Appendix 13

Capital Strategy 2024-25 to 2027-28

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 detailed in the Budget 2024-25 and Medium-Term Financial Plan (MTFP) 2024-28.

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 and from May 2024 the North East Mayoral 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, 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 has three key priorities which are, Achieving Value for Money, Tackling Inequalities and Driving Economic Growth. All of the capital projects are in line with the Council's priorities.

The Council is committed to protecting frontline services, investing for the future and looking after the most vulnerable in our communities. In line with this commitment the Council has provided a major capital investment programme. Projects include building green new school complexes and leisure facilities from Berwick to Hexham, investing in town centres and improving connectivity both through sustainable travel and through investment in technology and broadband.

One of the Council's flagship projects is the Northumberland Line, a passenger rail service which will connect Ashington to Newcastle and is due to open in summer 2024.

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.

In order to meet the carbon targets the Council has reflected this in the Capital Programme by managing the property portfolio, developing renewable energy such as solar car ports and managing the Council owned woodland, replacing any woodland lost to development twofold.

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 four-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 three overarching priorities.

- **Achieving Value for Money:** We are funded by residents and businesses, and we are accountable to them for our spending decisions and the quality of services we provide. We must ensure we are delivering Best Value through efficient, effective and accessible services that respond to and meet the needs and expectations of our residents.
- **Tackling Inequalities:** By tackling inequalities, we want to reduce the gap in experiences our residents have across health, education, employment and social outcomes.
- **Driving Economic Growth:** We want Northumberland to be a great place to live with opportunities for our all of our residents, whether they live in our vast rural countryside or within one of our busy towns. To do this we must create the conditions for a growing and thriving economy.

2. APPROACH TO INVESTMENT PRIORITISATION

2.1. The Capital Programme

The Capital Programme for 2024-25 to 2027-28 has being updated as part of the 2024-25 budget setting process and is due to be considered at full Council on 21 February 2024.

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 project's 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); and,
- 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 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 the Executive Team for review and then full Council 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 - December	Executive Team considers the proposals and agrees 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 Council.
February	Council approves the Capital Programme.

Inclusion in the Capital Programme is not approval to commence a project. A full business case is required to be submitted to Cabinet prior to a project proceeding and expenditure being incurred.

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. Service Delivery Investments - 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 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 satisfy subsidy control requirements.

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 Panel which will comprise of the Cabinet Member for Corporate Services, the Section 151 Officer, the Deputy Section 151 Officer supported by 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 £52.000 million over the four 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 will be considered through the democratic process for 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 £0.010 million which is generated from the sale of a capital 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); statutorily the Council is allowed to retain approximately 48.00% of HRA capital receipts for use within the HRA. The remaining 52.00% is paid to Government.

3.3. Revenue Funding

Capital expenditure may be funded directly from revenue, but this will be limited by the capacity of School Budgets to fund this. For example, funds are sometimes earmarked from individual schools' revenue budgets to supplement the capital resources allocated to school improvement and expansion projects.

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 100.00% 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 100.00% 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. New schemes in year which attract 100.00% external funding will require approval by Cabinet before they are included within the Capital Programme.

4. REVENUE IMPLICATIONS - LINKS TO THE 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 considered in the production of the Council's Annual Budget and MTFP and are reflected in both the Treasury Management Strategy Statement for 2024-25 and Prudential Indicators for 2024-25 to 2027-28.

5. MONITORING OF THE CAPITAL PROGRAMME DELIVERY

Officers monitor progress of the Capital Programme monthly 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 the Capital Strategy Group and or Cabinet 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	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m	2027-28 Estimate £m
Adults, Ageing and Wellbeing	3.429	5.431	2.000	2.000	-
Children, Young People and Education	25.679	61.461	39.811	42.287	19.569
Climate Change	5.791	1.161	2.639	-	-
Digital and IT	5.738	9.212	2.828	2.269	1.785
Economic Development and Growth	57.090	89.158	77.873	17.022	1.500
Finance and Procurement	14.097	32.004	20.000	6.000	6.000
Fire and Rescue	2.517	2.172	2.128	1.330	1.243
Highways and Transport	119.711	87.542	87.329	25.849	1.138
Housing – GF	-	0.720	-	-	-
Housing HRA	17.448	31.719	25.692	14.701	14.076
Leisure Services	2.239	3.755	1.905	-	-
Neighbourhood Services	6.508	6.330	7.907	8.488	1.000
Property Services	3.606	7.082	5.342	1.342	2.257
Total Capital Expenditure	**263.853**	**337.747**	**275.454**	**121.288**	**48.568**

The table below summarises how the above capital expenditure is being financed:

Capital Funding	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m	2027-28 Estimate £m
Capital Receipts	5.589	6.246	5.456	2.655	2.655
External Grants	128.350	165.540	145.453	40.802	3.106
GF Borrowing	111.715	129.061	99.311	65.185	30.646
GF Contributions	6.007	13.171	6.591	-	-
HRA Borrowing	-	-	-	-	-
HRA Contributions	12.192	23.729	18.643	12.646	12.161
Total Capital Funding	**263.853**	**337.747**	**275.454**	**121.288**	**48.568**