APPENDIX A

CAPITAL STRATEGY 2020/21

1. Aim of the Capital Strategy

1.1 The aim of the Capital Strategy is to enable elected Members to make decisions about capital spending plans that support the Council's objectives and are affordable over the long term. In making those decisions, elected Members should understand the financial risks and how those risks will be managed.

1.2 The Capital Strategy also provides a framework of guidance to support elected Members in their decision making and to support Officers involved in capital planning.

1.3 The Capital Strategy will be refreshed annually and presented to the Council within the Budget Book, alongside capital and revenue budget plans. This will ensure that the Capital Strategy is adapted as the Council's financial position evolves over time, and that Council's approval of the capital programme budget takes account of the Capital Strategy and its implications.

2. Background Information

2.1 The CIPFA Prudential Code was revised in 2017, and included the new requirement for councils to have a capital strategy in place by April 2019.

2.2 This requirement has been driven by the changing face of local government finance. Councils have been through a number of years of austerity and reducing government funding, and some councils are now investing in commercial opportunities using capital budgets. In addition to this there are increasing demand pressures on services, which has added to the financial risks faced by councils. The Capital Strategy will help elected Members to understand the key risks and manage those risks to an appropriate level.

2.3 The Ministry of Housing Communities and Local Government (MHCLG) has issued revised statutory guidance on local government investments, which came into effect on 1 April 2018 and extended the meaning of "investments" to include the type of commercial investment referred to in paragraph 2.2. The Council has adhered to this guidance and it has been reflected in this Capital Strategy where it is relevant to do so.

2.4 In November 2019 the Chartered Institute of Public Finance and Accountancy published a guidance document entitled Prudential Property Investment, which reinforces the principle that Councils must not borrow

more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The guidance covers technical and legal issues relating to investment in commercial property. Appendix B sets out our approach to such investments in our Commercialisation Strategy.

2.5 The Council's first Capital Strategy was for 2019/20. This Capital Strategy is the second iteration.

3. What is "Capital" and How Does it Impact on Budgets?

3.1 It is important that those making decisions about capital spending plans understand the terminology used in reports as well as how budgets will be impacted by their decisions.

Definitions

3.2 **Capital expenditure** is spending on buying, building or enhancing long term assets. Examples of long term assets include: land and buildings, vehicles, infrastructure such as roads and bridges, specialised facilities such as recycling plants, specialised equipment such as fire-fighting equipment.

3.3 The term **"capitalised"** means "treated as capital expenditure". This requires certain accounting treatments and the inclusion of capitalised assets in an asset register.

3.4 The Secretary of State will allow some expenditure types to be capitalised in certain exceptional circumstances, and councils must apply for permission to capitalise expenditure which would normally be treated as revenue expenditure. An example of such an item approved for another council in the past is the capitalisation of large-scale redundancy costs.

3.5 **Revenue expenditure** is therefore all expenditure which is not capital expenditure – this usually applies to spending on the day to day running costs of the Council which doesn't result in long term assets e.g. salaries of employees, rent of buildings, fuel, stationery etc.

3.6 **Capital receipts** are monies received when capital assets are sold. By law, capital receipts can only be used to either repay loans or finance new capital expenditure. The government has introduced a temporary relaxation of these rules to allow capital receipts to be used to fund revenue expenditure on projects which will reduce future revenue costs. This will last until March 2022 and the Council has taken advantage of this in previous years. From 2020/21 onwards, the Council's strategy will be to use capital receipts only to either repay loans or to finance new capital expenditure.

Accounting Policy on Capitalisation

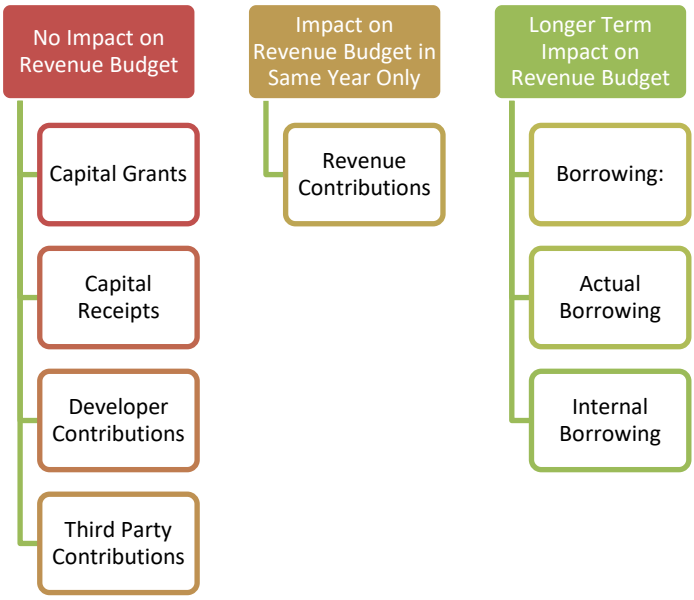
3.7 The rules on what types of expenditure can or cannot be capitalised are set out in International Financial Reporting Standards and in the CIPFA Accounting Code of Practice, as well as in law. Councils are allowed to set a minimum threshold value for capital expenditure to ensure that only the more significant assets are capitalised. Lincolnshire County Council has set a minimum threshold value of £10,000 spent on buildings, vehicles or equipment in its capital accounting policy. Expenditure on buying, building or enhancing assets which is below this level may be treated as revenue expenditure.

The Funding of Capital Expenditure

3.8 At Lincolnshire County Council the budget for capital expenditure is known as the **Capital Programme** and is separate from the **Revenue Budget**. The Capital Programme will cover at least three years because capital projects are often large projects that span more than one financial year to completion.

3.9 When formulating the Capital Programme, decisions must be made about the most cost effective way of funding it. There a number of different potential sources of funding for the capital programme and these are shown in the diagram below, together with their impact on the Revenue Budget. Further explanation is below the diagram.

