Capital Strategy 2024/25

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1 Introduction

1.1 The Capital Strategy is intended to give an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services. It provides an overview of how associated risk is managed and the implication for future financial sustainability.

1.2 The Council has approved a Corporate Plan which has five clear priorities:

- Connecting Communities
- Sustainable South Kesteven
- Enabling Economic Opportunity
- Housing
- Effective Council

Underpinning these priorities are a set of key actions that will be delivered to support these objectives and these include a programme of strategic projects that will support the development of the local economy.

1.3 The Council develops the Capital Programme in the context of supporting the delivery of high quality, sustainable growth across the district whilst ensuring that we also protect and safeguard what is special about our natural and built environment.

1.4 The Local Plan for South Kesteven set out plans for new homes across the District together with associated facilities and employment opportunities. The plan has a range of detailed policies to guide development. It considers and provides the Strategy for strategic development and spatial planning with appropriate referencing and policies relating to the delivery of necessary infrastructure.

1.5 Investment in housing stock sits within the Housing Revenue Account (HRA) and regeneration across the district will form a significant proportion of the Council's Capital Programme in the future. A need has been identified for additional provision of affordable housing within the District and the Council is developing a new build programme, utilising its HRA resources, to provide quality social housing across the District where there is evidence of need.

1.6 The Capital Strategy sets out the governing framework for how the Council will develop and deliver its Capital Programme in the context of the aforementioned growth plans.

2 Purpose

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy to demonstrate that capital expenditure and investment decisions are taken in line with the Council's corporate ambitions and service objectives and take account of stewardship, risk, value for money, prudence, sustainability and affordability. A revised Prudential Code was published on 20 December 2021 which requires the Council's Capital Strategy to include:

- The Council's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the Council's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

- An assessment of affordability, prudence and proportionality in respect of the Council's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets and reserves without unmanageable detriment to local services);
- Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;
- Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);
- Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the Council's overall strategy.
- State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

2.2 The Department for Levelling Up, Housing and Communities (DLUHC) has issued statutory guidance on local government investments which includes the requirement to include a number of additional disclosures for non-financial investments in the Capital Strategy to be approved by Council. The Government has also issued statutory guidance on the treatment of the Minimum Revenue Provision (MRP) that took effect from April 2018 and which is covered more fully in the Council's Treasury Management Strategy.

2.3 It should be noted that the regulations have been updated to restrict local authorities with respect to financing capital expenditure on investment in commercial projects primarily for yield. This is consistent with guidance from the Public Works Loan Board which does not allow borrowing to be undertaken if commercial projects are included in the Capital Programme and the revised prudential code.

2.4 The Capital Strategy sets out the long-term context and forms part of the authority's integrated revenue, capital and balance sheet planning. It provides a high-level overview of how capital expenditure, capital financing and treasury management decisions contribute to the provision of high-quality services and the achievement of priority outcomes. It also provides a framework in which due consideration is given to risk and reward and the implications for future financial sustainability together with an overview of the governance processes for the approval and monitoring of capital expenditure.

2.5 The Capital Strategy will be reviewed and updated annually to ensure it maintains strong links to the Council's developing priorities and to other key strategies.

3 Links to Other Key Strategies, Policies and Procedures

3.1 The Capital Strategy is inextricably linked to the following:

- Corporate Plan 2024 – 2027 – this sets out the Council's vision 'be the best district in which to live, work and visit'. This vision is supported by 5 clear priorities and a set of actions to support the delivery of the priorities.

- Medium Term Financial Plan – this sets out the Council's overall budgetary framework and interlinks with a number of key strategies that support the delivery of the Council's ambitions. It looks at the Council's plans over a 3-5 year period to finance its priorities and meet its spending commitments, having regard to the likely availability of revenue and capital resources.

• Treasury Management Strategy – this relates to the effective management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

• Asset Management Strategy – this is designed to achieve the most efficient and effective management of assets. There are strong linkages to the Capital Strategy and Capital Programme particularly relating to the Council's building infrastructure and maintenance of the Council's Housing Stock.

• 30 Year Housing Business Plan – this is a long term plan for managing the authorities housing assets and financing ongoing capital investments.

