Northumberland
County Council

CAPITAL STRATEGY 2020-21 TO 2022-23

1. BACKGROUND

1.1. Purpose and Aims of the Capital Strategy

The Chartered Institute of Public Finance and Accountancy (CIPFA)'s Treasury Management Code of Practice and the Prudential Code requires authorities to have in place a capital strategy that sets out the long term context in which capital expenditure and investment decisions are made. The capital strategy should form a part of the authority's integrated revenue, capital and balance sheet planning.

The Council itself is also keen to ensure that its capital assets, and the resources tied up in them, are efficiently and effectively used. Accordingly, this capital strategy statement sets out the corporate aims and principles that underpin the production of the authority's capital programme.

Northumberland County Council's capital strategy will be reviewed on an annual basis to reflect the changing needs and priorities of the Council.

The Capital Strategy should be read in conjunction with the Capital Programme, Treasury Management Strategy Statement and Prudential Indicators detail in the Medium Term Financial Plan 2020-22 and Budget 2020-21.

The Council's capital strategy aims to support delivery of the Council's priorities insofar as they can be achieved within available resources. Some of this can be achieved by the Council on its own but much can be delivered by working with others including neighbouring authorities in the North of Tyne Combined Authority, partner authorities in the Borderlands initiative, stakeholders in Northumberland's mixed economy of education providers, North East Local Enterprise Partnership (NELEP), Northumbria Healthcare NHS Foundation Trust, the Council's wholly-owned economic development company Advance Northumberland, Active Northumberland and local communities.

Key priorities for application of capital expenditure are:

- Delivering policy ambitions;
- Exercising financial prudence, maintaining the level of capital investment and outstanding debt that are sustainable within the Council's revenue expenditure programme;
- Investing in schemes which will reduce the Council's revenue costs; and,

- Being alert to opportunities to lever external resources in delivering corporate priorities.

The Council's policy priorities are detailed in the Corporate Plan and include issues where capital investment will be required.

The Council is under no illusion that improving education performance represents its single biggest challenge and is committed to equipping all school leavers with the right skills, and, provide to them; and the wider workforce, the opportunity to grow and develop those skills. This will require leadership at all levels and throughout Northumberland's mixed economy of education providers.

The Council recognises that there is a need to increase the supply of both affordable and specialist supported housing, including extra care for older people. Northumberland's aspirations for an improved economy and its infrastructure go hand in hand, and the capital strategy aims to support the reopening of the Northumberland to Newcastle rail line in conjunction with partners in the North of Tyne Combined Authority to open up a new economic corridor unlocking commercial investment along its length. Northumberland is also continuing to press for further improvements to the A1 and A69 as well as investment in the Enterprise Zones in the county. The Council is exploring how it can best maintain the vibrancy of town centres and is keen to support progressive insertion of a full-fibre network and delivery of superfast broadband to all properties to ensure access to high-speed and reliable digital connectivity.

The Council is committed to investing in Northumberland's leisure and cultural assets and is willing to work with partners and communities in developing shared services and shared premises to support the retention of local meeting places such as community centres, village halls, post offices and public houses.

The County Council fully acknowledges that it has a significant role to play in maximising its contribution to the reduction of greenhouse gas emissions - both in reducing its own carbon footprint and in promoting and facilitating wider behaviour change through its local leadership.

It has committed to working with the Government to achieve carbon neutrality for the county of Northumberland by 2030.

In doing so, the Council's plans to accelerate and expand its programme of investment and behaviour change, with the target of having reduced its carbon footprint by 50% from the 2010 baseline by 2025.

The realisation of this target will require the Council to be at the forefront of testing and introducing new technologies and approaches.

1.2. The key objective of Northumberland's Capital Strategy

The key objective of the Capital Strategy is to deliver a capital programme that:

- Ensures the Council's capital assets are used to support the delivery of services according to the priorities within the Corporate Plan and the Council's vision;
- Is affordable, financially prudent and sustainable, and ensure that decisions are made with sufficient regard to the long term financing implications and potential risks to the authority; and,
- Ensures the most cost effective use is made of existing assets and new capital investment.

The resources employed to deliver the capital strategy are allocated through the budget process that sets the three year rolling capital programme as part of the Medium Term Financial Planning and annual budget setting processes.

