Appendix C

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

VI. Commercial Investment Strategy & Decision Making;

VII. Performance Management; and

VIII. The proposed Capital Programme for the period 2020/21 to 2024/25.

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

Strategic Ambition

The Corporate Strategy 2020-24 was approved by Council in December 2019. 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* *commercially focused organisation with a national reputation for high quality services"*.

The key ambitions and strategic outcomes for Copeland and the Council are summarised below:

- A Place for Growth - For the places where we live and work to reflect the aspirations and prosperity of the area;
- A Commercial Council - For Copeland to be a resilient, engaged, innovative and commercially enterprising Council delivering high quality, sustainable services for our residents;
- Healthy and Inclusive communities - Through partnership working and delivery, we will ensure that the most vulnerable members of our community are supported and all residents have better life chances; and
- Playing to our Strengths - To maximise opportunities for growth in Copeland by attracting business and investment and retaining our talented young people and promote and protect our environment.

In response to austerity there have been significant cuts to local government funding and this has been seen primarily through the phased removal of Revenue Support Grant (RSG); for Copeland this has meant a reduction is RSG from the 2013/14 level £3,312,000 to just £40,000 in 2020/21. 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 key ambitions 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 generate positive returns – either in being cost neutral, deliver revenue or efficiency savings or produce additional income streams. A key driver for capital investment decisions will be the requirement to achieve £1.35m of additional net income from Commercial

Activity by 2023 as set out in the corporate strategy and Medium Term Financial Strategy.

Current capital priorities

The Table overleaf shows the current capital programme from 2019/20 to 2021/22 approved by Council:

Directorate / Funding Source	2019/20 (Jun 20)	2020/21	2021/22	Total	Usable Capital Receipts	Capital grants / Contributions	Revenue Reserves	Borrowing	Total Funding
Accommodation Strategy	1,413	-	-	1,413			413	1,000	**1,413**
Investment in ICT Projects	148	-	-	148	148				**148**
Millom Cemetery	2	-	-	2	2				**2**
Pay & Display Stock	4	-	-	4	4				**4**
Whitehaven Cemetery Extension	240	-	-	240	96	144			**240**
Bereavement Services	1,457	-	-	1,457	1,457	-			**1,457**
Disabled Facilities Grants	557	600	600	1,757		1,757			**1,757**
Town Centre Regeneration	886	325	-	1,211	804	407			**1,211**
Land Development	1,000	250	-	1,250	1,250				**1,250**
Coastal Programme	509	1,156		1,665		1,665			**1,665**
Beacon Virtual Museum	100	250		350		350			**350**
IT Infrastructure	950	-		950				950	**950**
Whitehaven Activity Centre	1,198	-		1,198		1,000	198		**1,198**
Cleator Moor Activity Centre	247	-		247		247			**247**
St Bees Ramp	250	-		250		250			**250**
Total	**8,961**	**2,581**	**600**	**12,142**	**3,761**	**5,820**	**611**	**1,950**	**12,142**

As expected at the Q2 position and following a review of the Q3 budget, £7m of predominantly external funding will be reprogrammed into future year's budgets, this is included in the proposed capital programme for 2020/21 to 2024/25 in Appendix 1.

