

# North Northamptonshire Council

## Capital Strategy 2021-22



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## 1. INTRODUCTION

- 1.1 The Council's vision is a North Northants where we look after each other and take responsibility, where the vulnerable are protected and supported, and where people who can help themselves receive the assistance they need to stay independent and healthy. The Council's budget commitment to support this vision is to deliver a balanced budget, optimise the use of assets so they have a positive impact on costs and help to address the pressures faced in the social care markets, helping to transform services so they are sustainable for the future.
- 1.2 The Capital Strategy sets out the key objectives and broad principles to be applied by the Council when considering capital investment and its funding. It provides the context for how the Council's Medium Term Capital Programme seeks to support the realisation of the Council's vision and corporate objectives.
- 1.3 In support of the Council's vision and the budget commitment the key objectives for the Capital Strategy are as follows:
  - The delivery of a Medium Term Capital Programme which is affordable and sustainable, ensuring that the Council's internal resources and application of external borrowing are utilised to fund capital expenditure where it supports the delivery of the Council's financial sustainability and where there are statutory requirements such as health & safety;
  - The Capital Strategy should make explicit the links to, and integration with, the Council's other strategies. New capital investment will only be permitted if it contributes to the achievement of the Council's corporate priorities;
  - The use of external funding is prioritised against the areas of greatest need, in the main supporting highways maintenance, the delivery of education places, the Corby Town Plan and Tresham Garden Village within North Northants. In the current financial climate priority will be given to schemes that also deliver transformation and/or revenue savings;
  - Maximisation of the use of the Council's assets, and where possible working with local partner organisations to maximise the efficiency of assets across the public sector and North Northants
  - Take into account external influences such as the South East Midlands Local Enterprise Partnership, Oxford Cambridge Arc, Health and joint working with other partner authorities.
  - Key integration and links with the council's other corporate strategies including Corporate Plan, Treasury Management, Investment Strategy, Asset Management Plan.
  - Set out the Council's regeneration and economic development ambition and additional objectives.
  - Set out the governance and risk management arrangements.
- 1.4 The updated Prudential Code and Treasury Management Code of Practice (both issued by CIPFA in December 2017) include new requirements in relation to the setting of a Capital Strategy that covers specific subject areas. In line with the Prudential Code, the aim of this Capital Strategy is to demonstrate how the Council will make capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy sets out the immediate to long

term context in which capital expenditure and investment decisions are made, and ensures the Council will give due consideration to risk, reward, and impact on the achievement of priority outcomes.

- 1.5 The Council's Capital Programme represents significant investment over the medium term in the acquisition or improvement of long term assets such as land, buildings, infrastructure, and equipment and information technology and is a key financial planning tool.

## **2. LOCAL GOVERNMENT REFORM**

- 2.1 Back in 2018, the sovereign councils at the time resolved to respond to the Secretary of State's invitation in favour of the Northamptonshire local government reform proposal made. This was to abolish the 7 district and borough councils and the county council and to replace them with 2 new unitary councils for North and West Northamptonshire.
- 2.2 This being the first year and first time this strategy is being set for the new authority and bearing in mind the disaggregation of the county council and aggregation of the districts and boroughs in the north, this strategy is very much an initial one to ensure the council meets its statutory obligations based on the latest known position at which this will need to be published for approval.
- 2.3 This strategy will be developed significantly during the council's first 12 – 18 months as the council's management team, visions, strategies and priorities are agreed and developed and following the disaggregation and aggregation of the final balance sheets following the final outturns and audit of accounts of the previous councils.
- 2.4 This development will be achieved by the newly appointed senior management team working with the newly elected members in 2021 and agreeing the corporate priorities for the short, medium and long term which will in turn, inform the longer term capital strategy for the medium to long term of this new unitary council and the revenue and capital priorities to be delivered and financed.

## **3. GOVERNANCE**

- 3.1 Governance covers the policies and frameworks related to capital expenditure and the processes and structures by which decisions are made.

### **Committed Capital Programme Approval Process**

- 3.2 The Capital Strategy sets out the Council's objectives in respect of its future capital programme plans and budget commitment, and is approved by Full Council as part of the Council's annual budget-setting process in February each year.
- 3.3 The approval of the Capital Strategy provides the future programme of planned capital works over the medium term period, this plan is known as the Development Pool. The Development Pool comprises the schemes that the Council would be prepared to take forward, subject to final negotiations, confirmation and evidencing of funding and submission of robust business cases to the Capital Approvals Board for approval by Cabinet.

- 3.4 Schemes move forward to delivery (The Committed Capital Programme) following formal approval through the Monthly Capital Report (MCR). Schemes will have usually been identified as part of the Capital Strategy but it is possible for completely new schemes to come forward in year. Schemes will be reviewed at this point against the latest vision and Council priorities which may have changed since the Capital Strategy was approved.
- 3.5 For schemes in excess of £100k, which were not approved as part of the Council's Capital Strategy, there is a requirement for them to also receive approval from Full Council as part of a Capital Approvals report to the next Full Council meeting. Those new schemes of £100k or less can proceed with just Cabinet approval.
- 3.6 A separate Cabinet report is required for any capital scheme which has a capital expenditure value of £500k or above, regardless of the funding source.
- 3.7 The approval of funding agreements, e.g. developer contributions, which contractually commit the Council to undertaking new capital schemes, (such as school builds), are required to follow the same approval process
- 3.8 Each scheme must be under the control of a nominated budget/project manager and officers are not authorised to commit expenditure without prior formal approval for the scheme as outlined above.
- 3.9 All capital expenditure must be carried out in accordance with the Council's Constitution, Financial Procedure Rules and Contract Procedure Rules, and must comply with the statutory definition of capital purposes as set out within Section 16 of the Local Government Act 2003.

