Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	**Date**	27 October 2020
Title	Capital Investment Strategy		
Report of	Chief Executive		

Purpose of Report

This report proposes a Capital Investment Strategy for 2020-21 to 2024/25, to cover all capital investments made by the Council.

The Strategy reflects the aspirations of Council's Funding the Future, and the Medium-Term Financial Strategies.

Key Decision (Y/N)		**Date of Notice**		**Exempt (Y/N)**	

Report Summary

The proposed Capital Investment Strategy is designed to cover all the Council's capital investments from 2020-21 to 2024-25, including projects and schemes that support:

- Economic Regeneration
- Delivery of a Social Return, for example Housing
- Income Generation including Property Investment
- Carbon Zero + Initiatives that address the Climate Emergency
- Operational Service Delivery

Whilst the Council delivers significant value in our district through its ongoing operations, capital investment provides opportunity to deliver further long-term, sustainable outcomes in each of these areas.

<u>Economic Regeneration</u>
These are investments for the benefit, improvement, or development of the area delivering key outcomes such as, development and regeneration in our town centres, successful creation of new jobs or retention of jobs with fair and decent working conditions and business rate growth.

<u>Delivery of a Social Return</u>
This classification is broad to enable support for a wider range of investments, but it may include areas such as housing, and the acquisitions of existing residential properties, to provide good quality housing in the private sector rental sector. Other examples may also include maintaining the Council's objective of being an effective and responsible landlord ensuring that good quality housing options remain for the District's residents, or retrofitting properties acquired to an agreed defined standard both in terms of quality and thermal efficiency.

<u>Income Generation including Property Investment</u>
Research suggests that property investment forms an increasingly important part of District Councils' resources and these returns form a substantial proportion of overall resourcing for districts.

<u>Carbon Zero + Initiatives that address the Climate Emergency</u>
Capital investment to support a range of schemes which examine areas such as, how we use and create energy, such as installation of solar panels, or investment in larger scale solar

energy facilities. How we work, by supporting agile working to reduce our carbon footprint, or the increased electrification of our vehicle fleet, and how we reduce waste both within the Council and across the wider District.

Operational Investments
These are capital investments that sustain the day to day operational delivery of the Council's services, which underpin a broad range of Council priorities, such as, upgrades or replacement of key information and communication systems. Also, Invest to Save proposals which provide short-term funding to services to help services become more efficient and effective.

The Strategy proposes outcome targets against each of the workstreams listed above, underpinned by the processes, skills and capacity, and monitoring through which desired outcomes can be delivered.

Recommendations of Councillor Anne Whitehead

That Cabinet recommends that this draft of the Capital Investment Strategy and the associated appendices included at Appendix A be sent to the Budget & Policy Panel for review. An updated version taking account of comments received should be considered by Cabinet, prior to being recommended for adoption by Full Council into the Budget & Policy Framework

Relationship to Policy Framework

The proposed Capital Investment Strategy supports the Medium-Term Financial Strategy (MTFS).

Conclusion of Impact Assessment(s) where applicable

Climate	**Wellbeing & Social Value**
Digital	**Health & Safety**
Equality	**Community Safety**

Details of Consultation

The Council's Constitution (Part 3 Section 5 – Budget & Policy Framework) requires that when a new or existing strategy is being considered, the Overview and Scrutiny Committee or Budget and Performance Panel have an opportunity to comment. If it considers it appropriate, Cabinet may then amend its proposals before submitting them to Council for consideration.

Legal Implications

The Council has the legal power to acquire, use and dispose of land principally under the Local Government Act 1972 and other Acts which give the Council powers to acquire land for a particular purpose. In accordance with section 120(1), Local Government Act 1972, the Council has the power to acquire any land where it is for the purposes of (a) any of its statutory functions or (b) for the benefit, improvement or development of its area.

If the Council decides to dispose of land, there is a legal requirement to obtain best value (with very limited exceptions)

Depending on the nature of the particular type of property concerned, there may be other statutory requirements or procedures to be undertaken before any acquisition, appropriation or disposal of land.

Financial Implications	
There are no financial implications arising directly from this report. However, the proposed levels and areas of capital investments will require borrowing and other associated costs. Financial due diligence and assessment will ensure that all the appropriate costs are considered for each proposal.	
Other Resource or Risk Implications	
None directly from this report	
Section 151 Officer's Comments	
The s151 Officer has contributed to the writing of this report	
Monitoring Officer's Comments	
Capital and Investment Strategies form part of the Budget Framework and their adoption is a function of Full Council	
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Links to Background Papers	

APPENDIX A

Lancaster City Council

Capital Investment Strategy 2020/21 – 2024/25

APPENDIX A

1. INTRODUCTION

1.1 This strategy has been developed to cover all capital investments made by the Council particularly around regeneration, those which deliver a social return such as housing, generate an income or seek to address the climate emergency as well as operational service delivery. It covers the period 2020/21 to 2024/25 and reflects both the aspirations of Funding the Future and the Medium-Term Financial Strategy (MTFS).

1.2 The strategy is an important building block in terms of ensuring that the Council delivers the key projects which underpin its corporate priorities alongside achieving medium term financial sustainability. In reality, years of austerity and the recent pandemic have resulted in significant funding pressures and the Council's Funding the Future Strategy recognises that the Council must seek new income streams alongside greater efficiencies if it is to focus resources on delivering its corporate priorities. This strategy lessens the need to seek a balance budget through budget and subsequent service reductions.

2. THE CAPITAL INVESTMENT STRATEGY

Aim of the Strategy: Focus on Outcomes

2.1 The Capital Investment Strategy aims to provide a robust and viable framework for the deployment of capital resources in order to return positive financial returns to the Council whilst also delivering significant economic, environmental and social outcomes to improve quality of life for Lancaster district communities.

The Strategy targets the following successful outcomes:

- The development of regeneration projects including Canal Quarter and Heysham Gateway to balance financial return from development of Council owned land with providing sustainable economic development opportunities.
- The development of housing schemes which contribute to the Council's Housing Strategy and which increase the housing supply and meet local need balanced with realising opportunities to make a financial return from capital investment as well as improving environmental standards in housing.
- Acquisition of property investments which deliver a financial return to the Council both in terms of support to the revenue budget as well as capital appreciation.
- The development of green technology that contributes to the Council's Carbon Zero Strategy and makes significant contribution to the Council's 2030 zero carbon target.
- To maximise opportunities to rationalise the Council's own property portfolio in order to balance a financial return with improving the environmental efficiency of the properties.

- Taking all of the above together, to develop a Capital Programme from 2020/21 to 2024/25 that sets out an agreed annual contribution to the revenue budget and a significant impact on the Council's revenue structural budget gap.

