

# DRAFT

# Capital Strategy

## 2019 Onwards

Version 1.12  
as at 22 February 2019

# CAPITAL STRATEGY CONTENTS

1.	Introduction	2
2.	Executive Summary	3
3.	Strategic Influences on Capital Investment	6
4.	Key Capital Plans by Corporate Objective	10
5.	Commercial Investment Strategy	11
6.	Capital Investment Plans	15
7.	Treasury and Non-Treasury Investments	22
8.	Risk Management	25
9.	Governance	28
10	Skills, Knowledge, and Expertise	31
Appendix A	Capital Funding Streams	33
Appendix B	Action Plan	35
Appendix C	Material Items on the Register of Non-Treasury Investments and Financial Guarantees	36
Appendix D	Capital Investment Plans by Corporate Priority	38
Appendix E	Assessing Risk Levels	41
Appendix F	Acronyms	42

## 1. Introduction

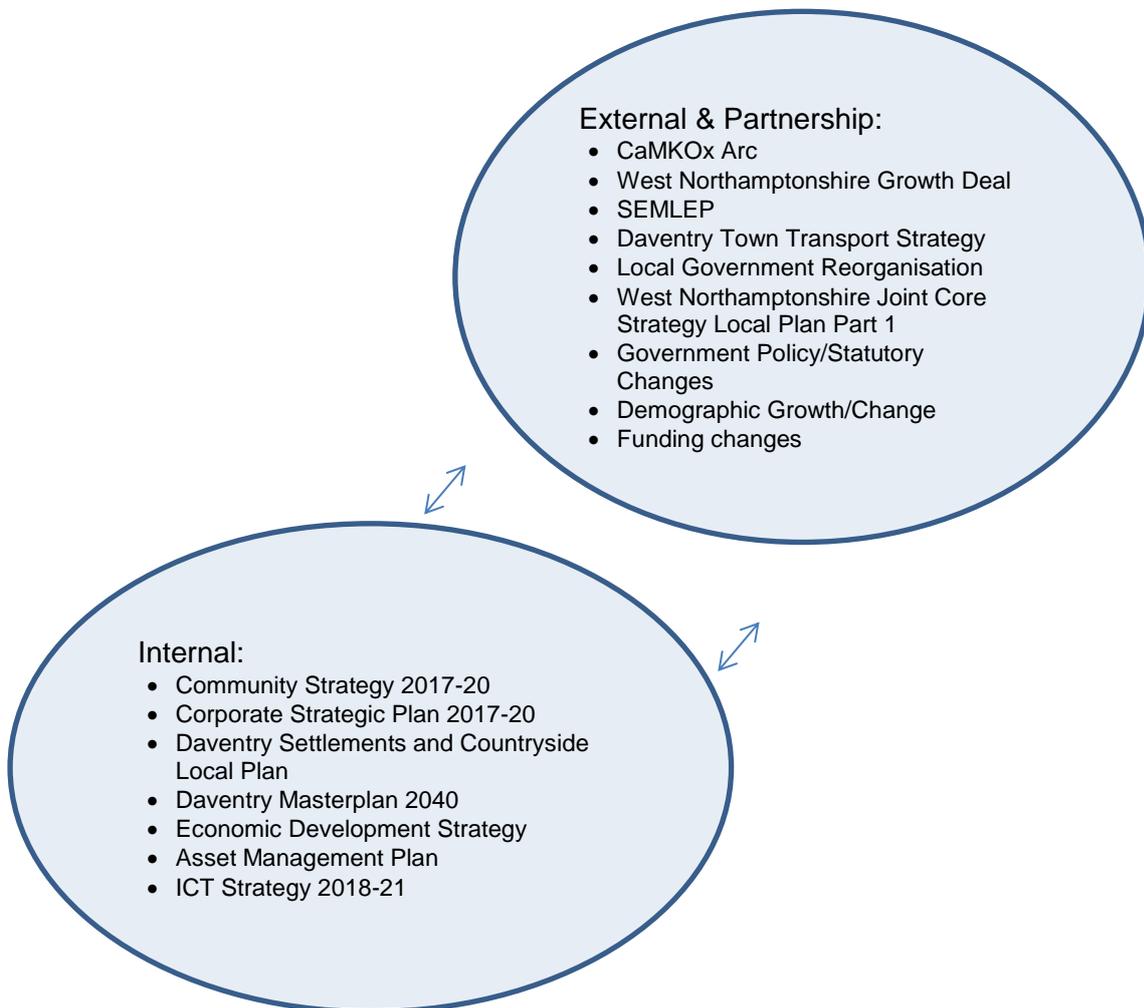
- 1.1 The Daventry District Council's (DDC's) Capital Strategy is a key corporate strategy document that will guide and inform the Council's strategy development and decision making by illustrating where external and internal factors can influence the Council's capital investment requirements and setting out the funding parameters and risks associated with DDC's capital investment.
- 1.2 The updated Prudential Code and Treasury Management Code of Practice issued in December 2017, which local authorities are required by statute to "have regard to" when making decisions (The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 – Regulations 2 and 24), set out new requirements in relation to the setting of a Capital Strategy that cover specific subject areas. Detailed guidance on the implementation of these new Codes was issued in August and September 2018, while new Ministry of Housing, Communities, and Local Government (MHCLG) statutory guidance was issued in March 2018 also outlining other new requirements for the Capital Strategy.
- 1.3 The new requirements ask local authorities to consider the longer term as well as the short and medium term. The benefits of longer term strategic financial planning include:
- Ensuring that the capital expenditure plans of the Council are affordable, prudent and sustainable.
  - Supporting transparent options appraisal.
  - Giving an outline of future commitments so that the affordability of both the long term plan and any new proposals can be properly understood.
  - Informing prioritisation and timing of projects to ensure that both financial and operational capacity is available for delivery.
  - Providing an overview of risk so that projects and proposals can be viewed in the overall risk context of capital and treasury investments.
  - Enabling the ongoing capital and revenue implications of capital expenditure to be understood better.
- 1.4 After significant financial difficulties were identified at Northamptonshire County Council (NCC), DDC submitted a joint bid with NCC and all the Northamptonshire District and Borough councils except Corby to form two unitary authorities. The Government has undertaken a public consultation on the proposal, after which it will make a decision on whether to proceed. Should the Government decide to go ahead, the next step following a formal decision would be to lay the formal paperwork (known as a Structural Change Order SCO) before Parliament. After that is approved, shadow authorities would be set up for each of the two new authorities in preparation for them to commence business as unitary authorities potentially from 1 April 2020. Whatever happens in respect of the local government reorganisation in the county, it is necessary to address the funding risks already identified in the capital programme while taking account of medium term revenue forecasts and long term trends.
- 1.5 The Capital Strategy and Capital Programme are 'living' documents that will be reviewed at least annually and more frequently if events merit an interim update. Updates will be brought back to Council for approval.

## 2. EXECUTIVE SUMMARY

- 2.1 The purpose of the Capital Strategy is to act as a key corporate strategy document that guides and informs policy and decision making. It will evolve over time to reflect future developments in corporate strategic direction.
- 2.2 In line with the requirements of the new codes the Capital Strategy considers the strategic context for the capital programme and addresses how the Council's capital is best managed to deliver its strategic objectives and value for money. It also provides information on the medium and longer term financial context within which these objectives and the Council's Asset Management Plan must be delivered.

### 2A Strategic Influences

- 2.3 There are various interrelated strategic influences, both internal and external, that affect the Capital Strategy as illustrated in the diagram below. Strategies and policies which may have a part in shaping the Capital Strategy and/or the Capital Programme are reviewed and updated by the appropriate service or organisation that has ownership of them.



- 2.4 Regardless of the potential Local Government Reorganisation, DDC needs to plan to address the funding risks identified in respect of both capital and revenue funding forecasts. The Council already has Invest to Save as one of its key criteria for assessing capital proposals and a Business Reengineering reserve is also held in order to provide funding for projects that will deliver savings or income to address the issues identified in both the Medium Term Financial Plan and the Capital Programme.

2.5 All projects accepted into the Capital Programme will support one or more of the Corporate Objectives set out in the Corporate Strategic Plan. These links will be identified at the first stage of bidding for capital funding.

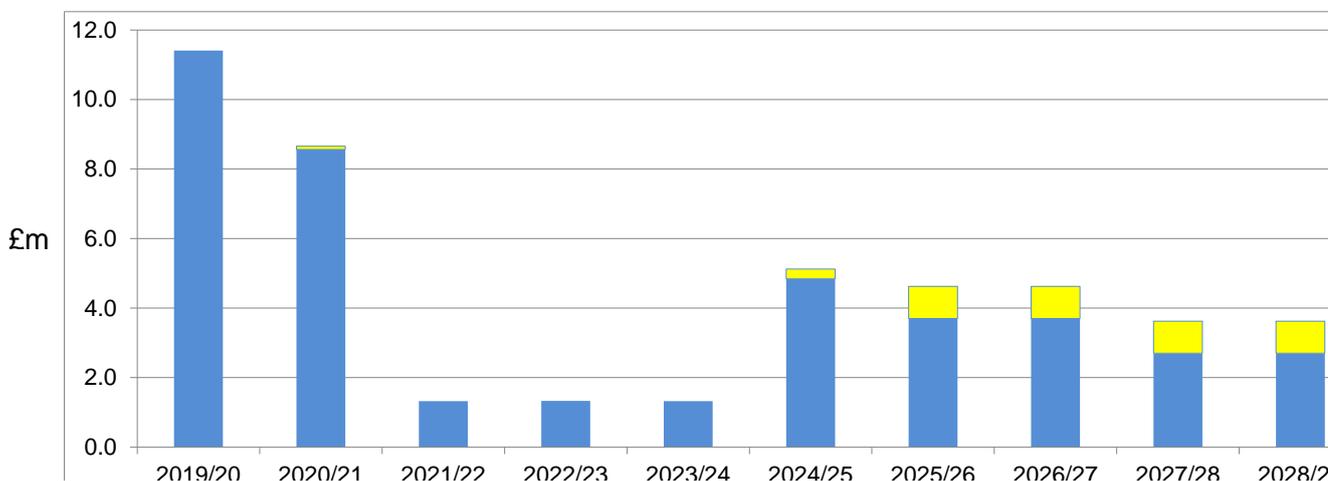
**2B Commercial Investment Strategy**

2.6 Alongside other property investments, DDC will consider investing capital in property solely for rental income or capital appreciation, which is in accordance with Corporate Plan Priority C1 “maximising income generation”.

2.7 The objectives for investing in commercial property are set out in section 5.6 and focus on supporting the Council’s strategic objectives. Where opportunities are identified for affordable development(s) that will provide significant benefits or commercial options for service delivery are evaluated as the most appropriate delivery model, then the Council will consider these for potential investment.

**2C Capital Investment Plans and Funding**

2.8 The chart below shows a summary of the Council’s current 10-year capital investment plan, with the element for which funding has yet to be identified for each year shown in yellow. The first five years of the 10-year capital investment plan have been prepared in detail, while the remaining five years reflect the rolling programme and the CIL programme.



2.9 Capital Reserves are forecast to run out during the ten year plan period and revenue reserves are also expected to decline significantly due to changes in the local Government funding regime relating to Fairer Funding. This raises the importance of prioritising expenditure and being mindful of the Capital Funding Strategy and the potential implications for revenue when considering projects for approval.

2.10 This section also describes the Council’s borrowing principles, targeting borrowing at projects that generate sufficient revenue savings or income to cover the associated debt financing costs, and ensuring that elected Members appreciate the long term revenue impact of borrowing decisions.

2.11 The Capital Funding Strategy for DDC flows in order from Time Limited Funding to Ring Fenced Funding to Other External Funding to Community Infrastructure Levy to Capital Receipts to Strategic Infrastructure Fund to Borrowing to Direct Revenue Contribution.

**2D Treasury and Non-Treasury Investments**

2.12 Given the need for transparency and risk awareness with regard to investments that result in financial return, this section examines the DDC approach to decision making for both treasury (cash investments) and non-treasury (capital investments) and the current portfolio of investments in each case.

2.13 This links with the DDC risk appetite for each type of investment and the strategy expressed in the Treasury Management Strategy/Annual Investment Strategy and summarised in the Capital Strategy. It also provides the base position for any future

planned investment included in the 10-year capital investment plan, to assist with consideration of proportionality.

- 2.14 Authorities are asked to set limits and indicators to help them to understand the degree to which they are reliant on commercial income and their exposure to borrowing costs. The proposed indicators for the 2019/20 financial year are shown in the table below.

	<b>Operational Boundary</b>	<b>Authorised Limit</b>	<b>Financing Costs to Net Rev Stream</b>	<b>Debt to NSE Limit</b>	<b>Commercial Income to NSE Limit</b>
2019/20 Indicator	£3.000m	£5.000m	-3.47%	50%	30%

## **2E Risk Management**

- 2.15 There are various risks to take into consideration relating to capital investment such as:

- Project risks – e.g. delays, cancellation, etc
- Cost overspends
- Non-delivery or shortfall of savings or income returns
- Cost of retaining/maintaining the asset higher than expected
- Loss of cash liquidity

- 2.16 The Council's risk appetite is set out in its Risk Management Policy. The Council is willing to take these risks for projects that have Council approval provided that the project management ensures that suitable mitigating actions are taken to bring the project within acceptable risk margins.

