APPENDIX E

CAPITAL INVESTMENT STRATEGY 2018/19 – 2022/23

1. Introduction

The Capital Investment Strategy forms a key part of the Council's overall Corporate Planning Framework. It provides a mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's over-arching corporate priorities and objectives over a medium term (five year) planning horizon.

The Capital Investment Strategy provides a framework to enable both revenue and capital investment decisions which contribute to the achievement of the Council's priorities and objectives as set out in the Corporate Plan.

The strategy defines how the capital programme is to be formulated, and it identifies issues and options that influence revenue and capital spending, and sets out how the resources will be managed.

Key elements of the strategy;

- Ensures investments meet our Corporate Plan objectives
- Incorporates the requirements of the Asset Management Plan
- Enables the development of an Capital Investment Programme over the medium term (5 years)
- A framework which will identify priorities for the use of resources for investment.
- Decisions are based on sound business cases.
- Risks are identified and mitigated where possible
- Directly links to the Treasury Management Strategy ensuring an affordable and sustainable Capital Investment Programme and within the limitations of the Prudential Indicators
- Informs the Medium Term Financial Plan by identifying the revenue impacts of investment decisions.
- Incorporates an annual review to ensure the programme still meets our priorities.
- Considers innovative solutions to funding.

2. Principles Supporting the Capital Investment Strategy

a) Strategy Principles

- The investment programme will support the Council's strategic priorities, therefore, the capital investment programme will link to all key strategic planning documents: specifically the Corporate Plan, Executive Business Plan, Medium Term Financial Plan and the Asset Management Plan.

- Schemes within the programme will be prioritised on an authority wide basis and the process of assessing investments, against specific criteria, will optimise the benefit and relative importance of potential schemes.
- **Responsible Investing (RI)** - investing in opportunities that seek to generate both financial value and sustainable growth*,*
- **Socially responsible investing** (**SRI**), also known as sustainable, socially conscious, "green" or ethical investing, as well a any investment strategy which seeks to consider both financial return and social good.

b) Capital Investment Policy

The Capital Investment Strategy will be underpinned by a Physical Asset Investment Policy. The policy ***does not describe detailed operational investment activity but does describe the framework, and principal [underlying] considerations, which the Council will follow when reviewing and subsequently agreeing investment opportunities.*** It is designed to support the goals and objectives as outlined in the Corporate Plan, the general objectives of a UK public sector service provider and the very specific aims; goals and aspirations of the Council members; executive officers and their teams.

c) Finance Principles

- The overarching principal is the commitment to achieve affordable capital investments over the longer term.
- To pursue all available external funding options and opportunities for leverage of external resources.
- Ensure evaluation for value for money investments by whole life costing (where applicable) and by having robust Business cases with full financial modelling, and appropriate due diligence in estimates in order to inform the full financial implications
- To develop partnerships, including the pursuit of shared services, joint ventures and community arrangements, where appropriate, to achieve the Council's investment aspirations and value for money.
- Monitoring and evaluation of approved budgets will form part of the quarterly budget monitoring reports.
- Monitoring and evaluation of approved Programmes and projects will form part of Performance Management.

- Encourage community engagement by informing on priorities and consultation on proposals.

- To invest in non-treasury activities to support ongoing sustainability in the delivery of services.

- Regularly review Business Cases as schemes are developed and update financial models to inform future budget impacts.

d) Asset Management Principles

The Asset Management Strategy ensures that;

- corporate policies and responsibilities are defined which relate to property asset management.
- There is a link between property asset management strategies and capital investment plans to the Council's other strategic plans
- assessment of the Council's accommodation needs based on its statutory functions, strategic aims, service delivery priorities and other objectives
- assessment of the extent, type, condition, accessibility and performance of the existing stock to ensure that it is sufficient, suitable and "fit for purpose"
- strategies are developed for improving asset management and determine priorities for future investment in terms of maintenance and capital replacements
- an assessment of capital receipt opportunities is undertaken
- significant factors are identified which will influence or direct the asset management strategy, with particular emphasis on matters related to the Council policies, service requirements, changes in working practices and the requirements of Government policy, legislation and regulations.

3. Capital Investment Priorities

The Council's proposed Capital Investment Programme 2018/19 will support the Corporate Plan's 6 key themes;**Key Themes**

- Open for Business
- People First
- Asset Management
- Central Lincolnshire Local Plan
- Partnerships/Devolution
- Excellent, Value for Money Services

The Council's financial planning process ensures that the decisions about the allocation of capital and revenue resources are taken to achieve a corporate and consistent approach. The key corporate documents in this regard are;

The Corporate Plan

The Medium Term Financial Plan - incorporates the Financial Strategy, revenue budget financial impacts of capital investment decisions.