How the Strategy will be delivered: Focus on Processes

2.2 The outcomes above will be achieved via a focus on a series of processes and procedures which ensures that projects are identified, planned and delivered having regard to best practice in terms of financial, risk, project and performance management. Specifically:

- The development of a financial plan which includes five investment streams covering the outcome areas set out in 2.1. The levels of capital investment and net income contributions will be agreed at budget setting time.

- All capital investments will be supported by business cases which set out links to corporate priorities, measurable targeted outcomes, are fully costed with details of financial returns and appropriate risk strategies. (section 4). All business cases will be subject to the scrutiny via the governance processes set out in section 9.

- Each capital scheme business case will include an outcomes schedule which will show how the project will achieve the Council's targeted priority outcomes in respect of environmental, economic and social value as well as financial yield. (section 5).

- Appropriate risk assessment and management will be incorporated into decision making with specific recognition that commercial property acquisitions have risk elements that will require thorough due diligence (section 6).

- All capital investments and associated financing will, individually and in aggregate, comply with the provision of the Prudential Code and MHCLG Investment Guidance (section 7).

- In recognition of the specialist and complex nature of capital investment, the Council will ensure that appropriate professional advice is sought as necessary and that Councillors and Officers involved in the process are provided with appropriate training. (section 8)

- Decision making processes are set out in section 9 to ensure that all capital investments are appropriately considered and authorised and are subject to scrutiny. The Governance framework sets out the roles of the Capital Strategy Group, Cabinet, Overview and Scrutiny and Council.

- A performance management framework underpins this strategy. Specifically, regular monitoring will be required for individual schemes both in respect of their financial returns as well as delivery of outcomes. Particular focus on property acquisitions both in term of yield and asset values will be undertaken alongside prudential indicators. The monitoring of the whole strategy will be essential to ensure that it is on course to deliver the incomes which contribute to balanced medium term revenue budgets. (section 10).

3. THE FINANCIAL PLAN

Investment Streams

Stream One – Economic Regeneration Opportunities

Schemes developed to provide regeneration benefits that meet the Council's inclusive and prosperous local economy priority, but which also deliver a financial return from long-term rental income, business rates and council tax growth. These schemes would seek to deliver a target net yield of **2.0%** taking account of MRP, interest, landlord and other associated costs. This stream to include rationalisation of the Council's own accommodation requirement.

The Council might enter into joint arrangements to deliver such schemes in order to share both risks and rewards and to ensure that projects can be delivered and to benefit from relevant expertise from chosen partners.
Proposals for this stream will be considered for admission into the Capital Programme Development Pool as part of the annual budget process, The projects will transfer to the full capital programme on approval by Capital Strategy Group of a full business case.

Stream Two *– Delivery of a Social Return, for example Housing*

Schemes developed to deliver additional housing in the district which support the Council's housing strategy. Such schemes might include the development of new housing as well as purchase of existing housing with a view to making positive financial returns as well as capital gains. These schemes would seek to deliver a target net yield of **2.5%** taking account of MRP, interest, landlord and other associated costs
The Council might enter into joint arrangements to deliver housing schemes in order to share both risks and rewards and to ensure that projects can be delivered and to benefit from relevant expertise and capacity from chosen partners.

In addition to housing other examples of schemes which can provide social value include

- Investment loans to third parties
- Investing in Social Capital
- Redeveloping Council owned assets
- Using public land and buildings to achieve long-term socio-economic development within the Lancaster District
  Provision of additional, or enhanced housing within the Housing Revenue Account (HRA)

Whilst these schemes should seek to maximise financial returns, no targeted net yield will be set in the capital investment strategy. Financial returns will be considered alongside a balanced scorecard which captures quantifiable measures in respect of economic, environmental, and social returns. Where there is a negative return and costs, including capital charges and interest exceed income, this will be acknowledged as a growth pressure on the revenue budget.

Stream Three – Income Generation including Property Investments
There are six recognised types of property investment retail, industrial, hotel, office, food & beverage and other. Investment in these areas let on secure long leases to good covenants to secure a long-term income as well as capital appreciation. The Council should seek to achieve a net yield of **2.5%** taking account of MRP, interest, landlord and other associated costs.

Property investment opportunities will be considered on a regular basis by the Capital Investments Appraisal Group (CIAG) which will keep a register of opportunities. This group which is supported by expert external advice will bring forward initial proposals to the Capital Strategy Group.

The initial proposals will include:

- A financial appraisal setting out financial yields (including realistic and pessimistic scenarios)
- Risk matrix covering portfolio balance, location, tenant covenant, building quality, lease terms, tenants' repairing obligations, rent review mechanisms, occupational demand, management intensity, liquidity, tenure, environmental impact and asset management
  Outcomes matrix using balanced scorecard approach

The above matrices are included as appendices 1, 2 & 3 to this report

The CSG will consider initial proposals and determine whether its advice would be to proceed to the second stage of due diligence with a view to submitting a full proposal to Cabinet.

A quarterly report of the performance of all properties in terms of yield, income and expenditure and capital value will be included in the quarterly performance monitoring process (Delivering our Ambitions) and presented to Cabinet and Budget & Performance Panel (B&PP).

Stream Four – Carbon Zero initiatives and schemes to address the Climate Emergency
Schemes developed to deliver demonstrable reduction to carbon emissions as set out in the CZ+ Strategy as well as other priority outcomes. Schemes may include, but are not limited to:

- Installation of solar panels,
- Investment in larger scale solar energy facilities'
- Supporting agile working to reduce our carbon footprint,
- The increased electrification of our vehicle fleet

Whilst these schemes should seek to maximise financial returns, no targeted net yield will be set in the capital investment strategy. Financial returns will be considered alongside a balanced scorecard which captures quantifiable measures in respect of economic, environmental and social returns. Where there is a negative return and costs, including capital charges and interest exceed income, this will be acknowledged as a growth pressure on the revenue budget.

Stream Five – Operational Service Delivery
Schemes and projects that sustain the day to day operational delivery of the Council's services and so underpin a broad range of Council priorities. Such schemes may include upgrades or replacement of key information and communication systems. Also, Invest to Save proposals which provide short-term funding to services to help services become more efficient and effective. It likely that these schemes would be at a cost to the Council but should still be subject to a degree of scrutiny.

4. BUSINESS CASES

All capital scheme proposals will be required to comply with the Council's business case and project management protocols which requires all potential schemes to consider:

- strategic fit - how the project aligns with corporate priorities and what it is trying to achieve.
- financial – what are the financial circumstances for the project, e.g. is funding readily available and is it affordable? Reference should be made to the targets set out in the financial plan in section 3
- legislation and compliance – is the project needed to meet statutory/legislative requirements.
- risk – how the project will manage any risks identified

All capital schemes are subject to a process as part of the capital programme process which requires business cases to be compiled and assessed. Briefly, the process is in the four stages:

Stage 1 - Scoping the Scheme and Preparing the Strategic Outline Case (SOC)
The purpose of this stage is to confirm the strategic context and provide a robust case for change. This stage will consider the strategic, economic, procurement, financial and management cases and include a financial analysis taking account of the targets set out in the financial plan (section 3). Approval of the SOC will admit the project into the Capital Programme Development Pool and may release feasibility funding from reserves.