#### **Virements**

- 3.10 Virement of funding from one capital scheme to another is permitted within the Council's capital governance arrangements only with the relevant officer (including sign off by the S151 Office) or Cabinet approval as laid down in financial procedures. Cabinet approval is required for any virements over £500k.

#### **Decision making**

##### **The Capital Approvals Board**

- 3.11 The overarching objective for the Board is to review and challenge capital schemes in order to be able to recommend to Cabinet that they move from the planning stage into delivery.
- 3.12 The Capital Approvals Board governance process will:
- Provide visible leadership in relation to the implementation of the Capital Strategy.
  - Ensure funding is confirmed, secure and wherever possible received fully in advance of works commencing/being approved and that responsibility for this is taken by the project manager.
  - Monitor performance against the Council's agreed capital discretionary funding levels.
  - Escalate concerns and issues to Leadership Team.
  - Optimise the funding for schools capital projects.
  - Ensure other reporting and approval requirements have taken place, particularly in respect of schemes outside of the agreed Capital Strategy over £100k, ensuring schemes in excess of £500k have their own Cabinet report and that the Executive Director of Place is aware and supports schemes over £2m.

- Ensure that the revenue implications of all capital schemes are taken into consideration and that options appraisals have been carried out/considered.

### **Assessment of the revenue implications of capital investment**

3.13 In the interests of properly evaluating the affordability of a project, the revenue implications of capital bids are also included on the Business Case proforma which is submitted to the Capital Approvals Board as part of the review and challenge process. This ensures that an evaluation can be made on the overall financial business case of the capital project (revenue and capital cost/savings). It also ensures capital and revenue budgeting are aligned for financial planning purposes.

### **Risk Management**

3.14 As part of the business case, contingencies will be included as part of the budget costing exercise and expected costings for similar schemes will be considered as a benchmark. These will cover ordinary, but not extraordinary, risks/changes to the cost of delivering the project. Pressures outside of this will be reported through the monthly reporting to Cabinet and project closure reports will be utilised to provide learning for future schemes. Risks and mitigations are recorded at each approval stage in the capital project process and challenged appropriately by the officers and members that represent each board/committee. Any risk to the council's partial exemption threshold is also captured and evaluated as part of this process.

### **Transformation and Place**

3.15 The Executive Director of Place and the Director of Transformation will be members of the Capital Approvals Board and will be included on all decisions involving transformation, developments, land & property disposals, investments and acquisitions that are taken forward in support of the financial strategy whilst also supporting strategic priorities for growth and regeneration across North Northants.

### **North Northamptonshire Leadership Team**

3.16 The North Northamptonshire Leadership Team reviews and provides sign off for the Monthly Capital Report as well as strategic direction on the use of funding sources.

### **Capital Projects Board**

3.17 The Capital Projects Board monitors progress on schemes in delivery. It challenges delivery and contracts and updates the North Northamptonshire Leadership Team on any significant financial and delivery risks.

### **Knowledge and Skills**

3.18 The Council aims to ensure that all staff have the appropriate skills and knowledge to perform their roles. Where the necessary expertise is not available in house the Council will procure the skills and knowledge it requires from advisors or consultants.

3.19 The Council will work in collaboration with its external auditors in relation to changes to technical accounting requirements and/or treatment.

3.20 The Council will use a mixture of in-house and external legal support. Where a particular legal speciality is required external legal advice may be procured.

- 3.21 The Council has a list of 'Approved Contractors' who it will utilise to support capital projects to ensure preliminary surveys & works identify risks around costs and delivery in relation to the land, buildings, etc. elements for each project before main contracts are procured.
- 3.22 The Council will undertake background checks to ensure all contractors are suitably qualified, have a proven delivery background in similar projects before awarding contracts.
- 3.23 The Council takes advice from its external treasury partners/advisors in making decisions related to its Treasury Strategy.

#### **Completion of Capital Schemes and Lessons Learned**

- 3.24 For significant projects periodic updates should be taken through the capital projects board to ensure appropriate progress and budgetary controls are being adhered to. Following completion of these schemes, a post evaluation report should be brought back to the board to assess how well the scheme was delivered and what went well and not so well to ensure the learning from these schemes carries forward into future schemes and efficiencies are gained and risks and mitigations can be planned for at an earlier stage where relevant.

#### **Carbon Reduction and Climate Change Commitment**

- 3.25 The Council is fully committed to the Carbon Reduction and Climate Change Strategy and assess all capital projects against the key criteria to ensure delivery towards this agenda is prioritised and achieved as per the key objectives;

- 1. Raise awareness of the issues of climate change;**
- 2. Reduce emissions of greenhouse gases; and**
- 3. Plan for and adapt to the impacts of climate change.**

#### **4. CAPITAL EXPENDITURE**

- 4.1 In England and Wales, there are three routes by which expenditure can qualify as capital under the prudential framework:
- The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with 'proper practices'. Fixed assets are defined as those that have an economic life of more than one year.
  - The expenditure meets one of the definitions specified in regulations made under the 2003 Local Government Act.
  - The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.
- 4.2 The Council's capitalisation policy looks to capitalise expenditure on eligible items with a cost over £10,000 in relation to a single item or in relation to a large quantity of smaller value items. In Local Government this can also include spending on assets owned by other bodies, as well as loans and grants paid over to other bodies that enable them to buy assets.
- 4.3 An assessment of the previous councils' capitalisation policies has been conducted to ensure minimal detrimental impact to the council's revenue position in setting its initial MTFP, mainly in respect of funding of Adults & Communities equipment.