• Council Standing Orders and Financial Regulations.

4 Capital Expenditure Definition and Accounting Policy

4.1 Capital expenditure is made when the Council spends money on assets, such as property or vehicles that will be used for more than one year. It also includes loans and grants to other bodies enabling them to buy assets.

4.2 When categorising expenditure, a de-minimis of £10,000 (excluding vehicles) is applied, with purchases below this figure charged to revenue in year. Accounting policies relating to capital expenditure are further detailed in the Statement of Accounts.

5 Corporate Governance of Projects

5.1 The Capital Programme is set on an annual basis and includes a review of existing projects which have not yet commenced, new submissions, available capital resources and any new funding streams.

5.2 Cabinet can approve individual additions of £150k to the Capital Programme up to a cumulative total of £600k in any one year. Any budget amendments beyond these levels require the approval of Full Council.

6 Project Management Methodology

6.1 Capital projects will be managed using the Council's project management toolkit which ensures the proportionate level of governance is in place. This will include the formation of the business case, project initiation documentation, project risks and issues, resources identified and defined roles and responsibilities. Capital projects will be defined in order to identify whole life costs and ongoing revenue implications both from a cost and income perspective.

7 Submissions to the Capital Programme

7.1 Submissions are requested annually from service areas in September to provide proposals for the following year's Capital Programme. A standardised bid form is provided which includes an outline business case and details of any revenue budget implications.

7.2 Proposals are reviewed and challenged to ensure schemes meet with service priorities and the Corporate Plan. The primary elements of the General Fund Capital

Programme are formulated to deliver the Council ambitions of growth and investment in its assets to support the delivery of quality services. The formation of the HRA Capital Programme is derived using the results and analysis of the stock condition survey that has been undertaken. This allows the Council to focus the resources of the HRA to address outstanding refurbishment and improvements in key parts of the stock along with investment in Housing Growth.

7.3 All bids are appraised based on a comparison of service priorities and strategic alignment prior to making recommendations for inclusion within the Capital Programme. The Capital Programme is then presented to Cabinet and Council in February/March each year.

8 Monitoring the Capital Programme

8.1 Once projects in the Capital Programme are approved they are categorised according to risk factors which facilitate the organisation to have oversight and sponsorship at the most appropriate level.

8.2 These are categorised as follows:

- Category 1 – High Risk
- Category 2 – Medium Risk
- Category 3 – Low Risk

8.3 Risk assessment can be subjective and can depend on the impact of a particular project.

8.4 The Capital Programme is monitored on a monthly basis by budget managers, reports are then produced for review by the Corporate Management Team and at Executive Briefing. Quarterly monitoring reports are reviewed by Finance and Economic Overview and Scrutiny Committee.

8.5 In addition Category 1 projects may require a greater level of governance including formation of a specific project Board with appropriate terms of reference.

8.6 Reporting against approved Capital Programme includes forecasts for the total expenditure within the financial year together with commentary about progress of the project and any significant issues.

8.7 The General Fund Capital Programme focuses on ensuring that the Council invests in projects which support the Council in delivery of its corporate objectives, for example, being an effective Council by investing in a new Depot. The programme also invests in assets which support the delivery of quality services such as waste management by investing in new vehicles and arts through investment in the maintenance of assets..

8.8 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes investment in new homes and investment in planned maintenance of the Housing Stock. The HRA Capital Programme supports the Council in achieving its Housing corporate objective and also supports the Council in meeting the challenge of climate change and ensure a clean, green and healthy natural and built environment for present and future generations through the Social Housing Decarbonisation Fund.

9 Asset Management

9.1 To ensure that capital assets continue to be of long-term use, the Council has an Asset Management Plan which will provides a framework for reviewing existing holdings, new acquisitions, disposals and ongoing management.

9.2 The HRA Housing Strategy sets out how the council proposes to manage it housing stock to deliver the objectives of the service. The Housing Strategy is supported by the HRA Business Plan Model (BPM) which sets out the financial implications. The BPM is a key part of the Council's long-term financial planning and sets out how we intend to deliver and finance services to tenants, investment in the housing stock and management of debt over a rolling 30-year period.