Stage 2 – Full business case (FBC)
The purpose of this this stage is to propose a viable project having taken account of any feasibility. The FBC will recommend the most economically advantageous offer, documenting the contractual arrangements, confirm funding and affordability and set out the detailed management arrangements and plans for successful delivery and post evaluation. The FBC will require approval by CSG prior to the scheme proceeding.

Stage 3 – Implementation
The business case should be used during the implementation stage as a reference point for monitoring implementation and for logging any material changes that the Council is required to make. The project will follow performance reporting protocols which will ensure that project progress, impact on outcomes and financial performance is measured throughout the project and following its completion.

Stage 4 - Evaluation
The business case and its supporting documentation should be used as the starting point for post implementation evaluation, both in terms of how well the project was delivered (project evaluation review) and whether it has delivered its projected benefits as planned (post implementation review) to the Council, in meeting strategic aims.
More information on business case compilation is available on the Programme and Project management microsite on the intranet.

An example business case proforma is included at Appendix 4 – Business Case Proforma

There are separate arrangements for the consideration of stream three investment proposals which require an assessment of financial yield, completion of a risk matrix and outcomes matrix. These are set out in more detail in section 6 and in appendices 1, 2 & 3 to this report.

5. OUTCOMES BASED MEASURES AND TARGETS

An important element of the assessment of strategic fit in the business case process is the delivery of outcomes that meet corporate priorities. The Council takes a balanced scorecard approach to identification and measuring of outcomes which seeks to capture benefits in terms of economic, social, environmental and financial measures that have been identified in the Council's corporate plan.

Each capital scheme business case will be required to set out targeted benefits which reflect those measures set out in the corporate plan.

6. RISK MANAGEMENT

Effective risk management will allow the council to adapt rapidly to change and develop innovative responses to challenges and opportunities. The risk management cycle for capital projects incorporates risk identification, risk analysis, risk control and action planning and risk monitoring and review.

All significant capital projects will comply with the Councils project management process which follows good practice in the management of risk.

A full assessment of risk will be carried out individually for each property acquisition proposal (Stream 3) before entering into any commitment and will include assessing the risk of loss. The risk assessment is an important part of the proposal process with separate consideration of each of the following factors:

- Portfolio Balance
- Location
- Tenant Covenant
- Building Quality
- Lease Term
- Tenants' Repairing Obligations
- Rent Review Mechanisms
- Occupational Demand
- Management Intensity
- Liquidity
- Tenure
- Environmental Impact
- Asset Management

The assessment and scoring of each of these risk factors will be set out in the investment proposal report and where necessary relevant external advice will be sought. A further due diligence review will be undertaken in respect of all of these risk factors for stream three investment proposals which are taken forward. The full risk matrix is set out in Appendix 3.

Whilst this strategy is not solely focused on commercial yields it must be recognised that the Lancaster City Council boundaries are relatively small and so the opportunities for certain types of investments may not be readily available. It is recommended that where possible the Council focusses its efforts on investments inside the Council boundary but where this is not possible that the investment boundary be extended to include Lancashire, Barrow and South Lakeland.

The portfolio as a whole will be risk managed through regular (quarterly) reviews of performance and annual valuations. Each asset is reviewed on an annual basis in order to review its performance, investment requirements and whether it should remain in the portfolio.

7. THE PRUDENTIAL FRAMEWORK AND INVESTMENT GUIDANCE

This strategy seeks to promote capital investments that are clearly aligned with the Council's priorities particularly around projects that provide long term support for local businesses through regeneration and those that are able to deliver a social return such as housing or to help address the climate emergency.

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, the CIPFA Treasury Management Code of Practice (the Code) and Investment Guidance (the Guidance) issued by The Ministry of Housing Communities and Local Government (MHCLG) to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

In February 2018 the Secretary of State issued new guidance on Local Government Investments (the Guidance), which widened the definition of an investment to include all the financial assets of a local authority as well as other non-financial assets held primarily or partially to generate a profit. This wider definition includes investment property portfolios as well as loans made to wholly owned companies or associates, joint ventures or third parties. The Guidance applies for financial years commencing on or after 1 April 2018.

All capital schemes will follow the provisions of the Prudential Code, and where applicable other capital schemes such as those within Stream One, will follow the MHCLG Investment Guidance. As a minimum the following will be kept under review:

- Transparency and democratic accountability – this investment strategy will be approved by Council each year at budget setting time and any material changes will be presented to Council prior to implementation
- Contribution
- Proportionality
- Prudential Indicators
- Security
- Liquidity
- Borrowing in Advance of Need
- Capacity and Skills

A half yearly report on compliance with the prudential framework and investment guidance will be submitted for consideration by Cabinet, Budget & Performance Panel and Council.

8. CAPACITY, SKILLS AND USE OF EXTERNAL ADVISORS

The Guidance requires that elected members and officers involved in the investment decision making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific investment. In addition, it places a duty on the Council to ensure that advisors negotiating deals on behalf of the Council are aware of the core principles of the prudential framework and the regulatory regime in which the Council operates. This will be achieved by ensuring an adequate and effective training programme, obtaining appropriate advice to inform the decision making process and by ensuring that procurement arrangements provide relevant information to potential advisers of the specific principles, regulations and governance relevant to the local authority sector.

The Council will appoint specialist advisors to provide training to ensure that relevant Officers and Members have the required skills to make informed decisions and assess the associated risks. This training will take place before any investment decisions associated with the Strategy are considered and on a regular basis to ensure that Officers are engaged in continual professional development in relation to property investment activity and that Members, as decision makers, have the skills, knowledge and relevant information to effectively assist the decision making process. This will include training for new Members of the Council.

The Council recognises that investing in land and properties to achieve business objectives and to generate returns is a specialist and potentially complex area. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Where skills, or capacity are lacking, the Council will engage the services of professional property, legal and financial advisors, where appropriate, to access specialist skills and resources to inform the decision-making process associated with this Strategy. The Council measures the impact of investment decisions on borrowing and affordability through Investment Indicators to ensure that the overall risk exposure remains within acceptable levels.

9. GOVERNANCE ARRANGEMENTS

This section sets the parameters within which Capital Investment activity will take place. These parameters are designed to ensure that investments are ethical, that all risks are assessed and managed and that effective due diligence takes place in establishing the business case and that the whole process is subject to appropriate transparency and democratic accountability.

The governance framework includes the following elements:

Capital Investments Appraisal Group – an officer group with relevant expertise from economic development, property, legal and finance supported by external expertise which considers all potential capital investments in the first instance and brings forward proposals for consideration of the Capital Strategy Group.