## Committed Capital Programme

### Committed Programme Expenditure

4.4 The Council's Medium Term Capital Programme (MTCP) shows the committed expenditure on schemes that have been approved by Cabinet/Full Council.

4.5 Reporting on the current Capital Programme and progress of schemes within the Development Pool into the Programme occurs through the MCR. The report sets out the most up to date projection for capital expenditure and funding in the current financial year and articulates financial and service delivery risks in relation to the delivery of key capital schemes. (Full details of the Development Pool schemes for 2021-22 to 2024-25 are included in appendix 10.2)

4.6 The Table below sets out the forecast capital expenditure (in relation to schemes in the Committed Programme i.e. in delivery rather than Development Pool).

Council/ Directorate	2021-22 Spend	2022-23 Spend	2023-24 Spend	2024-25 Spend	Total Spend
	£	£	£	£	£
NCC/Corp Servs	3,634,287				3,634,287
NCC/CFN	8,971,201				8,971,201
NCC/NASS	1,844,000				1,844,000
NCC/PLACE	7,366,455	1,692,453	1,299,440		10,358,348
NCC/TRANSFORMATION	1,875,000				1,875,000
<b>NCC Total</b>	<b>23,690,94</b>	<b>1,692,453</b>	<b>1,299,440</b>	<b>-</b>	<b>26,682,836</b>
BCW/Corp Property	3,439,000				3,439,000
BCW/PLACE	2,598,000	500,000	500,000	500,000	4,098,000
BCW/LEISURE	925,000				925,000
KBC/PLACE	620,000	520,000	520,000	520,000	2,180,000
KBC/Community	742,000	442,000	292,000	292,000	1,768,000
KBC/Service Delivery	4,880,000	6,570,000	3,830,000	2,070,000	17,350,000
CBC/PLACE	5,087,773	515,000	515,000	515,000	6,632,773
CBC/Corporate	150,000	150,000	150,000	150,000	600,000
ENC/PLACE	818,701	605,000	580,000	3,495,000	5,498,701
ENC/Regeneration	84,919				84,919
ENC/LEISURE	376,750	103,500	89,000	108,000	677,250



<b>D&amp;B Total</b>	<b>19,722.14</b>	<b>9,405,500</b>	<b>6,476,000</b>	<b>7,650,000</b>	<b>43,253,643</b>
<b>North Northants Total</b>	<b>43,413.08</b>	<b>11,097.95</b>	<b>7,775,440</b>	<b>7,650,000</b>	<b>69,936,479</b>

Selected Major Scheme Details (committed programme)

4.7 Below are the larger schemes (in excess of £5m) within the Council's current committed programme that are already in delivery and will complete over the course of the plan period:

Scheme	Council/ Directorate	2021-22 Spend	2022-23 Spend	2023-24 Spend	2024-25 Spend	Total Spend
East Northants Restructure - Prince William Academy phase 3 works	NCC/CFN	6,100,000				6,100,000
Northamptonshire Superfast Broadband	NCC/PLACE	2,537,040	1,562,587	1,254,440		5,354,067
Recycling Project / Facility	KBC/Service Delivery	500,000	2,500,000	2,500,000		5,500,000
Housing and Homelessness Prevention	KBC/Service Delivery	2,000,000	2,000,000	1,000,000	1,000,000	6,000,000

**Committed Programme Funding**

4.8 All capital expenditure must be financed. This could be from a single source or a combination of:

- external sources (government grants and other contributions);
- the Council's own resources (revenue, reserves and capital receipts);
- debt (borrowing, leasing and Private Finance Initiative)

4.9 Prudential Borrowing (Council Discretionary Funding) - The introduction of the Prudential Code in 2004 allowed the Council to undertake unsupported borrowing itself. This borrowing is subject to the requirements of the 'Prudential Code for Capital Expenditure for Local Authorities'.

4.10 Total Council investment, (discretionary funding, ring-fenced capital receipts and gap funding) accounts for £39m (56%), of the overall committed Capital Programme over the plan period.

4.11 The summary table below shows the funding for the Current Committed Capital Programme across current and future years and the funding source

	2021-22 Plan	2022-23 Plan	2023-24 Plan	2024-25 Plan	Total 2021-22 to 2024-25
	£m	£m	£m	£m	£m
Discretionary borrowing	11.5	7.3	4.1	4.1	<b>27.0</b>
Capital Receipts	8.8	1.1	0.8	1.6	<b>12.3</b>
S106 and Other Grants	20.8	0.8	0.9	0.1	<b>22.6</b>
DFG Grants	2.3	1.9	1.9	1.9	<b>8.0</b>
<b>TOTAL FUNDING</b>	<b>43.4</b>	<b>11.1</b>	<b>7.7</b>	<b>7.7</b>	<b>69.9</b>

## Development Pool

4.12 The table below shows a summary of the Development Pool Schemes for 2021-22 to 2024-25 requiring discretionary funding which has been through a prioritisation process with the NCC Leadership Team taking into consideration the latest funding announcements and governance process that was in place.

