

Capital Investment Strategy

Introduction

Capital expenditure includes the acquisition and construction of non-current assets, such as land and buildings, which have a useful life in excess of 12 months as well as expenditure on additions to, or enhancement of, existing non-current assets. It also includes items such as grants towards expenditure incurred by third parties (for example the Disabled Facilities grants). An effective Capital Investment Strategy ensures that asset management planning and the delivery of major projects are key activities in ensuring that the Council meets its corporate and service aims and delivers its core services.

This Capital investment Strategy sets out how the capital programme is developed. It highlights the issues and options that influence capital spending and sets out how the resources and capital programme is managed. The strategy sets out the Council's ambitions in the short, medium and long term and includes:

- I. Strategic Ambition;
- II. Current capital priorities;
- III. Available and Potential investment levels;
- IV. Alternative sources of funding capital expenditure;
- V. Prudential Borrowing; and
- VI. The proposed Capital Programme for the period 2021/22 to 2025/26.

The document sets out how the Council makes decisions on capital investment.

Strategic Ambition

- 1.1. The reworked Corporate Strategy 2020-24 was approved by Council on 15th December 2020. The Corporate Strategy sets out the mission for Copeland to '*make Copeland a better place to live, work and visit*' and the vision for the Council being:
 - A globally recognised place of innovation;
 - A major clean energy hub for the UK; and

- A sustainable place with a resilient economy that supports thriving communities.

In order to realise these key ambitions the Council needs to utilise its limited revenue resources effectively and maximise all capital opportunities that support our vision for Copeland and the Council. From a capital investment perspective, this means:

- Identifying and maximising funding opportunities from Government;
- Working with partners to leverage capital investment in the borough; and
- Utilising the Council's own available resources such as Capital receipts and borrowing.

The Council's revenue resources are limited and therefore investment decisions that utilise the Council's capital resources must as a minimum be cost neutral.

Current capital priorities

Appendix 1 sets out the current capital programme 20/21, this includes:

- The original capital programme approved by Council in February 2020 of £14,471k;
- Adjustments following the 2019/20 capital outturn of £179k;
- Additions to the Capital Programme approved by council during the year of £4,481k, note this includes approval sought for use of £100k of Capital Receipts to fund restructuring costs under the governments capitalisation flexibility scheme – this will ensure these costs are not met by revenue resources;
- Grants and contributions received in the year of £335k; and
- Proposed transfer of capital budget from 2020/21 to future years of (£10,448k) following the Q3 budget monitoring report.