## **2F Governance**

- 2.17 The Council's capital investments are prioritised, managed and monitored in accordance with the authority's Constitution and approved procedures and strategies including the Project Management Methodology, the Procurement Toolkit, Treasury Management Strategy, etc.

## **2G Skills, Knowledge and Expertise**

- 2.18 The Council ensures that all staff have the knowledge and expertise required to carry out their roles, and training is provided to members in respect of their financial responsibilities through the new member induction and annual Finance and Treasury Management training sessions. Both officers and members are able to access any additional external training that might be necessary with the approval of the line manager/budget holder (in respect of officers) or with the agreement of the Member Learning Group (in respect of elected members).

## **2H Review and Update of this Strategy**

- 2.19 The Capital Strategy will be reviewed at least annually, and more often if events merit an interim update. The Finance Team is responsible for updating the Capital Strategy in consultation with Resources Working Group. Council approval is required before an amended Capital Strategy can come into force.

### **3. STRATEGIC INFLUENCES ON CAPITAL INVESTMENT**

3.1 The Council's Vision is to 'Develop a Better District', which reflects how the Council sees its contribution to national, regional and local priorities. This vision is therefore drawn from Central Government requirements (for example through set targets or shared priorities with Local Government), and locally, through the Sustainable Community Strategy developed in conjunction with a range of local service providers/organisations and the local community.

#### **3A Partnership and External Influences**

3.2 It is becoming increasingly important for the Council to work in partnership with others to deliver more efficient and effective services to our community. In addition it is important to monitor and participate with major local strategic partners to ensure that DDC's voice is heard and to understand and act on implications for the local area.

3.3 Daventry District Council has adopted a Partnership Protocol to establish governance and management standards to ensure that our partnerships are well run and deliver benefit to the authority and its residents.

3.4 The council's key local partnerships include the Northamptonshire Waste Partnership, the West Northamptonshire Joint Planning Unit, the Daventry District and South Northamptonshire Community Safety Partnership, and Daventry District Local Strategic Partnership.

3.5 Current collaborative working arrangements include District Law (with Wellingborough and Kettering councils), the Building Control shared service (with Rugby and Warwick councils).

#### **3Ai Cambridge-Milton Keynes-Oxford Arc (CaMKOx Arc)**

The Cambridge-Milton Keynes-Oxford arc is home to 3.3 million people. It stretches around 130 miles from Cambridgeshire, via Bedford and the south east midlands, to Oxfordshire. It forms a broad arc around the north and west of London's green belt, encompassing Northampton, Daventry and Wellingborough to the north, and Luton and Aylesbury to the south.

3.6 The arc is a very important strategic influence for the Daventry District and links with the emerging Growth Deal for West Northamptonshire discussed below. DDC, along with South Northamptonshire Council, Northampton Borough Council and Northamptonshire County Council, is a partner in negotiating a Growth Deal for West Northamptonshire, which matches the proposed unitary area. This is likely to involve large scale development, indicatively 100,000 dwellings by 2050. Inevitably this will require significant capital investment, including major infrastructure, which could lead to capital investment by DDC.

#### **3Aii West Northamptonshire Growth Deal (Emerging)**

3.7 In December 2018 the Council set out its ambition for the Growth Deal locally and the willingness of the Council's Leadership to positively engage with partners to achieve a strong outcome for West Northamptonshire, including several £100m of central investment in various forms stretching out to 2050. It is anticipated that the Growth Deal will be announced as part of the Spring Statement 2019, although the Council is mindful of important matters such as Brexit at that time.

3.8 The Council has successfully accessed funding via the Local Growth Fund previously and therefore is confident that a good case can be made for an appropriate proportion of the funding package to benefit the DDC area. The Council recognises the potential impact of reorganisation, but it is felt that the agreement and subsequent delivery of a Growth Deal is not reliant upon, or constrained by, local government reorganisation.

### **3Aiii South East Midlands Local Enterprise Partnership (SEMLEP)**

The strategic priorities and objectives, set out in SEMLEP's revised Strategic Economic Plan (SEP) 2017-2050, influence the Council's strategic financial planning over the medium to longer term.

The Council has had major projects delivered across all three rounds, including the Daventry Development Link road, which demonstrates the Council's effective engagement with SEMLEP and its success in making the case for regional funding to be directed to the DDC area.

- 3.9 Of particular local interest is the Catesby Aero Research Facility, which has SEMLEP funding.
- 3.10 The Council will ensure that its successful approach to working with regional partners and in delivering local projects is continued into preparations for reorganisation, including decision making and governance arrangements.

### **3Aiv England's Economic Heartland (EEH)**

England's Economic Heartland is a strategic collaborative partnership, which links the Oxford – Milton Keynes – Cambridge corridor and surrounding areas. The partnership is focused on transport strategy and infrastructure and the Council expects that there could be some direct investment in the future. related to projects that will benefit the DDC area.

- 3.11 The Council has senior representation on the partnership, contributing from a regional perspective, not just a DDC area perspective. This representation is via the main EEH officer group. The potential reorganisation should not impact on this wider regional partnership. The Council expects that this approach will contribute to improved transport planning in the future, something that any new unitary authority would be able to contribute to successfully.
- 3.12 As the position evolves, the Capital strategy will examine the medium to longer term influence with regard to the initiatives that the Council will be involved in, either individually or in partnership, and is likely to invest in from a capital perspective.

### **3Av Northamptonshire Transport Plan (Local Transport Plan) 2012 (LTP)**

- 3.13 The LTP 2012 spans the period up to 2026 and for some areas of transport planning it goes beyond 2026. Although some strategies have been refreshed, the document is out of date.
- 3.14 From a local perspective, reference is made to the Daventry International Rail Freight Terminal (DIRFT) in terms of it being part of a strong distribution sector in the county. The LTP also stresses the importance of the A43/A45 artery through the county playing a strategic role as a link to several major routes. The Daventry Development Link has been a key project on this front, linked to the SEMLEP SEP.
- 3.15 The Council will continue to work with partner authorities to identify short to medium term capital investment delivery issues and to start to look to the longer term, particularly with regard to transport and infrastructure investment. As progress is made, this will be reflected in the Capital Strategy, whatever the future local authority structure.

### **3Avi West Northamptonshire Joint Core Strategy (JCS) – Local Plan Part 1**

- 3.16 The Joint Core Strategy is both an external and internal influence on the Council's capital investment planning. The current JCS has a planning period up to 2029 and there is commitment to having a refreshed JCS adopted by 2020 for a new planning period up to 2036 (to be determined by the partner Councils). It provides a strategic framework to guide development of Part 2 Local Plans. The Part 2 Daventry Local Plan is examined further below.

3.17 The Council considers how capital investment proposals can demonstrate how the Council is enabling the priorities contained within this Plan to be achieved, for the benefit of the Council and its partners. This work will continue via the emerging West Northamptonshire Strategic Plan.

### **3B Internal Influences**

#### **3Bi Community Strategy 2017-20**

3.18 The Community Strategy 2014-18 has been updated and the refreshed Community Strategy 2017-20 was approved in February 2018. The importance of community engagement and consultation in successfully planning for and delivering capital investment cannot be underestimated. The Council is very outcome focused, which enables us to get strong messages across to community organisations, communities and residents in terms of what can be achieved in their local areas.

3.19 As the Capital Strategy evolves, and the future structure for local government in Northamptonshire becomes clearer, the approach to community engagement with future capital investment plans will be demonstrated, including the links to the Council's priorities and decision-making process.

#### **3Bii Corporate Strategic Plan 2017-20**

##### Corporate Objectives:

- Improve Our Business Economy, Learning, and Skills
- Protect and Enhance Our Environment
- Promote Healthy, Safe and Strong Communities
- To be an Efficient and Effective Council

3.20 The Corporate Strategic Plan drives the Council's service provision and its capital investment ambition. The Plan includes a list of priorities against each objective, to be specific and clear on how the Council intends to achieve its priorities, and all bids for capital investment are required to show which objectives and priorities they contribute to and how.

3.21 The Council will demonstrate how individual capital investment projects will contribute to achieving these priorities and this position would be updated over the lifetime of the projects. The Council seeks to link its capital investment proposals to other strategic priorities, objectives and actions included in other strategies and plans that influence capital investment, such as those identified in the above sections. This helps with the evaluation and prioritisation of future capital schemes, where a business case needs to consider the contribution to the achievement of priorities, as well as non-financial and financial benefits.

3.22 Each service plan includes a set of performance targets that contribute to delivering the corporate objectives, and these are monitored throughout the year and reported to members. Some elements of capital investment may be required to enable performance levels to be improved or maintained.

3.23 The Council recognises that Local Government Reform will have implications for corporate objectives and outcomes. The Capital Strategy is intended as a dynamic approach and will be responsive to any future changes to corporate strategic planning.

#### **3Biii Daventry Settlements and Countryside Local Plan (Part 2) for Daventry District (Emerging)**

3.24 The Local Development Scheme 2017-19 (LDS) indicates that the adoption of the Local Plan Part 2 for Daventry district is expected in July 2019. The plan for the LDS is 2019-29. It is important to consider how the potential / emerging strategic objectives from the refreshed Local Plan (Part 2) might influence future long term strategic financial planning. It is also important to link to the Daventry Masterplan 2040, which still has a significant amount of relevance to the future plans for the town of Daventry.

- 3.25 The Capital Strategy therefore needs to be caveated at this stage to acknowledge the refreshed Local Plan process and the potential for changes as this is finalised and also the links to the emerging West Northamptonshire Strategic Plan. The Strategic Aim and Objectives contained within the Local Plan will influence the Council's investment ambition directly.
- 3.26 At such a time of change, both in terms of the Local Plan and, potentially, the structure of local government in the area, it is difficult for the Capital Strategy to articulate the long-term strategy and the Council's intended investment. However, the Council's dynamic approach to its Capital Strategy will ensure that, as the longer-term view becomes clearer, the Capital Strategy will expand the strategic planning horizons.

### **3Biv Economic Development Strategy 2018-21 (EDS)**

- 3.27 The Economic Development Strategy includes a number of key actions between 2018 and 2021. These include references to partnership working with the SEMLEP and others.
- 3.28 The draft Strategy includes four priorities, centred around Town Centre, rural economy, employment, skills, business growth and visitor economy, which links to the wider SEMLEP SEP.
- 3.29 Within the priorities, the EDS makes reference to specific areas of focus, including Northampton College Daventry Campus and Digital Academy, A45 Daventry Link Road, Moulton College Food and Drink Enterprise Centre and Catesby Aerodynamic Research Facility (CARF). Reference is also made to the CaMKOx Arc as detailed above.
- 3.30 The EDS also makes appropriately strong links to the Joint Core Strategy and the Local Plan (Part 2), including key areas of development such as housing and employment growth. It includes an Action Plan, illustrating actions against the individual priorities contained within the Strategy against timescale, resources and risks.
- 3.31 The Council recognises that Local Government Reform will have implications for the Economic Development Strategy and the Capital Strategy will be responsive to future changes to strategic thinking on economic development.

### **3Bv Strategic Housing Plan 2014-19**

- 3.32 It is important for the objectives in the Strategic Housing Plan to be reflected in the Council's Capital Strategy both from a direct capital investment perspective and an enabling perspective. The Council plays a vital role in ensuring that the Local Plan is delivered in terms of projects, housing mix and timescale.
- 3.33 The existing Strategic Housing Plan is due for a refresh, although this has to be viewed in the context of potential reorganisation. The current Strategic Housing Plan highlights the importance of working in partnership and internal service collaboration, which will also be important for any emerging strategic housing planning.
- 3.34 In the current Housing policy environment, the Council recognises that the Capital Strategy will need to keep up with the pace of change and its potential implications for direct investment by the Council or the potential new Unitary authority.

### **3Bvi ICT Strategy**

- 3.35 The ICT Strategy recognises that technology has driven higher expectations of what customer service should be and technological improvements to services are required in order to keep up with and exceed rising customer expectations.
- 3.36 The Strategy sets out what needs to be done to deliver the Council's strategic priorities, and divides this into themes, but these do not provide a forecast of the investment required, which should cover capital investment, revenue impact (which may be positive), and staff resource impact. The ICT Strategy suggests that further capital investment will be needed, at least in the medium term period covered by this Strategy, which extends to 2021.

3.37 The Strategy links with the Council's Corporate Strategic Plan and Risks Policy, demonstrating links with corporate strategic planning, and the role of the ICT Steering Group as the governance mechanism for the Strategy. The Council will translate the ICT Strategy actions into capital investment requirement where relevant and, where agreed, incorporate the planned capital investment in the [10-year] capital investment plan.

**3Bvii Asset Management Plan 2017**

3.38 The Asset Management Plan is very closely linked to the Capital Strategy and this link flows works both ways. The Capital Strategy provides a steer to the live Asset Management Plan in terms of the management of existing assets, the current investment property portfolio and the emerging asset opportunities. Equally the Asset Management Plan informs the Capital Strategy in terms of asset opportunities, management and constraints, including governance arrangements and asset management processes. This is explored in more detail in section 4 below.

**3C Key Capital Plans and their Link to Corporate Objectives**

3.39 73% of the planned capital expenditure in the first five years of the Ten Year Capital Investment Plan (from 2019/20) relates to just three key projects. Links between the rest of the five-year capital programme and the Corporate Objectives are at appendix D.

