

Northampton Borough Council

Draft Capital Strategy 2020 to 2024

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INTRODUCTION AND CONTEXT

Capital expenditure represents major investment in new and improved assets such as land, buildings, infrastructure, equipment and information technology. It therefore plays a key part in the provision and development of the Council's services.

The aim of the capital strategy is to provide a clear framework for capital funding and expenditure decisions. This is in the context of the Council's vision, values, objectives and priorities, financial resources, and spending plans. The Capital Programme is designed to support the delivery of the Council's priorities as set out in the Corporate Plan. It takes into account proposed changes to CIPFA's Prudential Code and latest Minimum Revenue Provision guidance from central government.

The high level strategic objectives of the capital strategy are included in the approved Medium Term Financial Strategy in order to reinforce the links and overlaps between capital and revenue, and the need to have a mind to both in decision making.

The strategy supports the development of an approved capital programme that shows the Council's commitment to maintaining and improving its capital stock and infrastructure. This in turn underpins the delivery of high quality and value for money services and helps to secure a better environment for the people of Northampton.

OVERARCHING STRATEGY

The Council's capital strategy is to deliver a capital programme that:

- Contributes to the Corporate Plan, and the Council's vision, values, strategic objectives and priorities
- Is closely aligned with the Council's Asset Management Plan

- Supports service-specific and other NBC plans and strategies
- Is affordable, financially prudent and sustainable, and contributes to achieving value for money

In prioritising the capital programme, particular emphasis will be given to schemes that:

- Achieve the Council's priorities
- Improve the town and its environment and facilities
- Improve performance against national and local targets
- Improve efficiency and effectiveness in service delivery, including through partnership working
- Generate or increase income streams
- Promote effective asset management, including DDA and health & safety issues

SOURCES OF CAPITAL FUNDING

Under the Council's capital funding strategy, funding streams are allocated in the following order. Cabinet may make changes to the funding strategy where necessary to deliver capital schemes that are key to delivering the Council's agreed priorities:

Hypothecated funding

Funding linked directly to a specific scheme, such as grants, third party contributions (including Section 106 contributions) and revenue contributions, is allocated 100% to the relevant scheme. Schemes funded by external grants and contributions will not commence until such funding is definitely secured. The conditions attached to grants and contributions vary according to the particular grant. Some will fund the full cost of the scheme, others just a percentage, with the local authority having to fund the balance. Most, but not all, grants are time-limited. Government grants tend to be focused towards central government priorities.

Self-funded borrowing

Where the capital investment itself will produce revenue savings or additional income, which is sufficient to cover the cost of borrowing to fund the investment. This could include development of, or improvements to, the Council's own assets where the Council's borrowing costs are offset by income from leasing the assets to a partner provider such as the Northampton Partnership Homes (NPH).

Business Rates Uplift

Capital improvements within the Enterprise Zone may be funded by borrowing which will eventually be repaid through the increase in business rate income flowing from new or expanded businesses. The borrowing is undertaken via the South East Midlands Local Enterprise Partnership (SEMLEP) through the Growing Places Fund or Local Infrastructure Fund. This is to manage the timing difference between the investment in the Enterprise Zone and the consequent increase in business rates.

Where necessary any gap will be managed by NBC undertaking borrowing from the Public Works Loan Board (PWLB).

Revenue and Capital Reserves

The Council has, as part of its overall financial strategy, set aside reserves in order to provide additional capital funding. The Delivering the Efficiency Plan Reserve was created in October 2016 to support any project that delivers efficiency savings and/or additional income over the medium term. This may include funding of capital expenditure where this supports these aims.

Revenue Contributions

In the past revenue contributions have been a fairly minor source of capital financing for the Council due to pressures on the revenue budget. They are, however, sometimes used to top up small shortfalls in the funding required for a particular scheme.

Capital Receipts

Capital receipts are derived from asset sales. These could include income to the Council as lessor from finance leases.

General Fund (GF) asset sales come from a variety of sources. Generally speaking, 100% of GF asset sales (after any 'clawback', for example from the Homes and Communities Agency) can be used to support capital expenditure. Sometimes the asset sale is linked directly to a capital project, for example in a relocation scheme. More often, GF asset sales relate to surplus assets that are held corporately and are not specific to a scheme.

The Council generated a substantial capital receipt in 2014/15 from the sale of the Sekhemka statue. This will be used exclusively to fund the redevelopment of the Central Museum.

General Fund capital receipts are not allocated or committed prior to receipt or certainty that they will be received, unless inextricably linked to a specific project. General Fund capital receipts received during the year will be taken into account as a potential funding source for new schemes or variations in the relevant financial year or the following financial year, subject to revenue budget considerations e.g. debt financing budget implications.

Prudential Borrowing

Prudential Borrowing will be used to fund capital investment if the cost of the borrowing is affordable within the overall General Fund revenue projections. This will be the funding source of last resort as it does result in ongoing revenue costs, i.e. MRP (see below) and interest.

Under the Local Government Act 2003 councils operate within the rules contained in the 'Prudential Code'. These allow local authorities to set their own limits with regard to borrowing undertaken to support capital expenditure. Borrowing may be undertaken, provided that it is, and can be shown to be, prudent, affordable and sustainable. This method of financing capital expenditure is called "prudential borrowing".

