Appendix 1

DARLINGTON BOROUGH COUNCIL

CAPITAL STRATEGY

2019/20 – 2022/23

Darlington Borough Council

Capital Strategy

Introduction

1. The Capital Strategy has been developed in line with the CIPFA Prudential Code for Capital Finance in Local Authorities 2017. This Capital Strategy is intended to give a high level overview of how capital expenditure and financing plans are decided upon and provides the framework for the development, management and monitoring of the councils capital investment plans.

2. The Strategy aligns with the priorities in the Corporate Plan and focuses on core principles that underpin the Council's approach to capital investments; the governance framework required to ensure the capital programme is delivered and provides value for money for the residents of Darlington.

3. The strategy is integrated with the Medium Term Financial Plan (MTFP) and Treasury Management Strategy and will be reviewed as such on an annual basis.

The Key objective of Darlington's Capital Strategy

4. The Capital Programme is the Council's plan of capital works for future years and includes details on the funding of schemes. The programme includes projects such as the purchase of land and buildings, construction of new buildings or roads, and the enhancement of existing assets. The capital strategy defines and outlines the approach to capital investments and is fundamental to the Council's financial planning process. The key objective of the capital strategy is to deliver a capital programme that;

   (a) Ensures capital expenditure and investment decisions are used to support the delivery of the services according to the priorities within the corporate plan and supporting strategies.
   (b) Is affordable, financially prudent and sustainable
   (c) The most cost effective use is made of existing assets and new capital investment.
   (d) Provides Value for Money
   (e) Encourages Invest to Save initiatives to make efficiencies within the Council's revenue budget.
   (f) Ensures the appraisal and prioritisation process for new schemes is robust and captures risks and mitigating factors.

The Council's Corporate Objectives and Priorities

5. Capital expenditure should support the Council's continuing commitment to the goals and ambitions set our within the Sustainable Community Strategy, One Darlington Perfectly Placed, which articulates the Council's determination to work with our partners to narrow the inequalities gap and capitalise on our assets to grow and share wealth. All capital expenditure proposals should be considered alongside the following three conditions which the council is committed to in order to achieve the vision;

   (a) Growing the Economy to create conditions for business existing and new to succeed and grow creating more jobs and wealth in the borough and a vibrant economy.
   (b) Building Strong Communities to help our communities work together investing in the social infrastructure of Darlington.
   (c) Spending Every Pound Wisely, investing in creative and innovative solutions to make sure we provide value for money.

6. Meeting these conditions will allow the council to achieve the following desired outcomes;

   (a) More people healthy and independent
   (b) A safe and caring community
   (c) More businesses and more jobs
   (d) Enough support for people when needed
   (e) Children with the best start in life
   (f) More people active and involved
   (g) More people caring for our environment; and
   (h) A place designed to thrive.

Governance Arrangements

7. The capital programme is the Council's plan of capital works for future years, including details on the funding of the schemes. Included are the projects such as the purchase of land and buildings, the construction of new buildings or roads and the enhancement of existing assets.

8. The programme is determined by the need to incur capital expenditure, capital resources available; and the revenue implications flowing from the capital expenditure.

9. The Council's Constitution and financial regulations govern the capital programme process and require Full Council to agree the programme annually. The reports of the Chief Finance Officer will consider the compliance of the proposed schemes in the programme with the medium term financial plan, the capital resources available, the revenue implications of the proposed capital expenditure and any other relevant information.

10. All schemes are formally approved into the capital programme by following a process as set out in the financial regulations and approved by Council. The inclusion of a scheme in the programme does not constitute authority to incur expenditure. Each capital scheme shall be the subject of a written report by the responsible Director to Cabinet and this report shall include the need for the proposed expenditure, its place in the Council's strategic plans, the estimated capital cost analysed as appropriate, the estimated revenue implications (if applicable) and the methods of financing.

11. Reports for all proposed schemes with a value of more than £1 million shall also contain whole-life-cost evaluations, setting out the cost of the proposed scheme over its expected life, including any cost implications at the expiry of the life of the proposed scheme.