	<b>Improve our Business Economy, Learning and Skills</b>	<b>Protect and Enhance our Environment</b>	<b>Promote Healthy Safe and Strong Communities &amp; Individuals</b>	<b>To be an Efficient and Effective Council</b>
Site 1 & Cinema	✓			✓
The Abbey Refurbishment & Library Relocation	✓	✓	✓	✓
Disabled Facilities Grants			✓	✓

**4. OVERVIEW OF ASSET MANAGEMENT PLANNING**

4.1 The Asset Management Plan states how the Council's properties support the delivery of the Corporate Strategic Plan (CSP) and sets out the role and desired outcomes of the estate in relation to the Council's four fundamental themes and strategic priorities:

- Improve our Business Economy, Learning and Skills
- Protect and Enhance our Environment
- Promote Healthy, Safe and Strong Communities and Individuals
- Be an Efficient and Effective Council

4.2 These themes and the strategic priorities link to the vision for the Council's property estate, which is *"to own, occupy or use properties that support the Council to deliver its services and Corporate Strategic Plan."*

4.3 The AMP references a number of current regeneration projects at key sites, and the mechanisms through which the Council seeks to bring forward these sites for regeneration, including partnership and joint venture arrangements. It also provides an overview description of individual projects that the Council is progressing, along with an Action Plan which headline timescales for delivery of specific actions identified to progress the AMP, which includes individual project/site proposals and actions across the portfolio. Alongside this the AMP incorporates a Property Investment Strategy, which allows the investment principles to be set out against the proposals contained within the AMP.

4.5 Where DDC holds property assets the AMP explains the principles underlying those property holdings as follows:

- The Council will seek to minimise the cost in use of each asset through efficient maintenance and usage practices.

- The Council will seek to maximise the impact of assets on the achievement of its objectives, including through the promotion of joint use with other service providers where appropriate – there are situations where measures such as co-location of the Council’s staff with those of these service providers will make a greater contribution to the Council’s objectives than traditional approaches to using property.
- The Council will seek to optimise utilisation of land and buildings – DDC will seek to ensure that surplus space (if it is not practical or appropriate to dispose of it) is (a) used for service provision (see 3.6.2 of the AMP) and/or (b) let to make a commercial return. The decision on which solution is appropriate will be made on a case by case basis, depending on the building in question, service provision needs and market conditions.
- The Council will seek to ensure that properties continue to be appropriate for the delivery of services – including questions of access, both for people with disabilities and more generally.
- Properties will be managed to help meet the aims of DDCs Environmental Policy – existing assets will be managed in an environmentally responsible way, and opportunities examined to improve by investment or altered management practices.

4.6 The Asset Management Action Plan will be updated on a frequent basis so that this can keep pace with real-time delivery of individual schemes/projects. This will ensure that future iterations of the Capital Strategy can pick up the latest position on delivery of the AMP.

4.7 Further details relating to the Asset Management Plan can be found in sections 6.25 to 6.27 below.

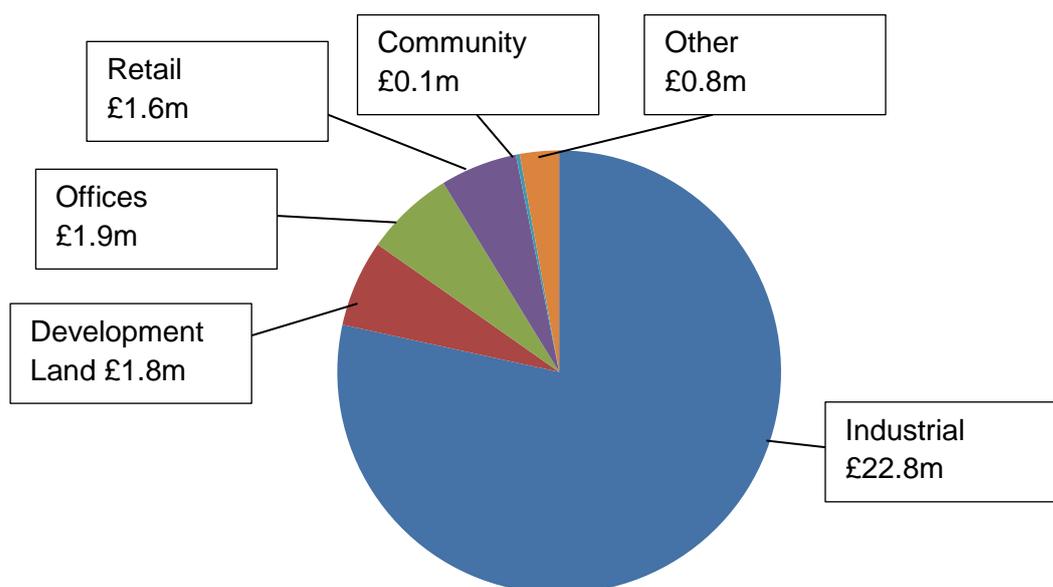
## 5. COMMERCIAL INVESTMENT STRATEGY

5.1 DDC currently has three main areas of commercial activity.

- Investment properties held either to generate a rental income or for capital appreciation.
- Sole shareholder in The Daventry Estate Company Limited (TDECL).
- Co-owner of Daventry Norse, with the other owner being, ultimately, Norfolk County Council.

### 5A Commercial Property

5.2 The Council had 143 investment properties listed on its Asset Register as at 31 March 2018 with an aggregate value of £29m. A further industrial building is currently under construction with the intention of letting it initially as two units.



*The Community category refers to the Shopmobility/DACT building.*

- 5.3 The Council has budgeted to receive £2.5m of rental income for these properties in 2019/20, which is 19% of the Council's net cost of services budget of £13.2m. Where income falls, or is expected to fall, below these levels, the shortfall will have to be met from reserves or from savings in other services, which is addressed as part of the DDC risk management approach detailed in section 8.
- 5.4 The Council will consider investing further in commercial property to see economic and community improvement and/or regeneration within the district and primarily within the town itself and for investment purposes.
- 5.5 The Council's objectives for investing in commercial property are to:
- Support the strategic community objectives of the Council,
  - Have a balanced investment approach,
  - Improve covenant strength,
  - Drive revenue generation,
  - Maintain yield.
- 5.6 When considering such investments the Council will take the following into consideration:
- Affordability,
  - Future capital investment requirements
  - Covenant strength of any pre-let tenants
  - Revenue generation,
  - Yield,
  - Employment provision,
  - Economic support,
  - Voids,
  - Management costs,
  - Arrears.
- 5.7 Where the assets are used for generating rental income, whether for economic development or investment purposes, these cash flows begin to come back to the Council as soon as the tenants begin to pay rent or other sources of income (such as business rates) begin to be received. The risks of this type of investment include potential vacant periods, decline in market rents, non-payment by tenants or users, etc. These will be evaluated as part of the business case by including a factor for bad debt or vacancy periods, and risks relating to the project will be carefully considered and fully disclosed to decision makers. Where there is a pre-let tenant for a project, their covenant strength will be considered as part of the project proposal.
- 5.8 The Council will be undertaking a full review of its investment holdings over the period of its current Asset Management Plan. Where the Council identifies affordable new or alternative development opportunities that will provide significant benefits, then the Council will consider reports recognising such opportunities for potential investment. The Council will hold investment in property solely for a financial return, and considers this commensurate with its Corporate Plan objective C1 – maximising income generation.

## **5B Other Commercial Activity**

### **5Bi The Daventry Estate Company Ltd (TDECL)**

- 5.9 The Council has a wholly owned subsidiary, TDECL, which operates a private housing rental business. The Council built and owns the freehold of 32 houses, which the company leases from DDC on a 250 year finance lease and the company rents these properties individually to private tenants at a market rent.
- 5.10 The Council has four regular income streams (set out below) from TDECL, and may also receive dividends as a shareholder:
- Lease Principal and interest (indexed)
  - Loan interest

- Service charge
  - Director Fees
- 5.11 Interest is built into the lease at 2.92% over the 250 year life of the lease and into the loan at 5.70% over the 50 year loan period. The lease interest income to DDC will be approximately £0.143m per annum excluding indexation and the loan interest will be approximately £0.003m per annum.
- 5.12 The risks to be taken into account when considering this type of investment include:
- Circumstances (including the law) change the costs of providing the services.
  - The arrangements are terminated for any reason
  - Conflicts of interest might arise between Council and company
  - Changes in the housing market make the business less profitable
  - Company is not as profitable as expected and does not generate returns expected.

**5Bii Daventry Norse Ltd**

- 5.13 The Council is a co-owner of Daventry Norse Ltd with, ultimately, Norfolk County Council. This is primarily for service delivery purposes (environmental services including waste collection, grounds maintenance, street cleansing, markets, etc). However, the company will trade commercially within Teckal limits (essentially at least 80% of the company's activity must be for its public sector owners).
- 5.14 The income from this arrangement is established in a profit share arrangement set out in the contract between Norse and DDC. Although this is predominantly a service delivery arrangement, the Council has had to invest in its assets (which will be used for delivering these services) by refurbishing Contracts House and replacing the Depot.
- 5.15 Investing in a Teckal company like the Norse arrangement comes with its own risks for consideration, including:
- The Council needs or wants to do things differently.
  - The Council and Norse/the JV have a fundamental disagreement, such as over price.
  - Norse group fails for any reason, or is closed down
  - The arrangements are terminated for any reason
  - The JV does not perform as expected (including management of health and safety)
  - Circumstances (including the law) change the costs of providing the services.
  - Norse is limited in the amount of income which can be received from organisations that do not satisfy the "Teckal" test
  - Conflicts of interest might arise between Council and company
  - Unexpected call on the Council for capital to purchase the JV or assets on termination
- 5.16 The Council will consider commercial options such as the Daventry Norse arrangement where this is considered to be the most appropriate delivery model for any of its services or corporate objectives. Such activities may require capital investment, as has been the case with Norse.

**5C Mitigating the Risks of Commercial Activity - Due Diligence**

- 5.17 Due diligence begins at the point a project starts to be considered and continues throughout the processes of approval, implementation and operation.

**5Ci Commercial Property Due Diligence – Operational Portfolio**

- 5.18 Before a lease is awarded, a due diligence exercise is carried out in relation to the prospective tenant's capability for meeting their commitments under the lease.
- 5.19 Once the risk assessment has been completed, there are three options for proceeding:
- Grant the lease and require a deposit that appropriately reflects the level of risk associated with the tenancy.

- Grant the lease with an Authorised Guarantee Agreement (AGA), where another body acts as guarantor for the lease commitments.
- Refuse the tenancy.

5.20 Once the lease has been granted the rental income is monitored and managed within the council's sundry debtor processes. If necessary, the Council will take appropriate action to terminate the tenancy in line with the tenancy agreement or lease.

### **5Cii Commercial Activity Due Diligence – New Projects**

5.21 Due diligence on new projects begins at inception by identifying the nature of the project and the associated risks. A feasibility process is then carried out to clarify whether it is deliverable, the potential costs (capital and revenue), and to assess the risks and the benefits it is intended to achieve (including whether it will deliver an acceptable return).

5.22 Next a viability assessment is carried out, which includes a sensitivity analysis. This helps to ensure that the evaluation of the returns expected is robust and to identify the best way to deliver the project and mitigate the project risks.

5.23 If the new project involves a property acquisition, rather than a new build, a detailed assessment of the building fabric and utilities is undertaken (using specialist advisers if necessary). In addition a detailed review of any in situ tenants and their lease terms is also undertaken in order to identify anything that could pose a potential risk to the Council.

5.24 Legal advice is taken throughout all new projects, whether new build or acquisition. This is generally provided through the Council's shared in-house legal service District Law, but will be procured from other legal specialists as necessary.

5.25 Where necessary independent professional advice is obtained from relevant specialists, which may include tax advisers, financial advisers, legal specialists, quantity surveyors, etc.

5.26 Scenarios will be fully explained to the advisers and relevant documentation provided so that there can be confidence in the advice received. This includes making sure that the advisers are aware of and appreciate that "they are not operating in a purely commercial environment and that the prime purpose of a local authority is to deliver statutory services to local residents" (Statutory Guidance on Local Government Investments (3rd Edition) - Issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018 paragraph 40).

5.27 Advice is procured using the Council's Procurement Toolkit, which takes account of both the quality and price of the advice on offer. Where existing contracts lack the specialism or the capacity to provide effective expert advice, a separate adviser may be acquired.

### **5Ciii Commercial Activity Due Diligence - Disposals**

5.32 Specialist legal and tax advice is always taken in respect of any unusual or substantial type of commercial disposal in order to ensure that all liabilities, including tax liabilities are fully understood.

5.33 External advice may also be taken in respect of the best method of such disposals, and the council is mindful of its value for money responsibilities and its duties under s.123 of the 1972 Local Government Act and provisions under other powers to dispose of assets.

### **5D Commercial Activity – Approval and Scrutiny**

5.34 All new commercial projects, whether property or service based, require Council approval based on reports setting out the proposals and associated risks and considerations.

5.35 In respect of scrutiny of service based commercial activity members receive an Annual Report on Council Linked Entities. This currently covers Daventry Norse Ltd, The Daventry Estate Company Ltd, PSP Daventry LLP and DDC Operations Ltd, the latter two of which are not currently active.

5.36 Commercial property income is reviewed monthly as part of the budget monitoring process, which is reported to Resources Working Group. Budget monitoring variations are reported to members quarterly in the Portfolio Holder monitoring reports, and this will include any variations in commercial property income.