In order for borrowing to be prudent, affordable and sustainable, there must be an identifiable, long-term source of revenue funding for the associated revenue (debt

financing) costs. Ideally this will come from revenue savings or additional income arising directly from the capital scheme. For example, refurbishment of a building may generate maintenance and/or energy savings, or the building of a car park could generate income through charges. The cost of this “self-funded” borrowing should be borne by the service that uses the asset.

Where there is no additional income or cost saving, i.e. the capital scheme is to meet corporate priorities and support the growth and improvement of the Borough, then the cost of borrowing will be recognised as a cost to the General Fund.

In some circumstances the Council will provide loans to other organisations, such as to the University of Northampton to part-fund the new campus development. This is treated as capital expenditure and funded through borrowing.

Minimum Revenue Provision (MRP)

The Council is required to make provision for the principal repayment of borrowing. Prior to 2007-08 the Council was required by statute to provide for the repayment of a minimum amount of 4% of General Fund debt principal each year. This debt repayment is known as the Minimum Revenue Provision (MRP).

The Local Authorities (Capital Finance & Accounting) (England) (Amendment) Regulations 2008, which came into force in February 2008, require the Council to make instead ‘prudent provision’ for the repayment of debt. A number of options for prudent provision are set out in the regulations. The underlying principle is that the repayment of debt should be aligned to the useful life of the asset or assets to which it relates.

The authority is required, under the new regulations, to prepare an annual statement of their policy on making MRP for submission to Council. The Council’s policy statement on MRP is set out in the annual Treasury Strategy, which is agreed by Council during Feb/March each year.

In Year Changes

Underspends on GF schemes may not be automatically diverted to other schemes. This will be considered against the demands of the programme as a whole. The only call on capital receipts during the year would be for unforeseen high priority emergency capital works that cannot be financed from alternative sources. Agreement will be through the normal channels – that is the submission of a project appraisal or variation to Management Board and, if required, Cabinet.

The funding strategy is used to determine the allocation of funding to the programme at the start of the year and throughout the year. Depending on the timing and restrictions of the funding streams, the most appropriate funding will be used at the year end. The Finance Team, under the direction of the Chief Finance Officer, will apply the available funding to the outturn expenditure in line with the best interests of the Council.

HRA Capital Funding

The balance of funding of capital investment in the Council's housing stock and associated assets is determined through the HRA business plan. This provides a 30-year forecast of the management, maintenance and capital investment needs and resources available.

- Usable capital receipts from the sale of council housing stock under right to buy, as well as sale of other HRA assets, are directed at the HRA capital programme in order to meet and maintain the Northampton Standard.
- Major Repairs Reserve - In line with the statutory requirement, the Major Repairs Reserve is entirely earmarked for HRA capital expenditure on the Council's housing stock.
- Revenue – under the self-financing regime the HRA is forecast to have an amount of revenue available each year to part-fund the capital programme.
- Borrowing – there is scope for prudential borrowing within the HRA, with the removal of the HRA debt cap.

Revenue Implications of Capital Projects

The revenue implications of capital projects are identified through medium term planning and the capital appraisal process, and fed into the Council's medium term revenue budget to ensure that all revenue implications are taken into account.

Through the Asset Management Plan an appropriate balance of funding is determined between capital investment and repairs and maintenance. This is kept under regular review.

PROGRAMME BUILD

The Council agrees its capital programme on an annual basis in February immediately preceding the start of each financial year. The agreed programme consists of:

- A firm and fully funded programme for the following year. This includes continuations from previous years as well as new starts in year
- Continuation schemes and forecasts for the subsequent 4 years
- Development Pool – includes schemes for which costs require refinement. These schemes will be moved into the approved programme once this additional work is satisfactorily completed and appropriate approvals obtained.

A business case will be required to move schemes from the Development Pool into the approved capital programme and for in-year appraisals.

Within the available funding envelope, projects are prioritised for inclusion in the capital programme based on the extent to which they contribute to the achievement of corporate priorities. Bids for inclusion are supported by capital appraisals – these

must demonstrate that the project provides an effective and value for money solution, and that all possible sources of external funding have been sought.

In addition to specific capital schemes the programme includes a number of “Block Programmes”. Specific projects within these blocks are agreed during the year following the receipt of capital appraisals.

A draft capital programme is prepared for Cabinet in December and is then subject to public consultation alongside revenue budgets. Final decisions are made by Full Council in February.

GOVERNANCE ARRANGEMENTS

In Year Appraisals and Variations

In addition to the approvals outlined below, all new in-year capital schemes must be supported by a business case and a capital appraisal. Any changes to existing schemes will require completion of a variation form. The funding for the project must be identified at this stage. Where there is no additional funding to support the bid, resources must be identified from within the existing programme.

Project Managers must consult the nominated contact in Finance to ensure forms are completed correctly and expenditure meets the definition of capital. The tax team will also need to check that any VAT or other tax implications are properly taken into account.