Sources of Funding and their Impact on the Revenue Budget:



Capital Grants

3.10 Capital grant applications are made to the government to support essential but expensive capital projects, such as the building of new schools or new roads. Capital grants may cover the whole project cost or only part of it. When capital grants are used to finance new capital expenditure, there is no cost to the Revenue Budget in respect of the proportion of capital expenditure covered by grant. This is therefore an extremely important source of funding as some of our major projects would be unaffordable without these capital grants. The Council's strategy will be to seek to maximise the use of capital grants wherever possible.

Capital Receipts

3.11 When capital receipts are used to finance new capital expenditure, there is no cost to the Revenue Budget. This is therefore an attractive source of funding, however the amount of capital receipts generated each year is relatively low so they are not a significant source of funding for the Council. They can also be used to repay loans and finance certain types of revenue costs, as explained in paragraph 3.6 above. Capital receipts can be used in the year that they are received, or carried forward to be used in future years. When determining how to fund the Capital Programme the Council must take a view on how best to apply capital receipts to ensure that value for money is obtained.

Developer Contributions

3.12 Development companies engaged in projects such as house building will make financial contributions to the Council to help finance the cost of developing infrastructure e.g. roads to support their housing development. When developer contributions are used to finance new capital expenditure, there is no cost to the Revenue Budget in respect of the proportion of capital expenditure covered by such contributions. This is therefore another extremely important source of funding for the Council, however in some instances developer contributions are received by the Council in later years i.e. after a project has started, which means that another source of funding will required in the short term and the deferred developer contribution will be used to fund future capital scheme expenditure.

Revenue Contributions

3.13 The Council can use some of its Revenue Budget to directly finance new capital expenditure. When this happens there is an impact on the Revenue Budget in that year, however there is no longer term impact. The Council does not usually budget for significant revenue contributions as this would

divert funds away from the running costs needed to provide core services. However, if there is a Revenue Budget underspend at the end of any financial year then this use should be considered as part of the decision on the Council's use of underspends to carry forward to the next financial year's budget. Using revenue underspend to finance part of the capital programme will reduce the capital financing impact on the revenue budget in the longer term.

Actual Borrowing

3.14 When the use of the above sources of funding have been maximised to finance the Capital Programme, the remainder of capital expenditure will be financed by borrowing. This amount is called the Council's Borrowing Requirement. The Council's strategy for its borrowing is set out in the Treasury Management Strategy Statement and takes account of factors such as interest rates and the spreading of loan repayment dates to reduce risk. The Council predominantly borrows from the Public Works Loans Board (PWLB), which is an Executive Agent of HM Treasury and provides loans to councils at beneficial interest rates. The Council can also take loans from the financial market if these are at lower rates than PWLB loans.

3.15 When borrowing is used to finance the Capital Programme, it impacts on the Revenue Budget in two ways. Firstly, loan interest payments are charged to the Revenue Budget over the term of the loan. Secondly, a charge is made to the Revenue Budget to provide for the cost of repaying loan principal when it falls due – this is called the Minimum Revenue Provision (MRP). The MRP charge is calculated by taking the amount of capital expenditure financed by borrowing and dividing this over the number of years the asset concerned is expected to be in use. This charge is made to the Revenue Budget every year until the end of the asset's life. This means that the impact of capital expenditure on the Revenue Budget can sometimes be very long term e.g. an asset with a life of 50 years would generate an MRP charge for the next 50 years and a loan taken for say 40 years would generate an interest charge for the next 40 years.

Internal Borrowing

3.16 The Council's Treasury Management Strategy allows for its borrowing requirement to be deferred until a later date if the Council has sufficient cash surplus to cover the cost of the capital expenditure, and if it would be financially beneficial to do so and it would help to manage risk. This is known as "internal borrowing" i.e. the Council borrows from its own cash reserves and repays these at a later date by taking an actual loan. This, in effect, converts the internal borrowing into actual borrowing. When internal

borrowing is the means of financing, the Minimum Revenue Provision charge is still payable on the asset concerned, however there are no interest costs charged to the Revenue Budget. Once the internal borrowing converts to actual borrowing then there will be an interest charge.

4. The Capital Process

4.1 Underpinning the capital process are the Council's service objectives and priorities, together with its asset management strategies. The Council's priorities are set out in Annex A, and links to asset management strategies, can be found in Annex B.

4.2 The capital process is as follows:

1. Identification of a need which would require Capital Expenditure. This should be recorded in a Full or Outline Business Case.

2. Exploration of options to satisfy the identified need. This should be recorded as an Options Appraisal and should consider: value for money / financial sustainability / risk / capacity to deliver the project. The results should be included in the Full or Outline Business Case.

3. Review of Full or Outline Business Cases by **Directorate Leadership Teams**.

4. Presentation of Full / Outline Business Cases to an **Officer Capital Challenge Group**.

5. The **Officer Capital Challenge Group** will review and, if required, challenge business cases. The **Executive Director for Resources** will then determine whether to refer the business cases for consultation with the **Executive Councillor for Finance and Communications**.

6. Annually in June, the **Officer Capital Challenge Group** will consider Full / Outline Business Cases prepared in respect of projects for the following year's Capital Programme.

7. Annually in September, the **Officer Capital Challenge Group** will consider programmes of work prepared in respect of bids for annual "block" funding in the following year's Capital Programme.

8. Throughout the year, the **Officer Capital Challenge Group** will monitor the delivery of capital projects and this will feed into the capital budget monitoring process.