4.13 The scheme detail can be found in the appendices.

All figures £m				
Service Area	2021-22	2022-23	2023-24/ 2024-25	Total Discretionary Funding
Children's Services	0.3	0.0	0.0	<b>0.3</b>
Place	0.5	0.5	0.5	<b>1.5</b>
Corporate	1.5	0.4	0.0	<b>1.9</b>
ENC Place	0.8	0.4	0.3	<b>1.5</b>
<b>Total</b>	<b>3.1</b>	<b>1.3</b>	<b>0.8</b>	<b>5.2</b>

## IFRS 16 - Leases

4.14 IFRS16 is being introduced for local authorities from 1 April 2021 which means that the annual accounts for 2021/22 will be the first set of accounts produced in accordance with this standard.

4.15 The main impact of the standard is to remove (for lessees) the traditional distinction between finance leases and operating leases. For finance leases the asset is shown on the balance sheet, together with a liability to pay for the asset. In contrast, operating lease rentals are accounted for in the year they are paid. IFRS 16 requires all lessee leases to be accounted for as finance leases, recognising the rights to use an asset. There are no changes for lessor accounting.

4.16 There are two exemptions for lessees from applying this standard. These are short term leases and those where the value of the asset that the lease relates to is low. Short term leases are those with a lease term of twelve months or less at the commencement date. The Code and IFR16 allow individual councils to determine a monetary amount that would constitute low value. The Council has elected to use £10,000 for this amount as this is the Council's approved de-minimis level for capital expenditure. Exempt leases will continue to be accounted for as operating leases.

4.17 The impact of this accounting change is of previously recognised operating leases will now be recognised as a rights of use asset on the balance sheet with a corresponding liability to recognise the payments made for these.

## 5. FUNDING SOURCES AND FUTURE GRANT ALLOCATIONS

### External Funding

### 5.1 Section 106 (S106) and External Contributions

- Elements of the Capital Programme are funded by contributions from private sector developers and partners. These contributions relate to developments in the North Northamptonshire area and are agreements by negotiation based on the impact on the public sector infrastructure requirements that are forecast to occur as a consequence of increased activity/population brought by the development. Growth in North Northamptonshire to date has resulted in S106 contributions from developers accounting for significant elements of funding.

### Grant Funding

- 5.2 The largest form of capital funding comes through external grant allocations from central government departments, (DFT & DFE). Although these grants are to support specific areas of investment the Government removed capital ring-fencing in 2010, enabling local authorities to prioritise grants to support local needs, pressures and statutory responsibilities. However, need and reporting requirements do limit the Council's ability to work to these more flexible rules. Also the increase in the Freeschool Programme the Council loses some of its flexibility as these schemes are usually funded and managed directly by the DFE.
- 5.3 There are some specific grants such as Local Growth Fund (LGF), Homes England, Arts Council and Sport England that have to be bid for but a difficulty with this type of grant in the current climate can be the requirement to provide match funding.
- 5.4 Due to the recent events regarding Covid, there may be further funding available in the short to medium term and this will be built in to the capital strategy and capital programme once further details are known.

### 5.5 Department for Education – Capital Grant Settlements

All figures £m	2021-22	2022-23	2023-24	2024-25
Basic Need	TBC	TBC	TBC	TBC
School Condition Allocation (SCA)	TBC	TBC	TBC	TBC
SEND Capital Grant	TBC	TBC	TBC	TBC
Healthy Pupil Premium	TBC	TBA	TBC	TBC
<b>Total LA Direct Funding</b>	-	-	-	-
Devolved Formula Capital (DFC)*	TBC	TBC	TBC	TBC

*\*DFC is passported directly to schools to enable them to invest in ICT, minor repairs, etc.*

- 5.6 There is some uncertainty currently around funding allocations in relation to annual Basic Needs Grant. In recent years allocations have varied from nil to £23m and currently only allocations up to 2020-21 have been confirmed. The nil allocation in 2020-21 reflects a DFE realignment based on a review of previous years allocations.
- 5.7 One of the key drivers for the changes year on year is the Government's Free School Programme which directly funds the building of new academies leading to reduced funding being allocated to Local Authorities.

### 5.8 Department of Transport Capital Grant Settlements

Department of Transport	Indicative			
All figures £m	2021-22	2022-23	2023-24	2024-25
Integrated Transport Block (ITB)	1.32	1.32	1.32	TBC

Highways Capital Maintenance – Needs Based	5.28	5.28	5.28	TBC
Incentive Fund	TBC	TBC	TBC	TBC
Pothole Fund	TBC	TBC	TBC	TBC
Maintenance Challenge Fund	TBC	TBC	TBC	TBC
HS2 Road Safety Fund	TBC	TBC	TBC	TBC
<b>Total LA Funding</b>	<b>6.60</b>	<b>6.60</b>	<b>6.60</b>	<b>TBC</b>

It is expected that allocations for 2022-23 and future years will be advised towards the end of 2021-22.

5.9 The allocation from the High Speed 2 Rail Project Road Safety Fund is to be spent by 2026 and drawdown of funding is on a scheme by scheme basis as agreed with HS2/DFT.

5.10 In recent years, the Government has allocated funding for a Pothole Action Fund and, while it is possible this may continue, no details are currently available.

### **Regional Growth Deals (including Local Growth Fund)**

5.11 Growth Deals bring together housing, infrastructure and other funding in a single pot put into local hands, via the Local Enterprise Partnerships (LEPs), to realise growth, jobs and educational opportunities.

### **Rural Development Programme for England (RDPE)**

5.12 The RDPE is an initiative of the Department for Environment, Food and Rural Affairs (DEFRA).

5.13 The rural broadband funding is for projects in England which create broadband infrastructure in rural areas and Northamptonshire as a whole secured a grant of £2m secured in 2019-20 to provide next generation broadband access to 750 rural businesses and is due to complete in 2022-23.