12. Cabinet receive regular capital monitoring reports and approve variations to the programme within Cabinets delegated authority limits.

13. Cabinet also considers new bids that fall outside the annual budget process

14. Schemes with a final outturn level over £1m are reported to Cabinet comparing actual cost, timeliness and quality with the original and amended approvals.

15. Scrutiny Committees can call in Cabinet reports, receive and scrutinise reports.

16. All projects progressing to the capital programme follow the constitution and financial regulations.

17. The capital programme is subject to internal and external audit.

Investment evaluation and prioritisation

18. As part of the budget planning process services are required to submit capital proposals for consideration to the Asset Management Group (AMG) for investment decisions. The capital investment appraisal process focuses on:

    (a) Policy and strategic fit
    (b) Affordability and resources
    (c) VFM, cost/benefit
    (d) Options appraisal
    (e) Risk assessment and
    (f) Capability and capacity within the Council to manage and deliver the project

19. Where capital expenditure requirements exceed external funding availability bids for internal resources are prepared and assessment by the AMG using a scoring

model which has regard to the capital strategy, asset management plan, sustainable community strategy and the corporate plan. AMG submit to Chief Officers Executive (COE) a list of assessed bids. COE then develop proposals for inclusion in the MTFP-C, Cabinet consider these proposals and make recommendations to Council for final approval.

20. The AMG is chaired by the Managing Director and including representation from all departments, maintain a continuous review of capital planning, management and reporting, with regard to best practice, experience and opportunities for improving the Council's capital and asset management.

21. The AMG oversee implementation of standards and procedures and make recommendations by other parties (Chief Officers Executive, Cabinet, Full Council) as appropriate. In developing their proposals, AMG shall, in addition to departmental capital expenditure plans, have due regard to:

    (a) the various funding streams available from government and other grants
    (b) developer contributions towards capital expenditure under section 106 agreements and any other similar arrangements
    (c) internal resources available from capital receipts, non-supported borrowing and revenue contributions to capital expenditure.

Invest to save projects

22. Departments are encouraged to consider innovation in service provision that can drive efficiency and deliver cashable savings. Invest to save bids will be considered on the same basis as other capital proposals, and need to demonstrate what savings and benefits will be achieved as a result of the proposed initiative. However, as the benefits of these schemes should outweigh the costs it is likely these bids will be prioritised.

Approvals outside the normal budget setting process

23. Any additional capital proposals required within year and outside the annual budget process must be submitted to the AMG for consideration. The group will then appraise the scheme and it will be reported to Cabinet for approval.

Capital Investment Fund

24. At its meeting of 24 November 2016 the Council established a Capital Investment Fund of £10m which due to its success has subsequently been increased to £50m.

25. Council approved the principle and establishment of the Capital Investment Fund to be used for innovative investment opportunities beyond the traditional Treasury

Management Strategy in order to achieve greater returns given the low returns on investment due to the current economic climate.

26. To achieve greater returns, the Council is exploring more innovative approaches whilst at the same time being willing to take on a greater level of risk. Such approaches include loans to other organisations, joint venture house building, property investment or developing sites for sale.

27. The Investment fund also provides for wider benefits which extend further than direct reward and assist with economic regeneration and job opportunities.

28. An update on all investments agreed will be provided to Cabinet on an annual basis.

Economic Growth Investment Fund (EGIF)

29. Growing the Economy is a priority for the Council and aligns with the Perfectly Placed vision to capitalise on our assets to grow and share wealth. The capital programme includes the EGIF which sets out the programme of investments that are either required or desired in order to deliver Darlington's ambitions for sustainable economic growth over the period 2019 and beyond.

30. The Plan has been developed as a means to implement key strategies and to set out what needs to be done in order for the Borough to accelerate sustainable, managed and planned economic growth. It has also been developed in order to provide the structured framework required to ensure that a programme of investments is created that can deliver the strategic ambitions and goals of the Council.

31. The majority of the Plan will be completed in conjunction with the Tees Valley Combined Authority, however the Council will need to pump prime and match fund some of the schemes hence the inclusion in the capital programme.