## 6. CAPITAL INVESTMENT PLANS

6.1 The Council's Corporate Strategic Plan and other influences outlined in section 3 above influence and drive its capital investment plans. Project costs are affected by both internal and external factors, and lessons learned from previous projects are used along with other data to inform estimations of project costs for new projects and reviewing projects in progress.

### 6.2 Ten Year Outline Capital Expenditure Plan

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Capital Programme	10.527	8.656	1.320	1.326	1.322
CIL Programme	0.890	0.000	0.000	0.000	0.000
<b>Total</b>	<b>11.417</b>	<b>8.656</b>	<b>1.320</b>	<b>1.326</b>	<b>1.322</b>
<b>Proposed Funding</b>					
External Funding	(1.599)	(1.400)	(0.404)	(0.400)	(0.406)
Revenue Funding	(0.009)	(0.095)	0.095	0.000	0.000
CIL Funding	(1.640)	(0.450)	(0.800)	(0.500)	(0.407)
Capital Receipts	(8.169)	(6.806)	(0.211)	(0.426)	(0.509)
<b>Total Funding</b>	<b>(11.417)</b>	<b>(8.656)</b>	<b>(1.320)</b>	<b>(1.326)</b>	<b>(1.322)</b>
<i>Funding to be confirmed</i>	<i>0.000</i>	<i>(0.000)</i>	<i>0.000</i>	<i>(0.000)</i>	<i>(0.000)</i>

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Capital Programme	1.322	1.322	1.322	1.322	1.322
CIL Programme	3.800	3.300	3.300	2.300	2.300
<b>Total</b>	<b>5.122</b>	<b>4.622</b>	<b>4.622</b>	<b>3.622</b>	<b>3.622</b>
<b>Proposed Funding</b>					
External Funding	(0.400)	(0.400)	(0.400)	(0.400)	(0.400)
Revenue Funding	0.000	0.000	0.000	0.000	0.000
CIL Funding	(3.800)	(3.300)	(3.300)	(2.300)	(2.300)
Capital Receipts	(0.640)	0.000	0.000	0.000	0.000
<b>Total Funding</b>	<b>(4.824)</b>	<b>(3.700)</b>	<b>(3.700)</b>	<b>(2.700)</b>	<b>(2.700)</b>
<i>Funding to be confirmed</i>	<i>(0.282)</i>	<i>(0.922)</i>	<i>(0.922)</i>	<i>(0.922)</i>	<i>(0.922)</i>

6.3 The ten-year expenditure plan totalling £45.6m of capital investment outlined in the table above includes:

- £29.0m Infrastructure investment including £15.4m from the CIL programme relating to the Daventry District Link road, Leisure Centre East, bus services, cycle paths, and car parking;
- £13.2m investment in the rolling capital programme including £6.1m of Disabled Facilities Grants and £1.6m relating to Home Repair Assistance Grants;
- The remaining £3.4m relates to smaller investments in front line services such as Homelessness, and preserving existing income streams, such as improvements to the country park café.

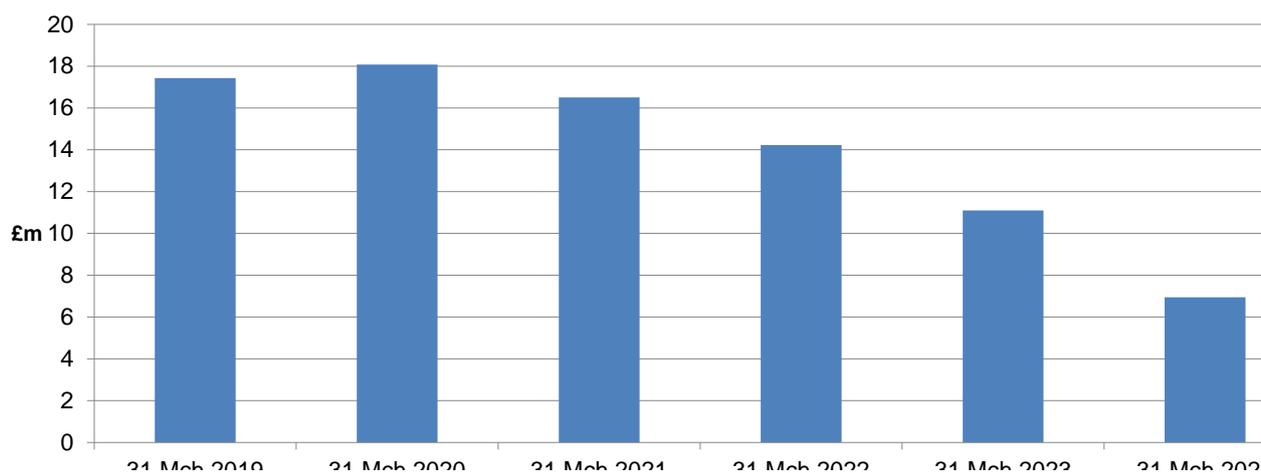
6.4 These investment levels only cover capital expenditure that is currently planned or expected, and does not include anything that may yet come from the stock condition survey

that is due to be carried out, nor from local government reorganisation, nor future service developments and aspirations.

- 6.5 The Council does not currently plan to use any of the capitalisation flexibilities. However, it is possible that it may need to do so in the longer term to help manage business process changes to drive out savings once the Business Re-engineering Reserve has been used up.
- 6.6 The Council faces a number of challenges going forward, one of which is the depletion of its traditional source of capital funds, the sale of green field land for housing and commercial development. This affects both capital and revenue both through the potential need to draw on revenue funding for capital and through the loss of interest earned on capital reserves invested in Treasury investments. Whilst the effect on revenue has been reduced due to the expectation of low interest rates for some considerable period this position remains a challenge in considering the Council's capital and revenue funding needs.
- 6.7 The Prudential Code 2017 (paragraph 65) advises that affordability should be considered in the context of the Council's Medium Term Financial Plan and other financial strategies (such as its reserves strategy). This means that deliberations should look at the costs of running and holding an asset, such as maintenance, potential costs of decommissioning or disposing of an asset, as well as the costs of financing the asset in this context. Where financing costs are a factor, affordability considerations should examine MRP and interest over the life of the 'asset base' and/or the period of the original debt.
- 6.8 The reason for looking at affordability when making decisions about capital expenditure is to make sure that it is within sustainable limits and that the decision makers have considered all the resources currently available as well as those anticipated for the future alongside its current and long term capital and revenue plans.

**6A Analysis of Balance Sheet, Treasury and Reserves Implications**

- 6.9 The Council holds three types of reserve, capital receipts, general fund balances, and earmarked reserves (including CIL, s.106, and other third party contributions). This is in addition to cash holdings relating to working capital.
- 6.10 In addition to the depletion of capital reserves outlined above, the Medium Term Financial Plan considered by Council in February 2019 showed a reduction from £17.4m estimated balance on un-earmarked reserves at 31 March 2019 to just £6.6m by 31 March 2024.



- 6.11 This clearly illustrates a declining revenue reserves position of the next five financial years with a reduction of £10.8m between the end of 2018/19 and 2023/24. Revenue costs of financing capital spend either directly or through debt financing will exacerbate this position if the borrowing principles outlined in 6C are overridden.
- 6.12 DDC's policy is to hold a minimum of £2.0m in general fund balances, reflecting risk and timing considerations in respect of the potential impact of an unforeseen major event impacting the Council's budgets. With the reducing level of available revenue reserves,

opportunities to add new projects to the future capital programme will be very limited, particularly those that are not self-financing. In the longer term efficiency savings will need to be made simply to cover the rolling programme.

6.13 A number of policies and strategies are followed to address the challenge of financial sustainability and to identify and deliver the necessary savings to balance the budget. These include the following:

- Maximise income generation, for example by increasing Council-owned commercial floor space that is occupied and increasing income received from commercial rents.
- Hold assets only if:
  - they represent the Best Value option for service delivery, or
  - they represent a viable form of investment.
- Ensure that the Council and its partners are working in an efficient and effective manner, ensuring good performance and successfully reaching targets and delivering good quality services.
- Use efficient and effective procurement to realise savings.
- Explore new opportunities for collaborative working with other local authorities, other public sector bodies, private and voluntary sector organisations and with central government.
- Modernisation and channel shift, which may require initial capital investment to generate long term savings.
- Effective Treasury Management - The management of the local authority's investments and cash flows, its banking, money market and capital market transactions.

6.14 The Council's approach to Treasury Management is set out in its Treasury Management Strategy (which is reported to Council annually in February), its Treasury Management Practices (TMPs) and the schedules to the TMPs.

6.15 In accordance with MHCLG and CIPFA guidance, and to minimise the risk to investments, DDC has a limit for investing with any single counterparty of £7.5m (group limit £15m), and applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties. This also enables diversification and thus mitigates concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

6.16 Ratings are not the sole determinant of the quality of an institution; the Council continually assesses and monitors the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment also takes account of information that reflects the opinion of the markets. To this end the Council engages with its advisors to monitor market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

## **6B Capital Funding Strategy**

6.17 The Council's capital funding strategy is normally to allocate funding streams in the order outlined below, although the Council may make changes to this strategy if it is deemed necessary in order to deliver priority outcomes. In all cases any time limited funding will be applied before funding that has no time limits on its use.

Time limited funding – funding that must be used within a specified time period will usually be applied first, assuming that there is expenditure that it can be legitimately be applied to. This is subject to any requirements for match funding.

Ring fenced funding – Funding linked to a particular scheme or type of scheme will be allocated in full to the relevant capital project. One example is Government funding for Disabled Facilities Grants.

Other external funding – Funding from external bodies (capital or revenue) is applied first unless the conditions attached require it to be match funded from the Council's own resources, in which case the two funding streams will be applied in tandem.

Community Infrastructure Levy (CIL) – Funding from CIL will be applied to appropriate projects that fall within the 123 list and are designated by the Council to be funded from CIL. Where this is the case CIL is the preferred funding source (in whole or in part).

Capital Receipts (including those held in the Capital Receipts Reserve) – This is currently the main funding source for the capital programme. Due to low interest rates since the economic crisis of 2008, use of capital receipts comes at a relatively low cost and this situation is expected to continue in the medium term.

Strategic Infrastructure Fund (SIF) – This revenue reserve was set up to manage timing of funding streams, but could also be used to fund capital projects as a direct funding source.

Borrowing – Due to the higher costs associated with external borrowing (statutory MRP and interest), this funding sits low in the priority list. Borrowing will be considered where no other suitable funding source is available

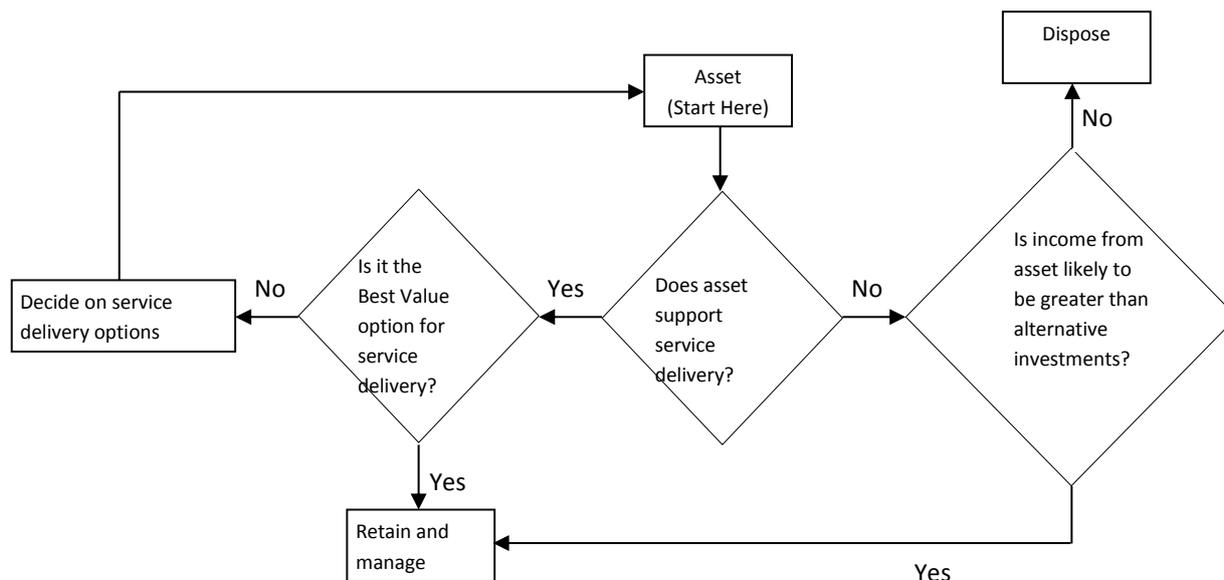
Direct Revenue Contribution – This funding stream is a last resort since revenue budgets are projected to encounter their own pressures over the medium term financial plan.

- 6.18 This funding strategy is illustrated in the current capital programme, where numerous schemes include funding from s.106, CIL, grants, etc, thereby relieving pressure on limited capital receipts and delaying any need to borrow. For example the extension of the Eastern Way car park is to be fully funded from CIL.
- 6.19 Looking forward, the later years of the ten year plan are made up of the current items in the CIL programme plus the rolling programme. REFCUS items such as Disabled Facilities Grants, Home Repair Assistance Grants and grants to voluntary and community groups will be partly funded from grants (in the case of DFGs), it is likely that the remainder will be funded either from Direct Revenue Contribution or from borrowing.