### **Internal Funding (Discretionary Funding) - borrowing and capital receipts**

#### **5.14 Revenue Funding**

The Council can use revenue resources to fund capital projects on a direct basis. However, given the current financial position no revenue contributions will be utilised to support capital expenditure. Savings generated directly as a consequence of capital investment (Invest to Save) will be reported through revenue monitoring.

The Housing Revenue Accounts (HRA) minimum revenue contribution to capital is equivalent to the level of depreciation being charged in year. The Government recognised that some authorities' revenue contribution to capital was less than the amount of depreciation being charged to the Housing Revenue Account. However, for authorities in this situation the government provided a transitional period of 5 years between 2012/13 and 2016/17 whereby the revenue contribution and the Major Repairs Allowance as a minimum must equal depreciation. The two key variables in determining depreciation are the value of the property and the percentage that is applied when determining the EUV-SH (Set by MHCLG). Therefore, movements in property values impact directly on the revenue resources required to fund the HRA capital programme.

### 5.15 Capital Receipts

The Council is able to generate capital receipts through the sale of surplus assets such as land and buildings. These capital receipts can be used to reduce down the Council's borrowing liability and be reinvested in the Capital Programme. Alternatively, they can be utilised either within the rules for the current Flexible Use of Capital Receipts guidance to support transformation.

5.16 For 2021-22 onwards, the Council is forecasting the following un-ringfenced potential capital receipts balances from previous years:

2021-22	£20.4m
2022-23	£14.5m

5.17 The potential optimal strategy in relation to reuse of property assets for service delivery, sale for development of housing and potential use by a wider public sector partners will be considered in relation to each individual site through the Place Shaping and One Public Estate strategies.

5.18 Capital receipts arising from the disposal of housing assets and for which account is made in the Housing Revenue Account (HRA), are governed by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003).

- Right to Buy (and similar) sales may be retained to cover the cost of transacting the sales and to cover the debt on the properties sold, but a proportion of the remainder must be surrendered to Central Government;
- As part of the Government's announcement in April 2012 to increase the RTB discounts they also announced the introduction of a scheme referred to as 1-4-1 whereby every additional home sold under the new RTB scheme was to be replaced by a new home for affordable rent.
- The new homes for affordable rent will be financed from receipts from sales, after stipulated deductions, retained by the LA under signed agreement with the Government, limited to funding up to 30% of the cost of the replacement home.
- A time limit of 3 years is given for the replacement homes after which the receipts will have to be paid back to MHCLG at 4% above base rate from the date the receipts arose.
- All other disposals may be retained in full..

5.19 Where the sale of an asset leads to a requirement to repay grant, the capital receipt will be utilised for this purpose. Once this liability has been established and repaid any remaining capital receipts can be used as per 5.15

5.20 The level of capital receipts is dependent upon market conditions. The property market impacts on the:

- Ability of the Council to sell assets and the
- Level of receipts from the asset sale.

### Flexible Use of Capital Receipts

5.21 The Spending Review 2015 and its extension announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts over the period 2016-17 to 2021-22 on the revenue costs of transformation projects. The Council intends to take advantage of this concession to use capital receipts in more innovative ways and

target disposal receipts where need is greatest and this is reflected in a separately published Flexible Use of Capital Receipts Policy as part of the Budget Report.

### Long term funding challenges

5.22 The Council faces a number of challenges in its future funding of the Capital Programme:

- The Council has limited levels of future capital receipts, (excluding opportunities from the rationalisation and review arising from the recent unitary restructure).
- A significant proportion of the Council’s capital funding comes from central government grants.
- A further proportion of the Council’s capital funding comes from external contributions, largely S106 which is dependent on development in the county and the economy.

5.23 The Council in itself only has limited influence over these external and grant funding sources and the Council’s Capital Programme will continue to be largely influenced by central government policy.

### Gap funding through discretionary borrowing

5.24 These type of schemes require short term funding from the Council to invest in infrastructure that will unlock development which then releases the payment of CIL/S106/business rates, etc. to the Council, which can then repay the investment. The developments enabled will also provide wider economic benefits such as jobs and housing.

5.25 This investment increases the Council’s short term financing costs but the Council is compensated by the long term financial and non-cashable future benefits.

5.26 Where these arrangements form part of a business case, the level of gap funding in relation to the overall scheme need and benefits will be considered as part of the risk evaluation.

### Funding Summary for the Development Pool (future Capital Programme)

5.27 The summary below shows the total funding confirmed or assumed to be secured to fund the Development Pool

	2021-22	2022-23	2023-24/ 2024-25	Total
Funding Source	£m	£m	£m	£m
Discretionary	3.1	1.3	0.8	5.2
RCCO	1.8	1.8	1.8	5.4
DFE and DFT Grant Settlements/Requirements	27.5	38.5	14.5	80.5
External Contributions, Specific Scheme Grants, S106 (excluding schools S106)	4.8	2.3	1.0	8.1
<b>TOTAL</b>	<b>37.2</b>	<b>43.9</b>	<b>18.1</b>	<b>99.2</b>

### Funding Summary for the Total Capital Programme, Development Pool and HRA Capital Programme

5.28 The summary below shows the total funding confirmed or assumed to be secured to fund the Capital Programme, Development Pool and HRA Capital Programme