32. Any proceeds from sites which subsequently become operational and sold will be reinvested in the fund for future developments.

33. Specific scheme approvals will be subject to detailed reports to Cabinet to release each scheme as and when they are required.

Loans to External Bodies or Organisations

34. The Council's capital programme also includes provision to provide loan facilities to external bodies or organisations for activities that are aligned to, and support, Council service objectives and/or corporate priorities. Examples may include,

supporting economic growth such as housebuilding and improving the health and wellbeing of local communities.

35. Under statutory regulations these loans are treated as capital expenditure.

36. In making such loans the Council is exposing itself to the risk of the borrower defaulting on loan repayments. The Council, in making these loans must therefore ensure they are prudent and have fully considered the risk implications. The Loans for these purposes will be subject to a financial appraisal and a series of due diligence checks, and only be provided if the Council is fully satisfied of the borrower's ability to meet their obligations. Wherever possible, the Council will aim to mitigate its risks and exposure to default by seeking appropriate additional security from the borrower. This may often be in the form of a legal charge over the borrower's property or assets.

37. All loans are agreed by Cabinet. All loans will be subject to close, regular monitoring.

38. The rate of interest charged on these facilities will be dependent on the nature and structure of the individual loan and the assessed risks to the Council. However, loans would usually only be provided on the basis that there is no net cost to the Council.

39. In addition all loans will need to be State Aid compliant.

Funding Sources

40. The Council's capital programme is funded from a mix of sources including:

    (a) Prudential Borrowing – The introduction of the Prudential code in 2004 allowed the Council to undertake unsupported borrowing itself. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities. The Council must ensure that unsupported borrowing is affordable, prudent and cost effective. This funding can also be used as an option to front fund development to stimulate growth. This has provided the Council with the flexibility to raise capital funding as demand and business need have dictated. This type of borrowing has revenue implications for the Council in the form of financing costs.

    (b) External Grants – A proportion of our capital funding comes through as external grant allocations from central government departments such as the Department for Transport and Department of Education as well as receiving direct funding from the Tees Valley Combined Authority under the new devolved arrangements. There is also external funding from the European Regional Development Fund which we have been successful in bidding on over the last few years.

(c) A significant element of the capital investment programme is funded from the Housing Revenue Account. Funding towards the Council's New Build programme is also received from the Homes and Communities Agency (HCA). All Housing Capital schemes are funded this way and are prioritised through the Housing Business Plan.

(d) Section 106 and external contributions – elements of the capital programme are funded by contributions from private sector developers and partners.

(e) Revenue Funding – The Council can use revenue resources to fund capital projects on a direct basis, however, the impact of austerity on the Council's revenue budget has reduced options in this area and the preference is for Invest to Save projects where feasible.

(f) Capital Receipts – A capital receipt is an amount of money exceeding £10,000, which is generated from the sale of an asset. The Council is able to generate capital receipts through the sale of surplus assets such as land and buildings. The Council seeks to maximise the level of these resources which will be available to support the Council's plans.

41. Mechanisms for distributing government funding continue to evolve through the Government's devolution agenda specifically through the Local Growth Fund (LGF) and the increased role of Local Enterprise Partnerships (LEP) in the strategic oversight of regional areas.

42. The LGF including devolution deals such as the Tees Valley Combined Authority now totals over £12billion of capital investment. This represents both opportunities and risks to existing levels of government service delivery and investment, as LEP's with the strongest Strategic Plans will gain the greatest share.

Risk Management

43. Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully.

44. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and responding to them. It is both a means of minimising the costs and disruption to the Council caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all of their activities.

45. The aim is to reduce the frequency of adverse risk events occurring, minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

46. To manage risk effectively, an assessment of risk should be taken on every capital project, mitigated where possible and monitored.

47. It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in capital assets held primarily for financial returns. Under the CIPFA Prudential Code these are defined as investments and so the key principle of control of risk and optimising returns consistent with the level of risk applies.

Knowledge and skills

48. The Council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

49. The Council establishes project teams from all the professional disciplines from across the council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.

50. Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the Assistant Director Resources.