Capital Strategy

2022 to 2042

www.lancashire.gov.uk

Lancashire County Council

Contents

Section 1. Background, purpose and aims of the Capital Strategy

Section 2. Approach to investment prioritisation

Section 3. Funding sources and investment decisions.

Section 4. Revenue implications and links to other strategies.

Section 5. Performance monitoring

Section 6. Stewardship

Section 7. Overview of capital requirements.

1. Background, purpose & aims of the Capital Strategy

1.1 Purpose and aims of the Capital Strategy

The purpose of a capital strategy is to set the long term strategic framework within which the authority will use as the framework and context for capital and investment decisions. It is a requirement of the Chartered Institute of Public Finance and Accountancy (CIPFA)'s Treasury Management Code of Practice and the Prudential Code that authorities have in place a long term capital strategy, the definition of long term is generally accepted to be 15-20 years and as such the strategy cannot set a detailed programme of works to be delivered, or a level of investment to be guaranteed each year, but aims to set a context within which future programmes are developed. The long term funding requirements of the existing asset base should be considered as a priority to maintain the existing asset base required by the services, to the standards set by the individual asset management strategies. This, whilst not being a developed delivery plan, forms an important part of the contextual assessment and provides a background within which individual funding decisions can be made

The council is keen to ensure that there is efficient and effective usage of its capital assets and the resources tied up in them. This 20 year capital strategy therefore sets out the corporate aims and principles that underpin the production of the rolling 3 year capital programme to be approved each February. The strategy will be reviewed at this time each year to ensure that it reflects the changing regulatory environment and the needs and priorities of the council.

The Capital Strategy aims to support the delivery of the council's Corporate Strategy by investing in our capital asset base within the resources available and with due regard to risk management within our asset management.

Key priorities for application of capital expenditure are:

- Delivering the policy ambitions of the Corporate Strategy
- Managing the risks within the existing asset base
- Exercising financial prudence and maintaining debt levels that are sustainable within the council's revenue budget.
- Investing in schemes which will reduce the council's revenue costs
- Being alert to opportunities to lever in additional resources including external funds to help deliver the Corporate Strategy priorities.

The Capital Strategy should be read in conjunction with the Treasury Management Strategy, Prudential Indicators, Minimum Revenue Provision and Capitalisation policies, as well as the Medium Term Financial Strategy 2022-2025, Capital Programme 2022-2025 and the annual budget 2022-23. The principles of the Capital Strategy are the basis for the development of the Asset Management Strategies.

The Asset Management Strategies will set out the standard to which each class or type of asset will be maintained to and will ensure there is consistency of approach between the types of asset used by different services.

The council has set out this strategy being fully aware that there will be competing pressures on the limited resources to fund the capital programme each year from the diverse range of services that the council provides, the large and diverse asset base that the council needs to maintain as well as the finite amount of funding that is available. The current processes within the setting of the capital delivery programme is to limit the requirements in certain blocks to that of the funding available, this means fixing worse first in terms of condition of buildings. Additional expenditure for urgent projects has been on a reactive basis which can lead to higher cost projects than could otherwise be the case or repeated visits to the same building over time which is not efficient. This approach does not address all the risks within the asset portfolio and is therefore not sustainable in the long term over which this strategy is to be applied.

A move to a more proactive capital programme delivery, which focuses on managing risks within the asset base and control of demand for capital resources, is required. This will require leadership at all levels to ensure that the resources available are deployed in the most effective and efficient way and a process for the prioritisation of capital expenditure being included in the capital programme has been developed. There will also need to be a property portfolio review undertaken to reduce the number of corporate property assets held to ensure that the demands on future capital funding will be sustainable. This work will commence soon and be completed in 6 months in time for this budget setting process for 2023-24. These will be managed by Capital Board and Property Board at an officer level to ensure that the development of the capital programme is carried out with due regard to risk management and prudent and sustainable resource management.

1.2 The key objective of Lancashire's Capital Strategy

The key objective of the Capital Strategy is to provide a framework within which the Capital Programme for delivery will be developed. The rolling 3 year programme will:

- Ensure the council's existing asset base is available to support the delivery of services according to the corporate strategy and vision;
- Regularly review the asset base to ensure assets no longer supporting the corporate strategy are disposed of and the capital receipts used to support the investment in remaining asset base;
- Be affordable, financially prudent, and sustainable, and ensure that decisions are made with regard to the long running financial implications and potential risks to the authority; and

- Ensure all new capital investment is deployed in such a way to ensure the asset base can be utilised in the most effective way.