	2021-22	2022-23	2023-24/ 2024-25	Total
<b>Expenditure</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
General Fund Capital	43.4	11.1	15.4	69.9
HRA Capital	13.7	12.1	24.2	50.0
Development Pool	37.2	43.9	18.1	99.2
<b>Total</b>	<b>94.3</b>	<b>67.1</b>	<b>57.7</b>	<b>219.1</b>
	2021-22	2022-23	2023-24/ 2024-25	Total
<b>Funding Source</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Discretionary	17.2	11.3	14.5	43.0
Capital Receipts	13.7	5.4	10.7	29.8
RCCO	6.7	6.9	12.2	25.8
Use of Reserves	3.6	-	-	3.6
Grant Funding – DfE, DfT, DFG	40.9	41.1	19.3	101.3
External Contributions, Specific Scheme Grants, S106	12.2	2.4	1.0	15.6
<b>TOTAL</b>	<b>94.3</b>	<b>67.1</b>	<b>57.7</b>	<b>219.1</b>

## 6. CAPITAL INVESTMENT

### Discretionary Funding Availability

6.1 Prioritisation and an affordability review has taken place as part of the creation of this Capital Strategy. As a result, the Discretionary Funding Pot is now confirmed as:

<b>Discretionary Funding</b>	<b>£m</b>
Baseline Capital Strategy Position	43.0
Discretionary funding movements to date and forecast to end of 2021-22	0
Balance remaining/approved in 2021-22 Strategy for 2021-22 onwards	43.0
Increase in Discretionary Funding	0
<b>Total Revised Discretionary Funding Requirement</b>	<b>43.0</b>

6.2 The Capital Financing requirement shows an increase in borrowing of £TBCm in relation to the newly created aggregated/disaggregated baseline position. This revised requirement follows a review of schemes and requirements taking into consideration the 'Key Strategy Guidelines' on page 3.

## 7. COMMERCIAL INVESTMENTS/ REGENERATION & ECONOMIC DEVELOPMENT

7.1 The practice of investing in property in order to create an additional revenue stream to support service delivery and financial sustainability during a time of reducing settlements from central government has been widely adopted by local authorities, including some of the sovereign councils forming North Northamptonshire Council. The predecessor councils have a significant commercial portfolio that will be carried forward into the new Council's overall asset portfolio.

7.2 The HM Treasury ran a consultation on the future lending terms of the Public Works Loan Board (PWLB) between March and July 2020. The aim of this

consultation was to develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing, and regeneration under the prudential regime as they do now.

7.3 The outcome is that PWLB will no longer lend to local authorities that plan to buy commercial assets primarily for yield. PWLB will still be available to all local authorities for refinancing. In order to borrow from the PWLB, local authorities will now be required to submit a summary of their planned capital spending and PWLB borrowing for the following three years including a commentary outlining the expenditure plans of the Council.

7.4 PWLB has Defined the activities as follow:

- Service spending is activity that would normally captured in the following areas in the MHCLG Capital Outturn Return (COR): education, highways & transport, social care, public health, culture & related services, environmental & regulatory services, police, and fire & rescue services.
- Housing is activity normally captured in the HRA and General Fund housing sections of the COR, or housing delivered through a local authority housing company. This is given separately from 'service spending' because of the relative concentration of cross-subsidy and other innovative financing arrangements in housing projects.
- Regeneration projects would usually have one or more of the following characteristics:
  - a. the project is addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector
  - b. the local authority is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment
  - c. the project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value
  - d. while some parts of the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services
- Treasury management covers refinancing or extending existing debt from any source, and the externalisation of internal borrowing.

7.5 The Council will carefully consider this criteria when prioritising capital projects against the strategic objectives and ensuring affordability and the borrowing position should any decisions be affected.

7.6 Alongside these new lending terms, the Chancellor has announced that the PWLB Standard and Certainty rates will be cut by 100 basis points for new loans arranged from 26 November 2020. This takes offered rates back to where they were in early October 2019. This will lower the costs of borrowing for local authorities and help them to move ahead with planned infrastructure projects and will be fully considered by the Council in externalising the current internal borrowing position.



## 8. PROPERTY ASSET MANAGEMENT PLAN

- 8.1 The Property Asset Management Plan is currently being updated for North Northamptonshire to fully consider the unitary authority changes.
- 8.2 The revised strategy will fully maximise the One Public Estate approach to rationalise its operational estate through increased utilisation and then to dispose surplus assets to generate capital and direct- (property related) revenue savings. There will also be an emphasis to support a business-case approach to target capital investment in new and existing properties in order to unlock ongoing revenue savings or income.
- 8.3 The split between the major classes of fixed assets as at 31/03/2020 is shown in the table below.

<b>Class</b>	<b>Value (£m)</b>
Property Plant and Equipment	TBC
Investment Property	TBC
Heritage Assets	TBC
Intangible Assets	TBC
Assets Under Construction	TBC
Total Assets	TBC

## 9. DEBT, BORROWING AND TREASURY MANAGEMENT

### **Treasury Management Strategy**

- 9.1 The purpose of the Treasury Management Strategy is to establish the framework for the effective and efficient management of the Council's treasury management activity, within legislative, regulatory, and best practice regimes, and balancing risk against reward in the best interests of stewardship of the public purse.
- 9.2 The Treasury Management Strategy incorporates:
- The Council's capital financing and borrowing strategy for the coming year;
  - The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008;
  - The Affordable Borrowing Limit as required by the Local Government Act 2003;
  - The Annual Investment Strategy for the coming year as required by the MHCLG revised guidance on Local Government Investments issued in 2018.
- 9.3 The strategy takes into account the impact of the Council's Medium Term Financial Plan (MTFP), its revenue budget and Capital Programme, the balance sheet position and the outlook for interest rates.
- 9.4 The Council takes advice from its external treasury partners/advisors in making decisions on the current financial climate and markets in relation to whether to undertake short term or long term borrowing and in considering the management of its financial balances.

