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## Appendix 9: Capital Strategy 2024/25

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### Introduction

- 1 Capital expenditure is a strategic investment involving major expenditure on assets that provide benefits to the Council and the services it provides for more than one year. The Council works with a wide range of partners from the public, private, voluntary and community sectors, all of which have an influence over its spending priorities.
- 2 The Capital Strategy provides a framework to enable the Council to consider carefully how it prioritises spending to meet corporate and service aims and objectives – as set out in the Council Plan and County Durham Partnership Vision and Plan, underpinned by various service specific strategies. It takes account of the resources which are forecast to be available to the Council to fund capital investment and the effect of that investment on the achievement of corporate priorities and desired outcomes, alongside the impact on the Council's revenue budget as a result of the planned capital investment.

### Objectives for Capital Investment

- 3 The main objectives for the Capital Strategy are to:
  - a) Support the Council's vision and priority themes as set out in the Council Plan;
  - b) Support service delivery strategies;
  - c) Support asset management plans for investment in Council and community assets;
  - d) Ensure that investments are prudent, affordable and sustainable;
  - e) Ensure use of resources and value for money is maximised;
  - f) Support 'Invest to Save' opportunities. These opportunities should wherever possible seek to support demand management and prevention strategies; and
  - g) Encourage inward investment into County Durham and thereby economic development and job creation.

## The Council's Corporate Vision and Priorities

- 4 The Council Vision and priorities are developed together with partners and are based on consultation with local people, local businesses and a range of stakeholders through our Area Action Partnerships and the wider County Durham Partnership.
- 5 The County Durham Partnership has carried out a refresh of its vision for the county, which followed extensive consultation with partners and key stakeholders and included:
  - a) All 14 area action partnerships;
  - b) 11 County Durham Partnership thematic partnerships and sub-groups; and
  - c) 11 other groups including Cabinet Transformation Board and Corporate Overview and Scrutiny Management Board with invitations extended to all other non-executive members.
- 6 The agreed Vision for 2035 is that County Durham is a place where there are more and better jobs, people live long and independent lives and our communities are well connected and supportive of each other.
- 7 The Council Plan is the primary corporate planning document for the County Council and details Durham County Council's contribution towards achieving the objectives set out in the Vision for County Durham 2035. The County Council at its meeting in July 2022 approved a refreshed Council Plan for 2022 - 2026 providing Members, partners and the public a summary of our priorities for the county and informing future spending decisions in our medium-term financial plan. The Council Plan for 2023 – 2027 was further updated and approved by County Council at its meeting in February 2023.
- 8 The Council Plan is now refreshed annually in line with the annual budget and MTFP setting process and is presented to Council in February each year. Both the Vision for County Durham and the Council Plan are structured around the County Durham approach to Wellbeing. This is based on the best public health evidence for improving people's wellbeing through implementing community centred approaches. The Approach to Wellbeing is about putting people at the heart of everything we do and underpins our work to achieve the County Durham Vision, which includes the following themes and focus:
  - a) Empowering communities - Working with communities to support their development and empowerment.
  - b) Being asset focused – Acknowledging the different needs of communities and the potential of their assets.

- c) Building resilience - Helping the most disadvantaged and vulnerable and building up their future resilience.
- d) Working better together Working together across sectors to reduce duplication and ensure greater impact.
- e) Sharing decision making - Designing and developing services and initiatives with the people who need them.
- f) Doing 'with', not 'to' - Making our interventions empowering and centred around you as an individual.
- g) A strong evidence base - Everything we do is supported by evidence informed by local conversations.

9 The Council Plan also sets out five ambitions for the organisation, summarised as follows:

**a) Our Economy**

- A range of employment sites
- A strong, competitive economy
- A broader experience for residents and visitors
- Young people accessing good quality education, training and employment
- Helping all people into rewarding work
- Fewer people affected by poverty and deprivation

**b) Our Environment**

- A physical environment contributing to good health
- A carbon neutral county
- Reduced impact of waste and pollution on our environment
- A protected, restored and sustainable natural environment

**c) Our People**

- Children and young people enjoying the best start in life, good health and emotional wellbeing, and a safe childhood
- Children and young people with special educational needs and disabilities will achieve the best possible outcomes
- Promotion of positive behaviours
- Better integration of health and social care services

- Tackle the stigma and discrimination of poor mental health and build resilient communities
- Supporting people to live independently for as long as possible - more homes for older and disabled people
- Supporting people whose circumstances make them vulnerable and protect adults with care and support needs from harm
- Protect and improve the health of the local population, tackling leading causes of illness and death

#### **d) Our Communities**

- Improve standards across housing stock
- Towns and villages which are vibrant, well-used, clean, attractive and safe
- Good access to workplaces, services, retail and leisure opportunities
- Communities able to come together and support each other
- More high-quality housing which is accessible and meets the needs of our residents
- Rural communities which are sustainable whilst retaining their distinctiveness
- Narrowed inequality gap between our communities

#### **e) Our Council**

- Effectively managed resources
- A workforce for the future
- Services co-produced with service users
- Use data and technology more effectively

10 The Capital Strategy provides a framework to link capital investment to the achievement of the ambitions within Council Plan and ultimately supports the achievement of the Vision for County Durham.