Capital Strategy Group - constituted with representation from Cabinet, Executive, Capital Investments Appraisal Group (CIAG) and the Chairs of both Budget & Performance Panel (B&PP) and Overview & Scrutiny (O&S). CSG is a Member and Officer working group and as such is only advisory and does not have any formal decision-making authority. Following consideration of each business case it may make recommendations to budget holders in relation to due diligence costs and other matters. It may also make final recommendations to Cabinet regarding each proposal and, will determine whether projects will be admitted into the full capital programme or placed into the development pool. CSG's terms of reference are included at Appendix 5 to this strategy.

Cabinet – is responsible for submitting the Budget Framework to Council which includes this Capital Investment Strategy and capital programme. It is responsible for considering and making decision within the Budget & Policy Framework for all streams on receipt of a full business case which takes account of the due diligence and which shows compliance with the prudential code and investment guidance provisions.

Overview and Scrutiny – is represented on the CSG via the Chair's membership of this group. The early involvement of scrutiny at the pre-decision stage will allow them to add value by informing a decision rather than an after-the-event critique under the traditional process. This intention and their active involvement do not remove or negate the right to call in any decision made by Cabinet in this area.

Budget and Performance Panel – will review the financial and operational performance of this strategy as part of their budget framework scrutiny role

Council – is responsible for agreeing the Capital Investment Strategy as part of the Budget Framework each February and will be required to approve any material changes in the strategy. Council will also receive half yearly reports on the performance of the strategy.

A flowchart of the decision-making process is included in Appendix 6.

10. PERFORMANCE MANAGEMENT ARRANGEMENTS

The Investment Strategy is an important building block which provides the mechanisms for delivering the Council's corporate priority outcomes as well as contributing significantly to ensuring that the Council remains financially sustainable in the medium term. As such, the monitoring both of individual projects, particularly commercial investments, and the investment strategy as a whole will be essential to the achievement of the Council's strategic and financial objectives.

Performance monitoring will include:

- Monitoring of Capital Programme – as part of overall performance monitoring which incorporates financial, project and performance measures monitoring. Monitoring is quarterly to Cabinet and BP&P

- Financial Monitoring of Investment Strategy – as the strategy is key to reducing the medium-term budget gap, regular monitoring of the progress of the strategy will take place. This will necessarily include the delivery of investments against budgets and the yield levels against target.

- Monitoring of investments – it is acknowledged that there is risk of loss arising from property investment arising from possible impacts both on revenue income and on capital value. A regular (quarterly) report showing both the yield and income will be included in the financial monitoring to Cabinet and BP&P. The performance of individual acquisitions and the overall portfolio will be considered.

- Prudential indicators – a half yearly report on prudential indicators which aim to show that the capital programme remains prudent, affordable and sustainable will be considered by Council.

Capital Investement Opportunity

PURCHASE COSTS

		2019/20	Note
Investment Price/ Cost		0	1
Stamp Duty + VAT	HMRC	0	2
Valuation Fees		0	3
Survey Fees		0	4
Legal Fees / Costs (Searches)		0	5
Refurbishment Costs		0	6
Introduction Fees (Auction Buyer Fee)	1.00%	0	7
VAT		0	8
Other Purchase Costs (Contingency)	0.50%	0	9
Total Purchase Cost		0	

<150,000	<250,000	<250,001	
150,000	250,000	250,001	
0.00%	2.00%	5.00%	TOTAL
-	3,000	-	3,000

	YES / NO	VAT
TOGC:	YES	20.00%
RATE:	0.50%	

MRP Rate	2.00%
Interest Rate	3.00%
Rent Indexation	2.50%

Gross Yield #DIV/0!	Gross Capital Return #DIV/0!
Adjusted Yield #DIV/0!	Nett Capital Return #DIV/0! +
LCC Gross Yield #DIV/0!	Accumulated MRP £ -
LCC Nett Yield #DIV/0!	Total Net Capital Return #DIV/0!

CAPITAL INVESTMENT INCOME

TENANT		Sqft Area	£/Sqft	RENT £	Note	RENT %	NPV
Unit 1					10	#DIV/0!	£0
Unit 2					10	#DIV/0!	£924,912
Unit 3					10	#DIV/0!	£0
Unit 4					10	#DIV/0!	£0
Unit 5					10	#DIV/0!	£0
Unit 6					10	#DIV/0!	£0
Site 1					10	#DIV/0!	£0
Site 2					10	#DIV/0!	£0
Site 3					10	#DIV/0!	£0
Site 4					10	#DIV/0!	£0
Roof					10	#DIV/0!	£0
							£924,912
Disposal of Property @ ARY% on Yr 16 Rent			8.00%		11		£572,639
Total NPV (15yrs Income / 1 sale)							£1,497,551

Yr	1	2	3	4	5	6	7	8	9
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Unit 1	0	0	0	0	0	0	0	0	0
Unit 2	37,500	0	90,000	100,000	100,000	100,000	100,000	100,000	100,000
Unit 3	0	0	0	0	0	0	0	0	0
Unit 4	0	0	0	0	0	0	0	0	0
Unit 5	0	0	0	0	0	0	0	0	0
Unit 6	0	0	0	0	0	0	0	0	0
Site 1		0	0	0	0	0	0	0	0
Site 2		0	0	0	0	0	0	0	0
Site 3	0	0	0	0	0	0	0	0	0
Site 4	0	0	0	0	0	0	0	0	0
Roof									
Total	£37,500	£0	£90,000	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000
Disposal	£0	£0	£0	£0	£0	£0	£0	£0	£0

PROPERTY EXPENSES

	ELEMENT			Note	NPV
	Cost of Debt				
Less	Interest Charge	3.00%		12	£0
Less	Landlord Rent Costs	Period			
Void Period	Unit 1	6		13	
	Unit 2	6			
	Unit 3	6			
	Unit 4	6			
	Unit 5	6			
	Unit 6	6			
	Site 1	3			
	Site 2	3			
	Site 3	3			
	Site 4	3			
	Roof	6			
Rent Free	Unit 1	6		14	
	Unit 2	6			
	Unit 3	6			
	Unit 4	6			
	Unit 5	6			
	Unit 6	6			
	Site 1	3			
	Site 2	3			
	Site 3	3			
	Site 4	3			
	Roof	3			
L/L Service Charge	Unit 1	6		15	
	Unit 2	6			
	Unit 3	6			
	Unit 4	6			
	Unit 5	6			
	Unit 6	6			
	Site 1	3			
	Site 2	3			
	Site 3	3			
	Site 4	3			
	Roof	3			
L/L Bus Rates	Unit 1	6			
	Unit 2	6		16	
	Unit 3	6			
	Unit 4	6			
	Unit 5	6			
	Unit 6	6			
	Site 1	3			
	Site 2	3			
	Site 3	3			
	Site 4	3			
	Roof	3			
					#DIV/0!
	Landlord Overheads				
Less	Fabric Investment & Landlord Repair			17	
Less	Letting / Legal Costs	10.00%	7.50%	18	
Less	Ground Rent	0		19	
Less	Insurances £	£0.00		20	
Less	Utilities payable by Landlord £	£0.00		21	
Less	Other L/L Costs (SC)	£0		22	
	Landlord SC Reversion	£15,000			
Less	Statutory Comp 2x RV	-			
Less	Disposal Costs (Sale / Legals)	1.00%	0.25%	23	
					£523,446
	Landlord Prudence Costs				
Less	MRP (Capital Prudence)		2.00%	24	£0
Total Cost	NPV (15yrs Cost / 1 sale)				#DIV/0!

