

# **Lancaster City Council**

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

This document represents the Council's Capital Strategy as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requirements.

To be reviewed and approved annually by Council

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

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. Investment in supporting the district's rich creative and heritage assets will also benefit local businesses and residents both economically and culturally.

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 by increasing wellbeing and improving access to local culture, heritage and leisure. 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.

### 3.1. Revised CIPFA Treasury Management Code and Prudential Code

CIPFA published the revised codes on 20<sup>th</sup> December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval. The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to Treasury Management Practice 1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes:

#### Treasury Management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

#### Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".



## Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

## 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 five 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 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 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. The Council currently uses Link Asset Services, Treasury solutions as treasury management advisors.

## 5. Our Assets

The Council has a range of assets which it utilises to deliver its wide range of services throughout the District. The total valuation of these at the start of the financial year 2021/22 was £298.99M. The main constituents of these assets are as follows

<b>Asset Type</b>	<b>£M</b>
Council Housing & Other Assets	131.02
Property Plant & Equipment	116.51
Community Assets	8.67
Investment Property	33.20
Heritage Assets	9.52
Intangible Assets	0.07
<b>Total</b>	<b>298.99</b>

### Council Housing

At the start of the financial year the Council held 3,670 dwellings in total within its Housing Revenue Account. These dwellings include 1, 2, 3 & 4 bedroomed, houses, bungalows, flats maisonettes and bedsits.

<b>Number and Type of Dwellings</b>		
Bedsits		77
1 Bedroom	Houses & Bungalows	654
	Flats & Maisonettes	550
2 Bedroom	Houses & Bungalows	474
	Flats & Maisonettes	664
3 Bedroom	Houses & Bungalows	1,150
	Flats & Maisonettes	6
4 or more bedroomed dwellings		85
<b>Total Dwellings</b>		<b>3,660</b>

### Property Plant & Equipment

These are assets which the Council predominately uses to deliver its services. These assets include Municipal Buildings, works depot, leisure centre and car parks. It also includes its refuse collection and vehicle fleet as well as various land holdings. The value of these assets at the start of 2021/22 financial year is provided in the table below

<b>Land &amp; Buildings</b>	<b>Vehicles, Plant Furniture &amp; Equipment</b>	<b>Infrastructure Assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Total</b>
<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
59.33	7.21	41.18	0.99	0.14	108.85

## Investment Assets

This type of Council asset is held primarily to generate income and comprise a mix of office and retail lets together with agricultural and commercial land and commercial buildings. Further detail in respect of the Council's investment properties is given in section 8.

<b>Investment Asset Type</b>	<b>£M</b>
Office	4.07
Retail	2.56
Agriculture & Allotments	1.22
Commercial Land	2.20
Commercial Building	14.93
Mixed Commercial	8.23
<b>Total</b>	<b>33.20</b>

## Heritage Assets

The Council's heritage assets include 82 pieces of civic regalia, its museums' collections at the Maritime, Cottage and City museums in Lancaster, pieces of artwork, items of Gillow furniture and public artwork including the statue of Eric Morecambe on Morecambe promenade.

## Intangible Assets

These comprise software and software licenses held for the Council's key systems.

## Asset Management

The key objectives of the Councils' Asset Management Policy are to:

- Provide the right buildings in the right place and at the right time and cost to meet the current and future aims, objectives, policies and plans of the Council.
- Optimise and prioritise the level of investment in property assets to minimise maintenance backlog, improve fitness for purpose and optimise occupancy levels.
- Maximise the value received from our non-operational commercial portfolio.
- Continue to improve the environmental sustainability of the Council's property portfolio.
- Promote the innovative use of property by enabling urban regeneration and facilitating joint working with our partners and stakeholders.
- Challenge the use of land and buildings held by the Council to minimise revenue expenditure and maximise the generation of capital receipts.

## Valuations

The Council is required by accounting regulations to value its assets on a regular basis and currently values its General Fund assets on a rolling 3 year cycle. It is required to undertake a formal valuation of its HRA assets every 5 years in line with Ministry of Housing Communities and Local Government (MHCLG) requirements. The last formal valuation was undertaken 1 April 2016 and so work is currently underway to ensure these are up dated to reflect values as at 1st April 2021. A desktop revaluation is undertaken for HRA assets in the intervening years to ensure that values are current.

All valuations are performed "in house" by qualified valuer's within the Council's Property Services Team. The valuations are performed using appropriate stipulations as detailed by the Royal Institute of Chartered Surveyors (RICS) and presented in the Council's Statement of Accounts within accord of the Statement of Recommended Practice (SORP).

The details of the assets are held and recorded in a variety of sources in order to meet the operational and management requirements of the Council. This enables a bespoke management system of operation so that maximum utilisation of the asset can be developed.

