

NORTH NORTHAMPTONSHIRE SHADOW AUTHORITY

SHADOW EXECUTIVE COMMITTEE MEETING

10th February 2021

Report Title	Final Capital Programme 2021-25 and Capital Strategy
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List of Appendices

- Appendix A – Baseline Capital Programme 2021-25**
- Appendix B – Baseline HRA Capital Programme 2021-25**
- Appendix C – Baseline Development Pool**
- Appendix D – Capital Strategy**

1. Purpose of Report

- 1.1. This report sets out an update of the Draft Capital Strategy and baseline Capital Programme report that was considered by Shadow Executive on 7th December 2020, leading to consideration and approval of the Final Programme and Strategy by the Shadow Authority on 25th February 2021 alongside the Council's Revenue Budget Report.
- 1.2. The budget consultation period commenced on 11th December and ended on 29th January. The Capital Programme and Strategy have been subject to scrutiny by the Overview and Scrutiny Committee. In addition, the consultation provided residents, local partners and other stakeholders to have the opportunity to review the proposed budget and provide feedback during the seven week consultation period.
- 1.3. This report sets out the baseline Capital Programme and Strategy and identifies the key factors and challenges influencing the development of North Northamptonshire Council's future commitments for 2021-22 and beyond, and the governance process in place to successfully manage the review and approval of new schemes moving forward.

2. Executive Summary

- 2.1. This report presents the Final Capital Programme for 2021-25 including the Housing Revenue Account (HRA) Capital Programme 2021-25 and a Baseline Development Pool based on the Capital Strategy principles agreed by the newly appointed Senior officers, the North Northamptonshire Budget and Medium Term Financial Plan Task and Finish Group (NN Budget & MTFP T&F Group) and Shadow Executive Committee.
- 2.2. This forms part of the full suite of budget reports included for this Shadow Executive Committee, which also includes the Revenue Budget 2021-22 and Medium Term Financial Plan; the Housing Revenue Account Budget 2021-22; and the Treasury Management Strategy. These reports together, provide a framework for revenue and capital planning for 2021-22 and into the medium term.
- 2.3. North Northamptonshire Council has not yet established a Corporate Plan. The NN Budget & MTFP T&F Group established a set of guiding principles to steer the budget setting process.
- 2.4. The key principles underpinning the Capital Strategy in compiling the Capital programme 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, and Asset Management Plan;
 - Set out the Council's regeneration and economic development ambition and additional objectives;
 - Set out the governance and risk management arrangements.
- 2.5. The Spending Review at the end of November announced £100 billion of capital spending next year to kickstart growth and support jobs. Schools, hospitals and transport scheme projects will receive multi-year funding

certainty, and the government will centre its spending around three objectives: economic recovery, 'levelling-up' and meeting the UK's net zero emissions target by 2050. £7.1 billion of Housing investment was also announced over a 4 year period to unlock up to 860,000 homes through capital grants and loan financing. The impact for North Northamptonshire is not yet known but will become clearer before the Final Capital Programme is set in February 2021.

- 2.6. HM Treasury ran a consultation on the future lending terms of the Public Works Loan Board (PWLB) with the aim of developing 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. 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.
- 2.7. The Council wants to invest in regeneration and economic development schemes and this is included in the Development Pool with further work to be undertaken as the strategy develops alongside the overall council priorities and objectives post vesting day.

3. Recommendations

- 3.1 It is recommended that the Shadow Executive Committee approves and recommends to the North Northamptonshire Shadow Authority:
- a) the Capital Strategy, Capital Programme 2021-25, HRA Capital Programme 2021-25 and Baseline Development Pool, with the understanding that these will change for any schemes that are not complete by the current predecessor authorities as at the end of March 2021 and for any new schemes submitted through the agreed governance process between now and the end of March 2021.
- 3.2 *Reason for Recommendation:*
- *The option proposed has taken into account the relevant officers and members steer regarding agreeing the principles that most closely align with the New Unitary Council's Safe and Legal perspective whilst including relevant transformation projects and maximising the delivery of currently agreed objectives.*

4. Report Background

- 4.1 The Capital Strategy demonstrates how the Council will make expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. It sets out the key objectives and broad principles to be applied by the Council when considering capital investment and its funding and provides the context for how the Medium Term Capital Programme seeks to support the realisation of the Council's vision and corporate objectives. The Strategy also provides details of the Council's planned future capital programme and capital funding expectations.