9.3 The investment in current housing stock targets maintaining the stock at "decent homes" standard and the BPM demonstrates that this can be done from the Council's own resources.

9.4 Investment in new housing stock will be financed from a mixture of external grants, and internal resources without the need for any external borrowing.

9.5 The 30-year BPM is under constant review as actual expenditure and income at the financial year end is confirmed, budgets are revised and changes in the economy such as inflation are forecast.

10 Capital Financing and Funding Sources

10.1 The Capital Programme is funded from various sources including

- External Grants for Specific Purposes – grant allocations received from Central Government Departments to deliver identified projects, for example the Social Housing Decarbonisation Fund.
- External Grants for Non-Specific Purposes – grants received by the Council to deliver the Capital Programme but have not been identified to be for a specific purpose. The Council's Capital Programme does not currently include this type of funding.
- S106 Contributions – projects included in the Capital Programme which are funded by contributions from private sector developers. For this Council these primarily relate to funding contributions for affordable housing, open spaces and parks.
- Other External Contributions – contributions received from other organisations which contribute towards the delivery of specific capital projects.
- Revenue Funding – The Council can use Revenue Resources to fund the Capital Programme. The Council primarily uses the Local Priorities Reserve and the Regeneration Reserve for this type of funding.
- Capital Receipts – The Council generate capital receipts through the sale of assets which can then be used to finance the Capital Programme. The Council has an asset disposal programme which supports the Council in maximising this type of funding as this then minimises the need to use revenue funding for the Capital Programme.
- Capital Reserve – the Council can set aside funding in reserves specifically for capital projects.
- Borrowing - Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. The Council must be able to demonstrate the

affordability of the borrowing repayment and interest charges on the loan from the revenue budgets over the period of the borrowing requirement

10.2 At the time of identifying funding requirements, the Council will undertake an analysis to determine the most financial advantageous option. It will consider external borrowing alongside any internal borrowing opportunities. Internal borrowing will be considered in the context of the limits as set out in the Treasury Management Strategy and the Capital Financing Requirement. Borrowing funds from external sources is considered to be necessary given the available level of reserves available to fund the Council's capital ambitions. However, there is careful consideration of the financing implications of undertaking borrowing in the context of the Medium-Term Financial Plan and the challenging financial landscape. Therefore, careful financial modelling is undertaken to ensure that any borrowing can be financially supported over the duration of the loan period.

10.3 The Council may enter into finance leasing agreements to fund capital expenditure on behalf of services. A full option appraisal and comparison of other funding sources must be made and it must be evidenced that leasing provides the best value for money.

10.4 The impact of borrowing is reported in the Treasury Management Strategy alongside Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

11 Asset Disposals

11.1 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. Repayment of capital grants, loans and investments also generate capital receipts. Asset disposals are reviewed and agreed in accordance with the delegations that have been approved by Cabinet.

11.2 It is recognised that disposal of surplus assets i.e. those assets that no longer support service delivery or are not defined as investment assets or have come to the end of their useful life should be considered for disposal. In order to consider asset disposal, careful consideration of the costs of holding the asset and the alternative use of any sale receipt should be undertaken on a regular basis. The proceeds of any disposal should be earmarked into a specific reserve for future funding opportunities including supporting the financing of asset acquisition.

12 Investments for Service Purposes

12.1 The Council makes investments to assist local public services, including making loans to the Council's wholly owned company: LeisureSK Ltd. There is an expectation that such investments generate an income return after all costs.

12.2 Governance: Decisions on service investments are made in accordance with the Council's budget framework. Most loans and share investments are classified as capital expenditure, so any such transactions will therefore also be approved as part of the Capital Programme approval process.

13 Knowledge and Skills

13.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Council's s151 Officer and the Deputy s151 Officer are qualified accountants with significant experience. The Council invests in providing professional training for staff across its service areas.

13.2 Where the Council's staff do not have the knowledge and skills required, use is made of external advisors and consultants that are specialists in their field. The Council currently employs external treasury management advisors and external VAT advisors. This approach ensures the Council has access to specialist expertise when needed to support its staff, commensurate with its risk appetite.