The Reserves Strategy- prioritises the use of reserves for capital and revenue purposes.

The Treasury Management Strategy - informs the affordability and sustainability of prudent capital investment decisions.

The Commercial Portfolio Strategy – informs how acquisitions will be considered on a risk based approach
The Value for Money StrategyThe Housing Strategy
The Land and Property Investment Strategy
The Asset Management Strategy
These documents are available on our website www.west-lindsey.gov.uk

4. The Capital Investment Strategy Process

The strategic approach to revenue and capital investment decisions needs to be formalised to ensure that our resources are directed to the most appropriate schemes which both deliver our corporate priorities and which are based on sound business cases. Assessment and prioritisation of capital investments schemes are based on uniform criteria.

Therefore the Capital Investment Strategy Process has been developed which will ensure that prioritisation of investments are directed to deliver Corporate Objectives and delivery the Executive Business Plan and Service Business Plans in addition to generating returns to support delivery of core services.

This will include:

- Review existing Capital Programme
- Annual review of existing Projects
- Asset Management Plan – detailed costs of required investment in property portfolio and assets to be disposed.
- Consideration of financing availability i.e. Earmarked Reserves, Grant funding, Capital Receipts and Prudential Borrowing
- Business Planning – identifying new schemes and projects for evaluation both capital and revenue.
- Evaluation of all proposed schemes against scoring matrix.
- Consider core service funding requirements and opportunities to invest in non-Treasury assets to generate returns

The final approved Capital Investment Programme and its financial implications, are included within the Medium Term Financial Plan, submitted to the Council annually in March for approval.

Fully costed and appraised business cases for each scheme will be presented to a relevant Board for consideration prior to any decision being made.

The Capital Programme consists of consist of 4 levels of activity;

Pre-Stage 1 – Business Case in preparation
Stage 1 – Budget approved – requires full business case
Stage 2 – Business case approved in principal or awaiting funding
Stage 3 and Business as Usual (BAU) – Approved to spend and funding secured

The investment and the ongoing revenue implications of each scheme are ascertained from the financial implications and appraisals within the business case.
The Capital Investment Value is assessed against the capital definition, and deminimis limits (£10k).

Revenue Implications – include the impact on revenue budgets for running costs/additional staffing etc. and the impact of the cost of borrowing or loss of investment interest if capital receipts and revenue reserves are to be utilised

5. Governance of the Capital Investment Programme

In accordance with the Constitution and governance arrangements, the Council reviews its capital requirements and determines its Capital Programme within the framework of the MTFP and as part of the annual budget process. Resource constraints mean the Council continually needs to priorities expenditure in light of its aims and priorities and considers alternative solutions.

To ensure that available resources are allocated optimally, capital programme planning is determined in parallel with service and revenue budget planning process within the frame work of the MTFP.

New programmes of expenditure will be appraised following a clearly defined Business Case gateway process.

The Council will approve in principal the Capital Investment Programme, and will approve the release of funding for replacement and renewal programmes, this is undertaken annually in March as part of the Medium Term Financial Plan.

Corporate Policy and Resources Committee will be responsible for approving release of funding for the Capital Investment Programme and will therefore receive reports for each scheme detailing the business case, cost, proposed funding and revenue implications.

Corporate Policy and Resources Committee will receive quarterly monitoring an update reports which may include details of;

- new capital investment schemes
- slippage in programme delivery
- programmes removed or reduced
- virements between schemes
- revisions in spend profile
- overspending
- capital acquisitions and disposals
- loan advances and outstanding loan balances

Progress on specific programmes will also be monitored in relation to projects through the Performance Monitoring reporting framework.

The Service Leadership Team will receive monthly monitoring reports

The Management Team will receive quarterly monitoring reports and any exception reporting.

6. Capital Financing Strategy

The funding of Capital schemes can come from a number of resources, the use of external resources will take precedent ;

- Prudential borrowing
- Revenue contributions and Earmarked Reserves
- Capital Receipts
- External grants and contributions (including S106)
- Leasing
- Other sources – i.e. partnerships or private sector involvement

This strategy, the outcomes of which will inform the MTFP, is intended to consider all potential funding options available to the Council and to maximise the financial resources available for investment in service provision and improvement within the framework of the MTFP.

To deliver our strategic objectives, especially in relation to economic and housing growth, regeneration. In addition investment in commercial property is designed to provide a revenue return, significant levels of investment will be required, which will result in a borrowing need.

Prudential Borrowing

The Council has discretion to undertake Prudential borrowing to fund capital projects with the full cost of that borrowing (interest and minimum revenue provision) being funded from Council revenue resources and/or capital receipts. This discretion is subject to complying with the Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable. Prudential borrowing provides an option for funding additional capital development however it has to be funded each year from within the revenue budget and by generating additional ongoing income streams from the investment.

