

Lancaster City Council

Investing in the Future: Our Capital Investment Strategy 2022-26

1. Introduction

1.1. Investing in the Future

The Council's goals for the success of the Lancaster district's people and environment are achieved through a broad range of different activities, characterised as:

- **Services:** Regular ongoing activities such as Planning, Council Housing, Public Realm, and Public Protection. These services are generally funded by continuous '**Revenue**' funding through the Council's regular funding streams such as Council Tax and Business Rates.
- **Projects:** One-off development activities in areas such as Regeneration, Housing, or Carbon Zero initiatives, which may complement or transform an existing service, or create new assets or capacity (such as land and property) for the district. Projects generally require a one-off '**Capital**' funding allocation, often over a number of years. Capital funding will be sourced from external contributions and grants, bids, or joint arrangements with partners where possible. In some cases, capital funding may require use of the Council's reserves, or borrowing from an external source.
- **Asset Maintenance and Renewal:** Where there is a known, long term need to regularly invest in an asset (e.g. regular vehicle fleet, planned reroofing, refurbishment cycles, ICT, or leisure equipment renewals etc) then these are presented initially as a project proposal, and then continue to make use of capital funding over a number of years. These may need periodic review or adjustment, and borrowing may be incurred to fund them. Because they either purchase, or add value to our assets, they are generally a **capital** funding allocation.

Capital investment funded through unsupported borrowing also has an impact on the Council's revenue budget, through the requirement of a '**Minimum Revenue Provision**' (MRP) to provide for repayments against borrowed funds.

This strategy for the period 2022-26 sets out a framework for how the Council wishes to invest in the future of the Lancaster district through ambitious, prudent use of capital funding, known as the Council's '**Capital Programme**'.

The strategy will be approved by Council each year at budget setting time, and any material changes will be presented to Council prior to implementation.

1.2. Sustainable, Strategic Investment

Capital expenditure must be carried out in a way that aligns with the Council's future financial sustainability; whilst also contributing to strategic aspirations around the district's environment, economy and communities, as expressed in the Council's strategic priorities, summarised below.

A range of investment proposals will be developed, contributing to each of the four priorities, as part of the Council's corporate planning activity. This will ensure that the Council can respond to all opportunities for external investment and grant funding with viable, innovative and impactful schemes that are ready for implementation.

Priorities	A Sustainable District	An Inclusive and Prosperous Local Economy	Healthy and Happy Communities	A Co-operative, Kind and Responsible Council
Strategy	Climate Emergency <i>taking action to meet the challenges of the climate emergency</i>	Community Wealth-Building <i>building a sustainable and just local economy that benefits people and organisations</i>	Increasing Wellbeing, Reducing Inequality <i>empowering and supporting healthy ways of living, and tackling the causes of inequality</i>	Community Engagement, Power and Resilience <i>drawing on the wealth of skills and knowledge in the community, and working in partnership</i>
Outcomes	net zero carbon by 2030 while supporting other individuals, <u>businesses</u> and organisations across the district to reach the same goal (Carbon Zero)	supporting the development of new skills and improved prospects for our residents within an environmentally sustainable local economy (Sustainable Skills)	supporting wellbeing and ensuring local communities are active, engaged, <u>involved</u> and connected (Community Engagement)	listening to our communities and treating everyone with equal respect, being friendly, honest, and empathetic (Listening and Empathy)
	moving towards zero residual waste to landfill and incineration (Reduced Waste)	advocating for fair employment and just labour markets that increase prosperity and reduce income inequality (Fair Work)	tackling discrimination and reducing inequality (Reducing Inequality)	working in partnership with residents, local organisations, anchor institutions and partners recognising the strengths and skills in our community to build a powerful force working for our district (Partnership)
	increasing the amount of sustainable energy produced in the district and decreasing the district's energy use (Sustainable Energy)	supporting new and existing enterprises in sustainable innovation and the strengthening of local supply networks (Sustainable Innovation)	focused on early-intervention approaches and involving our communities in service design and delivery (Early Intervention)	investing in developing the strengths and skills of our staff and councillors (Investing In Our Skills)
	transitioning to an accessible and inclusive low-carbon and active transport system (Low Carbon and Active Transport)	using our land, property, <u>finance</u> and procurement to benefit local communities and encouraging residents, businesses, organisations and anchor institutions to do the same (Social Use of Resources)	(re)developing housing to ensure people of all incomes are comfortable, <u>warm</u> and able to maintain their independence (Access to Quality Housing)	focused on serving and enabling our residents, local <u>organisations</u> and district (Enabling)
	supporting our communities to be resilient to flooding and adapt to the wider effects of climate change (Climate Resilience)	securing investment and regeneration across our district (Investment and Regeneration)	improving access to and involvement in arts, culture, <u>leisure</u> and recreation, supporting our thriving arts, culture and heritage sector (Access to Culture and Leisure)	embracing innovative ways of working to improve service delivery and the operations of the council (Innovative Public Services)
increasing the biodiversity of our district (Biodiversity)	Promoting business ownership models that empower the local workforce, such as co-operatives, social <u>enterprises</u> and community ownership (Inclusive Ownership)	keeping our district's neighbourhoods, parks, <u>beaches</u> and open space clean, well-maintained and safe (Quality Public Spaces)	providing value for money and ensuring that we are financially resilient and sustainable (Value for Money)	