Delegation Levels for Appraisals and Variations

Regardless of value, all schemes (including in-year variations) must be approved by Corporate Management Board (CMB) to ensure full oversight and affordability of the approved capital programme.

Fully Funded Schemes

Capital schemes of any value can be approved by the Chief Finance Officer (CFO) if they are **fully** funded by section 106, external grants or other contributions, or **fully** funded by additional income or revenue savings. This delegated approval is subject to consultation with Cabinet Members if more than £100k.

Other Schemes

These limits apply to General Fund schemes. Changes to the HRA capital programme can be agreed in line with the NPH partnership agreement.

Below £100k – Approval by CFO

£100k to £250k – Approval by CFO, after consultation with the Cabinet Member for Finance and relevant Cabinet Member(s)

Over £250k – Approval by Cabinet required

All changes to the capital programme approved under delegation will be reported to Cabinet via the Finance Monitoring report.

In signing the appraisal form the relevant Director is confirming that the Cabinet Member (Portfolio holder) has been consulted.

Block Programmes

The capital programme includes block programmes for improvements to regeneration areas, parks/allotments, operational buildings and commercial landlord responsibilities.

Approval for individual schemes within these blocks should be sought through the submission of a capital appraisal by the relevant project manager, with final approval through CMB.

Urgent Approvals

Due to their long-term nature, capital investment decisions should be carefully considered. Finance should be consulted as soon as a scheme is under consideration and a capital appraisal form completed. In the vast majority of cases this will allow schemes to be considered and approved through the usual process as outlined above.

In the rare circumstance where urgent approval is required, this can be secured via e-mail from the Chief Finance Officer. The capital appraisal form will still require signatures including the CFO. CMB approval will also be necessary. If the scheme is more than £250k then Cabinet approval will still be required unless an absolute emergency.

MONITORING THE CAPITAL PROGRAMME

Project management & monitoring

Project managers are responsible for the proper and effective control and monitoring of their projects, including financial monitoring.

This includes ensuring that:

- Only capital expenditure is charged to the capital project
- Only expenditure properly attributable to the scheme is coded to the scheme
- The scheme expenditure is contained within the agreed budget, and that any 'unavoidable' variations are dealt with appropriately
- Realistic expenditure profiles are determined
- A realistic forecast outturn for the financial year and the project as a whole are calculated and kept under regular review. Changes must be input into Agresso Planner on a monthly basis, along with clear explanations for any variation

- Any proposed carry forward from current to future years is identified and added to Agresso Planner
- Any grants or third party funding is applied for and all grant conditions met
- The source of any revenue funding is identified

Project managers are also responsible for carrying out project reviews following scheme completion. This is an area of work that the Council is developing, the Finance Team will request information on completed projects as part of their ongoing monitoring role.

Directorate Management Teams

Each Service Management Team is responsible for ensuring they receive and review reports on the capital expenditure position for their services and that any appropriate corrective action needed to address any monitoring issues is agreed and implemented.

Finance Team

Nominated Finance Business Partners within the Finance Team are responsible for providing support and advice to assist project managers in managing and monitoring their capital budgets. The team also has a key role in consolidating and co-ordinating the monitoring information that is required for reporting purposes. This involves reporting to Service Management Teams, Management Board and Cabinet. The nominated senior lead in the Finance team is responsible for ensuring that the agreed programme is fully and appropriately financed at all times.

Capital Programme Monitoring

The capital programme position is reported to Management Board on a monthly basis throughout the year, commencing from period 2 (end of May). Regular reporting to Cabinet forms part of the overall finance monitoring report and covers the latest programme and any amendments to be notified or approved, expenditure to date, and the forecast outturn. It also outlines the financing position and any steps needed to deal with potential financing difficulties.

At year-end, an outturn report and carry-forward report are taken to Cabinet. These will include an analysis of proposed carry forward to the following year, including the reasons for that carry forward and how it is to be financed.

RISK MANAGEMENT

Any significant risks associated with specific projects are identified in the capital appraisal form. General risks in relation to the overall capital programme are managed through the Finance team in conjunction with individual project boards:

Risk	Mitigation
Project Overspend	Project managers update financial forecasts on a monthly basis. Any forecast overspend must be dealt with immediately – identifying savings elsewhere within the programme or alternative sources of funding.

Project Slippage	Any forecast carry forwards are also identified on a monthly basis. The impact of these carry forwards on the associated funding is reflected in the overall monitoring reported to Management Board.
Capital receipts – delay or non-receipt	As part of the funding capital receipts are not allocated or committed prior to receipt or certainty that they will be received

ASSET MANAGEMENT

Council Assets

The Council owned property, plant and equipment assets with a total net book value of £719m at March 2018. Council assets included around 11,400 council dwellings, and 925 hectares of parks and open spaces.

The Council also owns a large number of commercial properties and agricultural land used to generate income. These “investment properties” are kept under review to ensure that they continue to generate a good return – if not they will be considered for disposal. The Council will also seek opportunities to invest in additional property assets to generate a financial return and support the growth and regeneration of the Borough.

The Asset Management team will identify any property assets that are surplus, i.e. no longer required for the delivery of Council services, and make recommendations to Cabinet for disposal in order to generate capital receipts.