Yr	1	2	3	4	5	6	7	8	9
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Interest Charge	0	0	0	0	0	0	0	0	0
	£0	£0	£0	£0	£0	£0	£0	£0	£0
Void Period Unit 1									
Unit 2									
Unit 3								-	
Unit 4								-	
Unit 5						-			
Unit 6								-	
Site 1							-		
Site 2							-		
Site 3								-	
Site 4							-		
Roof									
Rent Free Unit 1									
Unit 2									
Unit 3								-	
Unit 4								-	
Unit 5						-			
Unit 6								-	
Site 1							-		
Site 2							-		
Site 3								-	
Site 4							-		
Roof									
L/L Service Charge Unit 1		-	-	-	-	-	-	-	-
Unit 2		-	-	-	-	-	-	-	-
Unit 3		-	-	-	-	-	-	-	-
Unit 4		-	-	-	-	-	-	-	-
Unit 5		-	-	-	-	-	-	-	-
Unit 6		-	-	-	-	-	-	-	-
Site 1		-	-	-	-	-	-	-	-
Site 2		-	-	-	-	-	-	-	-
Site 3		-	-	-	-	-	-	-	-
Site 4		-	-	-	-	-	-	-	-
Roof		-	-	-	-	-	-	-	-
L/L Bus Rates Unit 1		-	-	-	-	-	-	-	-
Unit 2		-	-	-	-	-	-	-	-
Unit 3		-	-	-	-	-	-	-	-
Unit 4		-	-	-	-	-	-	-	-
Unit 5		-	-	-	-	-	-	-	-
Unit 6		-	-	-	-	-	-	-	-
Site 1		-	-	-	-	-	-	-	-
Site 2		-	-	-	-	-	-	-	-
Site 3		-	-	-	-	-	-	-	-
Site 4		-	-	-	-	-	-	-	-
Roof		-	-	-	-	-	-	-	-
	£0	£0	£0	£0	£0	£0	£0	£0	£0
Fabric Investment & Landlord Repair						15,000		45,000	
Letting / Legal Costs							-	-	
Ground Rent									
Insurances £									
Utilities payable by Landlord £									
Other L/L Costs (SC)		50,000	50,000	50,000	50,000		50,000	50,000	50,000
Landlord SC Reversion	-	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Statutory Comp 2x RV									
Disposal Costs (Sale / Legals)									
	£0	£65,000	£65,000	£65,000	£65,000	£30,000	£65,000	£110,000	£65,000
MRP (Capital Prudence)	0	0	0	0	0	0	0	0	0
	£0	£0	£0	£0	£0	£0	£0	£0	£0

		Note	
Gross IRR %	#DIV/0!	25	#DIV/0!
Gross Yeild (Average / Annual)	#DIV/0!	26	
Gross Average Contribution (Annual)	#DIV/0!	27	
Gross ROCE (Average / Annual)	#DIV/0!	29	

Yr	1	2	3	4	5	6	7	8	9
Gross Yeild	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Gross Average Contribution	£37,500	-£65,000	£25,000	£35,000	£35,000	£70,000	£35,000	-£10,000	£35,000
Gross ROCE	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

	Landlord Prudence Costs		Note		1	2	3	4	5	6	7	8	9
Less	Sinking Fund (Prudence % Gross Rent)	2.50%	30		938	0	2,250	2,500	2,500	2,500	2,500	2,500	2,500
Less	Abortive Costs (Prudence % of Gross Rent)	1.00%	31		375	0	900	1,000	1,000	1,000	1,000	1,000	1,000
				£32,372	£1,313	£0	£3,150	£3,500	£3,500	£3,500	£3,500	£3,500	£3,500

		Note	
Nett IRR %	#DIV/0!	32	#DIV/0!
Nett Yeild (Average / Annual)	#DIV/0!	33	
Nett Average Contribution (Annual)	#DIV/0!	34	
Nett ROCE (Average / Annual)	#DIV/0!	35	

Yr	1	2	3	4	5	6	7	8	9
Nett Yeild	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Nett Average Contribution	£36,188	-£65,000	£21,850	£31,500	£31,500	£66,500	£31,500	-£13,500	£31,500
Nett ROCE	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

	Note	1	2	3	4	5	6	7	8	9
Accumulated MRP	36	0	0	0	0	0	0	0	0	0
Accumulated Sinking Fund	37	938	938	3,188	5,688	8,188	10,688	13,188	15,688	18,188
Accumulated Contribution to Abortive Costs	38	375	375	1,275	2,275	3,275	4,275	5,275	6,275	7,275

NOTES

1 LCC Proposed Purchase Price
2 Assumes VAT is recoverable
3 Independent Valuation
4 Survey fees for Energy Audit / Busiling Survey / Other
5 If £0 LCC acting costs
6 If zero property in condition
7 Intro fee for agent proposing purchase
8 VAT £0 if TOGC status agreed
9 PC sum to cover off incidentals post purchase
10 Floor areas and rents for occupiers and proposed occupiers
10a 50% of LCC nett receipt (40% of business rates)
11 All Risk Yield at point of sale in the future
12 PWBM Interest rate of capital utlised to acquire property
13 At each grey box letting an assumed void period is adopted
14 At each grey box letting an assumedperiod of rent free granted by landlord
15 At each grey box letting an assumed service charge period contributed by landlord
16 At each grey box this shows the landlord cost of business rates for void period
17 Landlord investment in structural fabric in addition to any dilaps money / Redevelopment costs
18 Landlord transcation costs to achive new lettings / Legals if not done in house
19 Rent paid to freeholder by LCC if not freehold
20 Annual insurance sum contributes to cost of landlord void periods
21 Outgoing costs for landlrod during void period
22 Costs as may fall due
23 Landlord transcation costs to achive new lettings / Legals if not done in house
24 Prudence sums - Material Re-Payment
25 Rate of overaall return derived form investment and subsequent sale in yr 1
26
27
28
29
30 Prudence sums - LCC sinking fund contribution to structural fabric replacement
31 Prudence sums - LCC contribution to abortive negotiations on investment properties
32 Accumulated sinking funds generated by this property
33 Accumulated contribution to abortive transaction costs made by this property

Outcomes

Proposed Capital Investment:

<u>Outcomes and Impact Matrix</u>

Council Priority

Success Factors:

Outcomes:
The likely achieved short-term and medium-term effects from the capital investment

Measures: before
Measures: after

Impact
The likely longer-term effects produced, directly or indirectly, from the commercial investment

Measures: before and after

Social Value Outcomes

This matrix should capture all the non-financial benefits accruing from the potential capital investment. Reference should be made to the Council's 'Ambitions' Corporate Plan and any other strategic plan arising from the Ambitions plan (eg. Economic Growth strategy). This matrix should provide a good level of clarity on additional benefits that may accrue such as business rates, impact on a high street frontage, detail on any social impact such as employment and how this would be measured.