The resources employed to fund the deliver the Capital Strategy are allocated through the annual budget process that sets the three year rolling capital programme and will include the following:

- Capital Grants received, due regard will be made to the terms and conditions of the grant funding to apply the grants to the appropriate schemes;
- Capital Receipts;
- Borrowing, to a level which can be sustained through the revenue budget;
- Revenue contributions, where investment schemes can be demonstrated to provide a revenue savings in future years through a business case process or where capital investments reduce pressure on the revenue budget

1.3 The county council's corporate priorities.

- The capital budgets within the capital programme as directed by the capital strategy will support the four Corporate Priorities:

  - **Delivering better services**
  - **Protecting our environment**
  - **Supporting economic growth**
  - **Caring for the vulnerable**

Each capital proposal will be required to clearly demonstrate how it supports the the aims of the Corporate Priorities.

- **A**ssets will be invested in to allow provision of first class schools, and good quality reliable roads and public transport, vulnerable people are protected and supported as well as connected to their community. Technology investments will allow digital access to services as well as efficient use of information by services. Investment will be made, subject to prioritisation, where it is necessary to provide the council's services to be delivered or to deliver growth that would otherwise be undeliverable.

- **C**apital investments will be made to develop infrastructure and transport links where the private sector alone cannot. By working with partner local authorities, Transport for Lancashire and Transport for the North, as well as the private sector, individual partners' transport and infrastructure priorities can be supported through the council's local highway authority process and grant funding potential by utilising partner funding where this is available as match funding. Any requirement for county council borrowing to match fund a scheme would be subject to the principles of the capital strategy as documented above including the prioritisation process, sustainability of revenue provision to support the investment and the ranking against other proposals.

- Capital investment proposals will be considered for prioritisation and ranking that support the development of economic growth where they link with the Lancashire Plan and Lancashire Industrial Strategy and the investment or supporting infrastructure cannot be brought forward by the private sector due to viability issues.

- Capital investments will be made, where financially prudent to do so, to preserve our cultural, leisure and heritage assets. Where it is not financially prudent to do so the council will work with partners to ensure the long term security of heritage, culture and leisure assets valued by our communities.

- Capital investments will be prioritised in our asset base including information technology assets that allow services to promote and enable communities to meet their own needs.

2. Approach to investment prioritisation

2.1 The capital programme

There will be a 3 year rolling capital programme agreed every February set within the context of this capital strategy.

2.2 Identification and prioritisation of capital investment needs.

The formulation of the Capital Programme is driven by the budget and service planning process. The size of the Capital Programme is determined by the following:

- The need to incur capital expenditure to protect and preserve the existing asset base;
- To enhance the exiting asset base where this is required to preserve service delivery;
- The proposals for extending the asset base to provide services which deliver the priorities in the corporate strategy;
- The resources available to fund the expenditure; and
- The revenue implications flowing from the capital expenditure, both positive and negative.

As part of the budget setting process, services will be required to submit capital proposals which are considered by Members for investment decisions. This will be after a triage process at officer level led by Capital Board which will have ensured the proposal's strategic fit in line with the principles of the Capital Strategy and will have scored the projects for prioritisation in line with all competing proposals. The capital investment appraisal process will take into consideration:

- Corporate Priorities
- Affordability and Resources
- Risk Management
- Value for Money, taking into account options appraisals and cost benefit analysis
- Capability and capacity within the council to manage and deliver the project.

Capital investment proposals will be presented initially to capital board in a standard form that includes the following sections:

- Description of the proposal
- The outputs and outcomes to be achieved
- The projects fit with council's Corporate Strategy
- Key dates and milestones
- Cost of the Scheme and the funding source to be applied
- Affordability in terms of the MRP policy
- Revenue budget implications over the asset life
- Evaluation comments and recommendations from Capital Board including prioritisation scoring
- Risks associated with the proposal including the implications of not proceeding.

Proposals recommended for approval by capital board will be submitted to members for approval along with any recommended changes to the agreed to delivery plan required to accommodate the proposal.

2.3 Capital projects: evaluation and priority scoring

It is acknowledged that the council has limited resources to meet all the requests for capital investment and will need to prioritise requests and set benchmarks for investment decisions. Members ultimately determine the projects to be included within the capital programme but to assist this decision making process and ensure decisions are not taken in isolation and with full knowledge of the competing priorities the council will implement a priority scoring matrix to be overseen by Capital Board and used to determine which proposals are recommended for Cabinet approval and aid the comparison with other proposals. The criteria will be reviewed on an annual basis to ensure that it continues to provide an effective tool for evaluation and is set out in Annex 1.

