

Allerdale Borough Council

Executive – 21 February 2018

**Capital Investment Strategy 2018/19 to 2019/20**

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<b>The Reason for the Decision</b>	This capital investment strategy defines at the highest level how the capital programme is to be determined. It identifies the issues and options that influence capital spending and sets out how the resources and capital programme will be managed.
<b>Summary of options considered</b>	The documents sets out the Council's ambitions and priorities over the medium to longer term and provides a framework for the review and management of existing assets. It indicates the opportunities for partnership working and has a direct relationship with the Treasury Management Strategy and the opportunities and limitations on activity through the treasury management prudential indicators.
<b>Recommendations</b>	That the strategy is approved and following best practice it is renewed on an annual basis to ensure a strong link to the Council's priorities.
<b>Financial / Resource Implications</b>	There is a commitment to affordability of capital investment decision over the longer term and a recognition that the Council's own resources are limited and will only be used to fund those capital priorities that are unlikely to be able to access any other funding sources.
<b>Legal Implications</b>	Underpinned by the Prudential Code for Local Authority and prudential indicators
<b>Community Safety Implications</b>	None
<b>Health and Safety and Risk Management Implications</b>	As noted in the report
<b>Equality Duty considered / Impact Assessment completed</b>	Will be considered as part of the Full Business Cases for capital schemes
<b>Wards Affected</b>	All
<b>The contribution this decision would make to the Council's priorities</b>	The focus of this strategy is to ensure that the Council is able to make capital investment

decision in order to meet its corporate priorities and objectives.

**Is this a Key Decision**

No

**Portfolio Holder**

Councillor Alan Smith

**Lead Officer**

Catherine Nicholson, Head of Financial Services,  
[catherine.nicholson@allerdale.gov.uk](mailto:catherine.nicholson@allerdale.gov.uk)  
01900 702503

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**Report Implications**

Community Safety	N	Employment (external to the Council)	Y
Financial	Y	Employment (internal)	N
Legal	Y	Partnership	N
Social Inclusion	N	Asset Management	Y
Equality Duty	Y	Health and Safety	N

Background papers: None

**1.0 Introduction**

1.1 This Capital Investment Strategy sets out, at a high level, how the capital programme will be formulated. It highlight the issues and options that influence capital spending and sets out how the resources and capital programme will be managed.

1.2 The document also sets out the Council's ambitions in the short, medium and longer terms and the strategy includes:

- A link to the Council Plan and priorities
- Current capital priorities and potential investment levels
- A framework for the review and management of existing and future assets
- Opportunities for partnership working
- Methods of resourcing the capital programme
- Appraisal process for investments and disposals
- Decision making cycle for investment
- A direct relationship with Treasury Management Strategy and the limitations on activity through the Prudential Indicators.
- Managing and measuring performance.

- 1.3 The document is intended for use by all stakeholders to how the Council makes decisions on capital investment.
- 1.4 Borrowing decisions for capital investment have long term financial consequences and whilst this strategy concentrates on the investments in assets (for example investment property) it is important that the Treasury Management and Investment Strategy considers the long and short-term risks of borrowing decisions and that those decisions are carefully documented.

## **2.0 Strategic Ambition**

- 2.1 The aim of the Council is to make a sustainable improvement to the long-term quality of life for our residents. The ambitions are clearly set out in the Council Plan and the priorities are:-
  - Tackling Inequality
  - Enhancing our Towns
  - Creating a Sustainable Business
  - Strengthening our Economy
  - Improving Health and Wellbeing
- 2.2 The Chancellor's Spending Review has continued with significant cuts to local government funding and the phased removal of Revenue Support Grant (RSG) as we anticipated a move to 100% funding from Business rates. Reductions in the level of funding that we receive from central government will not relent any time soon. Protecting the services that are most important to our residents will mean challenging the current ways of working and embracing change where it will bring better services for the people of Allerdale.
- 2.3 Further reductions in government funding will impact on already limited financial resources, making this Capital Investment Strategy an essential tool for the Council to focus its capital resources on outcomes that deliver the maximum benefit to residents.
- 2.4 Allerdale is a great place to live, work and visit and this administration is committed to continuing to being forward-thinking and commercial in its approach to opportunities for economic growth. Inward investment and follow on investment will play a key role in driving through these benefits.
- 2.5 Underlying the capital strategy is the recognition that the financial resources available to meet these priorities and aspirations are constrained in the current economic and political climate. Therefore we must rely more on internal resources and seek ways in which investment decisions can generate positive returns – either in being cost neutral, deliver revenue or efficiency savings or produce additional income streams.

