarterly performance monitoring. Full Council will approve all capital additions over £500k, in line with the Council's financial procedure limits.

## 9.2 Revised External Governance

9.2.1 Annually there will be a review of the Capital Strategy, and it will be formally approved as part of the budget setting process. This will ensure all matters of consideration and best practice are routinely acknowledged.

## 9.4 Performance measurement

9.4.1 The Council is determined to ensure high quality customer-focused services for all its residents and visitors to South Holland District Council. The Council also wants to deliver high quality services, although recognises the issues associated with reduced resources that are already impacting on its ability to deliver and maintain them.

9.4.2 Capital projects identify milestones and key outputs and these are used to integrate the delivery of Capital projects into the performance management framework.

## 9.5 Project evaluation

9.5.1 All capital projects need to be appraised and options appraisals are also required to ensure value for money in achieving the project objectives and realising benefits. Core principles to be followed, 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
- Project appraisal
- Risks
- Improvements in service delivery
- Customer facing outcomes
- Other benefits and success criteria
- Efficiencies
- In principle support from the Service and Portfolio Holder
- Exit strategy
- Timescales
- Environmental considerations

9.5.2 Project evaluation should include the following activities:

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

9.5.3 These processes will ensure that any capital scheme that feeds into the programme will comply with the principles of the Prudential Code and have appropriate regard to:

- Affordability

- Sustainability
- Prudence
- Proportionality
- Security
- Liquidity
- Yield

## 9.6 Consultation and Communication

9.6.1 The consultation process used to inform our priorities has enabled the Council to identify its strategic objectives to allow prioritisation of resources. The Council also consults annually as part of the budget setting process. This includes a general consultation exercise with the community.

## 9.7 Sustainability

9.7.1 Sustainability Impact Assessments are completed for Council projects where required.

## 9.8 Procurement

9.8.1 The purchase of capital assets should be conducted in accordance with Contract Procedure Rules, 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 regularly reviewed.

## 9.9 Value for Money

9.9.1 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 the Capital and Treasury Strategy. Specifically the Council will seek to strengthen the outcome indicators as part of post project reviews.

## 9.10 Invest to save

9.10.1 Whilst there are often 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. It is also an aim to invest in assets that generate a revenue income or efficiencies.

## 9.11 Links to other partners

9.11.1 Partnership working is embedded in the organisation and the Council's approach to working with others has been commended. The Council's trust in partnership working has three main strands being the SELCP as outlined above, the Greater Lincolnshire Local Economic Partnership, Strategic Service Delivery Partnerships and networking partnerships. In order to address the needs of the local community the integration of

the Capital Strategy with those who the Council seeks to work with will be necessary to deliver on shared visions.

## 9.12 Equality

9.12.1 As part of the process of preparing business case for potential capital projects Equalities Impact Assessments will be completed when necessary. The Council recognises and values the diversity in the local community and the contribution that people from different backgrounds and cultures bring to the development and wellbeing of the District. South Holland District Council is therefore committed to principles of equality in its capacity as an employer and service provider to all sections of the community.

## **PART 10**

### **10.0 Risks and their management**

#### 10.1 Risk Awareness

10.1.1 With the scale of the approach to ensuring that the Council will be better able to provide for future capital spend there are associated risks (and also opportunities).

10.1.2 All capital projects will have a risk log that is regularly reviewed and updated. All risks that may affect a project must be considered. These can include political, economic, legal, technological environmental and reputational as well as financial. Large projects will be managed in accordance with the Council's adopted project management principles.

10.1.3 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.