Investment

Criteria	Criteria Description	Maximum Weighted Score	Excellent	Good	Acceptable	Marginal	Poor	WEIGHTED SCORE	Comments supporting assessment	Actions taken to reduce risk and change to assessment	Consequences of actions to taken to reduce risk (eg. reduced yield)
Score to Apply to Each Column:			5	4	3	2	1				
Portfolio Strategy Context	Does the acquisition take the exposure of the whole portfolio to over 30% in either of the six sectors: - retail - office - industrial - hotel - food and beverage - other		**YES**	Proposal to be scored using risk matrix below.					To be confirmed	Review of council portfolio % value/income/floor area	Informs decision
			NO	Over exposure to one of the six sectors. Proposal can not proceed without a review of existing portfolio to ensure that Council is not over exposed to any one sector.					The purchase does not form more than 30% ownership in sector	As above	Informs decision
Location: Micro	Quality of the individual situation of the property within the macro location with regard to property use (i.e.. sector). Refer to separate sector definition sheet.	20	Excellent links	Good links	Reasonable links	Poor links, but prospects of improvement	Location with limited benefit	**100**			
			x								
Tenant Covenant	Financial rating provided by Dun & Bradstreet	20	Excellent financial covenant	Strong financial covenant	Good financial covenant	Poor but improving financial covenant	Poor financial covenant	**100**			
			x								
Building Quality	Quality of the building compared to its market sector. Refer to separate sector definition sheet.	15	New, modern or recently refurbished	Good quality, no spend required for 20+ years	Good quality but spend required in 10-20 years	Spend required in 5-10 years	Tired, Spend required in next 5 years	**75**			
			x								
EPC	fact	5	A/B	C	D	E	F/G	**25**			
			x								
Lease Term	Unexpired lease terms, WAULT	15	Greater than 15 years	Between 10 and 15 years	Between 6 and 10 years	Between 2 and 6 years	Under 2 years	**75**			
			x								
Tenants Repairing Obligations	Tenants repairing obligations	10	Full repairing and insuring (Effective FRI)	Full repairing and insuring - partially recoverable	Internal repairing	Internal repairing - partial recovery	Landlord responsible	**50**			
			x								
Rent Review	Rent review mechanisms	10	Fixed uplift + OMRV	OMRV but no near comparable	CPI/RPI	Caps and Cuff review	No proper review mechanism	**50**			
			x								
Occupational Demand	Anticipated level of demand from other occupier if tenant(s) was (were) to vacate	15	Demand from many tenants	Demand from a few tenants, but low number of competing buildings	Reasonable prospect of securing new tenants	Poor demand	Niche / limited demand	**75**			
			x								
Management Intensity	Complexity and cost of managing the property	15	1-2 tenants	3 -5 Tenants	5 - 9 tenants	10 - 15 tenants	16 plus tenants	**75**			
			x								
Liquidity	The degree to which the property can be quickly sold in the market without affecting the price	15	Lot size and sector attractive to investors	Lot size not attractive to investors but sector is	Lots size attractive to investors but sector is not	Generally unattractive	Attractive to niche investors only	**75**			
			x								
Tenure	Freehold / Leasehold. Consideration of any ground rent obligations	10	Freehold	Long leasehold 125+ years / peppercorn ground rent	Lease between 100 and 125 years / peppercorn ground rent	Lease between 50 and 100 years	Lease less than 50 years and/or high ground rent	**50**			
			x								
Environmental Impact	Opportunities for secondary sources of green energy	10	Excellent	Good	Acceptable	Marginal	Poor	**50**			
			x								
Asset Management	Opportunities for additional sources of income, or efficiencies through effective asset management	10	Excellent	Good	Acceptable	Marginal	Poor	**50**			
			x								
Weighted Score (850 Max Sum)								**850**			

Lancaster City Council

Business Case

[Project name]

<Date>

<Version>

Contents

Document Control

Document Title	[Project Name] Business Case
Version	<INSERT>
Author	<INSERT>
Date	<INSERT>
Further copies from	<INSERT>

1. Executive Summary

This section should summarise the Business Case in such a way that the reader, knowing nothing about the project and related services or the priorities of the decision-maker, would come away with a high-level grasp of this. It is best to write this section last once you have developed the rest of the business case..

The Executive Summary should contain a brief introduction stating what the decision-maker is being asked to decide (e.g. formal approval to invest £x in x service), and key points from each of the five cases. This section should be no more than 1 page.

<INSERT SUMMARY>

2. Business Case details

Project Name	<INSERT>
Project Sponsor	<INSERT>
Project Manager	<INSERT>
Service description	<INSERT>
Partner organisation(s)	<INSERT>
Project Reference	<INSERT>

3. Strategic Case

The Strategic Case demonstrates that the spending proposal provides business synergy and strategic fit and is predicated upon a robust and evidence based case for change. This includes the rationale of why change is required, as well as a clear definition of outcomes and the potential scope for what is to be achieved. You may wish to refer to supporting strategies, programmes and plans.