9. Earmarking of funding in the Capital Programme. The opportunity to do this will be during the autumn of each year as part of the budget setting process. Following feedback on bids from the **Officer Capital Challenge Group** and in the light of consultation with the **Executive Councillor for Finance and Communications**, a draft Capital Programme will be prepared by the **Executive Director of Resources** and its cost calculated. As the Capital Programme covers three years, planning for Capital Projects should be forward-looking. Alternatively, if funding approval is required urgently, Business Cases can be presented to the **Executive Director of Resources** (in consultation with the **Executive Councillor for Finance and Communications)** for approval. Such approval will allow the project to be allocated budget from the capital programme's New Developments Capital Contingency fund.

10. Consideration of the affordability of the Capital Programme. The draft capital programme will be included in budget reports to the **Executive** and to the **Overview and Scrutiny Management Board** as part of the budget setting process and the final Capital Programme will be approved by full Council as part of the budget. The reports will clearly show the potential longer term financial impact of each project / asset on the Revenue Budget, as well as the potential longer term financial impact of the capital programme as a whole.

11. If the capital projects identified by **Departmental Leadership Teams** exceed what is affordable over the longer term, the **Executive** will be asked to prioritise capital projects for presentation to full **Council** to ensure that an affordable capital programme can be approved. In this case, some projects will have to be deferred or removed altogether.

12. Once an affordable capital programme has been approved by the **Council** in February as part of the budget setting process, capital projects will be monitored and reported on as part of the Council's budget monitoring process.

13. Before a capital project which has funding earmarked in the Capital Programme can start there will need to be separate executive level approval to commence, and a detailed Capital Scheme Appraisal report including a Full Business Case must be approved, normally by the **Executive Councillor for Finance and Communications** if the value of the project is over £500,000. If the value of the project is less than £500,000 the project may be approved by **the relevant Executive Director** following consultation with the appropriate **Executive**

Councillor(s). This may be done by an individual report or as part of a wider programme of works.

14. When a capital project is complete and an asset has been created, that asset will be managed over its life. This will involve bringing the asset into use, maintaining it and planning for its disposal and/or replacement, if required, as the end of its useful life approaches.

15. Finally, the asset will be taken out of service and either sold or disposed of.

5. Key Principles of the Capital Strategy

5.1 The Council's strategy in relation to capital is underpinned by the following principles:

1. Capital expenditure / investment decisions must be made to drive forward **service objectives** *(service objectives will need to be clearly identified as part of the Council's strategic planning and will need to take account of future changes to services - the asset implications of such changes must be assessed)*. They must also support one or more of the **capital objectives** – see Section 6.

2. The Council's assets must be **properly planned for and managed** over their lifetime *(asset management strategies and plans which demonstrate this should exist for all key types of asset)*. This should result in the identification of new capital requirements, as well as the identification of surplus assets for disposal.

3. Capital expenditure / investment decisions must be supported by a **business case** which clearly sets out why the expenditure is required, what outcomes it will help to achieve, as well as costs and risks.

4. A key consideration in decision making must be the achievement of **value for money** *(different options for achieving outcomes must be considered and costed, using the Council's options appraisal template and the best all round option selected).* External funding will be actively sought to support capital projects where possible.

5. Capital expenditure / investment plans must take account of **risk**, which should be identified and managed appropriately.

6. Capital expenditure / investment plans must be **achievable** (the capacity to deliver projects must exist, projects must be properly managed in accordance with the Council's project management framework, project risk must be considered).

7. There must be clear **governance** around capital expenditure with approval of capital projects made at appropriate levels.

8. Capital expenditure / investment plans must demonstrate **affordability** *(the future impact on council tax levels must be considered and the whole life cost must be understood, albeit with assumptions made about the future financial landscape)*. Decisions made about capital projects must not threaten the overall financial sustainability of the Council. The financing of capital expenditure must remain within approved prudential limits.

9. Capital expenditure / investment plans must be **prioritised** if ambition exceeds available resources *(options appraisals should show financial and non-financial implications, risk implications, links to service objectives, the "do nothing" option and its implications, to enable scarce resources to be directed to those schemes which generate the best value for the Council)*. See Annex C.

10. Capital programme projects must be **managed** *(in accordance with the Council's project management framework)* and the procurement of suppliers and contractors must be in accordance with the Council's procurement policies and procedures.

6. Capital Objectives

6.1 All capital projects must help to deliver the Council's overall service objectives but there are also a number of supplementary capital objectives which recognise the nature of capital expenditure in that it will result in long term assets to support the Council's aims. The capital programme as a whole should allow for:

1. The replacement or refurbishment of existing assets.

2. The creation of assets to satisfy increasing demand for services.

3. The creation of assets which will enable economic growth.

4. The creation of assets necessary to meet statutory requirements.

5. The creation of transformational assets which will generate future: capital receipts / reduced revenue costs / income streams.

7. Integration with Other Plans and Strategies

7.1 The Capital Strategy is not a standalone document. It must be seen in the context of the Council's other strategic documents which outline how the Council's longer term objectives will be achieved. Some of these have a

clear impact on the Capital Strategy and these impacts have been extracted and are interpreted in Annex B.

8. Guidance for Officers with Responsibility for Capital Planning

8.1 This guidance is intended to highlight the main considerations for the planning of capital programme projects. It follows the principles outlined in section 5 and includes links to more detailed guidance.

8.2 Asset management is about supporting the delivery of strategic objectives through the use of long term assets. It is an integral part of business planning. All service areas which rely on long term assets to deliver services must plan for those assets over their whole life-cycle. This will include planning for the creation / purchase / build of new assets, their use, their replacement and their eventual disposal. Proper asset planning will result in a forward-looking capital programme, where major projects are identified and resourced well in advance of their starting.

8.3 Once a need for a new asset has been identified, the Council's project management framework must be followed (this can be found on the Council's Intranet under "Project Management Standard"). This will involve preparing a business case and an options appraisal, and will ensure that the full implications of every proposal are fully understood by those making decisions about whether or not to proceed with the capital investment required. It will also ensure that capacity to deliver the project, risks associated with the project, and value for money have all been considered. In the early stages of the process, an Outline Business Case should be completed with sufficient information included to allow the feasibility and affordability of the project to be assessed by the **Officer Capital Challenge Group**. If it is deemed to be a desirable and affordable project then a full business case must be completed and considered before approval to commence a project is given.