9.5 The tables on page 8 show the Council’s funding commitment and sources in relation to the current Capital Programme as well as the £5.2m discretionary funding for the Development Pool. This includes Invest to Save schemes which would in the past have been only temporarily funded, but which now are permanently funded in order to release savings to support the revenue position. The discretionary funding of £5.2m (see appendices 10.1) represents 5.2% of the total Development Pool schemes of £99.2m.

9.6 Discretionary funding commitments are either financed through capital receipts or borrowing. Any borrowing undertaken must eventually be repaid and this can come from a single source or a combination of the following sources:

- Annual set aside provision of revenue resources (known as Minimum Revenue Provision [MRP]) This represents the repayment of the original debt over the assessed life of the asset;
- Capital receipts from sale of assets.

9.7 The Council’s cumulative amount of debt financing outstanding is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces as MRP and capital receipts are used to replace it. Based on the current committed Capital Programme and Development Pool borrowing requirement the Council’s estimated CFR is as follows:

9.8 Table 1 - Prudential Indicator: Estimates of Capital Financing Requirement

	2020-21	2021-22	2022-23	2023-24	2024-25
	Forecast	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Total CFR (net of LT Liabilities)	TBC	TBC	TBC	TBC	TBC
Movement in CFR	TBC	TBC	TBC	TBC	TBC

## **BORROWING**

9.9 The Council’s primary objective when borrowing money is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting and the Council therefore seeks to strike a balance between:

- Lower cost short-term loans
- Higher cost long-term loans
- Fixed but certain interest rates
- Variable but reactive interest rates

9.10 Table 2 - Forecast Borrowing and Investment Balances

	2020-21	2021-22	2022-23	2023-24	2024-25
	Forecast £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Borrowing at 1 April b/f	TBC	TBC	TBC	TBC	TBC
Net Borrowing Requirement to fund capital programme (see Table 2 below)	TBC	TBC	TBC	TBC	TBC

MRP <sup>1</sup>	TBC	TBC	TBC	TBC	TBC
Internal borrowing (increase)/reduction <sup>2</sup>	TBC	TBC	TBC	TBC	TBC
<b>(1) Actual borrowing at 31 March c/f</b>	TBC	TBC	TBC	TBC	TBC
<i>Capital Borrowing</i>	TBC	TBC	TBC	TBC	TBC
<i>Third Party Loans</i>	TBC	TBC	TBC	TBC	TBC
<b>Actual borrowing at 31 March c/f</b>	TBC	TBC	TBC	TBC	TBC
<b>(2) CFR – the borrowing need</b>	TBC	TBC	TBC	TBC	TBC
<b>(3) [2 – 1] Internal Borrowing <sup>2</sup></b>	TBC	TBC	TBC	TBC	TBC
Funds Available for Investment at 1 April b/f <sup>3</sup>	TBC	TBC	TBC	TBC	TBC
Change in Funds Available for Investment	TBC	TBC	TBC	TBC	TBC
<b>(4) Investments at 31 March c/f</b>	TBC	TBC	TBC	TBC	TBC
<i>Investment Balances <sup>3</sup></i>	TBC	TBC	TBC	TBC	TBC
<i>Third Party Loans</i>	TBC	TBC	TBC	TBC	TBC
<b>Investments at 31 March c/f</b>	TBC	TBC	TBC	TBC	TBC
<b>(5) [1 – 4] Net borrowing</b>	TBC	TBC	TBC	TBC	TBC

9.11 Statutory guidance states that debt should remain below the Capital Financing Requirement except in the short-term. As demonstrated above, the Council expects to comply with this requirement over the medium term horizon.

9.12 In August 2019 some of the predecessor Councils making up North Northants Council reversed their reliance on short-term Local Authority loans (those under 12 months in duration) with long-term borrowing from the Public Works Loan Board at what were historically low rates. In October 2019 HM Treasury increased PWLB rates for new loans with immediate effect and without prior consultation or warning by 1%. This has locked in significant amounts of borrowing at extremely low rates, therefore this borrowing has proven very timely and fortuitous for the Council.

9.13 Table 3 – Operational Boundary Prudential Indicator. This is the limit which external borrowing is not normally expected to exceed. All things being equal, this could be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing undertaken as impacted by the level of current and future cash resources and the shape of the interest rate yield curve.

Operational Boundary	2020-21	2021-22	2022-23	2023-24	2024-25
	£m	£m	£m	£m	£m
Total Borrowing	TBC	TBC	TBC	TBC	TBC

9.14 Each year, the Council is legally obliged to set an Affordable Borrowing Limit (also termed the Authorised Limit for External Debt). The Council also sets a lower Operational Boundary Limit beneath this to act as a warning indicator should debt approach the legal limit.

## FINANCING COSTS

9.15 Although capital expenditure is not charged directly to the revenue budget, the consequential impact is. Interest payments to service loans borrowed and MRP

contributions are charged to revenue, offset by any investment income receivable. This net annual charge is known as a financing cost, which can be compared to the Net Revenue Stream (the cost of Council services funded by Council Tax, Business Rates and Government Grants) and, when expressed as a percentage, effectively illustrates the Council's debt gearing ratio.