Available and Potential Capital Investment levels

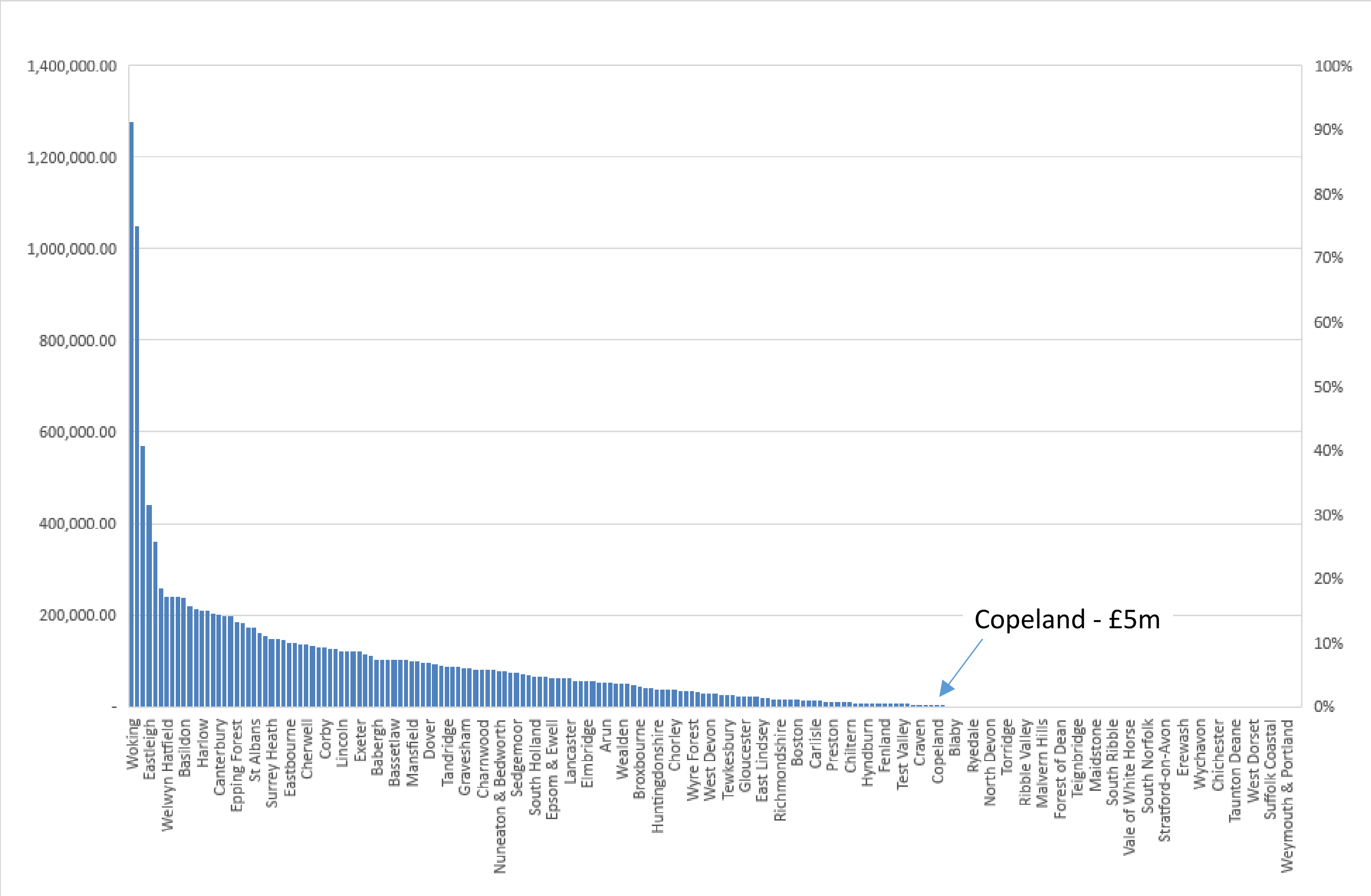
The Council has capital resources available for future capital investment; a summary of the balance available is set out below:

£'000	Balance as at 1st April 2019	additions	Future Commitments	Balance Available
Capital Receipts	4,979		(3,761)	**1,218**
Capital grants / Contributions	1,427	4,393	(5,820)	**0**
Revenue Reserves allocated to capital investment	611		(611)	**0**
Total	**7,017**	**4,393**	**(10,192)**	**1,218**

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£2m from borrowing, these relate to the accommodation and ICT projects; the repayment costs of these are included in the revenue budget. 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 increasing 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.

The Council has committed to achieve £1.35m of additional net income from Commercial Activity by 2023 as set out in the corporate strategy. Prudential borrowing will only be used where there is a clear financial case, such as major regeneration schemes which provide a net return over and above the borrowing cost, "invest to save" projects, or "spend to earn" schemes. The Council will ensure that commercial 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.

Commercial Investment Strategy & Decision Making

The Council's investment approach and strategy has been revitalised due to recent adoption of the Commercial Strategy 2019-23, and enhances and restates with positive reinforcement this Council's approach to responsible, prudential and ethical investment, whist complimenting and being rooted in the existing MTFS. A strategic framework for innovation and investment supports the development of new ideas and approaches to not only enhance, but ensure the financial resilience of the Council.

The increased emphasis on developing both existing and new income streams has led to the creation of the Commercial (Investment) Board to approve new or expanded service activity and property investment/acquisitions that contribute both to the achievement of an agreed investment strategy, and, meeting the outcomes of the Commercial Strategy. The Board, acting within the investment governance framework, will monitor the performance of the Council's diversified, yet balanced, portfolio and ensure satisfactory performance, return on investment, and, effective risk management. The financial returns achieved from investments will help to ensure that we continue to deliver quality services for our residents, businesses and communities.