8.4 Service areas have a wealth of experience in the delivery of capital projects and it is important that this experience is used to inform the planning of future projects. Project reviews should be carried out and lessons learned should be documented and made available to others in the Council who might benefit from this learning. Project reviews should provide information to help with the estimation of costs for future projects and the inclusion within capital budgets of appropriate contingency amounts.

8.5 The Council's Financial Procedure 1 (Financial Planning and Management) must be followed by Officers involved with capital expenditure and can be found on the Council's intranet.

8.6 When writing a business case, the cost of the capital project, together with any associated funding such as capital grant, must be phased as accurately as possible into the financial years when the expenditure / income is expected to occur. This will enable the financial impact on the revenue budget to be more accurately assessed.

8.7 Business cases should be considered by **Directorate Leadership Teams** to ensure that they align to the **Corporate Plan**. If identified as a project the **Directorate Leadership Team** wishes to progress then they must be submitted to the **Officer Capital Challenge Group** for inclusion in the Capital Programme as part of the budget setting process, by the end of May each year.

8.8 Projects requiring urgent (in-year) funding approval can be taken for approval by the **Executive Director of Resources** in consultation with the **Executive Councillor for Finance and Communications**. On such approval Capital Programme budget allocations can be made from the New Developments Capital Contingency Budget.

8.9 Inclusion in the Capital Programme or an in-year approval only provides availability of funding. To commence the project an appropriate executive level decision is needed and a Capital Scheme Appraisal will be required to be approved, normally by the **Executive Councillor for Finance and Communications**.

9. Capital Expenditure Approval and Monitoring Process

9.1 The **Corporate Leadership Team (CLT)** will review the draft future Capital Programme in October and consider its affordability. If it is deemed to be unaffordable, **CLT** will prioritise the Capital Programme projects and make recommendations to the **Executive** as to which projects should or should not be approved.

9.2 The **Executive** is responsible for considering the Capital Programme in December along with recommendations on how the capital programme will be financed as a whole, its affordability and a recommendation from **CLT** on which projects should be prioritised if the whole programme is unaffordable. The **Executive** will propose a budget for public consultation during January and meet in February to recommend a revenue budget and a Capital Programme to the **Council** for approval.

9.3 The **Council** will consider and approve a joint Capital Programme and Revenue Budget in February of each year.

9.4 Performance against the Capital Programme will be reported to the **Overview and Scrutiny Management Board** quarterly. The final position at the end of the year will be reported to the **Executive** in June each year.

10. Annual Investment Strategy for Non-Treasury Investments 2019/20

10.1 The Ministry of Housing Communities and Local Government (MHCLG) has issued revised statutory guidance on local government investments, which came into effect on 1 April 2018. Under section 15(1)(a) of the Local Government Act 2003 councils are required to have regard to such statutory guidance. In this guidance, the meaning of investments has been extended to include both **financial** (related to treasury management) and **non-financial** investments (for non-treasury management reasons).

10.2 For **financial** (treasury) investments, the Council's priorities for investment are security first, liquidity second, and then return or yield and the risk appetite is set as "low". **Non-financial** (**non-treasury investments**) are made for purposes which are different to treasury management and will primarily relate to the securing of future service delivery. The risk appetite is therefore set as "medium" or "high" which recognises that the Council is prepared to accept some risk to the security of the investments albeit within the parameters of the prudential limits set to manage risk to an appropriate level. An example of such an investment is a loan made to a supplier commissioned by the Council to provide adult social care but currently experiencing financial difficulties.

10.3 The Capital Strategy allows for certain types of **non-treasury investments** to be made and the Council currently holds non-treasury investments falling within three categories. Further detail about the management of risk associated with these investments is set out in paragraph 10.4.

- Loans to other bodies for service reasons. Such loans may not be planned for as part of the budget process but may emerge at any time e.g. due to the Council's statutory duty to manage the market in adult social care. The Council's strategy is to invest only in other bodies either to secure future service delivery or where the other body is a subsidiary company of the Council which has been created for service reasons.

- Investments for non-service reasons (commercial investments which may include loans to other bodies). The current strategy is that the Council will not make new investments in commercial activity unless there is a direct service benefit and this is reflected

in the Commercialisation Strategy highlighted in Annex B, however the Council owns some investment properties which do generate income. The majority of these properties are collectively known as County Farms and these are investments which have been held for a number of years by the Council. The table in Annex F shows the value of these investment properties as £108.7m, which is just below 8% of the total value of all property plant and equipment assets owned by the Council as at 31st March 2019. The estimated annual income from investment properties is £2.2m, which is approximately 0.5% of the revenue budget, and is considered to be an insignificant proportion. The Council's strategy is to maintain these assets and a summary of the investments is shown in Annex F.

- Equity shares held for service reasons. Again the strategy is not to invest in equity shares ordinarily but the Council may choose to do so if this would support the delivery of services.

Treasury investments, which are made by using the Council's surplus cash balances, fall under the remit of the Council's Treasury Management Strategy Statement and are not covered within this Capital Strategy.

10.4 Loans made to other bodies for service reasons may be designated as low, medium or high risk. The measures in place to manage these risks are:

- the financial procedures for loans to outside bodies which include the scheme of delegation for the approval of new loans;
- loan agreements signed by both parties to the loan
- credit control arrangements in place to ensure that interest and loan repayments are made on time, and
- adherence to prudential indicator limits for proportionality.

For investments in commercial properties made for non-service reasons, the measures in place to manage risk are:

- The Council uses a specialist third party agent to manage the collection of rental income.
- Prudential limits have been set to manage the risks arising from non-treasury investments (shown in Annex G).