14 Non-Treasury Investment Strategy

14.1 It is recognised that the Council may make investments for policy reasons outside of normal treasury management activity. These may include:

- 'service investments' held clearly and explicitly in the course of the provision, and for purposes of operational services, including regeneration;
- 'non-service investments' which are taken for mainly financial reasons. These may include investments arising as part of business structures, such as shares and loans in subsidiaries. Non-treasury investments also include assets which are held primarily for financial investment, such as investment properties. These relate to historic interests in assets which are reviewed regularly to ensure that yield is maximised. Where liabilities exceed yield the Council will consider whether these assets should be disposed of. Any future investments in assets will be primarily for regeneration purposes and any income generated would be a secondary consideration.

14.2 A register of investments and financial guarantees will be maintained and regularly reviewed as part of performance reporting arrangements, including periodic reassessment of the probability of financial guarantees being called upon. This register should be reconciled to the financial instruments disclosures within the statement of accounts.

15 Service Investments: Loans

15.1 The Council can lend money to its own subsidiaries to support local public services and stimulate local economic growth. The Council provided a loan to LeisureSK Ltd in 2022/23 in the sum of £137k.

15.2 The main risk when making service investment loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk and ensure that total exposure remains proportionate to the size of the Council, each application will be assessed alongside a robust business case and quarterly financial performance reports will be required to be provided.

15.3 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The Council has appropriate credit control arrangements in place to minimise any loss in overdue repayments. To date there has been no requirement to include a loss allowance in the statement of accounts.

15.4 Risk assessment: The Council will assess the risk of loss before entering into service loans by evaluating the business case submitted with each counterparty's application to determine how resilient the business is and that the provision of the loan will enable the business to grow and deliver the objectives set out on the business case. The loan will be monitored on a quarterly basis to minimise the risk on any potential loss. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Chief Finance Officer. All loans will be approved by Council or the Committee to which this approval has been delegated and will be monitored by the Chief Finance Officer.

16 Service Investments: Shares

16.1 The Council currently has no equity investments.

16.2 Security: One of the risks of investing in shares is that they potentially fall in value meaning that the initial outlay may not be recovered. To manage this risk upper limits on the sums invested in subsidiaries will be set at the lowest investment level required to enable the subsidiary to operate.

16.3 Risk Assessment: The Council will assess the risk of loss before entering into and whilst holding shares by going through an extensive process of risk analysis. The risk analysis will include an assessment of the market that the subsidiary will be active in including the nature and level of competition, how the market/customer needs will evolve over time, the barriers to entry and exit and any ongoing investment requirements. As the Council's primary reason for investing in shares may not be the financial return but for service benefits these will also be included in the assessment. This will ensure that the council has a clear understanding of all of the benefits as well as the potential risks. The Council will use external advisors as thought appropriate by the Chief Finance Officer.

16.4 Liquidity: This type of investment is fundamentally illiquid as the investment will be in a council owned subsidiary, in order to limit this the Council will assess the maximum level of resources that can prudently be committed and ensure that this limit is not exceeded.

16.5 Non-specified Investments: Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's required upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

17 Investments: Property

17.1 The Council has investment property which it receives a revenue income from. Going forwards the Council's primary reason for investing in this type of property will be for economic development and any income received will be a secondary benefit. The Council has a range of investment properties which it leases to local businesses which in 2022/23 generated a net income of £320K.

17.2 Prior to investing in property due consideration should be given to the CIPFA Prudential Investment Property Guidance to ensure that the council does not breach the prudential code which states that an authority must not borrow to invest for the primary purpose of commercial return.

17.3 The Council can confirm that it has complied with Section 51 of the Prudential Code. Following the publication of the revised Prudential Code in 2021 no investment or spending decision has been made which will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

17.4 The table below lists the investment properties by major category.. All commercial property investments have been financed using council resources.