Given the pressure on the Council's revenue budget in future years, prudent use will be made of this discretion in cases and only where there is a clear financial benefit, such as "invest to save", "invest to earn". Consideration will only be given to commercial investments where returns are expected to be higher than the revenue costs of the debt, provision of loans where principal repayments will be utilised as proxy for MRP, borrowing or major regeneration schemes which do not increase revenue expenditure levels in the longer term but provide a beneficial economic impact.

The Council will remain cautious and prudent in the extent of prudential borrowing undertaken to fund new capital investment.

Where prudential borrowing is utilised to fund Capital Investment, financial implication considerations will be provided including the risks and opportunities of the investment over both the payback period and over the repayment period of any debt taken out.

Revenue Contributions and Earmarked Reserves

Our continued prudent approach is to set aside revenue resources to fund capital replacement programmes and asset management funding, this will continue over the MTFP.

Our estimate of New Homes Bonus will be set aside for the purpose of investment in Growth (economic and housing) and has been included in the MTFP.

We will consider future Earmarking of Reserves for service investment needs, invest to save and invest to earn projects and enhancements to our own property assets, in addition to consideration of revenue contingencies, volatility and budget smoothing.

Our own resources will therefore be utilised to fund those schemes which provide a SRI, invest to save schemes which achieve efficiencies, and investment in our operational service asset needs.

Capital Receipts

Capital receipts generated from the following sources and where appropriate utilised as detailed.

- Loans principal repayments – used to repay prudential borrowing
- Receipts from Asset Disposal (operational property assets or surplus land)
- Commercial Portfolio Properties – repayment of borrowing
- Share of RTB Housing Transfer Agreement
- Insurance settlements – replacement of asset

External Grants and contributions (incl S106 and Community Infrastructure Levy (CiL))

The Council will actively pursue grants and contributions and other innovative solutions to funding of capital investment schemes. This funding will be utilised in the first instance.

Leasing

The use of leasing will be undertaken where alternative funding is not available for vehicles or minor equipment and the revenue budget does not allow for a full capital repayment. Where there is a robust business case then the option of leasing may be considered.

Other Sources of Funding

There are a range of other potential funding sources which may be generated locally either by the Council itself or in partnership with others ie a growing number of private organisations are showing interest where clear joint benefits exist. Each case will be subject to specific financial appraisals and appropriate governance arrangements.

7. <u>Investment in Commercial Properties (Non Treasury Investments)</u>

Any acquisition of Commercial Properties will be in accordance with the Commercial Portfolio Strategy and are being acquired to support delivery of services in a financially sustainable organisation. The MTFP assumes a £20m investment will generate a £600k net contribution to revenue (after the costs of borrowing have been met.)

Appropriate experts will be engaged as required.

All assets will be assessed against 7 criteria and the Director of Resources will have delegated Authority to complete on the acquisition of assets which score 50 or more out of 70. Any asset which falls below this threshold or registers a zero against any criteria may still be considered but specific justification will need to be provided and the decision to proceed taken to the Corporate Policy and Resources Committee for approval.

An annual review will be undertaken of the Commercial Property Portfolio to ascertain whether its fair value is sufficient to provide security against loss against the capital investment, and therefore adequate to meet the cost of outstanding borrowing.

Under the Minimum Revenue Provision (MRP) Policy, there will be no annual MRP charge for borrowing undertaken to finance Commercial Properties.

A Valuation Volatility Earmarked Reserve has been created to mitigate any loss of capital investment upon the sale of an asset, to meet the cost of any shortfall against outstanding debt. A proportion of the annual revenue income generated from the investment will be allocated for risk provision.

A Commercial Contingency revenue budget has been included within the MTFP to mitigate the risk of not achieving the desired level of yield from the Portfolio.

These investment assets are not deemed to be liquid over the short term but are likely to be held for the medium term of 5-10 years.

A number of prudential indicators in relation to these investments are contained within the Treasury Management Strategy and will be monitored throughout the year.

8. Risk

All capital projects have a risk register, with all risks affecting the project considered. A specific risk of capital investment is the impact on the Council's VAT partial exemption (recovery of exempt VAT upto 5% of overall VAT). If exempt VAT exceeds 5% the whole amount is then irrecoverable. Each scheme is therefore assessed for its impact.

9. Conclusion

The Capital Investment Strategy is a working document, which enables the Council to make informed rational capital investment decisions to achieve its corporate priorities and objectives. It provides a framework for determining the relative importance of individual projects.

The strategy will be reviewed annually to ensure that it remains relevant and effective.