2.6 The Council recognises that it is likely to need significant investment to advance the priorities stated within the Council Plan and is exploring possibilities around:-

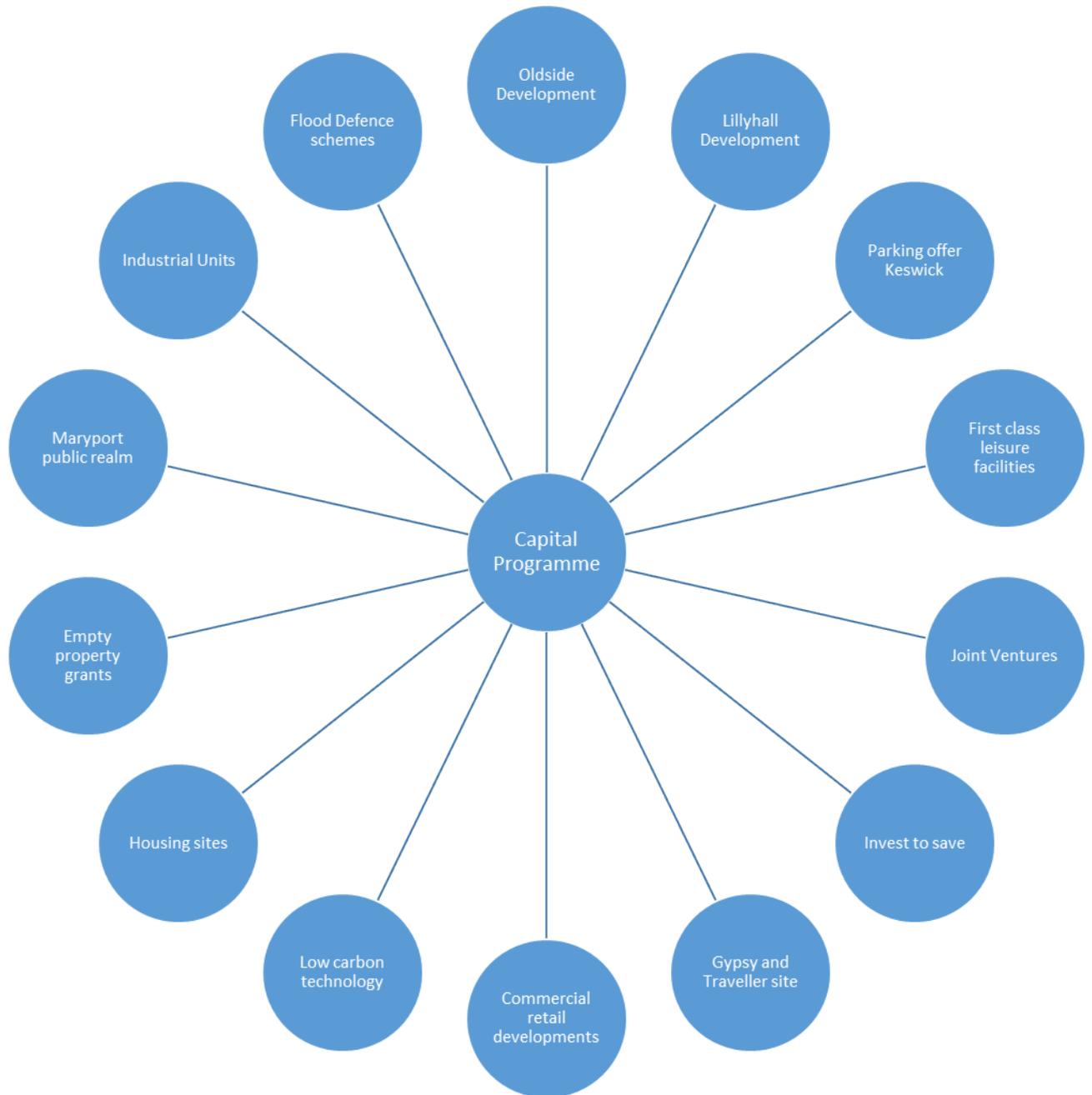
- **Economic Investment** - seeking investments that generate longer term growth and those that will yield a combination of revenue generation for example commercial rents, jobs and capital infrastructure investment. Decisions to invest will be based on sound business cases with an emphasis on continuing to make acquisitions or grant support with strategic site assembly for major investment projects, e.g. Lillyhall, Reedlands Road.
- **Leisure Provision** – building on the success of the new leisure centre in Workington, look at the possibility of extending the leisure offer in Allerdale by creating first class sporting venues and facilities and to work with our local amateur and professional sporting clubs. Given the success of the investment at Workington the Council is keen to work with our leisure provider GLL to look at the potential to invest in other facilities and reduce the revenue costs.
- **Employment** – looking at working with others to create long term employment opportunities through capital investment. These investments to also increase income from business rates and rentals.
- **Housing** – determining the Council’s need to develop or intervene in the housing market will be a key opportunity to establish both a commercial return and also support parts of the failing market. These could include the provision of a mixture of housing tenures for older people (including extracare that supports early hospital release), a potential for commercial house building on Council and other land that drives a different tenure mix in some parts of our towns, and supporting affordable housing in areas with high levels of second homes.
- **Asset Management Plan** – this identifies significant backlog maintenance across the Council’s property portfolio and would require a level of investment that is currently unaffordable. Therefore the Council’s priority is to dispose of surplus assets and use the receipts to reduce assets ongoing future revenue costs