## **6C Resource Allocation and Borrowing Principles**

- 6.20 The Council needs robust plans to meet its funding needs for future capital expenditure in the medium to longer term. If it were to be funded by borrowing it would increase revenue costs as a result of the interest charge for the borrowing and the Minimum Revenue Provision made in accordance with the regulations made under the Local Government Act 2003. In the absence of other sources of capital this essentially means that capital costs would be funded from revenue resources over time whether through direct revenue funding or payment of borrowing costs.
- 6.21 The Council currently charges a certain amount of salary costs to projects in relation to project management. Since the Council will need to undertake external borrowing in the future, this practice is under review in respect of future years starting on or after April 2020.
- 6.22 The Council will therefore pursue an active strategy of seeking:
- a) Income generating investments, where these are deemed to be in line with the Prudential Code. It is justified to use the Council's financial resources for these provided they generate in real terms greater net income than that which would be earned by retaining monies in bank deposits, where liquidity of the funds is not necessary. Each such investment meeting that criterion would increase the overall revenue resources available to the Council.
  - b) Optimisation of income from s.106 agreements and CIL in terms of both income and of delivering essential infrastructure and services.
  - c) Partnerships with developers where this maximises income and achievement of policy objectives as compared to the Council developing or investing alone.
  - d) Generation of income from sales of any valuable assets that are not being used to deliver operational services or are not delivering best value.
- 6.23 The Capital Programme includes the programme of asset disposals. However in the next 10 years after 2018/19, there is only one planned major asset disposal due in relation to the purchase of Site 8 East by Futures Housing for 2020/21 and 2020/21. In addition £0.250m per annum is programmed for the 5 years from 2019/20 in relation to a separate housing arrangement with Futures.
- 6.24 The Council has very few assets left of any significance that could be considered for disposal in future. The majority of assets that are of some worth form the commercial investment portfolio for the purposes of generating revenue income.
- 6.25 The Council maintains a programme of asset disposals which enables it to liquidate inefficient or unnecessary assets and reinvest the funds in other priority capital projects.
- 6.26 The Asset Management Plan explains that DDC will only hold assets if:
- they represent the Best Value option for service delivery (acknowledging that in some cases the service being delivered may be the preservation of a building), or
  - they represent a viable form of investment.

## 6.27 Asset Holding Decision Process



6.28 Even without the implications of reorganisation, DDC would be facing borrowing for its capital programme in the medium to long term and will need to plan for this accordingly in its revenue budgets. Likely impacts of reorganisation and concerns about the implications of the Government's proposals relating to 'Fairer Funding' mean that revenue budget forecasts are also challenging in the medium to long term, and that affordability of borrowing is therefore not straight forward to assess.

6.29 With these changes in funding availability and the corresponding impact on revenue it will be necessary to introduce a more objective and robust prioritisation and scoring process for new capital project bids so that funds available are appropriately prioritised.

6.30 The Council's Borrowing Principles will be as follows:

- a) Overall level of aggregate borrowing permitted will be in accordance with the Operational Boundary and Authorised Limit prudential indicators:

<b>Operational Boundary £m</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
Debt	£3.000m	£3.000m	£4.000m	£4.000m
Other long term liabilities	£0.000m	£0.000m	£0.000m	£0.000m
<b>Total</b>	<b>£3.000m</b>	<b>£3.000m</b>	<b>£4.000m</b>	<b>£4.000m</b>

<b>Authorised limit £m</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
Debt	£5.000m	£5.000m	£6.270m	£6.475m
Other long term liabilities	£0.000m	£0.000m	£0.000m	£0.000m
<b>Total</b>	<b>£5.000m</b>	<b>£5.000m</b>	<b>£6.270m</b>	<b>£6.475m</b>

The Operational Boundary represents the maximum aggregate amount the Council may need to hold in borrowing for the given financial year and may be breached during a financial year. The Authorised Limit is the maximum amount that the Council can hold as debt in the given financial year and must not be breached. The Authorised Limit is set at a level to provide sufficient headroom above the Operational Boundary for any urgent capital expenditure.

Note that these indicators will increase from April 2021 to allow capacity for changes in the Capital Financing Requirement (CFR) relating to the leasing changes under IFRS16.

- b) Where other preferred funding streams have been exhausted, borrowing will be prioritised for projects that generate sufficient income or savings to cover the revenue debt financing costs (interest and Minimum Revenue Provision (MRP)) taking account of the inherent risks. These costs must be affordable in the context of the Medium Term Financial Plan.
- c) Subject to affordability, the Council is willing to consider borrowing for any capital project that generates an asset where the freehold is owned by DDC and all external funding sources have been exhausted, but only within the prudential limits set. In addition, the Council will consider borrowing for Revenue Expenditure Funded From Capital Under Statute (REFCUS) in exceptional circumstances and where all other internal and external funding sources have been expended. In respect of REFCUS, MRP will be calculated in accordance with MHCLG statutory guidance. Reports to decision makers involving debt funding proposals for this type of scheme will make clear the estimated debt financing costs, the level of savings that will have to be delivered to fund that, and the timescales involved.
- d) MRP will be charged to revenue in line with the MRP policy as set in the Treasury Management Strategy each February. When IFRS16 comes into force for local authorities MRP will apply to the majority of lease payments and it will be necessary to use the principal element of the lease repayments as the MRP charge for finance leases. (This will be subject to confirmation when the relevant Code of Practice is finalised).

6.31 DDC's Capital Strategy allows projects that are purely for a return to be funded by borrowing because these projects have at least the likelihood of being able to contribute to the repayment of borrowing costs (paragraph 47 of the MHCLG Statutory Guidance (March 2018)). Such projects are therefore considered more likely to be affordable in the context of limited revenue funding and may also contribute to the funding of other services.

#### **6D Other Long Term Liabilities**

6.32 The Council may decide to take on other long term liabilities such as financial guarantees, for example in respect of subsidiaries or joint ventures. Where this is the case decisions will be made in accordance with the Constitution on the basis of a report identifying each specific long term liability and explaining the associated financial risks.

6.33 In accordance with the CIPFA Treasury Management Code, services will notify Finance promptly of all new long term liabilities and Finance will establish and maintain a register of them alongside the Council's Non-Treasury Investments. Significant Items on the Register of Non Treasury Investments and Financial Guarantees are shown in Appendix C.

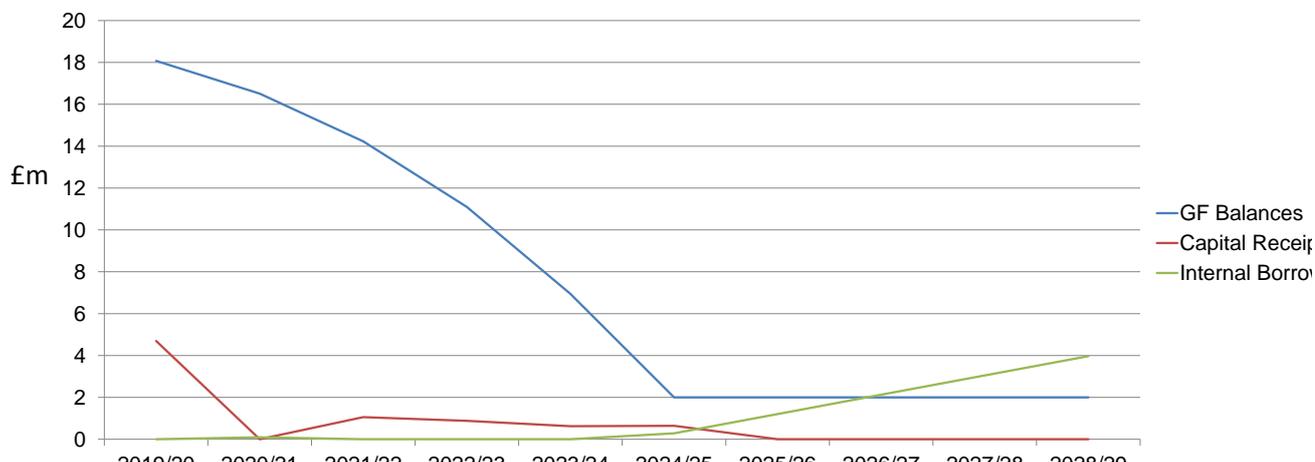
6.34 The Finance team will liaise with services to monitor the Register of Non Treasury Investments and Financial Guarantees on a regular basis and will ensure that the Register is updated at least annually. Any significant changes in the probability of any financial guarantee being called on will be reported to members at the earliest opportunity.

6.35 Services are responsible for keeping the Chief Finance Officer informed in respect of any financial guarantees they have in place.

## 7 TREASURY AND NON TREASURY INVESTMENTS

### 7A Treasury Investments

7.1 Long Term un-earmarked cash balances and internal borrowing are currently projected as shown in the diagram below. In addition, the Council holds various earmarked funds that may be used for temporary internal borrowing. Although no external borrowing is currently foreseen in the next ten years, this position could change depending on how the areas outlined in 6.4 above evolve, and external borrowing will be necessary in the ten to thirty-year time line.



7.2 The money that the Council has available to invest in Treasury Investments consists partly of DDC balances, partly of balances held on behalf of others (for example in relation to the Collection Fund), and partly in relation to working capital.

7.3 Treasury investments are considered by an authorised officer who will approve the Investment Proposal before any deal is placed. The decision will take account of Security, Liquidity and Yield in that order as detailed in the Treasury Management Strategy that is updated and agreed each February by Council and updated during the year if necessary.

7.4 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The Council criteria are set on the Fitch credit rating and in the absence of this Moody's ratings will be taken. However, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:-

- credit watches and credit outlooks from credit rating agencies;
- sovereign ratings to select counterparties from only the most creditworthy countries.

7.5 As at the end of Quarter 3 2018/19 the Council was achieving an average interest rate of 0.87% on its Treasury Investments.

7.6 Scrutiny of Treasury Investments is undertaken by members and officers:

- **Prudential and Treasury Indicators and Treasury Strategy Report** – This report to Council covers capital plans, prudential indicators, the Minimum Revenue Provision (MRP) Policy, the Treasury Management Strategy, and an investment strategy.
- **Mid-Year Treasury Management Report** – This Council report updates members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the objectives or whether any policies require revision. Quarterly monitoring reports are also produced and taken to Resources Working Group and to Portfolios Holders.
- **Annual Treasury Management Report** – This reports to Council details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

7.7 More detail is provided in the Council's Treasury Management Strategy published with the Council agenda each February. Council agendas can be found by following this link: [https://cmis.daventrydc.gov.uk/daventry/Committees/tabid/62/ctl/ViewCMIS\\_CommitteeDetails/mid/381/id/1/Default.aspx](https://cmis.daventrydc.gov.uk/daventry/Committees/tabid/62/ctl/ViewCMIS_CommitteeDetails/mid/381/id/1/Default.aspx)

**7B Non-Treasury Investments**

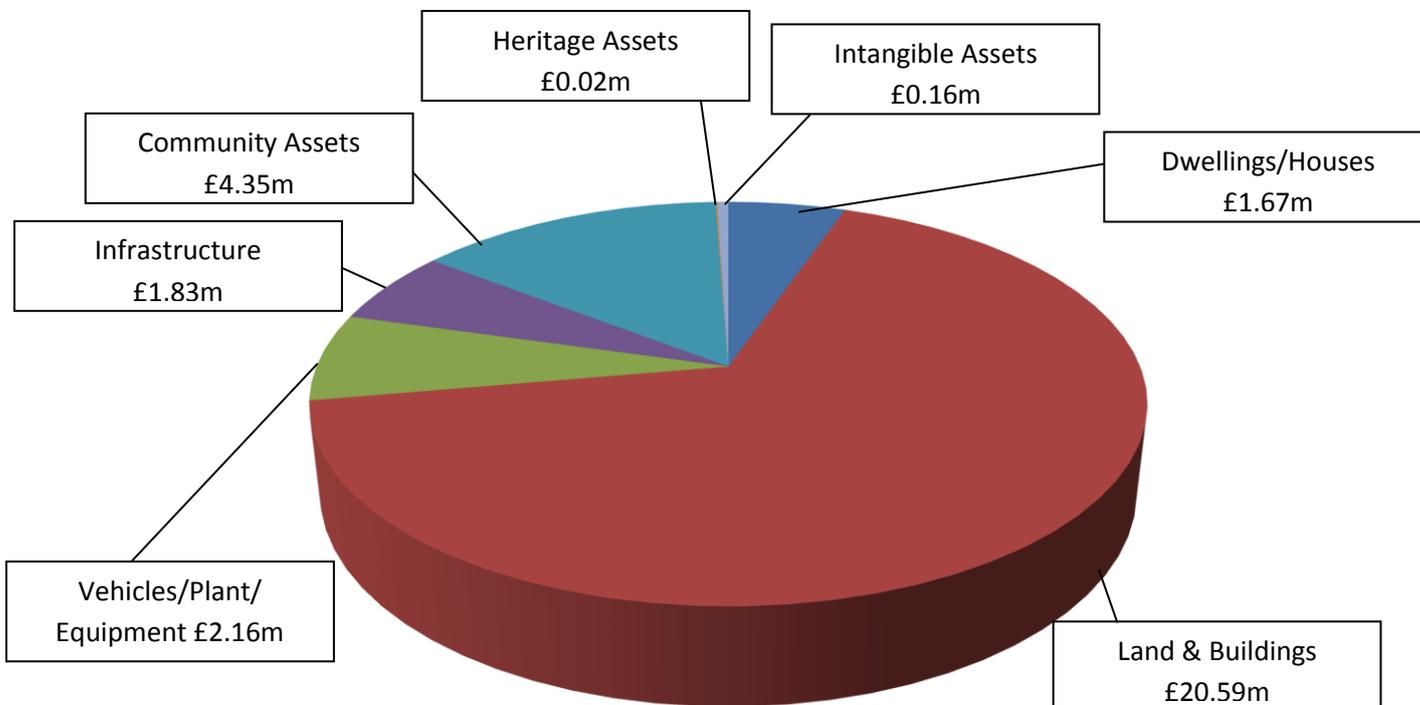
7.8 Non Treasury Investments comprise Investment property £29.0m, service assets £30.8m (Net Present Value (NPV) at 31 March 2018), and works in progress £0.1m (31 March 2018). Works in Progress at the end of 2017/18 related to a new car park, and service assets at 31 March 2018 are set out in the pie chart at 7.10 below.