10.5 A fourth category of non-treasury investment exists, which is: Equity shares held for non-service reasons. The Council does not hold any

equity shares under this category and the current Capital Strategy does not permit the purchase of such investments. Prudential limits have therefore not been set for this category of investment.

10.6 A schedule of non-treasury investments currently held by the Council is provided in Annex F.

11. Affordability of the Capital Programme

11.1 The CIPFA Prudential Code requires councils to ensure that capital spending plans are affordable, sustainable and prudent. Determining whether or not a capital programme is affordable over the long term is difficult to do, because it requires looking into an uncertain future. There is, therefore, no precise calculation which can be done to work out how much is affordable, instead we have to use our judgement to make assumptions about the Council's finances in the future and we have to understand this carries the risk that our assumptions may turn out to be incorrect.

11.2 Some elements of the cost of financing the capital programme are more certain. The future cost to the revenue budget of all past capital expenditure is largely known, and is explained in principle in section 3. These future costs comprise the minimum revenue provision and the interest payments on loans already taken to finance the capital programme.

11.3 Virtually all other relevant factors are uncertain. Below are some examples of the inherent uncertainties, which could result in financial risk:

a) The value of the revenue budget in future years is dependent on many factors outside of the Council's control e.g.:
    - The Council's main sources of income are often subject to government determination or changes in policy e.g. Limits on Council tax increases
    - The amount the Council needs to spend is subject to inflation.

b) Capital projects may overspend or underspend, or may take more or less time to complete than planned. As explained elsewhere in this strategy any effect on capital expenditure will also impact on the cost to the revenue budget including the timing of those impacts.

c) Statutory policy relating to capital may change e.g.:
    - The method of calculating Minimum Revenue Provision has changed over time
    - The accounting standard which defines capital expenditure and its accounting treatment could change.

d) The cost of interest on loans which will be taken in the future is subject to future unknown interest rates. There are other treasury risks which could impact on the cost of future borrowing e.g. re-financing risk and liquidity risk.

11.4 Despite the uncertainties, it is still possible to look forward and take a view on the affordability of the capital programme. A high level summary of the proposed capital programme for 2020/21 and future years up to 2028/29 is included at Annex D (the detailed capital programme is included in the Council's Budget Book). The estimated additional on-going impact on the revenue budget of this capital programme has been calculated as just over £5.6m per annum.

11.5 This must be seen in the context of the Council's overall net revenue budget in order to determine its affordability. The amount of the Council's budget is not known beyond 31st March 2021, but a prudent estimate can be made going forwards which allows for a modest increase in funding each year up to 2023/24. This assumes that the new local government finance reforms will be more favourable to County Councils than the current system and that there will still be increases to Council Tax levels to some extent. It is expected that the equivalent assumptions in the next iteration of this strategy will be made in the light of more certain information about future funding levels.

11.6 The graph at Annex E shows the estimated total proportion of the net revenue budget which would need to be allocated to finance the capital programme set out in Annex D for the next eight years. It can be seen that in each of the next eight years, the Council is expected to be within its voluntary prudential indicator i.e. that capital financing charges, comprising MRP and interest, will not exceed 10% of the Council's total income in each year.

11.7 This indicates that the Capital Programme for 2020/21, which also covers future years, is affordable. It is important to note however that there are risks inherent in this conclusion. Some of these risks are explained in paragraph 11.3 above. In addition it must be recognised that the capital programme will be refreshed each year and this assessment will need to be repeated each time to determine future affordability.

12. Role of the Section 151 Officer

12.1 The Section 151 Officer is responsible for ensuring that elected members tasked with either treasury management responsibilities or capital programme scrutiny responsibilities have access to training relevant to their needs and those responsibilities.

12.2 The Section 151 Officer is also responsible for ensuring that employees with responsibility for budget management, accounting, finance, and treasury management, are suitably skilled and experienced and have the opportunity to maintain their professional competence.

12.3 Statement of the Section 151 Officer:

The Section 151 Officer is satisfied that the Capital Programme for 2020/21, which includes future years, has been through a robust scrutiny process. The Capital Strategy includes an assessment of financial risks and the Section 151 Officer is satisfied that prudent assumptions have been made relating to those areas of risk and that the Capital Programme for 2020/21 is affordable over the longer term.

Annex A

Council Priorities

People and Communities will have:

- High aspirations;
- The opportunity to enjoy life to the full;
- Thriving environments;
- Good value Council services.

Annex B

Links to Other Strategies

A. Medium Term Financial Strategy

The Medium Term Financial Strategy covers the medium term period but is refreshed periodically as part of the budget process. It sets out the Council's framework for financial management and provides some key principles which directly influence the Capital Strategy – these are interpreted below:

a. The Council has set a key financial performance measure which relates to the affordability of the capital programme, which is that the level of council tax will remain in the lowest quartile of all English County Councils.

b. We have a ten year Capital Programme, which is a budget set aside to deliver new or improved assets and to maintain existing assets used to deliver services. The proposed Capital Programme is affordable over the longer term, within the context of our budget assumptions and in line with our Capital Strategy, which also covers a longer term period up to ten years.

c. The Strategy provides a framework within which we can manage the financial resources available to deliver our priorities for our communities over the medium term. To deliver this successfully requires a culture of good financial management within the Council, which is led by the Executive Director of Resources (the Section 151 Officer) and the Leadership Team, which includes our elected Members as well as Chief Officers. To support this culture we have a set of financial regulations and procedures, as well as schemes of authorisation, which give guidance to Officers about their financial responsibilities.

d. The Strategy supports the Council's other key strategies, by setting the financial context for the Council and by clarifying the levels of investment that we can make in the future to deliver services and improve and maintain our assets.

e. During each financial year, the approved Revenue Budget and the approved Capital Programme are monitored and performance against each is regularly reported to the Corporate Leadership Team and the Executive, with scrutiny applied by the Overview and Scrutiny Management Board.

f. Budget holders can bid for investment in new opportunities (either revenue or capital) as part of the annual budget process. These will be considered in the context of the business case and affordability.

g. We have a New Development Capital Fund of £7.5m each year. Budget Holders can bid for funding from this to spend on new capital schemes.

