



Northumberland County Council

## **CAPITAL STRATEGY 2018-19 TO 2020-21**

### **1. BACKGROUND**

#### **1.1. Purpose and Aims of the Capital Strategy**

The Chartered Institute of Public Finance and Accountancy (CIPFA) is currently conducting a review of the Treasury Management Code of Practice and the Prudential Code, in which it proposes authorities should 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. On this basis, 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.

#### **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 priorities within the Corporate Plan and the Council's vision;
- Is affordable, financially prudent and sustainable; 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 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 existing capital programme covering the period 2017-18 to 2019-20 was agreed as part of the budget setting process at Council on 22 February 2017.

This current programme is being updated as part of the 2018-19 budget setting process due to be agreed at Council on 24 February 2018. The revised capital programme going forward will cover the years 2018-19 to 2020-21.

**Note:** In order to help address the financial challenge facing the Council, for the last two years no new capital bids have been invited as part of the main budget setting process. Instead only limited amendments have been made to the programme at the discretion of the Chief Executive and Leader of the Council.

### 2.2. 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; and,
- appraisal information (fit with Council strategic priorities and implications of not proceeding).

### **2.3. 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 41 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 4 points)
- The level of internal resources required by the project. (max 20 points)

#### **2.4. 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 Corporate Finance, 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 Corporate Leadership 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:

<b>Date</b>	<b>Action</b>
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	Corporate Leadership Team consider the proposals and agree a draft capital programme
December	Corporate Finance finalise the draft capital programme and identify all revenue implications
January - February	Cabinet considers and recommends the final capital programme to Full Council
February	Full Council approves capital programme

#### **2.5. 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.

## **2.6. 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 series of due diligence checks, and only be provided if the Council is fully satisfied of the borrower's ability to meet their obligations. Wherever possible, the Council will aim to mitigate its risks and exposure to default by seeking appropriate additional security from the borrower. This may often be in the form of a legal charge over the borrower's property / 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 Northumberland's Development Company - the Council's (100% owned) economic development company, and which is part of the Council's group structure. Approval of these facilities will be delegated to the S151 officer / Chief Executive in consultation with the Leader; subject to the budget provision set out in the Medium Term Capital Plan.

The Medium Term Capital Programme includes a provision of £22.0 million per annum for loans to third parties.

## **2.7. Approvals outside of the normal budget setting process.**

Any amendments and additional capital proposals required within the year, and outside of the above budget process, must be submitted to the Council's (officer) Capital Strategy Group (CSG) for consideration. The group will then make a recommendation to Cabinet on whether they consider members / County Council should approve the revision, and include it in that 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 replaced the previous system of Local Government Capital Finance with a new one, known as the 'Prudential Regime' from 1 April 2004. Under the Prudential Regime local authorities are free to decide their own borrowing limits. However, borrowing limits must take account of the authority's financial situation, Medium Term Financial Plan and ensure that the capital expenditure proposals are prudent, affordable and sustainable.

CIPFA has developed a Prudential Code of Capital Finance in Local Authorities, which specifies those indicators that the Council must consider as a part of its budget setting process. These are included in the annual budget report to Council and are an important aspect of the annual 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 is 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 schools 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, 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)**

All capital investment must be sustainable in the long term through revenue support by the Council or its partners. All capital investment decisions consider the revenue implication both in terms of servicing the finance and the running costs of the new assets. The impact of the revenue implications is a significant factor in determining

approval of projects. The use and financing of capital resources has been fully taken into account in the production of the Council's Medium Term Financial Plan.

## **5. MONITORING OF THE CAPITAL PROGRAMME DELIVERY**

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

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.
- Officers must ensure that the budget for each capital project is under the control of a nominated project manager.