1.3. The Council's Corporate Objectives and Priorities

The capital budgets within the capital strategy should support the key priorities laid out in the Council's Corporate Plan. Each capital proposal is required to clearly demonstrate that the project links to the Council's five overarching priorities.

- **[Living] Feel safe, healthy, and cared for:** We are committed to ensuring that all of you feel safe, valued, and part of your community.
- **[Enjoying] Love where you live:** We are committed to ensuring that all of you live in distinctive vibrant places, which you value and in which you feel proud.
- **[Connecting] Have access to the things you need:** We are committed to ensuring that all of you can easily get to work, to learning, and to the various facilities and services you want to use.
- **[Learning] Achieve and realise your potential:** We are committed to ensuring that all of you, regardless of your age, have the right qualifications and skills to secure a good job that pays well and provides the prospect of a rewarding career.
- **[Thriving] Attract more and better jobs:** We are committed to ensuring that our businesses are booming by doing everything in our power to create the right conditions for economic growth. We want to be recognised as a county that is open for business.

2. APPROACH TO INVESTMENT PRIORITISATION

2.1. The Capital Programme

The capital programme for 2020-21 to 2022-23 is being updated as part of the 2020-21 budget setting process and is due to be considered at full Council on 19 February 2020.

Identification and prioritisation of Capital Investment needs

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

- The need to incur capital expenditure;
- Capital resources available; and,
- The revenue implications flowing from the capital expenditure.

As part of the budget planning process, services will be required to submit capital proposals which are considered by Members for investment decisions. The capital investment appraisal process will focus on:

- policy and strategic fit;
- value for money, cost/benefit context;
- affordability and resources;
- options appraisal;
- risk assessment; and,
- capability and capacity within the Council to manage and deliver a project.

Capital investment proposals will be presented for approval on the standard Capital Project Bid Appraisal form that includes the following sections:

- description of the project;
- project outcomes and outputs;
- key dates and milestones;
- costs of the scheme and funding sources;
- revenue implications;
- risks associated with the project; and,
- information on the project's fit with the Council's strategic priorities; and, implications of not proceeding.

2.2. Capital Projects Evaluation and Priority Scoring Matrix (PSM)

The Council has limited resources to meet the capital investment requirements of delivering quality services and contributing to its community leadership responsibilities. Elected Members ultimately determine the projects to be included within the capital programme but to assist the decision making process the Council has introduced a priority-scoring matrix. This identifies a number of weighted criteria against which potential capital projects are evaluated and compared:

- The contribution the project makes to achieving the Council's strategic priorities and organisational objectives. (max 40 points)

- The impact of the project on the Council's revenue budgets either as additional running costs or as a means of reducing costs. (max 25 points)
- The project's ability to assist in the implementation of a wider programme of investment, such as the proportion of externally generated funding attracted by the project. (max 10 points)
- The status of the project in terms of its contribution to meeting specific statutory obligations or Government initiatives. (max 5 points)
- The projects ability to meet the requirements of the Council's Asset Management Plan. (max 15 points)
- The project's contribution to addressing Non-Statutory Health and Safety recommendations from the Health and Safety Officer and Fire Officer. (max 5 points)
- The degree of risk associated with the project; the potential for overspending, slippage, funding not materialising, etc. (max 5 points)
- The level of internal resources required by the project. (max 20 points)

2.3. Assessment of proposals and timetable

The Council's policy is to agree the rolling capital programme on an annual basis at the February Council budget setting meeting.

Capital proposals will be submitted to the Corporate Finance Team, in the autumn of each year, as part of the budget setting process. The bids will be assessed and evaluated by a panel of officers from the Council's Capital Strategy Group (CSG), based on information set out in the capital appraisal form and scoring matrix as described above, before being submitted to Executive Team and then members for consideration and approval.

The timetable for capital proposals to be considered for inclusion within the approved capital programme is outlined below:

Date	**Action**
July – August	Services develop initial capital bids within Departmental Management Teams.
August - September	Bids submitted to Corporate Finance for review and assessment of available resources.
September - November	Officer Capital Strategy Group review, score and prioritise proposals using the Priority Scoring Matrix (PSM).
November	Executive Team considers the proposals and agrees a draft capital programme.
December	Corporate Finance finalise the draft capital

Date	Action
	programme and identify all revenue implications.
January - February	Cabinet considers and recommends the final capital programme to Council.
February	Council approves the capital programme.