- 4.2 This being the first year and first time this strategy is being set for the new authority, alongside the first Budget being set, 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 with new capital investment for schemes contributing to the achievement of the Council's strategic priorities and the areas of greatest need within the North Northants area as well as schemes that also deliver transformation and/or revenue savings.
- 4.3 This strategy will be developed significantly during the council's first 12 – 18 months as the council's management team's 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. This will, in-turn, inform the medium to longer term capital strategy for the new unitary council and the revenue and capital priorities to be delivered and financed.
- 4.4 The Baseline Capital Programme, HRA Capital Programme and Development Pool have been consolidated from the predecessor councils taking the North Northants relevant share for the previous Northamptonshire County Council (NCC) schemes. These will also bring with them the relevant sources of funding as currently designated at each sovereign council.
- 4.5 There have been several changes since the draft Capital Programme in relation to the latest known rephasing of capital schemes and additions to the capital programmes of each sovereign council. These have been reflected in the appendices to provide the latest estimated position with known information as of the date the reports were published.
- 4.6 The latest estimates of the forecast balances as at the end of 2020/21 and the movement included in the capital programme for 2021/22 is shown in the table below. Announcements from Government are expected imminently providing details of the Spending Review impact on capital allocations, giving further clarity to funding for 2021/22 onwards.

	2020/21	2021/22
Funding	Forecast End of Year Balances	Forecast End of Year Balances
	£000	£000
Capital Receipts	20,376	14,480
S106/CIL	28,395	23,741
Capital Grants and Contributions Unapplied	13,864	13,647
Total	62,635	51,867

- 4.7 Minimum Revenue Provision (MRP) – The Capital Assets, balances and debt to be allocated between North Northants Council and West Northants Council from NCC is still being determined with support from Link Asset Services. The MRP policies are substantially different between the County Council and the North D&B's and this has been considered in a measured way as part of the Capital Strategy and the Final Budget process to ensure a manageable impact in future years.

5. Issues and Choices

Capital Strategy 2021-25

- 5.1 The Capital Strategy and the key principles have been agreed in the context of this being the initial year of the new council coming into existence disaggregating NCC between north and west and aggregating the north Districts and Borough's (D&B's) and ensuring all statutory responsibilities continue to be delivered from vesting day. The Strategy has also been developed with reference to the requirements of the updated Prudential Code and Treasury Code of Practice.
- 5.2 The key principles underpinning the Capital Strategy in compiling the Capital programme 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.

Governance Process and Approval of New Capital Schemes

- 5.3 Within the Capital Strategy there is a proposed Governance Structure for approving new capital schemes for the new Council post Vesting Day. New capital investment will only be permitted if it contributes to the achievement of the Council's strategic priorities. The use of external funding will be prioritised against the areas of greatest need within the North Northants area, in the main supporting highways maintenance and the delivery of education places. In the current financial climate priority will be given to schemes that also deliver transformation that the council is aiming to deliver generating revenue savings or income streams to support the MTFP.

Capital Programme 2021-25, HRA Capital Programme 2021-25 and Development Pool

- 5.4 The Baseline Programme has been put together by taking the already approved schemes in year from each of the north sovereign councils and the north share of NCC's 21/22 schemes including already approved slippage/rephasing from the sovereign councils' 20/21 programmes. This has resulted in a Total Capital Programme of £219m over the four year period, which comprises:

- A Baseline Programme totalling £70m including the completion of key projects including the Northamptonshire Superfast Broadband project, the completion of works at Chester House Estate, Prince William Academy phase 3 works, various schools' minor works and extensions, highways schemes across North Northants and various property and environmental projects across all previous district and borough areas.

There is also an earmarked amount for housing and homelessness investment of £6m which can be delivered through discretionary funding supported by further business cases coming forward alongside the appropriate due diligence being conducted to enable this to be approved;

- A Development Pool totalling £99m and the prioritisation of 36 key schemes against the associated funding streams making up the Pool. The key themes are Children's Services including Basic Needs, increasing capacity for pupil numbers, schools maintenance, looked after children placements and fostering support, Place including highways maintenance, new road or extension schemes, cycleways, flood alleviation, regeneration and economic development projects and property asset management, Adults community equipment and Corporate Projects mainly corporate IT and service systems;
- A HRA Baseline Programme totalling £50m across Kettering and Corby grouped into statutory and priority works, decent homes, health, safety and compliance works, pre-planned stock investment, enhancements and new builds and a significant investment of nearly £22m for Corby's Housing Development Programme.