B. Flexible Use of Capital Receipts

In September 2016 the Council approved the Efficiency Plan, and the flexible use of Capital Receipts, to fund transformation for the three year period from 2016/17 to 2018/19. This plan allowed the Council to sign up to the four year funding deal offered by Government for the period 2016/17 to 2019/20. In December 2017, the Government set out further measures to support councils to deliver services. One of these measures was an extension to the use of Capital Receipts to help meet the Revenue costs of transformation for a further 3 years to April 2022.

From next year, 2020/21, we no longer plan to use Capital Receipts to fund transformation projects. Instead, we plan to use our Earmarked Reserves for this purpose. This will allow us to revert to using Capital Receipts to repay borrowing or to finance new Capital expenditure.

C. Commercialisation Strategy

This strategy documents the Council's approach to commercialisation. It sets out a broad vision of commercial activities that the Council could engage in, which include activities that might require capital investment e.g. the use of digital technologies to deliver savings or increase value and investment opportunities. The aim is to generate extra revenue streams and deliver cost reductions through commercial activity, thereby supporting the continued delivery of front line services. The strategy also clarifies the principle that all commercial opportunities considered should provide benefit to people who live in, work in or visit Lincolnshire i.e. the achievement of service objectives will be the prime driver for commercial activities, with income generation a secondary benefit.

As the generation of income is not the main motive for the Council's commercial investment, the extent to which the Revenue Budget is reliant upon commercial income streams is not significant. However the Council has held some investment properties for a number of years, which are County Farms.

The Commercialisation Strategy defines the Council's risk appetite for investing in commercial opportunities as "whilst willing to take risk, we will manage that risk so as not to jeopardise the services and opportunities we offer to Lincolnshire citizens. Risk management will be proportionate to the magnitude of the risk and the adverse impact should it materialise"

Proposed new commercial activities will be scrutinised by the appropriate Scrutiny Committee before being considered by the Executive. Commercial projects are subject to the Council's project management framework.

D. Treasury Management Strategy

The Council's annually approved Treasury Management Strategy is very closely aligned to the Capital Strategy as it covers the Council's borrowing strategy for the year ahead, a key source of funding for the capital programme. The relevant aspects of the Treasury Management Strategy are set out below:

In line with the CIPFA Prudential Code the Treasury Management Strategy sets out a series of Prudential Indicators which ensure and demonstrate that the Council's capital expenditure plans remain **affordable**, **prudent** and **sustainable** and manage treasury risks:

a. Long term loans are usually secured at fixed rates of interest, to provide certainty over the cost of maintaining the loans over their lifetime thereby reducing the risk of adverse interest rate changes. However up to 30% of all borrowing could alternatively be secured at variable rates of interest.

b. The Council will take new borrowing from the PWLB in all periods with the aim of achieving an even "spread of maturity" profile and keeping an increase in the average cost of the Council’s debt to a minimum.

c. Consideration will be given to borrowing market loans, to fit into the above maturity strategy, in order to take advantage of lower rates offered on these loans. This proportion is limited to no more than 20% of total external borrowing for market loans and 10% of total external borrowing for Lender Option Borrower Option loans (which are also market loans).

d. Other long term liabilities e.g. loans to other bodies and PFI contracts also impact on the revenue budget and future sustainability. Separate limits are set each year for total borrowing and for total other long term liabilities.

e. Limits are set on the maturity structure of borrowings i.e. no more than 25% will mature within 12 months; no more than 25% will mature between 12 months and 24 months; no more than 50% will mature between 24 months and 5 years; no more than 75% will mature between 5 years and 10 years. This means that exposure to short term interest rate risk is limited.

f. The Minimum Revenue Provision and Interest Charges together shall not exceed 10% of the Council's Net Revenue Stream.

Two "proportionality" Prudential Indicators have been set for 2020/21, to support the Capital Strategy and these are shown in Annex G. The Treasury Management Strategy includes the Council's **Capital Financing Requirement**,

which reflects the need to borrow to fund capital expenditure in the future. It also includes the Policy for Minimum Revenue Provision which allows for debt to be repaid over the life of the underlying assets.

The Treasury Management Strategy is scrutinised by the **Overview and Scrutiny Management Board** and approved by the **Executive Portfolio Holder for Finance and Communications.** Performance against prudential indicators is also scrutinised by the **Overview and Scrutiny Management Board**, as is the Treasury Management Annual Report at year end.

Treasury Management activity is governed by The CIPFA Code of Practice for Treasury Management and a set of Treasury Management Practices arising from this Code. These set out the relevant delegations and processes which are designed to manage risk to an acceptable level. The Council's risk appetite for treasury activity is set at low – the security and liquidity of Council funds is of paramount importance and the Strategy includes a number of controls designed to manage risks to security and liquidity.

The Treasury Management Strategy also includes the policy on the use of external advisers, which states that the Council uses Link Asset Services Ltd as its external treasury management adviser, and recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.

E. Asset Management Strategies

The Council has asset management strategies in place for the major types of assets. Asset management is about supporting the delivery of strategic objectives through the use of long term assets. All service areas which rely on long term assets to deliver services must plan for those assets over their whole life-cycle. This will include planning for the creation / purchase / build of new assets, their use, their replacement and their eventual disposal.