7.9 As at the end of October 2018 DDC's Investment property is forecast to make £2.47m in 2018/19, which is a yield of 8.5% on the aggregate fair value of the properties held. In terms of property groupings the individual yields are:

Property Group	Value (31 March 2018)	Income Forecast 2018/19	Forecast Yield
Industrial	£22.8m	£2.12m	9.3%
Development Land	£1.8m	£0.0m*	N/A*
Offices	£1.9m	£0.15m	7.7%
Retail	£1.6m	£0.16m	8.3%
Community	£0.1m	£0.01m	6.7%
Other	£0.8m	£0.03m	3.4%
<b>Aggregate</b>	<b>£29.0m</b>	<b>£2.47m</b>	<b>8.5%</b>

\*Development land is held for capital appreciation so the return will only be known on disposal.

7.10 Service Assets



7.11 The decision making process for new Non-Treasury Investments is that bids are considered by the Chief Executive and Chief Finance Officer as a minimum. Bids are either turned down at this stage, referred, or approved to go to the next stage. Where referred, the response will be considered and the bid either rejected or moved to next stage. Next stage

is a report for consideration by members at Strategy Group explaining the bids, key risks and funding implications. Strategy Group considers this report and makes a recommendation to Council, who make the final decision on which projects can proceed.

- 7.12 Decisions in relation to Non-Treasury Investments will focus more on yield and service outcomes than security and liquidity since their objective is to support services either financially or in direct or partner service provision.
- 7.13 Unless there has been a specific Council resolution otherwise, projects over £0.075m in value are limited to £0.075m spend before a detailed business case is brought back for Council to consider. Council then has the decision whether to proceed with the project or to abort. Projects may still be aborted by Council decision if required at a later stage.

**7C Prudential Indicators and Local Proportionality Indicators**

- 7.14 The Council’s capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist member’s overview and confirm expenditure plans.
- 7.15 Capital Financing Requirement – DDC is currently a debt free authority (i.e. has no external borrowing). The medium to long term capital investment plans indicate that it will need to borrow externally in the later part of the next 10 years.
- 7.16 Ratio of Financing Costs to Net Revenue Stream (Affordability Indicator 1) - This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Ratio	-3.47	-2.79	-2.81

The estimates of financing costs include current commitments and the proposals in the budget report.

- 7.17 The Operational Boundary and Authorised Limit indicators are shown in section 6.30a above and set the parameters for borrowing to be undertaken in the medium term.
- 7.18 In accordance with the MHCLG Investment Guidance (March 2018 Annex A paragraph 32) that local authorities are required to ‘have regard to’ DDC is setting two local prudential indicators in respect of proportionality. These aim to highlight to decision makers the affordability risks and exposure associated with debt (internal and external) and the degree of financial reliance on commercial activity.
- 7.19 The first local proportionality indicator is Debt to Net Service Expenditure (NSE).

%	2019/20 Limit	2020/21 Limit	2021/22 Limit
Ratio	50%	50%	50%

- 7.20 The second local proportionality indicator is Commercial Income to NSE.

%	2019/20 Limit	2020/21 Limit	2021/22 Limit
Ratio	30%	30%	30%

## 8. RISK MANAGEMENT

- 8.1 All large capital projects are managed under the council's Project Management Methodology, which incorporates risk identification and risk management. The Council also has a Risk Management Policy which is applied to all its projects and activities.
- 8.2 For all capital projects, project managers update financial forecasts on a monthly basis identifying any areas subject to risk of overspend, underspend, or slippage. The monthly report is reviewed by the officer Resources Working Group, where any issues are discussed and, if necessary, referred for action.
- 8.3 There is also a degree of funding risk in the Capital Programme, reliant as it is on future CIL and capital receipts, and the ability to be able to afford borrowing if necessary. These risks need to be managed and monitored on a regular basis, and action taken where necessary.

### 8A Risk Appetite

- 8.4 Risk appetite in this context is the level of risk that the Council is prepared to accept or be exposed to at any point in time in relation to its activities. It involves knowing what risks the Council wishes to avoid, what risks it is willing to accept and what risks it is willing and able to manage (including by transferring them to a third party, e.g. through insurance).
- 8.5 The Council is willing to accept and manage the risks outlined in 8.10 below in respect of commercial property, provided that the business case and risk assessments for the project put the level of risks within acceptable and manageable margins. However, it will not knowingly enter into a commercial lease agreement with an unsuitable tenant (risk d).
- 8.6 In addition, the lease terms used for the commercial property include clauses that enable the Council to take action in the event that it discovers that it has inadvertently entered into a lease agreement with an unsuitable tenant.
- 8.7 The risks are monitored and managed financially and operationally on a regular basis in accordance with council processes, and the financial performance is reported on a monthly basis to Resources Working Group and on a quarterly basis to Portfolio Holders as part of the revenue budget monitoring.
- 8.8 The Council is willing to accept the risks set out in this Strategy for projects that have Council approval provided that the project management ensures that appropriate mitigations are put in place to bring the project within acceptable risk margins.
- 8.9 The red risks are of greatest priority and require immediate attention. Amber risks should be reviewed and moderate risk mitigation action may be required. Green risks are likely to require no further action and should be monitored at 3-monthly intervals, in case the situation changes.

Likelihood	A	Very High	G	A	R	R
	B	High	G	A	R	R
	C	Significant	G	A	R	R
	D	Low	G	A	A	R
	E	Very Low	G	G	G	A
	F	Almost Impossible	G	G	G	G
			Negligible	Marginal	Critical	Catastrophic
			4	3	2	1

Impact

## 8B Commercial Property Risks

8.10 The key risks inherent in the Council's commercial property investments include:

Category	Description of Risk	Potential Impact
Financial	Downturn in either specific areas of the property market or the wider commercial property market	May result in a decline in rents and/or an increase in vacant properties impacting adversely on the Council's income
Financial	Loss of one or more material tenants resulting in vacant properties and/or bad payers	May adversely impact on rental income
Strategic	Government intervention, e.g. setting limits on the commercialisation strategies available to local authorities	May limit resources through restricting potential funding streams
Reputational	Unsuitable tenants, for example tenants using premises let by the Council for illegal or undesirable purposes	May reflect badly on the Council's reputation
Financial	Over-reliance on commercial income streams to fund core services	May result in increased financial pressures should one of the income streams fail
Financial	Ability to fund costs associated with maintaining investment returns (i.e. income streams), for example ensuring that the investment stock suitably reflects market demands	May undermine investments resulting in increased financial pressures
Reputational/ Financial	Liquidity and Inflation risks – when the Council invests in commercial property the 'cash' it invests loses its liquidity. If the Council does decide to sell investment property, there is a risk that the market value of the property is lower in real terms than the amount invested	May result in reputational damage to the Council and increased financial pressures
Financial	If there are issues with income for an investment property that has been funded by borrowing there is a risk that the costs of borrowing will not be covered by the income from that property	May result in increased financial pressures

## 8C Capital Programme Risks

8.11 The key risks inherent in the Council's Capital Programme include:

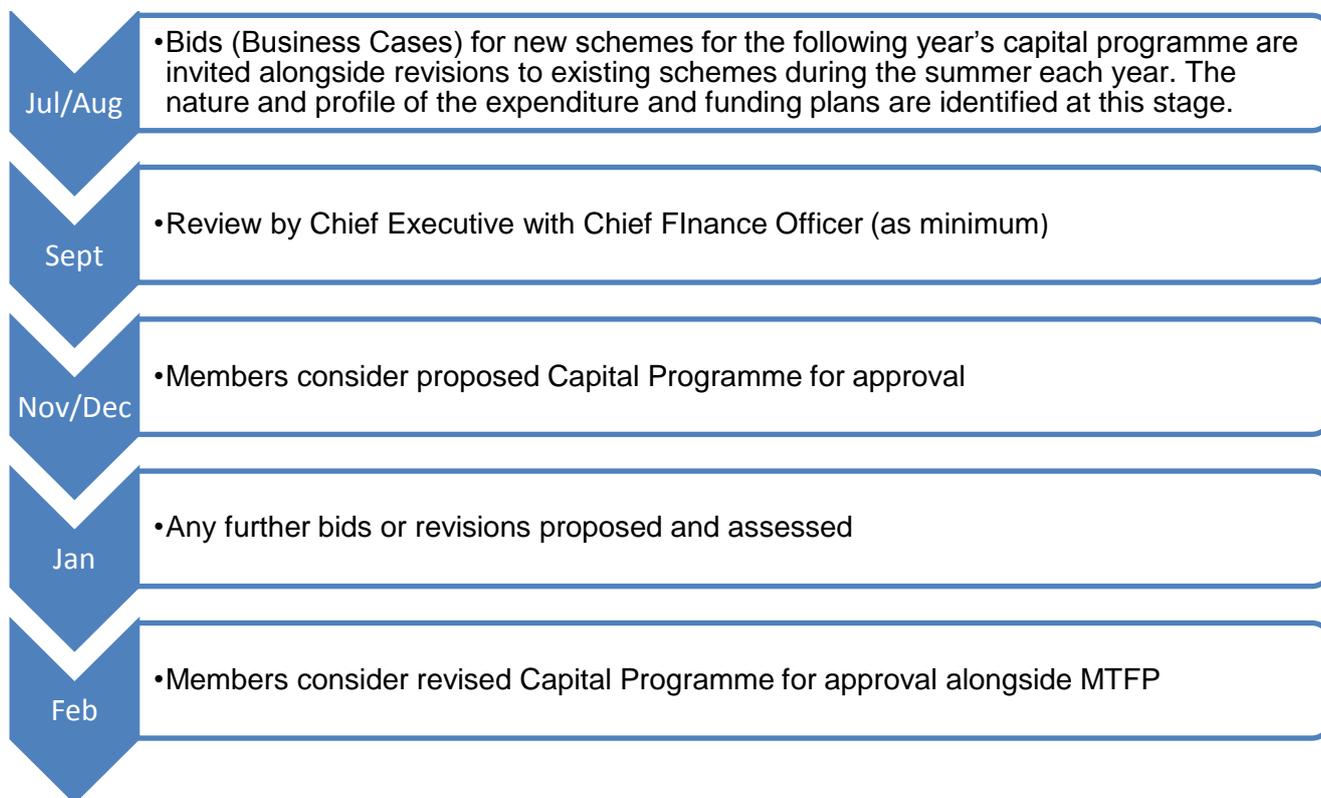
Category	Description of Risk	Potential Impact
Financial	The longer a project takes to come to fruition, the greater the risk is that the financial cost of the project will have increased, both due to the additional staff time spent on the project and the inflationary impact on the costs involved in bringing the asset into operation	May result in financial pressures on other projects / programmes and service delivery

Financial	There is degree of correlation between the length of time a project spends in the feasibility and development stage and an increased risk of project failure or abandonment. Should a project fail for any reason, the regulations require all capital costs to be returned to revenue, which may create significant pressures, depending on the level of spend at that point	May result in additional revenue pressures on delivery / services
Financial	Project expenditure is higher than forecast estimates	May result in increased financial pressures / limitations on future investment options
Financial	Once a project has been delivered successfully the cash expended is then bound in the asset. In the case of assets that are for service delivery and do not generate a rental income stream, the money invested in the asset is only recovered if and when the asset is sold at a future date. This carries inherent financial risks in that the asset may have decreased in value, depending on market conditions, or may not have increased in value sufficiently to mitigate the effects of inflation	May result in increased financial pressures / limitations on future investment options
Financial	The current capital programme is heavily reliant on future capital receipts and CIL income. Should there be any issues in securing these within the planned timescales, it may be necessary for the Council to review the expenditure in the capital programme or undertaking borrowing, which would come at a revenue cost	May result in additional revenue pressures on delivery / services

## 9. GOVERNANCE

### 9A Corporate Planning Framework

9.1 Governance arrangements for the Capital Programme are set out in the Financial Regulations (section 6E of the Constitution).



9.2 The timetable above relates to the main Capital Programme Build, however, Capital projects may be added or amended during the financial year with approval of Council. This may be by means of a budget update report or a specific report seeking approval for one or more new projects or changes to/deletion of existing projects. In these cases details are provided in the report to make clear risks and impacts of the project itself and in relation to the existing capital and revenue budgets.