### **Identification and prioritisation of Capital Investment needs**

11 The purpose of the capital budgeting process is to ensure that the money available for capital expenditure is prioritised in the way which best meets the Council's strategic objectives.

12 In the absence of a long term financial settlement and greater certainty over our financial future, the Council has an annual process in which it assesses and prioritises capital projects that can be funded from available resources. For the

2024 - 2028 period this is being more closely aligned to service planning, which will ensure proposals are more clearly and overtly linked to the wider MTFP development and the corporate vision, ambitions and supporting strategies. A key factor that is considered in the assessments is the revenue implications of capital investment – both in terms of the capital financing costs from any required prudential borrowing but also the impact on running costs following any investment.

- 13 The annual capital investment process begins in the summer of each year when service groupings are asked to identify capital investment proposals and prioritise them. The bids in the main should be for two years hence. This forward planning ensures that time is available after the approval of a bid to plan a scheme effectively. These are detailed on capital bid forms containing the following headings:
- a) Name of Scheme;
  - b) Background;
  - c) Justification of Inclusion in the capital programme, linked back to corporate vision, approach and ambitions;
  - d) Benefits - Outputs/Outcomes, linked back to corporate vision, approach and ambitions;
  - e) Investment by Financial Year;
  - f) What the impact would be if the Council did not go ahead with the proposal;
  - g) Are there any ongoing revenue costs and, if Yes, how will these be financed?
- 14 When each service grouping has identified and prioritised its own capital investment proposals, all of the bids are consolidated. The bids are then considered for prioritisation at a corporate level under which the bids are challenged and assessed to ensure they align with corporate priorities.
- 15 In the autumn of each year capital proposals are presented at a capital budget review meeting of the Capital Member Officer Working Group (MOWG) that considers capital matters. This Working Group provides political oversight of the draft proposals.
- 16 The full timetable for capital proposals proceeding into the capital programme is as follows:

June/July	Service Groupings consider options, develop / finalise proposals and alignment to corporate priorities and receive Service Management Team approval
August	Challenge sessions between Corporate Director of Resources and Corporate Directors
September	Corporate Management Team (CMT) discussion on bids and agreement of bids to go onto MOWG for consideration
October / December	MOWG consider bids submitted and sign off bids to approve in line with available capital resources
January	MOWG consider impacts of the provisional local government finance settlement on available capital resources and finalise proposals to submit to Cabinet and Council in February
February	Cabinet and County Council approval

- 17 There is an established mechanism in place where services are encouraged to drive innovation in service provision. Where capital investment can deliver savings or increase income to fully (or substantially) meet the revenue borrowing cost of the capital investment services are encouraged to develop appropriate business cases. This invest-to-save or self-financing facility can be accessed at any time, not just during the annual budget setting process.
- 18 A good capital proposal is likely to be one which:
- a) makes a significant contribution to the achievement of the Council's vision, approach and ambitions;
  - b) has been thoroughly researched including utilising option appraisals and whole life costing for major projects;
  - c) contributes to better preventative and demand management strategies over the medium to long term;
  - d) considers fully the ongoing revenue implications of the capital investment;
  - e) has been developed in conjunction with stakeholders, including Members and any other services or partners affected, and has appropriate professional input and support from Corporate Property and Land etc;
  - f) has identified and secured external funding; and

- g) has identified realistic and achievable outcomes and outputs.

## Overview of the Capital Programme

- 19 The result of the process set out above is the Council Capital Programme which is simply a set of capital projects that the Council plans to undertake within a specific timeframe. The Capital Programme being presented as part of the 2024/25 budget setting process totals £513.656 million, and covers the financial years 2024/25 to 2026/27. The spending is broken down by service grouping and into each financial year as follows:

<b>Service Area</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Adult and Health Services	0.325	0.000	0.000	0.325
Children and Young People's Services	72.217	21.864	1.795	95.876
Neighbourhoods and Climate Change	77.763	25.613	1.206	104.582
Regeneration, Economy and Growth	184.397	105.860	10.648	300.905
Resources	7.091	4.877	0.000	11.968
<b>Total Capital Programme</b>	<b>341.794</b>	<b>158.214</b>	<b>13.649</b>	<b>513.656</b>