2.4 Assessment of proposals and timetable

The councils policy is to agree the rolling 3 year capital programme on an annual basis at the February council budget setting meeting.

In future years capital proposals will be submitted to the Capital Finance Team in autumn of each year to inform the budget setting process. The proposals will be assessed and evaluated, using the matrix as referred to in section 2.3 and included at Annex 1, by officers from Capital Finance and Asset Management and the appraisals considered by Capital Board to identify those proposals that will be recommended to form the basis of the capital delivery programme submitted to Corporate Management Team and members for consideration and approval.

2.5 Invest to save capital proposals

Service departments are to be encouraged to consider innovative ways that service provision can drive efficiency in both the revenue and capital budget provision and help drive cash savings and reduce long term funding commitments where possible. On occasion this may include the identification of assets which are no longer considered to be financially sustainable, or fit for purpose, in relation to the delivery of council services and priorities.

Invest to save bids will be considered for capital funding on the same basis as other proposals, subject to funding resources being available and as long as there is a business case demonstrating the savings and benefits which will be achieved as result of the intervention. Where the benefits of these schemes outweigh the costs including the revenue costs of repaying the borrowing, and taking the lifetime of the intervention into account, there is a greater likelihood of the projects being prioritised using the matrix in annex 1; where the costs outweigh the benefits over the lifetime of the intervention, services may be asked to contribute the funding from their revenue budgets to reduce dependency on the limited borrowing capacity available.

2.6 Charges to the capital programme

Service departments should follow the council's capitalisation policy and only charge allowable expenditure to projects in the capital programme. This will reduce the risk of regulatory infringements and also the burden on capital funding by borrowing as well as increase number of projects that can be funded with the limited resources available. This will ensure the most effective use of the resources as directed by this strategy.

2.7 Approvals outside of the normal budget setting process.

Any additional capital investment proposals received outside of the budget setting process in 2.4 above must in the first instance be submitted to Capital Board to be reviewed at the quarterly approvals meetings. The proposals should be submitted in the standard form and will be scored by Capital Finance and Asset Management, if supported by Capital Board they will then be recommended to Management Team for approval and to Members.

2.8 Loans to external bodies or organisations

The council's capital programme can also provide the facility to loan monies to, or cash flow projects on behalf of, partner organisations where the activities to be funded align to one or more corporate objective or service priorities.

There are statutory regulations which govern the accounting treatment of loans, provided towards expenditure which, if incurred by the authority itself, would be classed as capital expenditure. Loans for this purpose must be State Aid compliant and will be subject to a financial appraisal and due diligence checks, and where possible the council will seek to minimise the risks assessed to the council. This may be in the form of a loan agreement or by security provided by a charge on partner assets.

The rate of interest charged on these facilities will be dependent on the nature and structure of the loan and its assessed risks but will only be provided on the basis that there is no net cost to the council over time.

3. Funding sources and investment decisions

The main sources of capital funding are summarised below:

3.1 Grant funding and external contributions

The Council will endeavour to maximise grant allocations and allocate them to most effectively address the corporate priorities identified and that are highest in the prioritisation scoring matrix, whilst ensuring all conditions of the grant are met.

The majority of 'planned' capital expenditure for maintenance of highway infrastructure and school buildings are funded by the appropriate grants.

Contributions will be sought from developers towards the provision of public or private assets and facilities. This will include agreements with developers to mitigate the impact of their development on communities. This will include using Section 106 (Town and Country Planning Act 1990) agreements or community infrastructure levy towards education infrastructure, as specifically highlighted in Department for Education guidance "securing developer contributions for education" issued in November 2019 and contributions towards Highways infrastructure requirements associated with developments under section 38 and 278 (Highways Act).

Contributions may also be sought from users of the council's asset base where a proposal for investment will generate benefits for that user, this could be a partner organisation, internal service department or school.

3.2 Capital receipts

A capital receipt is an amount of money exceeding £10,000 which is generated from the sale of an asset.

Capital receipts from asset disposals are a finite funding source and it is important to utilise them to the most effective long term advantage of the council be that funding new capital investment or offsetting debt or transitional costs.

The council's policy is to treat all capital receipts as a corporate resource, enabling investment to be directed towards those proposals scoring highest in the prioritisation matrix but where grant funding is not appropriate to be applied to.

The council has a substantial property estate mainly held for operational service requirements, which include administrative buildings and a range of other land and property assets. The estate is to be managed through the asset management strategy which identifies property requirements and where appropriate properties which are surplus to operational requirements which will be disposed of.