9.3 This Council will consider the funding of capital investment on a corporate basis. Approved capital investment schemes will only be funded by leasing, borrowing, Public Private Partnership (PPP) arrangements, or by the application of revenue funds, if such an option demonstrably represents the most affordable option to the Council and/or is necessary to secure specialist skills and expertise required to deliver a project otherwise not readily available to the Council. This is particularly important due to the 'knock on' effect that new schemes can have on the existing programme and the revenue budget in respect of funding available.

### 9B Developing Proposals

9.4 All capital investment proposals are documented from initiation with submission of a bid or business case form for consideration. This records essential project information, including fit with corporate priorities, risks, and performance indicators.

9.5 In the interests of properly evaluating the affordability of a project, the revenue implications of capital bids are also included on the bid form in order to:

- Evaluate the overall financial business case of the capital project (revenue and capital cost/savings aspects),
- Enable corporate, joined-up, forward financial and service planning.

9.6 The current financial strategy gives the following guidelines:

- Minimisation of operational costs through efficiency, productivity and procurement.
- Maximisation of relevant external income generation opportunities.
- Revenue and capital resources allocated in accordance with relative service priorities and customer needs, discharge of legislative requirements, and achievement of corporate objectives.

## **9B Prioritising Proposals**

9.7 Consideration of growth bids (business cases) is restricted, and these are prioritised as follows:

- A statutory requirement or compliance with an existing legal obligation
- Health and safety requirements to meet mandatory obligations
- Invest to save proposals which will result in a net revenue budget saving (via reduced expenditure or increased income) and with anticipated financial payback in a reasonable time period or, proposals which will result in a net capital gain (via development to sell) also with anticipated financial payback in a reasonable time period.
- Schemes that are fully and securely externally funded.
- Schemes that enable the authority to meet its objectives and are affordable.

9.8 Currently capital scheme bids are initially assessed by Executive Directors, and then by the Chief Executive and the Chief Finance Officer prior to approval by members taking into account capacity and risk and using the criteria set out at paragraph 9.4. However, the Chief Finance Officer has implemented a new scoring system to inform and assist prioritisation and decision making, which takes effect from 1 April 2019. The new process involves initial scoring by officers in the Finance Team that is then referred to either Senior Management Team (SMT) or the Chief Executive and CFO for review and finalisation of scoring.

9.9 The new system will score each capital bid in respect of affordability, capacity, constraints, strategic fit and value for money, while taking account of the areas set out in paragraph 9.4. This is necessary to ensure that depleting resources are applied and/or that borrowing costs are only incurred for projects objectively assessed as high priority. There is a slightly different scoring mechanism for commercial investment project bids compared to service project bids, but both deliver a score out of 200 so that they can be compared for prioritisation purposes.

9.10 Once the scoring has been finalised the bids will be reviewed against available funding, and those that require corporate funding from reserves or borrowing will be scheduled in order of score with a line drawn at the funding limit. Members will then be able to use this tool to determine whether they consider that any projects that fall below the cut off need to be brought into the programme and which other projects will be displaced.

9.11 If any of the following questions are answered "yes" the scheme is likely to need to proceed irrespective of the benefit scores:

- Is the service/scheme a legal requirement that cannot realistically be provided more cheaply?
- Are the resources ring-fenced to a specific scheme?
- Are the bulk of the service/scheme costs contractually committed?

9.12 Decisions on the use of capital resources are also guided by the policy context as set out in the Asset Management Plan and the Corporate Strategic Plan.

## **9C Decision Making**

9.13 In normal circumstances Council approval is required for capital projects. However, if necessary, provisions for urgent decisions set out in the Constitution may be used to amend the Capital Programme.

9.14 When making decisions in respect of capital expenditure the Council will take account of stewardship of public funds, value for money, prudence, affordability, and sustainability.

#### **9D Monitoring Arrangements**

9.15 Monitoring arrangements for the Capital Programme are set out in the Financial Regulations (section 6E of the Constitution).

9.16 It is the duty of every Executive Director to monitor and regulate the financial performance of their area of responsibility during the currency of each estimate period (paragraph 4.1 of the Financial Regulations (section 6E of the Constitution)).

9.17 The capital and revenue monitoring position will be reported to Resources Working Group (RWG) each month and to the Portfolio Holders meeting every quarter. In addition, the regular budget update reports presented to Strategy Group and Council include the latest projected outturn position in summary.

#### **9E Community Infrastructure Levy (CIL) Monitoring**

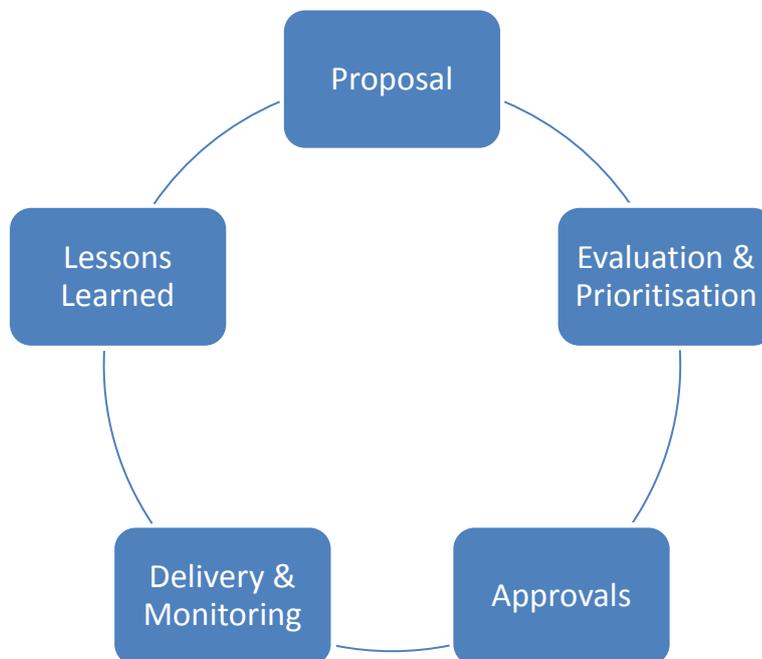
9.18 CIL is monitored through RWG and by the Daventry Development Officers' Working Party. The Business Team is responsible for monitoring the CIL Programme (Constitution part 5, section D, paragraph (F) 6), setting out estimated CIL receipts and the expected timing of the Regulation 123 projects that it will fund.

9.19 RWG receives quarterly reports on the CIL Programme and receipts to date compared to those in the CIL Programme.

9.20 "In the event that CIL income is, or is projected to be, insufficient to meet the planned expenditure from the CIL programme then the Chief Financial Officer in consultation with the Executive Director - Business Team shall determine which items of the CIL programme shall not be entered into until the matter can be considered by the full Council." (Constitution Part 6E, regulation 4.8.2).

#### **9F Performance Measurement and Monitoring**

##### **9Fi Project Delivery**



9.23 Evaluation of projects against strategic objectives, target service outcomes and relevant performance indicators takes place at three stages – prior to implementation, during implementation and on completion. In relation to projects, this is achieved through use of the Council's project management methodology.

- 9.24 As a general requirement, progress in delivering capital schemes on time, within budget and against target service outcomes will be monitored on a monthly basis by the Council's Resources Working Group, and on a quarterly basis by the Senior Management Team and Members via reports to relevant Portfolio Holders and the Strategy Group of the Council.
- 9.25 On completion of projects managed under the methodology a Lessons Learned Report and a Project Handover Report must be completed. The Lessons Learned Report is considered at the Resources Working Group. This is to enable corporate sharing of the knowledge gained and thereby improve future project appraisal and evaluation, procurement and project management processes and inform future strategic investment decisions.
- 9.26 The Project Handover Report is from the Project Manager to the Project Champion. It demonstrates how well the project has performed against its Business Case/Project Initiation Document/Business Plan and provides guidance for users of the project outputs.

**9Fii Returns and Borrowing**

- 9.27 Borrowing will be measured against the prudential indicators and local indicators set out in sections 6.30 and 7, and in the Treasury Management Strategy Statement reported separately. These will be monitored regularly and actuals reported annually to members in the Treasury Management Outturn Report. Any breaches of limits will be reported immediately to the Chief Finance Officer and as soon as possible to elected members.
- 9.28 Commercial investment property proposals undergo a financial analysis to assess the expected returns. For such projects completing in 2018/19 or after these will be monitored annually against the actual cost of the project and reported to Resources Working Group. Material exceptions will be reported to members in the Outturn report.
- 9.29 For commercial investment property projects completed before 1 April 2018 similar reporting will be undertaken where the relevant information is available. For commercial investment properties where the necessary information is not available, analysis will be undertaken based on the property valuations as at 31 March 2018.
- 9.30 In addition the local indicators relating to income from commercial investments set out at paragraph 7.C will be reported annually to members in the Treasury Management Outturn report and any breaches of limits will be reported immediately to the Chief Finance Officer and as soon as possible to elected members.

**10. SKILLS, KNOWLEDGE, AND EXPERTISE**

- 10.1 The Prudential Code requires the strategy to include an overview of the skills and knowledge at the authority's disposal and to confirm that these are in line with the authority's risk appetite. The accompanying Guidance reminds authorities that the skills and knowledge of those charged with governance must also be properly covered.

**10A Staff Skills, Knowledge, and Expertise**

- 10.2 The council is keen to ensure that all staff have the appropriate skills and knowledge to perform their roles, and ensures that a suitable budget is available for continuing professional development so that staff can keep their skill up to date and, if appropriate, expand them. Staff also have access to a variety of e-learning courses and, where appropriate, on-site training (which may be provided in house or by external trainers).
- 10.3 The Council also has project management expertise throughout and uses its Project Management Methodology (based on PRINCE2) to manage its capital projects. In addition the majority of property capital projects are managed through the Business Team, which has many qualified surveyors and a wealth of experience in managing such projects.

**10B External Advisers**

- 10.4 Where internal expertise is not available or the Council lacks capacity external expertise will be bought in. When procuring or employing an adviser or consultant, the Council will assess their skills and experience before appointing. This assessment will form part of the

quality assessment in the procurement or selection process. The costs of external advisers/consultants will form part of the project cost.

- 10.5 Link Asset Services (Link) provide treasury management advice to the Council under a four year contract. The contract with Link was procured using the LGSS Treasury Management framework. They have significant experience and expertise in the areas of Treasury Management and capital.
- 10.6 DDC has a contract with District Law, based in Kettering, to deliver its legal services, including all legal services relating to property acquisition, disposal and leasing. Where there is inadequate capacity, or the particular legal specialty is not available through District Law, external legal advice may be purchased through appropriate procurement methods.

### **10C Council Members**

- 10.10 The Prudential Code Guidance highlights the importance of those charged with governance having the skills and knowledge to “ensure that decisions can be properly debated and understood and scrutiny functions can be effective”.
- 10.11 All members have an induction session with the Chief Finance Officer when they are first elected to give them an overview of the authority’s finances, their roles and responsibilities. This is complemented by an annual member training session, which is offered to all members, covering all the key aspects of local government finance, funding, budgeting and council tax setting.
- 10.12 In addition a specific detailed annual training session is offered to members covering Treasury Management and Capital Strategy including the CIPFA Prudential and Treasury Management Codes, decision making, risks, investments (Treasury and Non-Treasury), borrowing, performance, etc.
- 10.13 With approval from the Member Learning Group, elected members can also access relevant external training as necessary.

### **10D Assessment**

- 10.14 The level of skills and expertise available to the Council described above is considered to be appropriate in relation to the risk appetite set out in section 8 above; and opportunities are available as described to enhance these skills, should it be deemed necessary.

## **Appendix A – Capital Funding Streams**

### **A1 Capital Receipts**

- A1.1 Capital receipts are derived from the sale of the Council's assets, and may also include income from the principal element of finance leases where the Council is the lessor.
- A1.2 In most cases the Council is able to retain 100% of the capital receipt income from these asset sales, which is then available to support new capital expenditure.

### **A2 Government Grants**

- A2.1 The conditions attached to Government grants vary with each individual grant. Some may fund the full cost of a capital project, while others require the local authority to identify alternative funding for a proportion of the project costs. These grants, such as the Disabled Facilities Grant funding, are usually focussed towards Government priorities.

### **A3 Third Party Grants and Contributions (including planning obligations/s.106 income)**

- A.1 Conditions attached to third party contributions also tend to vary depending on the grant and the awarding third party. Examples include planning obligations, section 106 agreements or unilateral undertakings, contributions from local bodies (such as parish councils), and contributions from national bodies (such as Sport England).
- A.2 For both Government grants and third party grants and contributions it is important that the grant conditions are adhered to in order to manage the risk of being required to repay the grant or contribution.

### **A4 Community Infrastructure Levy (CIL)**

- A4.1 From 1 September 2015 Daventry District Council introduced a Community Infrastructure Levy (CIL). CIL is essentially a pre-set charge that can be applied to all new developments that create new floor space over a minimum size. The CIL charge is then spent on infrastructure (such as roads, schools, green spaces and community facilities) that is required to support the delivery of new development. CIL charges relating to Daventry district are published on the Council's website in the CIL Charging Schedule.
- A4.2 Regulation 123 (R123) of the Community Infrastructure Regulations 2010 (as amended) restricts the use of planning obligations for infrastructure that will be funded in whole or in part by the Community Infrastructure Levy. Infrastructure types or projects that are listed in the Council's R123 list will not be sought through planning obligations. However, it should be noted that the parish element of CIL is not subject to the R123 list.
- A4.3 A number of projects have been identified for the infrastructure expenditure programme to be funded from CIL (via the CIL Programme). The profile of expenditure and income is monitored quarterly by the Resources Working Group.
- A4.4 It should be noted that a significant proportion of CIL receipts are required to be paid to parish councils (where these exist) or held for use in a local area (where no parish council exists). Although this parish (or local) CIL portion is not subject to the R123 list, DDC will consider all financial contributions including those from parish councils who are prepared to commit their own CIL funding to funding a particular project.