- 2.7 The existing capital programme is as set out below and full provision is made for the ongoing borrowing costs of these schemes in the Revenue Budget.

Proposed Capital Programme	Proposed Capital Budget			
	2018-19 £0	2019-20 £0	2020-21 £0	Total £0
<b>Gross expenditure<sup>1</sup> :</b>				
Housing, Health & Wellbeing	1,638	2,150	2,000	5,788
Tourism & Culture	1,250	0	0	1,250
Localities & Environmental Quality	465	150	0	615
Transformation	40	40	40	120
Economic Growth	11,200	0	0	11,200
<b>Total Expenditure</b>	<b>14,593</b>	<b>2,340</b>	<b>2,040</b>	<b>18,973</b>
<b>Financed by:</b>				
<b>External funding sources:</b>				
Disabled Facilities Grant (Better Care Fund)	1,358	1,000	1,000	3,358
SCP Housing grant	30	33	0	63
ERDF grant	1,500	0	0	1,500
LEP Growth Deal funding	4,800	0	0	4,800
Solway Pathways grants	1,250	0	0	1,250
Other grants and contributions	105	0	0	105
<b>ABC resources:</b>				
General Fund/Revenue contribution	4	0	0	4
Earmarked Reserves	16	0	0	16
Capital Receipts	0	0	0	0
Unfinanced expenditure (borrowing)	5,530	1,307	1,040	7,877
<b>Total financing</b>	<b>14,593</b>	<b>2,340</b>	<b>2,040</b>	<b>18,973</b>

- 2.8 The Council is ambitious about transforming the Borough in terms of growth, inequality and sustainability.
- 2.9 As well as the proposed capital programme, the current administration is continuing with its ambitions to make sustainable improvements to the borough and the lives of the residents. The Council recognises that it is likely to need significant investment to advance the priorities and ambitions being identified and is exploring the possibility of significant capital projects with could add £30 million to the capital programme.