An Investment Strategy provides the Council with the ability to make investments that have the potential to support economic growth or deliver economic regeneration within the Borough. This may mean that schemes with lower returns are considered, however all investments need to demonstrate an acceptable rate of return in excess of the cost of capital in order to be affordable for the council. The council will also consider the purchase of properties with an inherent, intrinsic and perceived altruistic value to the Borough. It is recognised such properties will deliver a much extended payback period and in doing so provide for long-term future service use, whilst still delivering a contributory investment return.

Indicative target deliverable on property investment:

	Investment - Yield	**Investment- loans**	**Regeneration**
Return on Investment	Rental (primary)	Loan repayments or rental	Rental
Target Yield Required	High Risk Investment: >8% net return; Medium Risk Investment: >5% net return Low Risk Investment: <2% net return Inclusive above forecast borrowing costs and forecast relevant ongoing costs Yield to be an average of an appropriate illustrated initial five year period	If capital loan 2.5% above forecast borrowing rates and forecast relevant ongoing costs Yield to be an average of an appropriate illustrated initial five year period	>= 0% above forecast borrowing costs and forecast relevant ongoing costs Yield to be an average of an appropriate initial five year period Forecast to be subject to sensitivity analysis of estimates to ensure a 0% return can be realistically achieved/sustained.

Performance Management

The Council maintains comprehensive and robust procedures for managing and monitoring the Capital Programme and is a reciprocal process between service areas and financial services.

All capital projects identify milestones and key outputs. A project manager is identified for each scheme and they are responsible for monitoring progress, spend and income and producing action plans to respond to key variances – financial or time. The project manager liaises closely with their finance business partner to produce the monthly budget monitoring statement.

Capital budget monitoring is reported to the Corporate Management Team (SMT) on a monthly basis and on a quarterly basis to Executive.

This strategy is a working document with enables the Council to make rational capital investment decisions in order to achieve its priorities. It sets out clear ambitions to drive capital investment in Copeland and recognises that a commitment to partnership working with both the private sector and other public sector bodies will play a significant role in the future. The Council will focus on maximising the opportunities to attract such partnership or third party funding.

The Council will maintain comprehensive and robust procedures for managing and monitoring its capital programme. This strategy should be reviewed on an annual basis to ensure it is relevant and up to date. Any other policy that requires capital investment must be consistent with the Capital Investment Strategy.

The proposed Capital Programme for the period 2020/21 to 2024/25

The proposed capital programme from 2020/21 to 2024/25 is included in Appendix 1 to this report.

Appendix 1

Proposed Capital Programme for the period 2020/21 to 2024/25

Directorate / Funding Source	Revised 2019/20 Budget (Feb)	2020/21 (Reprofiled from 2019/20)	2020/21 (other)	2020/21	2021/22	2022/23	2023/24	2024/25	Total	Usable Capital Receipts	Capital grants / Contributions	Revenue	Borrowing	Total Funding
Accommodation Strategy	-	1,413	-	1,413	-				**1,413**			413	1,000	**1,413**
Whitehaven Cemetery Extension	-	240	-	240	-				**240**	96	144			**240**
Bereavement Services	1,000	457	-	457	-				**457**	457	-			**457**
Disabled Facilities Grants	557		600	600	600				**1,200**		1,200			**1,200**
Town Centre Regeneration	200	686	325	1,011	-				**1,011**	604	407			**1,011**
Development		1,000	250	1,250	-				**1,250**	1,250				**1,250**
Coastal Programme		509		509	1,156				**1,665**		1,665			**1,665**
Beacon Virtual Museum	100		250	250					**250**		250			**250**
IT Infrastructure	98	1,000	-	1,000				-	**1,000**				1,000	**1,000**
Whitehaven Activity Centre		1,198	-	1,198					**1,198**		1,000	198		**1,198**
Cleator Moor Activity Centre		247	-	247					**247**		247			**247**
St Bees Ramp		250	-	250					**250**		250			**250**
New Schemes									**-**					**-**
Commercial Investments				5,000	5,000	5,000	5,000	5,000	**25,000**				25,000	**25,000**
Total	1,955	**7,000**	**1,425**	**13,425**	**6,756**	**5,000**	**5,000**	**5,000**	**35,181**	**2,407**	**5,163**	**611**	**27,000**	**35,181**