2.4. Invest to save capital proposals

Service Departments are encouraged to consider innovation in service provision that can drive efficiency and deliver cashable savings. These are often referred to as invest to save projects. Invest to save bids will be considered on the same basis as other capital proposals, and need to demonstrate what savings and benefits will be achieved as a result of the proposed initiative. However, because the benefits of these schemes should outweigh the costs, there is a greater likelihood of these projects being prioritised and included in the capital programme.

2.5. Loans to External Bodies or Organisations

The Council's capital programme also includes provision to provide loan facilities to external bodies or organisations for activities that are aligned to, and support, Council service objectives and / or corporate priorities. Examples may include, supporting economic growth and improving the health and wellbeing of local communities.

There are statutory regulations which govern the accounting treatment of loans provided towards expenditure which would, if incurred by the Authority itself, be classified as capital expenditure.

Loans for these purposes will be subject to a financial appraisal and a series of due diligence checks, and will only be provided if the Council is fully satisfied of the borrower's ability to meet their obligations. Wherever possible, the Council will aim to mitigate its risks and exposure to default by seeking appropriate additional security from the borrower. This may often be in the form of a legal charge over the borrower's property / assets.

The rate of interest charged on these facilities will be dependent on the nature and structure of the individual loan and the assessed risks to the Council. However, loans would usually only be provided on the basis that there is no net cost to the Council. Individual business cases presented to Cabinet will highlight the relevant risks and propose an appropriate rate of interest for the loan facility.

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

All loan applications are considered on a case by case basis and subject to a report to the Council's Risk Appraisal Panel, Corporate Services and Economic Growth Overview and Scrutiny Committee; and where a capital budget for this purpose has been approved, Cabinet will ultimately make the final decision. In instances where there is no prior budget approval the business case will be considered through the same route but the final loan decision will be taken by Full Council.

The only exception to this is in respect of loans provided to Advance Northumberland, the Council's wholly owned economic development company, which is part of the Council's group structure. Approval of these facilities will be delegated to the Council's Loans Review Board which will comprise of the Cabinet Member for Corporate Services, the Section 151 Officer, the Deputy Section 151 Officer and the Treasury Management Finance Manager; subject to the budget provision set out in the Medium Term Capital Plan.

The Medium Term Capital Programme includes a provision of £60.653 million over the three years for loans to third parties.

2.6. Approvals outside of the normal budget setting process.

Any additional capital requirements within the year, and outside of the above budget process, must in the first instance be submitted to the Council's Executive Management Team for consideration. If supported by the Executive Management Team, a report must be taken through the Council's democratic process and on to County Council for approval and inclusion in that year's programme.

3. FUNDING SOURCES AND INVESTMENT DECISIONS

The main sources of capital funding are summarised below:

3.1. Borrowing

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

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

3.2. Capital Receipts

A capital receipt is an amount of money exceeding £10,000, which is generated from the sale of an asset. Capital receipts are an important funding source for the capital programme.

The Council has a substantial property estate, mainly for operational service requirements and administrative buildings. This estate is managed through the

Asset Management Plan which identifies property requirements and, where appropriate, properties which are surplus to requirements and which may be disposed of.

Capital receipts from asset disposal represent a finite funding source and it is important that a planned and structured manner of disposals is created to support the priorities of the Council. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment or offset future debt or transitional costs.

The actual realisation, timing and value of asset sales are important, as any in-year shortfalls need to be met from increased borrowing. As a result, progress on asset disposal is closely monitored by Property Services.

The Council's policy is to treat all capital receipts as a corporate resource, enabling investment to be directed towards those schemes or projects with the highest corporate priority. This means that individual services are not reliant on their ability to generate capital receipts. The only exception to this is the Housing Revenue Account (HRA), where the Council's current policy is to ring-fence HRA derived proceeds for re-investment in HRA projects.

3.3. Revenue Funding

Capital expenditure may be funded directly from revenue. For example, funds are sometimes earmarked from individual schools' revenue budgets to supplement the capital resources allocated to school improvement and expansion projects.

However, pressures on the Council's revenue budget and Council Tax levels limit the extent to which this may, generally, be exercised as a source of capital funding.