- 2.10 It is envisaged that this will be a major commitment for this Council and that a commitment to working with both the private sector and other public sector bodies to identify new funding streams will play a significant role in the future. In these periods of continuing austerity these challenges must be met with more creative and bold ideas and solutions.
- 2.11 A number of aspirational programmes and projects are currently at initial concept stage and include the following projects:



- 2.12 These schemes will all need to follow the principles as set out in this Capital Investment Strategy and full business cases will need to be submitted and approved before the schemes are recommended for inclusion in the capital budget.
- 2.13 The Table below shows an indicative capital programme should it be increased to incorporate an additional regeneration budget of £30 million over the next two financial years and funded by additional borrowing:

Indicative Capital Programme	Indicative Capital Budget			
	2018-19 £0	2019-20 £0	2020-21 £0	Total £0
<b>Gross expenditure<sup>1</sup> :</b>				
Housing, Health & Wellbeing	1,638	2,150	2,000	5,788
Tourism & Culture	1,250	0	0	1,250
Localities & Environmental Quality	465	150	0	615
Transformation	40	40	40	120
Economic Growth	11,200	15,000	15,000	41,200
<b>Total Expenditure</b>	<b>14,593</b>	<b>17,340</b>	<b>17,040</b>	<b>48,973</b>
<b>Financed by:</b>				
<b>External funding sources:</b>				
Disabled Facilities Grant (Better Care Fund)	1,358	1,000	1,000	3,358
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<b>ABC resources:</b>				
General Fund/Revenue contribution	4	0	0	4
Earmarked Reserves	16	0	0	16
Capital Receipts	0	0	0	0
Unfinanced expenditure (borrowing)	5,530	16,307	16,040	37,877
<b>Total financing</b>	<b>14,593</b>	<b>17,340</b>	<b>17,040</b>	<b>48,973</b>

- 2.14 Should the council be unable to secure the levels of external funding required to proceed with these schemes, then it will also explore the option to increase borrowing. The cost of borrowing the full amount would result in additional revenue costs of £2.3m per year by 2021/22.

2.15 The financial implications of any potential schemes will be incorporated into the Treasury Strategy and Budgets as and when the scheme business cases are given full approval.

### 3.0 Capital Resources

3.1 The Council's capital investment falls within, and needs 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.

3.2 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.

3.3 The Council's service and budget planning process ensures decisions about the allocation of capital, and revenue, resources are taken to achieve a corporate and consistent approach.

3.4 The main sources of funding of the capital programme are as follows:-

- External Grants / Contributions
- Capital Receipts from disposal of assets
- Balances and Reserves
- Borrowing
- Partnership opportunities / Joint Ventures

### 3.5 External Grants / contributions

Grants from external sources can be 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 the LEP and the emerging local Industrial Strategy.

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 correctly reflected in service revenue budgets.

### 3.6 Capital Receipts

The council can generate its own capital resources through the sale of surplus land and buildings and these resources can then be used to invest in new capital projects. The Asset Management Group will identify assets surplus to requirements and recommend sale where relevant. It is fair to say the opportunity for sale are becoming limited and the current economic climate may well restrict capital values.

Generally, all capital receipts will be treated as a corporate resource and become available for reinvestment in capital opportunities.

### 3.7 Balances and Reserves

The Council currently holds a healthy level of both general and earmarked reserves. This reflects the robust financial management and policy decisions made in recent years and enables internal borrowing and cash-flow to be managed. Earmarked reserves are set aside for identified specific projects which limits funding for new initiatives.

### 3.8 Prudential Borrowing

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 will continue to consider, on a cautious and prudent basis, the extent to which prudential borrowing may be undertaken to fund new capital investment which generates returns over and above the revenue costs of the debt.

Given the pressure on the Council's revenue budget in future years, 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.

Given the long-term nature of borrowing and the risk of change in economic conditions, such as interest rate risk and counter-party risk, it is important that the long and short-term risks of borrowing are carefully documented.