The Capital Investment Strategy is designed to support overall strategic goals by providing clear guidance and a route by which projects and activities can be proposed, developed and ultimately delivered through the prioritisation and allocation of capital funds. This strategy will therefore be strongly linked with the Council's wider framework of strategy and policy, including its:

- Medium Term Financial Strategy
- Asset Management Strategy
- Homes Strategy
- Climate Emergency and Carbon Zero initiatives
- Regeneration and Economic Development activity

1.3. Investment Models

The strategy recognises that there are various ways in which the Council can use capital funding to achieve strategic goals. These may include shared investment with partners of good financial and reputational standing.

Another route is for the Council to establish Local Authority Trading Companies (LATCos), which are entirely separate commercial entities able to independently access capital funding as part of their operations. The LATCo model also has the potential to create established, long-term income streams including commercial income.

A LATCo is subject to its own governance and decision-making, as a wholly separate entity from the Council. This strategy does not set out the terms on which a LATCo may invest to generate a commercial return. However, it does recognise that the LATCo model may contribute to the achievement of the Council's wider investment goals. As Lancaster's existing LATCos are wholly owned by the Council, they are Assets of the Council, and we may choose to invest in them in order to grow their Asset value.

1.4. Housing Provision and the Housing Revenue Account

The Council operates a separate funding stream for the provision of local authority housing, known as the Housing Revenue Account (HRA). It is a legal requirement for HRA funding to be ring-fenced for the sole purpose of housing provision.

Maintaining and developing the Council's housing provision requires a substantial HRA capital programme, which is largely funded by housing revenue. The HRA capital programme is delivered in line with the Council's HRA Business Plan, and determined via the Council's budget-setting process, with HRA matters considered separately from General Fund activities.

Where HRA investments may contribute to the Council's overall social, environmental and place-making ambitions, decision-making will recognise the statutory HRA ring-fencing requirements.

1.5. Aims of the Strategy

Maintaining a focus on the outcomes described in the Council's strategic priorities (summarised above), the Capital Investment Strategy seeks to:

- Define the process for proposing, developing and delivering projects which require capital funding, including the acquisition of land and property.
- Provide a systematic structure for considering the risks, benefits and outcomes associated with capital investment.
- Articulate the relevant governance, financial, and monitoring requirements to support capital investment proposals.
- Support opportunities for investment through LATCos and co-investment with partner organisations.

2. The Strategy: Four Investment Streams

Investing in the future via the Council's Capital Programme, or LATCo capital activity, will be achieved through four core Investment Streams. These will provide a structure within which the balance of the Capital Programme can be maintained in order to deliver against the widest range of strategic objectives.