### **A5 Capital and Revenue Reserves**

- A5.1 As part of its Medium Term Financial Strategy, the Council has set aside various reserves in order to make funding available for its capital programme. These include, among others, the Strategic Infrastructure Fund (SIF) and the Capital Receipts Reserve. Note that the SIF may be used either for 'kick starting' capital projects so that they are not delayed waiting for the identified funding source to arrive, or as the main funding source for a priority project.

## **A6 Revenue Contributions**

A6.1 Due to ongoing pressures on the revenue budget, direct revenue funding for capital is traditionally a minimal source of funding for capital projects and the current 10-year programme shows only £0.09m of direct revenue funding.

## **A7 Internal Borrowing**

A7.1 Where it is deemed appropriate, the Council will 'borrow' from its internal funds for capital purposes. Where this is due solely to timing issues regarding a confirmed capital receipt or grant ring fenced to a specific project the Council will not charge MRP. In all other circumstances MRP will be charged to revenue in accordance with the agreed MRP policy.

## **A8 External Borrowing (sometimes referred to as Prudential Borrowing)**

A8.1 Councils may borrow money from external sources such as the Public Works Loan Board (PWLB), other local authorities, etc. to fund capital expenditure under the provisions of the Local Government Act 2003, provided that it is prudent, affordable and sustainable to do so. The Council must set prudential indicators each year, which include parameters for borrowing, including the upper limits for the value, nature and maturity of the debt incurred.

A8.2 As mentioned above, there is a revenue cost attached to external borrowing relating to both the interest charges payable and the statutory prudent revenue provision (MRP) required under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).

## **A9 Other**

A9.1 Other appropriate funding sources will be considered as they arise.

A9.2 Sometimes it is possible to deliver a desired capital project by working with an external partner. While this is not a direct source of funding to the council, it is a potential means of delivering key capital projects for the authority.

## Appendix B Action Plan

Ref.	Description	Measure	Due Date	Responsibility
B1	Fully implement the new scoring process for prioritisation of capital schemes.	Scoring system in use	30/06/2019	A Statham
B2	New bids to be submitted for any capital requirements arising from the stock condition survey that is due to be carried out or future service developments and aspirations.	Bids received in Finance	31/08/2019	Service Managers
B3a	Complete review of capital salaries	New capital salaries approach determined	31/07/2019	R Smith & A Statham
B3b	Include new capital salaries policy in Capital Strategy	New capital salaries policy included in Capital Strategy	31/10/2019	R Smith
B4	Develop a capital E-learning module for members covering the new Pru Code, Treasury Code and MHCLG Guidance in addition to the basics of capital.	E Learning module available to members	31/07/2019	R Smith
B5	Ensure Capital Strategy has undergone its annual review	Capital Strategy reviewed and outcome fed back to Resources Working Group	31/12/2019	R Smith

**Appendix C Material Items on the Register of Non-Treasury Investments and Financial Guarantees**

<b>Non-Treasury Investment</b>	<b>£m</b>
Hambleside Danelaw -Middlemarch	5.635
6 to 8 Prospects Way	3.350
St Martin's House	1.632
Site 8, Middlemore	1.550
The Abbey Centre	1.500
2 Morris Road	1.453
Heartlands Units 1&2	0.832
6/8/10/12/14 High March	0.582
23/25/27 Royal Oak Way	0.458
Foundry Walk Shops (land only)	0.400
Moot Hall	0.306
36-42 Sheaf St	0.262
Heartlands Phase 2, Plot 2	0.290
70/72 High St, Daventry	0.193
6/8 Bentley Way, Daventry	0.185
14-16 Bentley Way, Daventry	0.182
21 Brunel Close, Daventry	0.181
Long March (lafarge), Daventry	0.178
15 Brunel Close, Daventry	0.168
23 Brunel Close, Daventry	0.168
17 Brunel Close, Daventry	0.168
19 Brunel Close, Daventry	0.168
69 High St, Daventry	0.165
9 Royal Oak Way, Daventry	0.162
1 Royal Oak Way, Daventry	0.159
3 Royal Oak Way, Daventry	0.159
5 Royal Oak Way, Daventry	0.159
7 Royal Oak Way, Daventry	0.159
2 High March, Daventry	0.158
22 High March, Daventry	0.158
24 High March, Daventry	0.158
32 High March, Daventry	0.158
30 High March, Daventry	0.158
34 High March, Daventry	0.157
26 High March, Daventry	0.155
28 High March, Daventry	0.155
20 High March, Daventry, Northants.	0.155
16 & 18 High March, Daventry	0.150
11 Royal Oak Way, Daventry	0.150

<b>Non-Treasury Investment</b>	<b>£m</b>
15 Royal Oak Way, Daventry	0.150
17 Royal Oak Way, Daventry	0.150
4 High March, Daventry	0.141
74 High St, Daventry	0.135
15 and 17 Siddeley Way - now occupied as one property (previously 2)	0.133
Borough Hill GRAZING LAND	0.123
12 Bentley Way, Daventry	0.113
6/8 Siddeley Way, Daventry	0.112
4 Bentley Way	0.110
5 Riley Close, Daventry	0.105
1&2 Edinburgh Square, Daventry	0.105

The schedule above lists the material investment properties on the Asset Register. The Council has 85 non-material investment properties valued individually between £0.003m and £0.100m as at 31 March 2018.

In addition the Council had £30.8m of service assets as at 31 March 2018.

The Council currently has no financial guarantees in force.

## Appendix D – Medium Term Capital Plans by Corporate Objective

### D1 Medium Term (2019/20 to 2022/23)

	Improve our Business Economy, Learning and Skills	Protect and Enhance our Environment	Promote Healthy Safe and Strong Communities and Individuals	To be an Efficient and Effective Council
Monksmoor Primary School		✓	✓	
Middlemore Landscape Completion Works		✓		✓
Cycle Path/Footpath Timken Open Space	✓	✓	✓	✓
Site 1 & Cinema	✓		✓	✓
The Abbey Refurbishment & Library Relocation	✓	✓		✓
TCV Site 3	✓		✓	
Heartlands Completion Works	✓	✓		✓
Middlemore - Minor works			✓	
Middlemore Infrastructure completion Additional Works		✓	✓	✓
Middlemore Cycle track/rural tracks Phase 2			✓	
Middlemore Landscaping Phase 6		✓		✓
UTC Contribution	✓			
Commercial New Build Heartlands plus	✓			✓
Recycling Depot High March		✓		✓
Public Toilets refurbishment (Funded from Revenue Reserves)		✓	✓	✓
Catesby Aero Research (CARF)	✓			
Replacement vehicles Environmental Health		✓		✓
A5199 Chapel Brampton Pedestrian Crossing	✓		✓	✓
Extension and Surfacing of Eastern Way Car Park	✓		✓	✓
Creation of Temporary Car Park at Warwick Street	✓			
New Foot/Cycle Bridge at Crick	✓		✓	✓
Improvements to Athletics Facilities at Stefan Hill Sports Park			✓	
Car Park Extension St John's Square and Chapel Lane				✓
Rainsbrook Crematorium Enhancements				✓
Installation of Bin Holders		✓	✓	✓

in Laybys				
Borough Hill Car Park Works		✓	✓	✓
DCP Refurbishment Programme	✓	✓	✓	✓
DCP Café Refurbishments	✓	✓	✓	✓
Refurbishment of Paved Areas				✓
Improvements at Daventry Cemetery		✓	✓	✓
Refurbishments of Paths and Structures for Open Spaces		✓	✓	✓
Bus Services	✓	✓	✓	✓
Bus Interchange	✓		✓	✓
Daventry-Braunston Cycle Track		✓	✓	✓
Daventry-Long Buckby Cycle Track		✓	✓	✓
North Northampton Cycle Track		✓	✓	✓
Town Centre Car Parks	✓		✓	✓

## D2 Long Term (2023/24 Onwards)

	Improve our Business Economy, Learning and Skills	Protect and Enhance our Environment	Promote Healthy Safe and Strong Communities and Individuals	To be an Efficient and Effective Council
Daventry District Link Road	✓		✓	✓
Daventry-Weedon Cycle Track		✓	✓	✓
Leisure Centre East			✓	✓

## D3 Rolling Programme

	Improve our Business Economy, Learning and Skills	Protect and Enhance our Environment	Promote Healthy Safe and Strong Communities and Individuals	To be an Efficient and Effective Council
Disabled Facilities Grants			✓	✓
Tablets for Electoral Registration Canvas				✓
Green Waste Wheelie Bins		✓		✓
Homeless Reduction Act Implementation			✓	✓
Annual licences REVENUES				✓
Annual licences BUSINESS				✓
Express Signature Verification Software				✓

Capitalised Staff Salaries				✓
Choice Based letting			✓	✓
Grants - Community & District Initiatives			✓	
Home Repair Assistance Grants			✓	✓
ICT Hardware Replacement				✓
Leisure Facilities Contract			✓	
Open Spaces-play equipment			✓	
Public Offices - Improvements, Plant & Equip.				✓

## Appendix E Assessing Risk Levels

The chart and table below set out the Council's risk appetite and associated definitions.

Likelihood	A	Very High	G	A	R	R
	B	High	G	A	R	R
	C	Significant	G	A	R	R
	D	Low	G	A	A	R
	E	Very Low	G	G	G	A
	F	Almost Impossible	G	G	G	G
			Negligible	Marginal	Critical	Catastrophic
			4	3	2	1
						Impact

### Definitions

Likelihood		Impact	Description Guide
Very High	> 90%	Negligible	Minor financial effect, no effect on service provision or reputation, limited physical consequences
High	55% - 90%	Marginal	£10k - £200k, service slightly reduced, broken bones/illness, objectives of one area not met, minor adverse local media, impact on inspection(s)
Significant	15% - 55%	Critical	£200k - £1m, service suspended short term / reduced, loss of Life/major illness, area objectives not met, industrial action, adverse national publicity
Low	5% - 15%	Catastrophic	£1m +, service suspended long term, statutory duties not delivered, major loss of life/large scale major illness, corporate objectives not met, mass employees leaving/Unable to attract employees, Remembered for years. Service taken over permanently
Very Low	1% - 5%		
Almost Impossible	0% - 1%		

## Appendix F Acronyms

3G	Third Generation
AAT	Association of Accounting Technicians
ACCA	Association of Chartered Certified Accountants
AGA	Authorised Guarantee Agreement
AMP	Asset Management Plan – The Council’s policy document for managing its property asset portfolio
CaMKOx Arc	Cambridge-Milton Keynes-Oxford Arc
CARF	Catesby Aero Research Facility
CCTV	Closed Circuit Television
CFR	Capital Financing Requirement
CIL	Community Infrastructure Levy
CIMA	Chartered Institute of Management Accountants
CIPFA	Chartered Institute of Public Finance Accountants
DCP	Daventry Country Park
DDC	Daventry District Council
DFG	Disabled Facilities Grant
DIRFT	Daventry International Rail Freight Terminal
DRF	Direct Revenue Funding
EDS	Economic Development Strategy 2018-21
EEH	England’s Economic Heartland
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standard
JCS	West Northamptonshire Joint Core Strategy
k	Thousand
LGSS	Local Government Shared Service
LLP	Limited Liability Partnership
LTP	Northamptonshire Transport Plan 2012
m	Million
MHCLG	Ministry of Housing, Communities, and Local Government - (previously DCLG)
MRP	Minimum Revenue Provision – minimum amount to be set aside annually in revenue for the repayment of debt principal.
MTFP	Medium Term Financial Plan
NCC	Northamptonshire County Council
Norse	Daventry Norse Ltd
NPV	Net Present Value – The present value of future cash flows relating to a project
NSE	Net Service Expenditure – Defined by MHCLG as ‘Gross service expenditure less fees and charges’

PWLB	Public Works Loans Board - A government agency that lends money to public bodies for capital purposes. Monies are drawn down from the national loans fund and rates of interest are determined by the Treasury. Councils are free to borrow as much as they like from the PWLB provided that it is prudent, affordable and sustainable and within the prudential and local indicators set by Council.
R123	Regulation123 list – List of infrastructure project types required under Regulation 123 of the Community Infrastructure Regulations 2010 that can legitimately be funded from CIL.
REFCUS	Revenue Expenditure Funded from Capital Under Statute - Expenditure incurred during the year that may be capitalised under statutory provision but that does not result in the creation of a non-current asset that has been charged as expenditure to the CIES, but which may properly be financed over a period of years.
RWG	Resources Working Group – Officer group responsible for monitoring the Council's resources
SCO	Structural Change Order – This is the legislation that dissolves the existing local authorities and creates the replacement unitary authority or authorities in a local government reorganisation.
SEP	SEMLEP's revised Strategic Economic Plan
SEMLEP	South East Midlands Local Enterprise Partnership
SIF	Strategic Infrastructure Fund – An earmarked revenue reserve set up to deal with timing issues relating to funding for capital schemes
TCV	Town Centre Vision
TDECL	The Daventry Estate Company Ltd
TMP	Treasury Management Practice (document)
UTC	University Technical College