### 3.9 Opportunities from Partnerships / JV's

The Council recognises that certain services have greater potential for attracting capital finance from external sources and will seek to maximise opportunities available. Full business cases will be presented and require full approval before entering into any alternative service delivery model.

## **4.0 The Capital Programme**

- 4.1 From 2018/19 onwards the Council is likely to need significant investment to advance its ambitions and priorities as set out in the Council Plan and will need a flexible approach to how it invests in capital schemes.
- 4.2 Service Managers and Portfolio Holders submit proposed capital schemes bids at the start of the budget setting process, which commences in August.
- 4.3 A scoring methodology is used to ensure that schemes that best fit the Council's priorities, within funds available, are taken forward.
- 4.4 In order to deliver on our ambitions, we need to deliver efficiencies, seek additional funds and review regularly how we are using our capital resources.
- 4.5 To assist the decision making process in determining whether a capital investment should be included within the capital programme, the following four core principles will be used:-
  1. Manage impact on revenue

2. Optimise opportunities to deliver priorities
3. Effective appraisal of capital schemes
4. Performance management

#### 4.6 Managing the impact of investment decisions on the revenue budget

This is ensuring that any capital investment decision does not place additional pressure on the Council Tax or the Medium Term Financial Plan.

Capital investment will be supported and recommended when it:-

- Allows investment to save
- Generates a revenue or capital return
- Generates additional new funding from NNDR or NHB
- Level of risk consistent with Council's risk appetite
- A key regeneration priority where the Council makes the decision to reduce spending elsewhere to fund it from borrowing

#### 4.7 Optimise the availability of capital funding where this supports our priorities

This will be done by:-

- Reviewing our assets and disposing of surplus or poor performing assets and using the receipts to re-invest
- Developing effective working relationships with potential funders
- Creating effective partnership arrangements

#### 4.8 Have in place and effective appraisal process

Underlying this strategy is the recognition that the financial resources available to meet all the ambitions and priorities are constrained. To ensure that resources are allocated effectively the capital programme planning is determined in parallel with the service and revenue budget planning process within the framework of the budget strategy and MTFP.

Rolling programme items are the first call on available resources to ensure that existing approved service levels can continue to be developed.

For all new projects and programmes a Strategic Outline Case will be submitted that needs to include capital investment, repayment mechanisms, revenue impacts and full lifetime costings. These will be scored against an agreed weighting and appropriate recommendations made to the Commercial Board.

Subject to the outline proposal being approved a detailed full business case will need to be submitted and appraised, including full identification and assessment of the risks and due diligence report, prior to being submitted to Executive.

#### 4.9 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 Senior Management Team (SMT) on a monthly basis and on a quarterly basis to Executive.

At year-end Financial Services collate the outturn position and report any under/ over spend and recommend budget carry forwards.

#### **5.0 Conclusion**

5.1 This strategy is a working document which enables the Council to make rational capital investment decisions in order to achieve its priorities.

5.2 It sets out clear ambitions to drive capital investment in Allerdale 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.

5.3 The Council will maintain comprehensive and robust procedures for managing and monitoring its capital programme.

5.4 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.

#### **6.0 Legal Implications and Risks**

6.1 The Council is faced with diminishing capital finance which means that it has to monitor capital investment decisions against available funds to ensure that it does not spend or commit in advance of receiving funding. The Capital Financing Requirement will need to be monitored carefully.

6.2 Capital projects will be managed via an identified Project Manager to the Commercial Board. All risks that may affect a project are considered. These will include political, economic, legal, technological, reputational and financial risks. Significant projects will use appropriate project management tools.

6.3 If the Council considers capital investment in the form of loans then exposure to non-repayment will be carefully managed through contract management arrangements.

## **7.0 Recommendations**

7.1 That the strategy is approved and following best practice it is renewed on an annual basis to ensure a strong link to the Council's priorities

**Catherine Nicholson**  
**Head of Financial Services (S151)**