## Managing the Capital Programme

- 20 The Council maintains comprehensive and robust procedures for managing and monitoring its Capital Programme. Briefly, this comprises the following:
- a) The Capital Programme is managed at programme and service level as well as individual project level;
  - b) Each scheme has a nominated project manager who is responsible for the successful completion of the scheme against factors such as time, budget, quality, scope and benefit;
  - c) The Senior Leadership are responsible for ensuring delivery objectives are met for all projects, but with a particular focus on ensuring that:
    - high-profile projects are delivered on time and achieve the intended outcomes;
    - good progress is being made in delivering the programme generally;

- the overall use of capital and revenue funding is as close as possible to the plans set out in the current year's budget, the capital programme and the medium-term financial strategy.
- d) The performance of the capital programme and implications arising from capital monitoring are brought to the attention of the Service Grouping Management Teams, Corporate Management Team and Cabinet;
  - e) Capital budget monitoring is reported to Cabinet on a quarterly basis, for consideration of any slippage and budget amendments – additions and deletions and transfers between services / programmes;
  - f) At year end, the outturn position for capital schemes is determined including accommodation for any slippage and budget carry forwards. The Council's Asset Register and Statement of Accounts are updated with new acquisitions within the year;
  - g) Reviews of projects are conducted once they have been completed to consider to what extent the key delivery objectives – such as time, cost and quality were met. Lessons learned should be used to improve the organisation's processes for selecting, developing and delivering capital projects.

## **Funding of the Capital Programme**

- 21 The sources of funding that may be available to finance the Council's capital programme include:
  - a) External grants and contributions;
  - b) Capital receipts from the disposal of fixed assets and VAT Shelter arrangements;
  - c) Revenue contributions;
  - d) Borrowing.

### **External Grants and Contributions**

- 22 Grants from external sources are a valuable source of capital finance for the Council and have enabled the Council to realise a substantial number of capital developments that would otherwise have been unable to progress. Some capital projects are financed wholly or partly through external grants and contributions that are specific to projects and cannot be used for other purposes.
- 23 This includes specific grants from Central Government. Schools benefit from a significant amount of capital grants to fund their expansion and improvement



projects. Another example is funding from the Department of Transport to fund capitalised highways maintenance and improvement works.

- 24 Also included in this category are statutory contributions from developers towards the cost of providing infrastructure or other public assets related to a development, such as funding a new play area when building a housing development.

### **Capital Receipts**

- 25 In the main capital receipts are the proceeds from the disposal of assets, usually land and buildings. The Council's Land Disposal Strategy is expected to secure resources over the next few years through the release of surplus land and assets. The resulting capital receipts that are generated from the sale of surplus assets are an important funding source for the capital programme.
- 26 The Council's policy is to treat all capital receipts as a corporate resource, enabling the funds from all asset disposals to be used to support the priorities identified by the Council through the capital programme. This means that individual service groupings are not reliant on their ability to generate capital receipts. On that basis schemes are selected and progressed on a prioritised basis based upon Council priorities.

### **Revenue and Reserves**

- 27 Although the opportunities to fund capital expenditure directly from the base revenue budget are limited, there are occasions where service groupings fund capital expenditure through one-off revenue contributions e.g. from service grouping revenue reserves or in-year forecast underspends. Another example relates to schools, which can allocate funds from their revenue budgets to supplement the capital resources allocated to schools improvement and expansion projects.
- 28 The Council also has earmarked reserves that can be used to support capital expenditure. These are one-off in nature and once used the financing is no longer available.

### **Borrowing**

- 29 Local authorities are subject to a capital financing regime. This prescribes what may be classed as capital expenditure and how it may be financed. All other expenditure must be met from revenue funding. Authorities have discretion to borrow in accordance with the Prudential Code and they are required to make a prudent provision from their revenue budgets to cover their borrowing commitments. This means that the ability to borrow to finance capital expenditure is determined largely by the authority's revenue budget position.

- 30 The Council seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received, and ensuring that any surplus assets are sold. The Council can then decide how much to borrow to fund the capital programme. The current policy is to borrow only the amount that the Council considers to be prudent and affordable.

### Overview of Funding of the Capital Programme

- 31 The table below shows how the capital programme is estimated to be financed and covers the financial years 2024/25 to 2026/27.

<b>Funding Source</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Grants and Contributions	82.627	59.730	3.266	145.623
Revenue and Reserves	0.824	0.629	0.438	1.892
Capital Receipts	3.012	4.542	0.000	7.554
New Prudential Borrowing	255.331	93.312	9.944	358.587
<b>TOTAL</b>	<b>341.794</b>	<b>158.214</b>	<b>13.649</b>	<b>513.656</b>

### Conclusion

- 32 The arrangements set out here in the Capital Strategy provide a framework that enables the Council to allocate its capital resources to schemes that meet agreed corporate priorities. The arrangements will be subject to ongoing review to ensure they continue to meet requirements after any changes in the regulatory and financial environment.