For each Stream, financial returns and impacts on the Council's budget or LATCo will be considered alongside a balanced scorecard which captures quantifiable measures in respect of broad economic, environmental, and social returns as defined by the Council's strategic Priorities and Outcomes. Where there is a negative financial return or an overall cost to the Council, this will be acknowledged as a growth impact on the revenue budget.

The four Streams, set out below, correspond to each of the Council's Strategic Priorities in turn.

1) A Sustainable District

This includes schemes developed to deliver demonstrable reduction to carbon emissions in line with the Council's goal of reaching net carbon zero by 2030, as well as other priority outcomes for climate change and the environment. Schemes may include, but are not limited to:

- Installation of solar panels,
- Investment in larger scale solar energy facilities,
- Decarbonising heat and improving thermal efficiency,
- Supporting agile working to reduce our carbon footprint,
- The increased electrification of our vehicle fleet,
- Climate resilience,
- Resource efficiency.

2) An Inclusive and Prosperous Local Economy

This includes schemes developed to provide regeneration benefits that meet the council's inclusive and prosperous local economy priority.

Schemes of this kind will assist the Council's lead role in place-making, regeneration and economic development activity, and the improvement of the district's town centres to improve economic performance and encourage future private sector investment.

The Council may use its own assets, such as public land and buildings, to achieve long-term socio-economic development in the district. This may also include the acquisition of land or property or other assets such as communications infrastructure. Any proposals to acquire land or property must be considered in accordance with the Prudential Framework as set out in the Council's Treasury Management Strategy.

LATCo investment may be utilised to deliver a financial return from long-term rental income, business rates and council tax growth to underpin the investment / borrowing and to allow for additional mitigation of risk, whilst also delivering regeneration and placemaking objectives. Council land and property may be transferred to a LATCo to facilitate scheme delivery and to enable the LATCo to be signatory to planning agreements.

The Council or LATCo may enter joint arrangements with commercial partners to share risks and rewards and to ensure that the council can benefit from relevant expertise and experience.

3) Healthy and Happy Communities

The Council's capital investments have the potential to generate significant social returns in the District. Costs associated with these investments will be balanced against the achievement of the Council's wider goals for the wellbeing of its communities. Initiatives may include:

- Loans to third parties
- Investing in Social Capital
- Re-use of council assets
- Provision of additional, or enhanced housing outside or within the Housing Revenue Account (HRA)

Schemes developed to deliver improved housing in the district to the terms of the council's Homes Strategy may include the development of new housing, as well as purchase of existing housing with a view to improvements in quality and management. Schemes developed through this aspect of the Stream may be delivered via a LATCo to enable a long-term revenue income stream.

The council may also enter joint arrangements with commercial partners to share risks and rewards and to ensure that the council can benefit from relevant expertise and experience.

4) A Co-Operative, Kind and Responsible Council

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 of key information and communication systems.

Transformation and 'Invest to Save' proposals provide one-off project funding to services to help services become more efficient and effective. These schemes may deliver a direct financial return through efficiencies and savings, or an indirect benefit through enhanced service provision in respect of the Council's strategic goals.

Capital investment in property, including retail, industrial, hotel, office, food & beverage and other investments may also be considered where they comply with the Capital Investment Regulations and Guidance and meet the Council's priorities. – LATCos and other forms of special purpose vehicle may also be established to generate income that can be invested in delivering Council priorities to reduce reliance on Council expenditure and therefore support the Council's financial sustainability.

3. Capital Investments Regulation & Guidance

Alongside the Council's strategic ambitions, 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 Levelling Up, Housing and Communities (LUHC) to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

Depending on the particular circumstances, the Council will fund acquisitions through grants, contributions or capital receipts; or by utilising borrowing, reserves, or a combination of both. It is worth noting that following the review of local authority borrowing from Public Works Loan Board (PWLB) it is no longer possible to utilise PWLB to fund commercial investment projects.