The council will continue to work with other organisations to utilise redundant assets and vacant land to bring them into a useful economic purpose and facilitate employment and job creation, subject to the proposals fitting the principles and criteria previously outlined in this strategy.

Borrowing The council will seek to minimise the level of borrowing required to finance required capital expenditure by maximising grants and contributions received, minimise the costs charge to each project and ensuring any surplus assets are sold.

The Local Government Act 2003 enables local authorities to determine their programmes for capital investment and associated borrowing requirements provided they have regard to the Prudential Code for Capital Finance in Local authorities developed by CIPFA.

The key objectives of the Prudential Code are to ensure, within a clear framework that the capital investment plans of the authority are affordable, prudent and sustainable. To demonstrate that local authorities have fulfilled these obligations the Code sets out a series of indicators – known as prudential indicators – the Council must consider as part of its budget setting process and also give consideration to CIPFA resilience indicators.

3.3 Revenue funding

Capital expenditure may be funded from revenue, for example where a service requests a capital investment to improve its productivity or where funds can be contributed by a school towards improvement or expansion plans. Pressures on the council's revenue budget and council tax limits may restrict the extent to which revenue funding can be exercised as a source of capital funding.

4. Revenue implications and links to MTFS, Treasury Management Strategy, and prudential indicators.

The impact of the revenue implications has to be a significant factor in determining approval of projects. All capital investment decisions should consider the revenue implications both in terms of servicing the finance but also running and maintaining the new asset. Life cycle costing should be a key factor in the rolling capital strategy requirements and feed through into the rolling three year capital delivery programme. It may be more financially beneficial where service requirements change in the short to medium term to pursue a different model for asset holding which reduces the capital requirements for investment. An example of this could be leasing buildings for service delivery when the demand for the service in that area is shorter than the long term financial strategy or the leasing of vehicles.

The use and financing of capital resources has been fully taken into account in the production of the council's annual budget and Medium tern financial strategy, and are reflected in both the Treasury Management Strategy Statement for [2022-2023] and Prudential indicators for [2022-23 to 2023-2024] as detailed in appendices of the Budget 2022-23 report.

5. Performance monitoring of the capital programme.

The capital finance team, working with programme and project managers and heads of service for delivery, monitor the progress of the capital programme on a monthly basis and report to Cabinet on a quarterly basis. All delivery projects within the capital programme are managed through the corporate system (PPMS) and reports will be taken to capital board where there are issues that increase the risks in the capital programme.

All processes and procedures relating to the monitoring of the capital programme are set out in the councils Financial Regulations. The key controls are:

- All expenditure must be carried out in accordance with Financial Regulations and the capitalisation policy.
- The expenditure must comply with the statutory definition of 'capital purpose as interpreted in guidance by the Section 151 officer.

- Where the budget setting process approves a programme budget, a further report on individual schemes to be taken from this budget needs to be approved by Capital Board unless delegated powers in the financial regulations apply.
- Budgets and responsibility for each project must be under the control of a nominated project manager.

The monitoring work above will ensure these controls are enforced.

6. Stewardship of assets.

The council's Asset Management Strategy sets out the standard and condition each of its assets should be maintained to and the arrangements for managing these effectively. The implications of that strategy are included in the long term capital strategy requirements and form an important context in which to make future asset management and capital investment decisions.

7. Overview of capital requirements for the existing asset base

The assessment of investment required over the term of the strategy is updated regularly. A detailed capital programme will be set each year to deliver the investments that score the highest in the prioritisation scoring and can be delivered within the funding available. Items which cannot be funded by the available resources will remain unfunded requirements in future strategy assessments and the risk associated with not delivering them will be highlighted in the capital risk register managed by Capital Board.

Annex 1

Capital projects: evaluation and priority scoring

The criteria referred to in section 2.3 of the Capital Strategy to be applied for 2022-2023 is set out below:

- The contribution the proposal will make to one or more of the corporate strategy priorities.
- The impact the proposal will have on the councils revenue budgets either as additional running costs or as a saving including allowing service to be delivered in a more effective way.
- The proposals contribution to maintain existing assets to the standard in the specific assent management strategy or to allow services to be delivered as per directorate strategies for non property assets.
- The proposals ability to assist in attracting a wider investment such as external funds
- The proposals ability to meet statutory compliance and regulatory requirements including those relating to information assets.
- The proposal meets specific government initiatives.
- The proposal addresses non statutory Health and safety risks identified by survey data or mitigates issues included in the corporate capital risk register