3.1 The proposal

<INSERT - DESCRIBE THE SERVICE YOU CAN OFFER.>

3.2 The case for change

3.2.1 Alignment with commissioner objectives/priorities

<INSERT –OUTLINE HOW THE PROPOSAL ALIGNS WITH COMMISSIONER OBJECTIVES AND PRIORITIES – INCLUDE BOTH FINANCIAL AND NON-FINANCIAL OBJECTIVES>

3.2.2 Fit with national policy

<INSERT – OUTLINE ANY NATIONAL POLICIES THAT THE PROJECT ALIGNS WITH>

3.2.3 Customer user needs – current and future

<INSERT – OUTLINE CUSTOMER DEMANDS/PREFERENCES AND HOW THE PROJECT WILL MEET THESE REQUIREMENTS IN FULL. NOTE CUSTOMER IS THE ORGANISATION PAYING FOR THE SERVICE, NOT THE BENEFICIARY OF THE SERVICE>

3.2.4 Improvement of current service delivery arrangements

<INSERT – OUTLINE ISSUES ASSOCIATED WITH CURRENT SERVICE DELIVERY – E.G. OVERSPEND, LEVEL OF INTEGRATED SERVICES AND LEVEL OF OUTCOMES ACHIEVED>

3.2.5 Potential scope for further development/scalability

<INSERT –OUTLINE HOW SCALABLE THIS PROJECT IS – IN TERMS OF EXPANSION TO REALISE FURTHER ECONOMIES OF SCOPE/SCALE IF APPLICABLE>

3.2.6 Benefits and risks

<INSERT – OUTLINE ANTICIPATED BENEFITS AND RISKS FROM BOTH A DECISION-MAKER, CUSTOMER AND MARKET PERSPECTIVE>

3.2.7 Constraints and dependencies

<INSERT – OUTLINE CONSTRAINTS AND DEPENDENCIES THAT EXIST OUTSIDE OF THIS IMMEDIATE PROJECT, IDENTIFYING THE POTENTIAL IMPACT AND MITIGATING ACTIONS>

4. Economic Case

This section of the Business Case assesses the economic costs and benefits of the proposal to society as a whole, and spans the entire period covered by the proposal. These are not the same as the financial costs to the decision-maker. You should present the key findings of your financial analysis and the overall conclusions.

4.1 Appraisals of costs and benefits

<INPUT – ASSESS THE COSTS AND BENEFITS OF THE PROPOSAL IN TERMS OF CUSTOMERS, DELIVERY PARTNERS AND THE MARKET>

<INPUT – ANTICIPATED PERFORMANCE AGAINST PERFORMANCE MEASURES>

4.2 Critical success factors to achieving the Economic Case

<INSERT – CRITICAL SUCCESS FACTORS THAT NEED TO BE ACHIEVED TO REALISE BENEFITS TO CUSTOMERS, DELIVERY PARTNERS AND THE MARKET >

4.3 Risk assessment

<INPUT – RISKS RELATING TO CUSTOMERS, DELIVERY PARTNERS AND THE MARKET AS A RESULT OF THIS PROJECT BEING IMPLEMENTED. OUTLINE MITIGATING ACTIONS AND ASSOCIATED COSTS>

5. Commercial Case

The Commercial Case demonstrates that the project will result in a viable and well-structured procurement solution. This section should include details relating to the planning and management of the procurement. It requires the buyer to see how the service will be procured competitively and in accordance with procurement requirements.

5.1 Procurement strategy

<INPUT – OUTLINE THE PROPOSED PROCUREMENT STRATEGY, ALONG WITH ANY ASSOCIATED RISKS, COSTS AND BENEFITS>

5.2 Contractual arrangements

<INPUT – OUTLINE THE NATURE OF THE CONTRACTUAL RELATIONSHIP THAT WILL EXIST BETWEEN THE CUSTOMER AND YOURSELF>

5.3 Charging mechanism

<INPUT – OUTLINE MECHANISM TO BE ESTABLISHED, AS WELL AS ADDITIONAL FUNDING/INCOME TO BE REALISED>

6. Financial Case

The Financial Case demonstrates that the project will result in a fundable and affordable arrangement for the decision-maker. You need to summarise the overall capital and revenue affordability of the project, including any additional funding requirements. There are different ways to present this information that will be appropriate for different projects; some template tables are included below as examples. For further information, please see HM Treasury's guidance by clicking here.

6.1 Capital and revenue requirements

Description	Value	Start date	End date

6.2 Resource requirements

Total funding required				
What is it for? **(equipment, facilities, external expertise etc)**	**When is the cost incurred?**			
	Year 1 **2015/16**	**Year 2** **2016/17**	**Year 3** **2017/18**	**Year 4** **2018/19**
Total				

Funding currently secured (if any)				
Where is it from? **(Grant, revenue budget, capital budget – include cost centres if known)**	**When will the money be available?**			
	Year 1 **2015/16**	**Year 2** **2016/17**	**Year 3** **2017/18**	**Year 4** **2018/19**

Total				

Staff Resources													
Service Area/Function	**FTE's**	**When are new staff needed?**											
		Year 1				**Year 2**				**Year 3**			
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Total													

Balance of funding requested				
Total	**Year 1 2015/16**	**Year 2 2016/17**	**Year 3 2017/18**	**Year 4 2018/19**

6.3 Impact on income and expenditure account

<INSERT – PROVIDE 5 YEAR I&E SUMMARY FORECAST>

6.4 Financial benefits

6.4.1 Financial benefits table

Description **Please include:** • **How the saving is calculated** • **Whether the saving is revenue or capital**	**Benefit** **Year 1** **2021/22**	**Benefit** **Year 2** **2022/23**	**Benefit** **Year 3** **2023/24**	**Benefit** **Year 4** **2024/25**	**Cost Centre / Budget affected?**	**Who is the current budget holder?**	**Has the budget holder agreed to the saving? (Y/N)**

6.4.2 Requirements in order to realise savings

<INSERT - WHAT ARE THE CRITICAL THINGS THAT MUST HAPPEN IN ORDER TO CAPTURE THE SAVINGS?>

6.5 Non-financial benefits

<INSERT – NON-FINANCIAL BENEFITS THAT COULD BE REALISED BY COMMISSIONERS, CUSTOMERS AND THE MARKET. SUCH BENEFITS MAY INCLUDE IMPROVED CHOICE AND INDEPENDENCE FOR CUSTOMERS, THE DEVELOPMENT OF A SUSTAINABLE MARKET AND/OR IMPROVEMENT AGAINST PERFORMANCE INDICATORS>

7. Management case

The management case demonstrates that the project is capable of being delivered successfully, in accordance with recognised best practice.

This section requires the project to demonstrate that there are robust arrangements in place for project management, change management and contract management, the delivery of benefits and the management and mitigation of risk (you could include a risk and benefits register as appendices.

It also requires the project team to specify the arrangements for monitoring during implementation and for post implementation evaluation, and the contingency plans for risk management.