3.4. Grant Funding and External Contributions

Grants are allocated in relation to specific programmes or projects and the Council will endeavour to maximise grant allocations, developing appropriate projects and programmes which reflect government and partnership led initiatives but address priority needs in the County.

The majority of "planned" capital expenditure for maintenance of transport infrastructure, school buildings and provision of Disabled Facilities are provided by appropriate grants.

Contributions will also continue to be sought from developers towards the provision of public or private assets or facilities. This will include agreements with developers to mitigate the impact of their development on communities (known as Section 106 agreements) as well as contributions towards Highways Infrastructure requirements associated with developments (known as Section 38 and 278 agreements).

The Council will continue to work with the other organisations to utilise redundant assets and vacant land to bring them into a useful economic purpose to facilitate regeneration and employment creation. It will also continue to work with other public agencies to consider projects that are to the mutual benefit of all parties.

3.5. Consideration of Capital proposals attracting specific funding

Schemes attracting partial external funding will be assessed in the same way as those schemes which require 100% of funding from borrowing and will only be included within the capital programme if they meet the Council's needs, objectives and priorities. Schemes attracting 100% external funding would normally be included automatically within the capital programme; subject to confirmation of the external funding, confirmation that the projects fit with Council priorities and consideration of any associated revenue implications. A capital bid appraisal form still needs to be completed for these proposals.

4. REVENUE IMPLICATIONS - LINKS TO THE MEDIUM TERM FINANCIAL PLAN (MTFP), TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS

The impact of the revenue implications is a significant factor in determining approval of projects. All capital investment decisions consider the revenue implications both in terms of servicing the finance and the running costs of the new assets.

The use and financing of capital resources has been fully taken into account in the production of the Council's Annual Budget and Medium Term Financial Plan, and are reflected in both the Treasury Management Strategy Statement for 2020-21 and Prudential Indicators for 2020-21 to 2022-23.

5. MONITORING OF THE CAPITAL PROGRAMME DELIVERY

Officers monitor progress of the Capital Programme on a monthly basis with reports being submitted to Cabinet on a quarterly basis.

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

- All capital expenditure must be carried out in accordance with contract procedure rules and financial regulations;
- The expenditure must comply with the statutory definition of "capital purposes" as interpreted in guidance issued by the Section 151 Officer;
- Once the scheme has been included in the capital programme following the budget setting process, a further report providing more detail and seeking specific approval must be submitted to Capital Strategy Group unless delegated approval applies; and,
- Officers must ensure that the budget for each capital project is under the control of a nominated project manager.

6. STEWARDSHIP OF ASSETS

The Council's Asset Management Plan sets out the condition of its assets and the arrangements for managing these effectively.

7. OVERVIEW OF THE CAPITAL PROGRAMME

Capital Expenditure	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
Adult Services	2.392	2.224	4.850	2.500
Regeneration work undertaken for the Council by Advance Northumberland	14.176	4.746	3.322	0.000
Children's Social Care	0.000	0.700	1.300	0.000
Economy and Regeneration	1.569	12.847	62.601	63.152
Finance	24.951	29.652	19.723	18.265
Fire and Rescue Service	0.944	2.067	1.055	0.801
Housing - GF	0.208	0.892	0.400	0.000
Housing - HRA	8.591	27.027	26.191	26.426
IT	0.924	3.961	1.180	0.000
Leisure Services	2.231	18.041	25.986	2.000
Neighbourhood Services	9.739	6.959	5.312	4.537
Property Services	8.458	8.864	12.941	6.200
Renewable Energy	1.464	4.627	4.382	1.207
Schools	35.854	71.039	64.518	18.914
Technical Services / Local Services	38.039	41.290	43.254	22.553
Total Capital Expenditure	**149.540**	**234.936**	**277.015**	**166.555**

The table below summarises how the above capital expenditure is being financed by capital or revenue resources.

Capital Funding	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
Capital Receipts	4.000	4.671	2.400	2.400
External Grants	50.589	57.663	78.165	69.998
GF Borrowing	85.131	149.771	173.704	71.177
GF Contributions	1.229	0.755	0.755	0.755
HRA Borrowing	0.000	5.940	6.250	6.250
HRA Contributions	8.591	16.136	15.741	15.975
Total Capital Funding	**149.540**	**234.936**	**277.015**	**166.555**