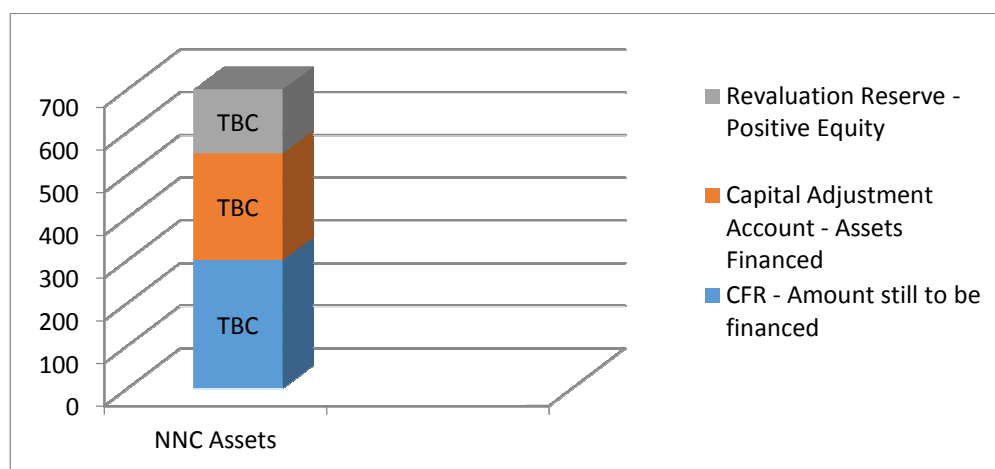
9.16 Table 4 – Prudential Indicator: Proportion of Financing costs to Net Revenue Stream

Financing costs to net revenue stream	2021/22	2022/23	2023/24	2024/25	2025/26
	Estimate	Estimate	Estimate	Estimate	Estimate
Non - HRA	5.14%	5.28%	5.09%	4.86%	6.78%
HRA	11.29%	10.16%	9.81%	9.44%	9.07%

9.17 Due to the very long-term nature of capital expenditure and financing decisions, the revenue impact is felt for years into the future.

9.18 Another view to consider is the CFR and its relative size compared to the Long term assets in the balance sheet. The below table shows the total value of the council's long term assets, how much is due to revaluation since acquisition, how much has been paid for and how much remains outstanding to be financed (CFR).

9.19 Table 5 – CFR compared to Long Term Assets on the Balance Sheet



9.20 The full Treasury Strategy will be published as part of the final budget report.

## 10. APPENDICES

### 10.1 DEVELOPMENT POOL DISCRETIONARY FUNDING DETAIL OVER MTFP PERIOD

The table below shows the Development Pool Schemes requiring discretionary funding, which have been through a prioritisation process, and the rationale for funding approval.



## Appendix 1

Scheme	Likely to Proceed		Scheme Description	2021-22 £000's	2022-23 £000's	2023-24 £000's	Total Discretionary Funding £000's	Reason for Funding
Housing for children with complex needs	A	CFN	Emergency placements for looked after children. Assumption of 1 x 5 bed unit or house.	215	0	0	215	Revenue Saving
Homes to support fostering	A	CFN	Adaptations to support fostering placements - multi-child and disability - estimate 5 @ £50k each.	108		0	108	Revenue Saving
Property Asset Management Minor Works	G	PLACE	Expenditure on NCC properties relating to replacement and repair of boiler and ventilation systems, roofs and building fabric works. Also covers health and safety, water quality and fire regulations requirements.	500	500	500	1,500	Statutory Service Provision
Regeneration and Economic Development Schemes	A	PLACE	Schemes to be developed in line with the council's overall objectives and ambitions	TBA	TBA	TBA	-	Delivering Council Priorities
Device Management	G	LGSS	End of life replacement.	375	375	0	750	Statutory Service Provision
PC Refresh	G	LGSS	End of life replacement.	200	0	0	200	Statutory Service Provision
SAN Replacement	G	LGSS	End of life replacement of the Storage Area Network which holds all of NCC's data.	500	0	0	500	Statutory Service Provision
Netscaler Replacement	G	LGSS	End of Life - Netscalers enable applications to run up to five times faster and makes sure that applications are always available with its application load balancing capabilities.	100	0	0	100	Statutory Service Provision
CapitaOne Cloud	G	LGSS	Migration of the CapitaOne system into the Cloud.	50			50	Statutory Service Provision
NARP - Northants Analytics and Reporting Programme	A	LGSS	Integrating systems into the NHCP Analytics solution for system wide reporting.	100			100	Statutory Service Provision
Northants Care Record	A	LGSS	Integrating systems into the NHCP Northants Care Record for a single view of the patient/citizen for social workers and clinicians.	100	50		150	Statutory Service Provision
LGSS Review	A	LGSS	Supporting the repatriation of the shared LGSS systems into NCC	50			50	Statutory Service Provision
Leisure and Tourism Projects	G	ENC	Pemberton, Splash and Nene Leisure Centres	0	15	0	15	Statutory Service Provision
Corporate Systems	G	ENC	Mainly Corporate IT Systems	273	313	243	829	Statutory Service Provision
Asset Management Plan	G	ENC	General Asset Mgt	520	49	30	599	Statutory Service Provision
Central Services Projects	G	ENC	Print Room	30	0	0	30	Statutory Service Provision
<b>Total Discretionary Funding Required</b>				<b>3,121</b>	<b>1,302</b>	<b>773</b>	<b>5,196</b>	