Whilst services have bespoke arrangements for the assets held under their responsibility the Financial Services maintains the prime records that are used for the production of the Council's Statement of Accounts. These are reconciled on a regular basis to ensure accuracy and relevance.

## 6. Capital Expenditure

### Capital Programme

The Council plans to gross expenditure, which excludes grants from other bodies of approximately £46.08M on General Fund and £24.97M on HRA capital schemes between 2021/22 – 2025/26.

<b>Gross Capital Expenditure</b>	<b>2020/21 Actual £M</b>	<b>2021/22 Estimate £M</b>	<b>2022/23 Estimate £M</b>	<b>2023/24 Estimate £M</b>	<b>2024/25 Estimate £M</b>	<b>2025/26 Estimate £M</b>	<b>Total 2021/22 to 2025/26</b>
General Fund	19.03	17.25	13.85	5.21	10.14	4.84	46.08
Housing Revenue Account (HRA)	3.04	4.78	5.37	5.45	4.78	4.59	24.97
<b>Total</b>	<b>22.07</b>	<b>22.03</b>	<b>19.22</b>	<b>5.45</b>	<b>14.92</b>	<b>9.43</b>	<b>71.05</b>

### Financing & Affordability

The Council's Capital Programme is financed by a mixture of external grants, capital receipts generated from property and right to buy disposals, contributions from reserves and unsupported borrowing. The planned application of resources to capital projects is set out below:

	<b>2020/21 Actual £M</b>	<b>2021/22 Estimate £M</b>	<b>2022/23 Estimate £M</b>	<b>2023/24 Estimate £M</b>	<b>2024/25 Estimate £M</b>	<b>2025/26 Estimate £M</b>	<b>Total 2021/22 to 2025/26</b>
<b>Financed by:</b>							
Capital receipts	-0.01	-0.64	-0.54	-0.54	-0.54	-0.54	-2.80
Capital grants	-7.69	-7.75	-5.79	-2.28	-2.14	0.00	-17.96
Capital reserves	-2.91	-4.14	-4.37	-4.84	-4.17	-4.05	-21.57
Revenue	-0.40	-0.63	-1.40	-0.56	-0.36	0.00	-2.95
<b>Financing Total</b>	<b>-11.01</b>	<b>-13.16</b>	<b>-12.10</b>	<b>-8.22</b>	<b>-7.21</b>	<b>-4.59</b>	<b>-45.28</b>
<b>Net financing need for the year</b>	<b>11.06</b>	<b>8.87</b>	<b>7.12</b>	<b>-2.77</b>	<b>7.71</b>	<b>4.84</b>	<b>25.77</b>

This table shows a net need for financing the Capital Programme of £25.77M which would require the Council to undertake additional borrowing. Additional borrowing could be used only to finance capital expenditure in respect of General Fund and Housing Revenue Account.

The Council sets its level of capital investment in line with the statutory requirements of prudence, affordability and sustainability as set out in the Prudential Code for Capital Finance issued by CIPFA.

The Council assesses the affordability of the General Fund programme by looking at the financing costs of borrowing (interest and loan repayments) as a proportion of its net revenue stream. For general fund these are expected to increase over the life of the capital programme. The table below provides details of this key indicator

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
General Fund	14.61	19.97	20.24	23.09	22.25	22.95
HRA	20.79	19.41	18.42	17.69	17.25	16.98

This table shows that the cost of debt financing is estimated to be between 20% and 23% of the Councils general fund net revenue budget between 2021/22 and 2025/26.

The Housing Revenue Account capital programme has its prudence, affordability and sustainability set out in a thirty year business plan.

Further details on the impact of the Capital Programme on the Council’s borrowing is included below

## **7. Treasury Management**

Treasury management deals with the management of cash flows resulting from the Council’s day to day operations. It ensures that the cash flows are adequately planned with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return.

The Treasury management service also covers the funding of the Council’s capital plans which provide a guide to the borrowing need of the Authority.

### **Governance & Scrutiny**

The Council’s Treasury Management Strategy including its Prudential and Treasury indicators is approved annually by Full Council. Council also receives and approves a mid-year treasury management report which sets out in year progress of the treasury position and an annual treasury report which sets out how actual treasury operation compared to the estimates within the strategy.

Both Cabinet and Budget and Performance Panel scrutinise the above reports before they are presented to and approved by Council.

The Section 151 officer and his staff have delegated authority to make decisions in respect of detailed investment and borrowing acting in line with the framework set out in the treasury management strategy.



## Investment

The Council's investment strategy prioritises firstly security, secondly liquidity and then return. This maintains a firm focus on minimising risk rather than on maximising returns.