HM Treasury has issued guidance to local authorities as to the appropriate use of PWLB. The guidance details the characteristics of projects that would be supported, set out as follows:

- The project is addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector.
- The local authority is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment.
- The project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value.
- While some parts of the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services.

All capital schemes will follow the provisions of the Prudential Code, and where applicable other capital schemes will follow the DLUHC Investment Guidance. As a minimum the following will be kept under review:

- Transparency and Democratic Accountability
- Contribution
- Proportionality
- Prudential Indicators (Affordability & Sustainability)
- Borrowing in Advance of Need
- Capacity and Skills

A LATCo is able to source capital borrowing to fund investment for a commercial return as part of its activities. Any investments seeking a commercial return could be delivered via a LATCo and considered under the LATCo's independent governance and decision-making structure.

4. Delivering the Strategy

4.1. The Capital Investment Lifecycle

Capital investment schemes across the four Investment Streams must be considered, prioritised and evaluated in a consistent way, ensuring a clear rationale for investment including:

- **Strategic Fit:** What is the proposal aiming to achieve, and how does this align with corporate priorities?
- **Financial:** What are the financial circumstances for the project, e.g. is funding readily available and is it affordable? Will the proposal deliver a return in line with the targets established for each Investment Stream?
- **Legislation and Compliance:** Is the proposal required in order to meet statutory or legislative requirements?
- **Risk:** What risks are identified, and how will the proposal mitigate and manage these?
- **Project Management:** How will the project be delivered in order to maximise its financial and social return in a timely way?

To achieve a capital funding allocation as part of the Capital Programme, all proposals will be subject to a comprehensive Business Case development process in four stages, known as the '**Capital Investment Lifecycle**'. The process will be designed to fit with the Council's corporate project management processes, to streamline the development and delivery of capital investment projects and allow for information to be shared and monitored consistently and effectively. Projects progressing through the stages will use the Council's project management systems and processes.

Stage 1: Inception

Prior to officer time being spent on scoping a project, a discussion will take place between the relevant Cabinet portfolio holder and officers, ensuring that the project fits with the Council's wider strategy before pursuing further development activity. The inception summary will provide advice on any capacity or funding associated with developing the project to Stage 2.

Stage 2: 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 for each Investment Stream. The SOC will also provide advice on the costs associated with developing the proposal to Stage 3. The SOC will be considered by the advisory Capital Assurance Group (CAG), which will provide comment to Cabinet and / or the relevant decision-making body. Approval of the SOC by Cabinet will confirm the project's position in the longlist of 'pipeline' schemes for which a full business case will be produced.

Stage 3: Full business case (FBC)

The purpose of this stage is to propose a viable, feasible project. The FBC will

- Recommend the most economically advantageous offer
- Document any contractual arrangements
- Confirm funding sources and / or requirements
- Demonstrate compliance with the Prudential Framework and HM Treasury 'Green Book' investment appraisal guidance
- Set out the detailed management arrangements, costs and plans for successful delivery and post evaluation.

The FBC will be considered by CAG and Cabinet and / or the relevant decision-making body. Approval of the FBC by them will confirm the scheme's inclusion within the Capital Programme.

Stage 4: 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 5: 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.

4.2. Governance Arrangements

All capital investment proposals must be subject to due diligence processes to ensure

- Transparency
- Democratic Accountability
- Ethical Responsibility
- Strategic Alignment

As part of the Capital Investment Lifecycle, proposals will be subject to a governance framework including the following elements:

Capital Investments Appraisal Group (CIAG)

An officer group with relevant expertise from economic growth and regeneration, communities and the environment, property, legal and finance, supported by external expertise and resource as required. The group will consider all potential capital investments in the first instance, following approval from the relevant Cabinet portfolio holder. The group will develop proposals for consideration by CAG. Proposals will first be brought to CAG at Stage 2 (see above), accompanied by an SOC. SOCs approved by Cabinet will return to CAG at Stage 3, accompanied by an FBC.