- Highways Asset Management Strategy

  https://www.lincolnshire.gov.uk/directory-record/61684/highways-asset-management-strategy

- Integrated Risk Management Plan 2016-2020 (which includes a section on Fire and Rescue asset management)

  https://www.lincolnshire.gov.uk/performance-plans-reports/service-planning-values

Annex C

Prioritisation of Capital Programme Projects

If the total capital programme is deemed to be unaffordable then capital programme projects will need to be prioritised, and this may result in the cancellation or deferral of projects.

The aim of the process of prioritisation is to select those projects which generate the best value for the Council. As the Council's functions are wide-ranging, this diversity is reflected in the capital programme and this makes it difficult to compare projects. In many cases the benefits are non-financial and hard to measure, which means that return on investment measure is not an appropriate tool to use when trying to rank projects.

It is recognised that the reasons for undertaking capital projects may be complex, and that ranking projects in order of priority may sometimes be a matter of subjective assessment. When a Business Case for a capital project is prepared, the checklist below must be completed and submitted with the Business Case. The considerations set out on the checklist are designed to assist those making decisions on the prioritisation of capital projects if this is required. This is not an exhaustive list of factors to consider – there may be others.

Consideration	Yes / No	If Yes, please provide detail
To what extent does the project support the Council's objectives (Appendix Capital A) or the Capital objectives (Section 6)?		
• Does it maintain current service delivery by replacing or refurbishing existing assets?		
• Does it improve current service delivery by:		
○ Satisfying increasing demand for services;		
○ Enabling economic growth;		
○ Meeting new statutory requirements;		
○ Transforming service delivery thereby:		
▪ Generating future capital receipts;		
▪ Reducing revenue costs;		
▪ Increasing income?		
• Does it meet identified community expectations?		

How is Value for Money achieved by this project?		
• What are the project Benefits?		
○ Number of citizens who benefit		
○ Significance of improvement to citizens lives		
○ Significance of improvement to aspects of service delivery		
• What are the project Costs?		
○ What is the whole life cost of the asset:		
▪ What is the expected useful life of the asset in years?		
▪ What is the total capital cost?		
▪ Minimum Revenue Provision charge?		*(Finance to provide)*
▪ Interest charge?		*(Finance to provide)*
▪ Asset maintenance costs per annum?		
○ Is external funding available for the project?		
▪ If Yes, how much?		
▪ If Yes, where from?		
▪ If Yes, when will it be received?		
○ Is internal funding available for the project?		
▪ If Yes, how much?		
▪ If Yes, where from (capital receipts or revenue contributions)		
▪ If Yes, when will it be received?		
What are the key risks inherent in this project?		
○ How urgent is the need?		
○ How long will the project take?		*If more than 1 year, please phase the capital costs over Year 1, Year 2, Year 3 etc.*
○ Does the Council have the capacity to deliver the project?		
▪ If Yes, please list them?		
○ Are there any other significant project risks?		

▪ If Yes, please list them?		
○ Does the project take account of future needs?		
○ Does the project take account of the changing world, e.g. technology or social changes?		
When the project is complete, a post implementation review must be undertaken and a Project Closure report completed. Please add any further information which you think may support the decision-making process.		

Annex D

Capital Programme (2019/20 plus Future Years)	Revised Gross Programme 2019/20 £'000	Revised Gross Programme 2020/21 £'000	Gross Programme Future Years £'000
ADULT CARE AND COMMUNITY WELLBEING			
Adult Care and Community Wellbeing	6,149	2,800	0
SCHOOLS			
Schools	31,118	32,047	114,125
CHILDREN'S SERVICES			
Children's Services	857	425	1,979
PLACE			
Communities	3,955	5,222	9,685
Growth & Economy	21,013	4,600	1,500
Highways	142,487	90,720	126,203
FIRE AND RESCUE & PUBLIC PROTECTION			
Public Protection	98	0	0
Fire and Rescue & Emergency Planning	8,590	6,656	6,489
COMMERCIAL			
Property	9,755	5,970	30,227
ICT	10,990	10,000	13,951
OTHER BUDGETS			
Other Budgets	8,732	11,638	60,000
Total Budget	243,743	170,077	364,159