The Treasury Management Strategy sets out the authority's approach to managing investment risk in line with the following principles:

- Using minimum acceptable credit criteria to generate a list of highly creditworthy counterparties, facilitate diversification and avoid concentration of risk
- Defining the list of types of investment instruments that the treasury management team are authorised to use
- Setting lending limits for each counterparty and transaction limits for each type of investment
- Setting the limit for the amount of its investments which are invested for longer than 365 days at nil
- Specifying that investments will only be placed with counterparties with a minimum sovereign rating of AAA (Fitch)

The Council's Investments at 31.03.2021 were:

<b>Balance 31.03.2021</b>	<b>£M</b>	<b>Liquidity</b>
Bank Accounts	3.10	Instant Access
Money Market Funds	0.00	Instant Access
Other Local Authorities	22.00	Fixed Term
<b>Total Investments</b>	<b>25.10</b>	

## Borrowing

As part of its treasury management activities the Council considers forward projections for borrowing to fund its capital expenditure plans working within the self-regulating framework of the Prudential Code for Capital Finance.

The framework requires authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable and to set limits on the amount they can afford to borrow in the context of wider capital planning.

The Council's underlying need to borrow is represented by its Capital Financing Requirement (CFR). The CFR is the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources.

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
CFR – Non Housing	57.72	64.43	68.86	67.98	72.28	73.26
CFR – Housing	37.23	36.19	35.14	34.1	33.06	32.02
<b>Total CFR</b>	<b>94.95</b>	<b>100.62</b>	<b>104</b>	<b>102.08</b>	<b>105.34</b>	<b>105.28</b>

The authority currently maintains an under-borrowed position meaning that it uses cash backed reserves to defer the need to externally borrow for capital investment. Forecasting of cash backed reserves facilitates a long term view of the level of risk associated with borrowing internally.

The table below shows the projection of external debt and internal borrowing using cash backed reserves:

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
<b>External Debt</b>						
Debt at 1 April	62.12	61.08	70.04	84	82.96	81.92
Expected change in Debt	-1.04	8.96	13.96	-1.04	-1.04	-1.04
<b>Actual gross debt at 31 March</b>	<b>61.08</b>	<b>70.04</b>	<b>84</b>	<b>82.96</b>	<b>81.92</b>	<b>80.88</b>
<b>The Capital Financing Requirement</b>	<b>94.95</b>	<b>100.62</b>	<b>104.00</b>	<b>102.08</b>	<b>105.34</b>	<b>105.28</b>
<b>Under Borrowing</b>	<b>-33.87</b>	<b>-30.58</b>	<b>-20.00</b>	<b>-19.12</b>	<b>-23.42</b>	<b>-24.40</b>

The council is required to “repay” an element of its General Fund CFR each year through a revenue charge, the minimum revenue provision (MRP). The Treasury Management Strategy sets out the MRP policy adopted by the authority. The Council also makes physical cash repayments on a loan taken out to purchase the authority’s housing stock in 2012 which are counted as MRP.

The following table sets out how MRP will be used to repay the underlying debt:

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
General Fund MRP	-1.77	-2.15	-2.7	-3.32	-3.41	-3.86
HRA MRP	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
<b>Total</b>	<b>-2.81</b>	<b>-3.19</b>	<b>-3.74</b>	<b>-4.36</b>	<b>-4.45</b>	<b>-4.90</b>

The Council sets an authorised limit for external debt. This represents a limit beyond which a local authority must not borrow unless prudential indicators have been renewed or amended. It also sets an operational boundary for external debt. This represents a limit that is based on the maximum external debt of the authority based on expectations. The expectation is that there would be no sustained breach of the operational boundary.

The Treasury Management Strategy sets out the following operational boundary and authorised limit for borrowing:

	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Operational Boundary	100.62	105.00	103.08	106.34	106.28
Authorised Limit	116.00	120.00	118.00	121.00	121.00

## **8. Commercial Activity**

### **Current Position**

The Council's existing investment property portfolio generates approximately £1.168M per annum to support the General Fund Revenue Budget. It is comprised of a mix of office and retail lets together with agricultural and commercial land and commercial buildings as set out below:

The majority of this portfolio has been accumulated by the Council over a number of years rather than actively acquired. Tenancy agreements are produced by the Council's Estates Management Team in consultation with Legal Services and range from leases, licences and other agreements such as easements, wayleaves and rights of way

The Council is obliged to obtain the best price it reasonably can for its commercial lets. Most properties have rents which are set based upon market conditions and comparable evidence to support the decision making process includes that from local agents, rents associated with other Council properties, recent transactions, inflation etc.

### **Performance Monitoring**

Performance monitoring will be developed to ensure that investments are monitored on a routine and exception basis and will determine what performance measures will trigger an exception report so that full council is aware at the earliest opportunity of any material increase in risk or threat to ongoing yield. The Capital Strategy will be updated with this information in due course.