Capital Assurance Group (CAG)

An advisory working group comprising representation from Cabinet, Executive Team, Overview & Scrutiny, Budget & Performance Panel, Council Business Committee and relevant specialist officers. CAG will consider SOCs and FBCs and make advisory recommendations to budget holders. Comments from individual members will be provided to Cabinet. CAG's Terms of Reference can be found at Appendix B.

Capital Investments Appraisal Group (CIAG)

An officer group with relevant expertise from economic growth and regeneration, communities and the environment, property, legal and finance, supported by external expertise and resource as required. The group will consider all potential capital investments in the first instance, following approval from the relevant Cabinet portfolio holder. The group will develop proposals for consideration by CAG. Proposals will first be brought to CAG at Stage 2 (see above), accompanied by an SOC. SOCs approved by Cabinet will return to CAG at Stage 3, accompanied by an FBC.

Cabinet

Cabinet submits the annual Budget Framework to Council, including the Capital Investment Strategy and Capital Programme. It is responsible for consideration and decision-making on capital expenditure proposals within the Budget & Policy Framework and in line with the relevant guidance. Before officer time is spent on scoping a project, approval should be obtained from the relevant Cabinet portfolio holder.

Overview & Scrutiny (O&S)

Early involvement of the Chair of O&S in CAG meetings enables early scrutiny and added value through shaping of capital decision-making. This involvement does not remove or negate the right of O&S to call-in any decision made by Cabinet.

Budget & Performance Panel (B&PP)

The Panel will review the financial and operational performance of the Capital Investment Strategy as part of its Budget Framework scrutiny role.

Council

Full Council is responsible for approving the Capital Investment Strategy as part of the annual Budget Framework, including any material changes.

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

4.3. 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 council's project management process which follows good practice in the management of risk.

A full assessment of property risk will be carried out individually for each property acquisition proposal before entering any commitment. A further due diligence review will be undertaken in respect of a wide range of risk factors for all investment proposals which are taken forward.

The Council's asset portfolio will be risk managed through a regular, systematic asset challenge process which will review each asset's performance, investment requirements and ongoing viability within the portfolio. This process will be developed through a forthcoming Asset Management Strategy.

4.4. Monitoring and Evaluation

Each capital proposal will set out targeted benefits aligned with the Council's strategic priorities. The performance of each proposal during the implementation and evaluation stages will be monitored to provide assurance on the achievement of its strategic and financial objectives.

The monitoring and evaluation process will include:

- **Delivering Our Priorities: Performance, Projects and Resources** | The capital programme will be regularly evaluated as part of overall performance monitoring which incorporates financial, project and performance measures. This information is reported quarterly to Cabinet and B&PP.

- **Capital Investment Strategy Monitoring** | As the strategy is key to delivering the Council's strategic goals, regular progress against the Council's Corporate Plan Priorities & Outcomes will take place to ensure resources are appropriately allocated.
- **LATCo Asset Monitoring** | Investments made by a LATCo for a commercial return will be considered by the LATCo's shareholder committee. The impact of the LATCo's financial return on the Council's financial position will be considered alongside other financial monitoring information.
- **Prudential Framework** | A half-yearly report on prudential indicators demonstrating the Capital Programme's ongoing prudence, affordability and sustainability will be considered by Council.

4.5. Capacity, Skills and Professional Advice

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 approve a specific capital investment. In addition, it places a duty on the Council to ensure that advisors negotiating contracts on its behalf 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 a proportionate and effective training programme, obtaining appropriate professional 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 local government.

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 Capital Investment 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.

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 developing capital expenditure, borrowing and investment proposals. Where skills or capacity are lacking, the Council or LATCo 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. Ongoing measurement of the impact of investment decisions on borrowing and affordability through Prudential or other relevant indicators will ensure that the overall risk exposure remains within acceptable parameters.