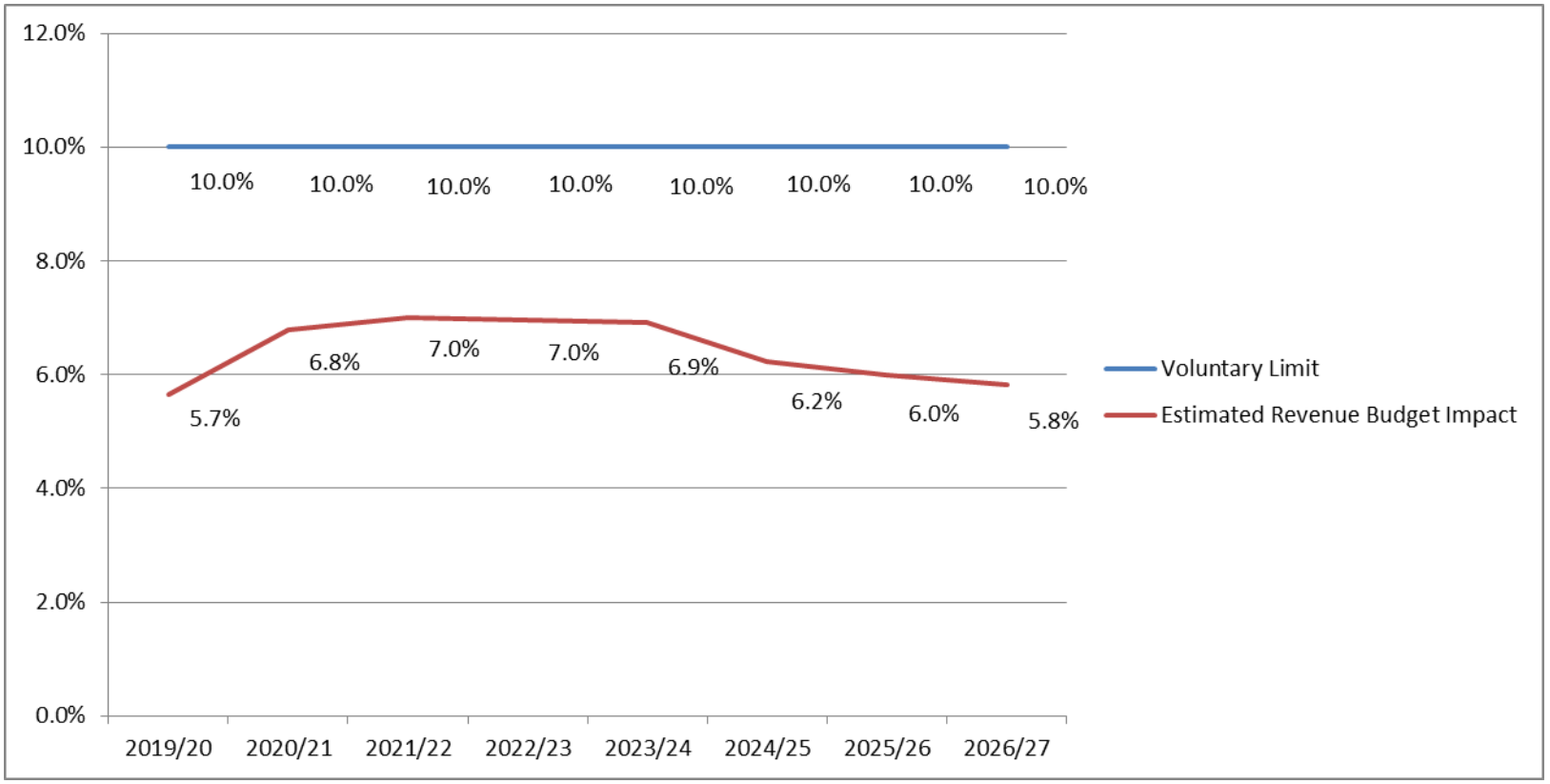
Funding of the Capital Programme

	2019/20 £'m	2020/21 £'m	Future Years £'m
Grants and Contributions	**105.092**	**67.839**	**60.025**
Borrowing	133.825	102.208	303.029
Use of Reserve	4.201	0.000	0.000
Revenue Funding	0.625	0.030	1.105
Total Funding	**243.743**	**170.077**	**364.159**

Annex E

Estimated Proportion of Revenue Budget to be Spent on Capital Financing Charges

Compared to Prudential Indicator Voluntary Limit



Annex F

Schedule of Non-Treasury Investments

Loans To Other Bodies for Service Reasons	Classification	Risk Level	Original Term of Loan in Years	Principal Outstanding as at 31/03/2019 £000's	Estimated Interest Income 2020/21 £000's
B20050 Police Loan Debt	Loan	Low	*25*	52	0
B14080/B20065 School Academies	Loan	Low	Various	1,218	-38
B14020 Lincs Community Foundation Ltd - Soft Loan	Loan	Medium	*24*	169	-1
B14075 TransportConnect Fixed Loan	Loan	High	*3*	603	-13
B20040 TransportConnect Revolving Credit Facility	Loan	High	*3*	79	-14
Total				**2,121**	**-66**

Commercial Investments for Non Service Reasons (including loans to 3rd Parties)	Classification	Risk Level	Fair Value as at 31/03/2019 £000's	Estimated Rental Income 2020/21 £000's
B11005 County Farms	Investment Properties	Low	106,971	-2,174
B11005 Other Non-Farm Properties	Investment Properties	Low	1,734	-35
Total			**108,705**	**-2,209**

Equity Purchase for Service Reasons	Classification	Risk Level	Fair Value as at 31/03/2019 £000's	Estimated Dividend Income 2020/21 £000's
Investors in Lincoln Shares	Non-Specified Investment	Low	294	0
Total			**294**	**0**

Annex G

Prudential Limits Relating to Non-Treasury Investments

PRUDENTIAL INDICATORS		2018-19 Actual	*2019-20 Original Estimate*	2019-20 Updated Estimate	2020-21 Estimate	2021-22 Forecast	2022-23 Forecast
Proportionality Indicators							
6) Limit for Maximum Usable Reserves at Risk from Potential Loss of Investments							
The Council will set for the forthcoming financial year and the following two years a limit of no more than 10% of General Reserves to be at risk from potential loss of total investments. (Voluntary Indicator).							
General Reserves	**£m**	**15.850**	***14.600***	**16.050**	**16.200**	**16.400**	**16.680**
Sums at Risk (Based on Expected Credit Loss Model)	**£m**	0.292	*0.298*	0.263	0.178	0.140	0.138
Proportion of Usable Reserves at Risk from Potential Loss of Investments -Limit 10%	**%**	**1.84%**	***2.04%***	**1.64%**	**1.10%**	**0.85%**	**0.83%**
7) Income from Non Treasury Investments & Net Service Expenditure							
The Council will set for the forthcoming financial year and the following two years a limit of 3% for Income from non- treasury investments as a proportion of Net Service Expenditure. (Voluntary Indicator). This is to manage the risk of over dependancy of non-treasury investment income to deliver core services.							
Income from Non-Treasury Investments (Including County Farms)	**£m**	2.545	*2.364*	2.409	2.276	2.151	2.040
Net Service Expenditure	**£m**	429.809	*463.960*	463.959	492.020	504.336	511.481
Proportion of Non-Treasury Investment Income to Net Service Expenditure -Limit 3%	**%**	**0.59%**	***0.51%***	**0.52%**	**0.46%**	**0.43%**	**0.40%**

A full list of Prudential Indicators is included within the Council's Budget Book

This page is intentionally left blank