7.1 Programme and project management plans

<INSERT – EXPLAIN PROJECT MANAGEMENT AND GOVERNANCE ARRANGEMENTS AND INSERT ORGANISATION STRUCTURE IF POSSIBLE>

7.2 Change management arrangements/requirements

<INSERT – OUTLINE OF APPROACHES TO ENSURE EFFECTIVE CHANGE MANAGEMENT AND CHANGE OF ORGANISATIONAL CULTURE, INCLUDING ASSOCIATED COSTS>

7.3 Approach to management and delivery of benefits

<INSERT – STRATEGY, FRAMEWORK AND PLAN FOR DEALING WITH THE MANAGEMENT AND DELIVERY OF BENEFITS>

7.4 Approach to risk management

<INSERT – APPROACH TO MANAGING RISKS DURING AND POST IMPLEMENTATION, INCLUDING ASSOCIATED COSTS>

7.5 Monitoring during implementation

<INSERT – OUTLINE PROPOSED METHODS OF MONITORING PROGRESS DURING IMPLEMENTATION STAGE, INCLUDING CHECKPOINTS/MILESTONES AND END OF STAGE ASSESSMENTS>

7.6 Post implementation evaluation arrangements

<INSERT – DETAILS OF HOW THE EFFECTIVENESS OF THE PROPOSAL WILL BE MEASURED POST ESTABLISHMENT>

7.7 Contingency arrangements/exit strategy

<INSERT – DETAILS OF CONTINGENCY ARRANGEMENTS SHOULD TOLERANCES BE EXCEEDED DURING THE IMPLEMENTATION STAGE>

<INSERT – DETAILS OF AN EXIT STRATEGY SHOULD THE PROPOSED ENTITY FAIL POST ESTABLISHMENT>

8. Conclusions and salient issues for further consideration

8.1 Conclusions

<INSERT>

8.2 Salient issues for consideration

<INSERT IF APPROPRIATE>

9. Appendices

You could include your implementation plan, risk register, benefits register in an appendix. You could also include comments from project team leads and partners to support your case.

Capital Strategy Group: Terms of Reference

Role

1. The Capital Strategy Group (CSG) is a Member and officer working group with a clear remit to be the Council's advisory body on the Council's Capital Investment Strategy.

2. The Capital Investment Strategy has clear priority areas of work which although distinct from one another should be considered in an integrated manner when forming and delivering the Council's capital programme and related areas:

3. The types of Capital Investments which may be considered when forming the capital programme.

   a) **Economic Regeneration** - Investments for the benefit, improvement, or development of the area, through balanced acquisition, retention, and management of good quality investments, whilst delivering regeneration outcomes.
   b) **Investments Delivering a Social Return** - This classification is broad to enable support for a wider range of investments, but it may include areas such as provision of private sector housing, retrofitting properties acquired to an agreed defined standard both in terms of quality and thermal efficiency, investment loans to third parties and use of public land and buildings to achieve long-term socio-economic development within the Lancaster District
   c) **Income Generation including Property Investments –** Investment in the six recognised types of property investment retail, industrial, hotel, office, food & beverage and other. Investment in these areas let on secure long leases to good covenants to deliver a financial return to the Council both in terms of support to the revenue budget as well as capital appreciation.
   d) **Carbon Zero initiatives and schemes to address the Climate Emergency** – These types of investments may include installation of solar panels, or investment in larger scale solar energy facilities' as well as supporting agile working to reduce our carbon footprint, and the increased electrification of our vehicle fleet.
   e) **Operational Investments** - Investments that sustain the day to day operational delivery of the Councils services which underpin a broad range of Council priorities.

Composition of CSG

4. The group will consist of the following Members and officers. Where representatives are not able to attend, a suitable alternative will attend in their place.

   Standing Membership
   - Cabinet Finance Portfolio Lead
   - Chief Executive
   - Overview and Scrutiny Chair
   - Budget and Performance Panel Chair
   - Relevant Cabinet Portfolio Holder
   - Relevant Director
   - Section 151 Officer
   - Governance Lead
   - Capital Investment Appraisal Group

   Additional representation as and when required may include
   - Capital Strategy Officer Lead
   - Asset Management Officer Lead
   - Property Services Lead
   - Regeneration/ Economic Growth Lead
   - ICT Representation
   - Programme Manager

APPENDIX 5

Frequency of Meetings

5. The CSG will meet monthly by routine but may also meet on an ad-hoc basis as required as and when key proposals come forward. Routine meetings will be co-ordinated so that they inform monitoring processes to Cabinet and Budget and Performance Panel.

Remit

6. CSG's remit is to contribute to the development and oversight of the Council's capital programme. This will include assessing initial proposals and business cases through to delivering the programme and assessing its effectiveness in respect of corporate priorities.

7. With respect to Capital Investment Strategy

a) To keep the Capital Investment Strategy document under review ensuring that it reflects the Council's capital investment priorities and review the Strategy as part of the MTFS update.
b) To ensure that the Capital Strategy is informed by and consistent with the Corporate Plan and associated strategies, the Asset Management Plan and Property Investment Strategy.

With respect to the Capital Programme

c) To consider and score all bids to the capital programme and make accept/ develop/ reject recommendations to Cabinet.
d) Consider all proposals in accordance with the matrices set out in the Capital Investment Strategy and make recommendations to Cabinet with respect to any agreed proposals having regard to the scrutiny process
e) To monitor the progress of each scheme within the capital programme in terms of progress to date, expenditure, and delivery of outcomes including those classified within the development pool.
f) To review all completed schemes with respect to outcomes and impact as well as lessons learned
g) To monitor the resources available to support the Capital Programme and ensure that, at all times, it remains affordable, sustainable and prudent.
h) To maintain the capital bid and scoring assessment framework

With respect to the Asset Management Plan

i) Own and ensure the development of the Asset Management Plan and long-term property strategy, ensuring that it is line with Council Plan / MTFS objectives
j) To undertake annual review of property holding to ensure that all property is utilised appropriately and consider any capital expenditure/ receipt proposals associated with maintaining, updating, transferring, or disposing of property assets

Each of the above areas of work are covered by the Capital Strategy and Capital Investment Strategy, which are the Council's overarching documents which aim to ensure that Council's capital investments priorities reflect Council priorities and are supported by a long term financing plan.

Decision Making

8. The CSG is a Member and Officer working group and as such is only advisory and does not have any formal decision-making authority. Following consideration of each business case it may make recommendations to budget holders in relation to due diligence costs and other matters. It may also make final recommendations to Cabinet regarding each proposal. It also ensures that necessary consultation is carried out with Cabinet, relevant Portfolio Holders, Management Board, and relevant Directors as part of the decision-making process. Any proposal that is outside the approved budget and policy framework will be referred to Cabinet or Council in accordance with the Constitution.

The role of Scrutiny Committee Members

9. The Chairs of both Budget & Performance Panel and Overview & Scrutiny form part of CSG. The early involvement of scrutiny at the pre-decision stage will allow them to add value by informing a decision rather than an after-the-event critique under the traditional process. This intention and their active involvement do not remove or negate the right to call in any decision made by Cabinet in this area.

Key Outcomes

10. The key outcomes from the CSG are:
    a) An effective Capital Programme optimising the capital investment resources within the Council Plan.
    b) Strategic property management ensuring full optimisation of Council property assets, maximising income and return and reducing expenditure where possible but ensuring assets are well maintained.
    c) Enhanced long term planning of capital investment, better use and management of property assets, and accountability.
    d) The integration of the Capital Investment Strategy in line with Council priorities as set out in the Council Plan.

APPENDIX 6

Governance & Decision-Making Flowchart