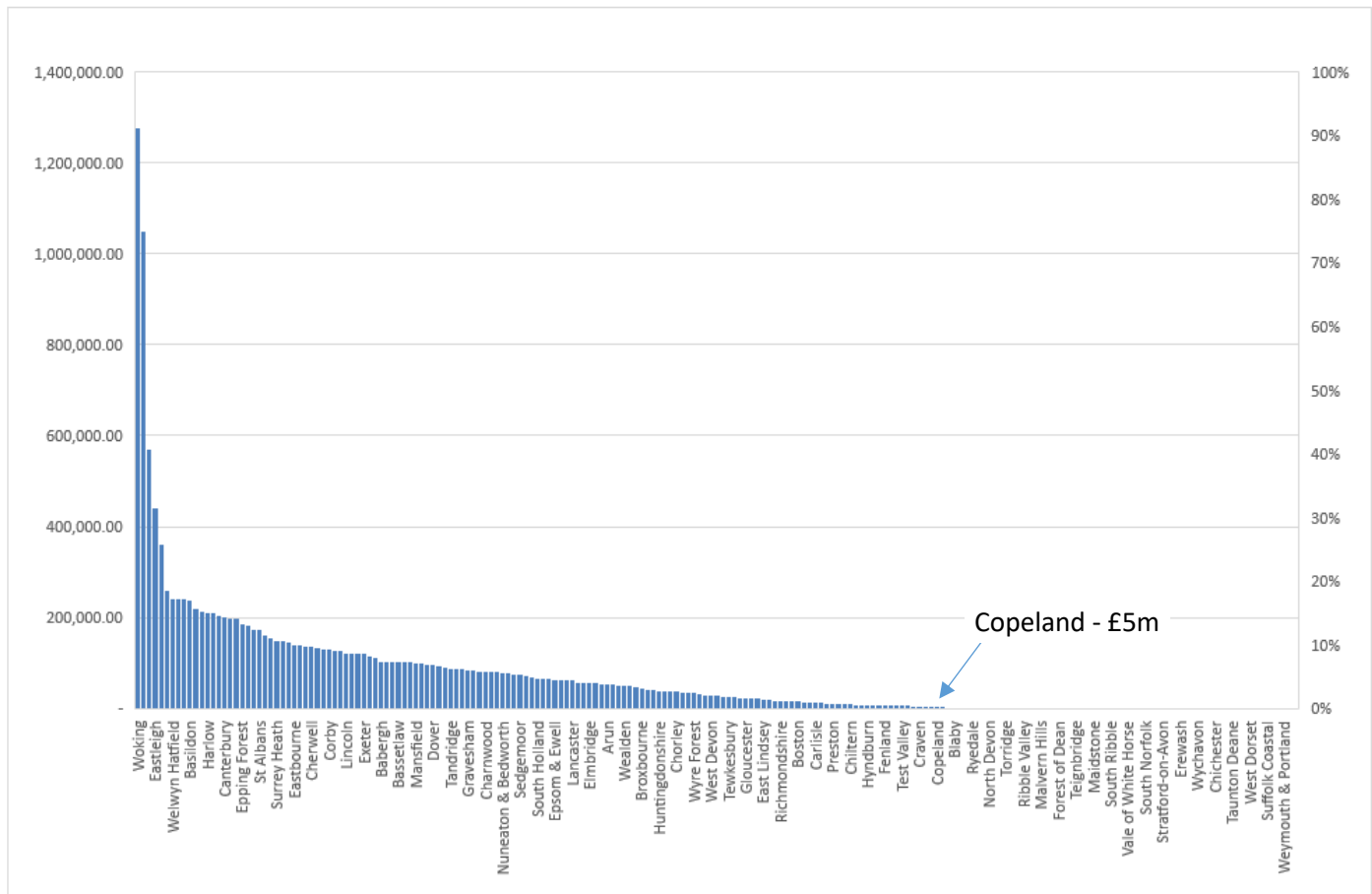
Available and Potential Capital Investment levels

The Council uncommitted capital receipts available for future capital investment of £350k as at 31st March 2021. Revenue reserves may be allocated to either revenue or capital however, capital receipts and grants may only be

used to finance capital expenditure. The Council may realise future capital receipts from the sale of land or buildings that may also be used to finance future capital projects. The benefit of utilising capital receipts, grants, contributions and revenue reserves for capital investment decisions is that there is no impact on the revenue account. This is not the case with using borrowing to finance capital investments.

Borrowing is the other alternative funding source available to the Council to fund capital investments. The Council has not funded any capital schemes from borrowing however, commitments have been made to fund c£14m from borrowing, these relate to the accommodation, ICT and Capital Investments projects. The most cost effective way of borrowing is to utilise the Council's working capital, known as internal borrowing, and if not available then additional finance from the Public Works Loans Board (PWLB) would be used, known as external borrowing. Decisions regarding when to borrow externally, from the PWLB, are considered as part of the Council Treasury Management Strategy. The most important consideration is that schemes to be funded from borrowing, internal or external, carry a revenue costs of both repayment and interest and these must be included in the Council's revenue budget. Capital investment decisions funded from borrowing must therefore be legal, prudent, affordable and sustainable.

As borrowing is usually only ever used for capital investments, unless otherwise directed by government, then the level of capital investments the Council is comfortable with funding from borrowing and its risk appetite must be a consideration in the Capital Investment Strategy. The Council has a minimum working capital balance of c£15m, this includes £5m of external debt raised in 2003. Existing capital schemes funded from borrowing is c£2m as set out in the capital programme. A review of the Council's level of external borrowing relative to other shire district councils shows that Copeland has a very low level of external borrowing relative to other shire councils.



Not all shire districts are the same size and thus a comparison of long term debt levels is not a good gauge to judge what would be an average level of long term borrowing for a Council of Copeland’s size. On average long term borrowing across all shire district councils is 5.0 times current expenditure, if the top five ‘anomalies’ are excluded from this calculation, then the average long term borrowing across all shire district councils reduces to 3.7. For Copeland this means average external borrowing levels could increase from £5m to £38m to be at an average level of debt for its size.

The Council’s capital investments need to comply with, the “Prudential Code for Capital finance in Local Authorities” (the Code). Under the Code local authorities have greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes. This is more commonly referred to as Prudential Borrowing and is considered later in the strategy.