Property Type	Value as at 31 March 2023 £m
General Fund Investment Property	4.569
Housing Revenue Account Investment Land & Shops	0.450
Total	5.019

17.5 Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

17.6 Investment properties are revalued each year-end by external valuers, so the Council will consider annually whether the underlying assets provide security i.e. are not below their purchase cost. Should this be the case it will be reviewed whether holding the assets is appropriate or whether it should be disposed of in accordance with the delegations approved by Cabinet.

17.7 Risk Assessment: The Council assesses the risk of loss whilst determining whether it should continue to hold property investments by:

- Assessing the relevant market sector including the level of competition.
- The barriers to exit and future market prospects.
- Using advisors if thought appropriate by the Chief Finance Officer.
- Continually monitoring risk in the whole portfolio and any specific assets.

17.8 Liquidity: Property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. The council takes this into consideration when assessing the cash balances that are required to meet its liabilities.

18 Proportionality

18.1 The Council receives income from investment properties which contribute towards achieving a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected income from these properties over the Medium-Term Financial Strategy. Should it fail to achieve the expected income, the Council has reserves which could cover the loss of income in the short term whilst actions were identified to ensure the income shortfall is remedied in the medium term.

Proportionality of General Fund Investments £m	**2023/24 Forecast**	**2024/25 Indicative Budget**	**2025/26 Indicative Budget**	**2026/27 Indicative Budget**
Gross service expenditure	35.968	32.303	31.777	32.269
Investment income	(0.334)	(0.350)	(0.350)	(0.350)

Proportion	(0.93%)	(1.08%)	(1.10%)	(1.08%)

Proportionality of HRA Investments £m	**2023/24 Forecast**	**2024/25 Indicative Budget**	**2025/26 Indicative Budget**	**2026/27 Indicative Budget**
Gross service expenditure	21.620	21.445	22.046	22.376
Investment income	(0.020)	(0.020)	(0.021)	(0.022)
Proportion	(0.09%)	(0.09%)	(0.10%)	(0.10%)

19 Capacity and Skills

19.1 Elected Members and statutory officers: The Council recognises that those elected Members and statutory officers involved in the investment decision making process must have appropriate capacity, skills and information to enable them to:

- Take informed decisions as to whether to enter into a specific investment;
- Assess individual business cases in the context of the strategic objectives and risk profile of the Council; and
- Enable them to understand how new decisions have changed the overall risk exposure of the Council The Council will ensure that the relevant officers and the Governance and Audit Committee have appropriate skills, providing training and advisor support where there is a skills gap.

20 Investment Indicators

20.1 The Council has set the following quantitative indicators to allow elected Members and the public to assess its total risk exposure as a result of its investment decisions.

20.2 Total risk exposure: The first indicator shows the total exposure to potential investment losses.

Total Investment Exposure £m	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Treasury Management Investments	54.816	46.297	44.177
Service Investment – Loans	0.162	0.135	0.108
Service Investment - Shares	0	0	0
Investment Property – GF	4.569	4.569	4.569
Investment Property – HRA	0.450	0.450	0.450
Total Investments	59.919	51.373	49.226
Commitments to Lend	0	0	0
Total Exposure	59.919	51.373	49.226

20.3 How investments are funded: Government guidance is that these indicators should include how investments are funded. The council has currently funded all investments with usable reserves.

20.4 Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested.

Investments net rate of return	**2023/24 Forecast %**	**2024/25 Forecast %**	**2025/26 Forecast %**
Treasury Management Investments	4%	5%	4.5%
Service Investment – Loans	4%	4%	4%
Service Investment – Shares	0	0	0
Investment Property – GF	7.35%	7.66%	7.66%
Investment Property – HRA	4.44%	4.44%	4,66%
All Investments	4.26%	5.24%	4.80%

20.5 The DLUHC guidance lists other indicators and the Council has selected the indicators below as appropriate.

Total Investment Exposure	**2023/24 Forecast %**	**2024/25 Forecast %**	**2025/26 Forecast %**
Commercial income to net service expenditure ratio	(2.16%)	(1.79%)	(2.04%)
HRA – Commercial income to net service expenditure ratio	0.29%	0.23%	0.21%
Net income return target	3-5%	3-5%	3-5%
Tenant over 5%	2	2	2