Alternative sources of funding capital expenditure

As the pressure on local authority finances continues, it is becoming increasingly important to explore alternative sources of funding capital expenditure. These options are summarised as follows:

- Local Asset backed vehicles – the Council will seek to attract investment into the borough through partnership working and innovation. These vehicles allow the authority to use assets (usually land and buildings) to attract long term investment from the private sector in order to deliver socio-economic development and regeneration. They are designed to encourage parties to pool resources to deliver regeneration with an acceptable balance of risk and return for all involved. We will continue to explore the potential for developing such partnerships and private sector involvement and each case will be subject to specific financial appraisal and Executive approval.
- Collaborative Working – this type of approach encourages interest from expert developers to promote a site or work together on the planning and infrastructure process, to enhance the attractiveness of the site to end users.
- Community Involvement – changes in legislation brought in under the Localism Act have introduced the concept of Community Asset Transfer, Community Right to Challenge and Community Right to Bid for services. This has opened up a whole spectrum of opportunities of private sector investment in community-led capital projects, where deemed appropriate.
- Grants from external contributions are a valuable source of capital finance and have enabled capital developments to go ahead that would not have been possible without the grant support. Given the scale of the Council's ambitions to improve and add to its asset base much will depend on our ability to secure external funding. Key to this will be the on-going relationship with our strategic partners and the LEP.
- Section 106 agreements are contributions from developers tied into new construction or development projects, such as funding a new play area when building a housing development. The provision of this funding can be contingent upon a certain state in the development being met and at times can be complex and difficult to monitor. This would only be

relevant in limited circumstances, as the new regulations require developers to put in place management arrangements for future maintenance of open space or to transfer it to a town or parish council. This is intended to ensure that there are no ongoing service costs for the Council.

Where there is a revenue element to provide ongoing maintenance of facilities, this needs to be reflected in service revenue budgets. The Council will consider alternative sources of funding capital expenditure as part of its overall capital strategy.

Prudential Borrowing

The Council's capital investments need to comply with, the "Prudential Code for Capital finance in Local Authorities" (the Code). Under the Code local authorities have greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes.

Prudential borrowing is where the debt costs have to be funded from the Council's revenue budget, or from generating additional ongoing longer term income streams. The principle of affordability is therefore a key consideration.

Prudential borrowing will only be used where there is a clear financial case, such as major regeneration schemes which provide at least a breakeven position. The Council will ensure that investments are:

- affordable – taking into account the extent to which expenses will be covered by income, including any need to make provision for capital expenditure consistently with the MHCLG Statutory Guidance on Minimum Revenue Provision
- prudent – maximising the reliability of the elements of the affordability analysis and ensuring risk is controllable within acceptable limits
- proportional – ensuring that the authority's revenue budget is not over-reliant on income from commercial property and that property does not constitute an inappropriate proportion of the overall investment portfolio

Given the long-term nature of borrowing and the risk of change in economic conditions, it is important that the long and short-term risks of borrowing are carefully considered as part of the decision making process. The Council will ensure that investment decisions consider risk as set out in the Prudential Code:

- All decisions to incur expenditure and to borrow will be backed by effective legal powers and consistent with its strategies and policies.
- Consideration of the authority's returns (income and capital gains) are at risk, while, once incurred, borrowing costs are unavoidable. The extra margin or return must reflect additional risk.

The proposed Capital Programme for the period 2021/22 to 2025/26

The proposed capital programme from 2021/22 to 2025/26 is included in Appendix 2 to this report. This includes the following new schemes:

- Leconfield Redevelopment & Expansion (£5,000k in 2021/22 & £3,000k in 2022/23): At its meeting of 14th July 2020 Council approved the acquisition of the Leconfield Industrial Estate in Cleator Moor to facilitate the strategic development of a Campus to provide significant economic impact for both the region and for Cleator Moor through both new job creation and from new businesses created in Copeland. The Council finalised the acquisition of the Leconfield estate on 14th January 2021 and funding is currently being sought to underpin three 'kick-start' projects on the site. Discussions with Partners to agree their level of investment in the Campus project are also well underway.
 - Along-side the development of the current site, which has finite capacity, is an aspiration to grow the Campus which will create additional flow-through of economic growth providing both local and regional social benefits.
 - To support this crucial strategic regeneration project, Council are requested to agree the implementation of two budget lines into the Council's 21/22 accounts as described below;
 - £5,000k to support the development of the Campus by either immediate investment to assist in kick-starting the Campus development, or to match fund either private or public funding in 21/22 or future financial years as required, and

- £3,000k to acquire expansion land to allow the Campus to grow.
- Prior to acquisition a full business case will be required to demonstrate, as a minimum, the cost of investment(s) will be covered by the returns received from that investment.
- Vehicle Replacements (£2,500 in 2022/23): The Council currently leases the majority of its waste and parks vehicles. The contract ends in October 2022 and, subject to a value for money business case, there may be a case to purchase rather than lease vehicles. An indicative sum has been included in the capital programme. If purchasing the vehicles represents value for money the repayment costs will be met from the savings in lease payments currently included in the budget for the fleet.
- Capitalisation Directive (£1,500k in 2021/22): Approval from Government to support the 2021/22 revenue budget with borrowing; this will be over a 20 year period.

Capital Programme for 2020/21

Directorate / Funding Source	Original 2020/21 Capital Programme	ADD Adjustments following 1920 Outturn	ADD Council approvals during the year	ADD Grant / contributions rec'd during the year	ADD 20/21 slippage to 21/22	Revised 2020/21 Capital Programme
Accommodation Strategy	1,413				(397)	1,016
Whitehaven Cemetery Extension	240				(173)	67
Bereavement Services	457	164			(567)	54
Disabled Facilities Grants	600	230		210	0	1,040
Town Centre Regeneration	1,011				(1,011)	0
Development (incl LEP FHSF external funding)	2,246	53			(738)	1,561
Coastal Programme (Phase 1&2)	509				0	509
Beacon Virtual Museum	250	7			(142)	115
IT Infrastructure	1,000	(28)			(922)	50
Whitehaven Activity Centre	1,198				(1,198)	0
Cleator Moor Activity Centre - removed now part of Towns Fund	247	(247)			0	0
St Bees Ramp	300				(300)	0
Capital Investments (was Commercial Investments)	5,000				(5,000)	0
Accountable Body - Coastal Activity Centre (Council Sep 2019)			931		0	931
Towns Fund (Council Sep 2020)			1,000	125	0	1,125
Accountable Body - Whitehaven Harbour Flood Defence Works - Council Dec 2020			200			150
Capitalisation Flexibility			100		0	100
ISH Project (Council July 2020)			2,250		0	2,250
Total	14,471	179	4,481	335	(10,448)	8,968

Proposed Capital Programme for the period 2021/22 to 2025/26

Directorate / Funding Source	2021/22	2022/23	2023/24	2024/25	2025/26	Total	Usable Capital Receipts	Capital grants / Contributions	Revenue	Borrowing	Total
Accommodation Strategy	397					397	0	0	0	397	397
Whitehaven Cemetery Extension	173					173	96	77	0	0	173
Bereavement Services	403					403	403	0	0	0	403
Disabled Facilities Grants	600					600	0	600	0	0	600
Town Centre Regeneration	1,082					1,082	670	412	0	0	1,082
Development (incl LEP FHSF external funding)	738					738	738	0	0	0	738
Coastal Programme (Phase 1&2)	1,696					1,696	0	1,696	0	0	1,696
Beacon Virtual Museum	142					142	0	142	0	0	142
IT Infrastructure	922					922	0	0	0	922	922
Whitehaven Activity Centre	1,198					1,198	0	1,000	198	0	1,198
Cleator Moor Activity Centre - removed now part of Towns Fund	0					0	0	0	0	0	0
St Bees Ramp	300					300	125	175	0	0	300
Capital Investments (was Commercial Investments)	2,500	5,000	5,000	5,000	5,000	22,500	0	0	0	22,500	22,500
Accountable Body - Coastal Activity Centre (Council Sep 2019)	1,423					1,423	0	1,423	0	0	1,423
Towns Fund (Council Sep 2020)	0					0	0	0	0	0	0
Accountable Body - Whitehaven Harbour Flood Defence Works - Council Dec 2020	50					50	0	50	0	0	50
Capitalisation Flexibility	100					100	100	0	0	0	100
ISH Project (Council July 2020)	0					0	0	0	0	0	0
New schemes:											
Leconfield Redevelopment	5,000					5,000	0	0	0	5,000	5,000
Leconfield Expansion		3,000				3,000	0	0	0	3,000	3,000
Vehicle Replacements		2,500				2,500	0	0	2,500	0	2,500
Capitalisation Directive	1,500					1,500	0	0	0	1,500	1,500
Total	18,224	10,500	5,000	5,000	5,000	43,724	2,132	5,575	2,698	33,319	43,724