- 5.5 Bearing the above in mind, there will no doubt be changes between now and the end of March 2021 of some of the current capital projects being delivered by the sovereign councils which will impact the 2021/22 baseline position from

a slippage perspective or for new projects that will come through the governance process for inclusion into the programme and confirmed announcements from Government regarding funding for North Northants which will be reported to one of the early North Northants Cabinet meetings in 2021/22.

Minimum Revenue Provision

- 5.6 The Capital Assets, balances and debt to be allocated between North Northants Council and West Northants Council from NCC is still being determined with support from Link Asset Services. The MRP policy will be finalised following the completion of this work and this will include the previous NCC policy for their share of the debt that will be transferred to this council, in that a previous overpayment of previous MRP paid (Voluntary Revenue Provision (VRP)) is currently reducing the MRP to be paid to a minimal figure but when this runs out, currently forecast to be 2024/25, a lump sum would need to be built back in for this. The previous District & Borough Councils' debt will continue to be provided for on an asset life basis.
- 5.7 A phasing strategy for the previous NCC debt has already been reviewed and it has been proposed to include an additional £1.5m MRP for 2021/22 and to increase this annually in advance of 2024/25 to enable this to be delivered in a manageable and gradual way as part of the overall MTFP Budget process in future years.
- 5.8 As we are awaiting the work to be completed by Link Asset Services, Debt, the Capital Financing Requirement (CFR) and MRP have not been split. This has affected the Treasury Management Strategy being finalised and the full impacts for the Council moving forward.
- 5.9 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.
- 5.10 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.
- 5.11 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. North Northamptonshire Council will need to apply as a new Council to be eligible for this preferential rate.

Funding

5.12 The latest estimates of the forecast balances as at the end of 2020/21 and the movement included in the capital programme for 2021/22 is shown in the table below. Announcements from Government are expected imminently providing details of the Spending Review impact on capital allocations, giving further clarity to funding for 2021/22 onwards.

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6. Implications (including financial implications)

6.1 Resources and Financial

6.1.1 The resource and financial implications of the Capital Strategy and Capital Programme are set out in the body and appendices of this report. Staff capacity/external support will need to be ensured to deliver the Council's capital projects and support the expansion of the programme and the Council's ambitions moving forward.

6.2 Legal

6.2.1 There are no legal implications arising from the proposals set out in this report.

6.3 Risk

6.3.1 The following risks are associated with the budget proposals:

Risk	Mitigation	Residual RAG Risk
Funding in the Local Government Finance Settlement is less than expected.	Amendments or reduced delivery of schemes will need to be undertaken	Amber
Capacity to deliver	Ensure co-ordinated delivery teams for the capital programme and sufficient resources for external support as required	Amber

Further significant slippage from sovereign councils leading to a significantly increased programme to be delivered	Will put extra pressure on the above risk but will need to be managed accordingly and should be a short-term issue to complete projects	Amber
Disaggregation not being agreed	Agreements on most splits are in place reducing the impact of remaining items	Amber
MRP policy not complete	Estimates based on current policies of current debt plus a phasing strategy included to reduce future one-off impact	Amber
Historic Commercial Schemes/Change in Government Policy	Commercial Assets to be managed to maximise performance and changes to policy will be paramount to future capital strategy and programme	Amber
Condition of assets transferring to the Council	Condition likely to be variable across the estate. Will need to be reviewed as part of the One Public Estate workstream to rationalise and prioritise investments and sales of assets	Amber
New Schemes agreed by sovereign councils	Need to come through North Northants Governance process for consideration and minimal time and meetings left for these to be approved	Amber

6.4 Consultation

6.4.1 The Capital programme proposals were part of the Draft Budget 2021-22 seven week consultation which took place from 11 December 2020 and concluded on 29 January 2021. The full responses from this are shown within the Final Budget 2021-22 and Medium Term Financial Plan Report at Appendix G and have been considered in the Final Capital Programme and Strategy within this report.

6.5 Consideration by Overview and Scrutiny

6.5.1 A Budget Scrutiny process, including the Capital Strategy and Programme, was run simultaneously with the consultation process. Scrutiny is a means for

councillors not in the Shadow Executive to influence the development of Council policies and services and hold decision-makers to account. The Budget Scrutiny involved councillors reviewing significant proposals across the Draft Budget and the Capital Programme proposals and reporting their conclusions about the deliverability and service impact of these proposals to the Shadow Executive Committee. The details from this are shown within the Final Budget 2021-22 and Medium Term Financial Plan Report at Appendix J.

6.6 Climate Impact

6.6.1 The current sovereign councils are all supportive of the key principles of raising awareness of the issues of climate change and its impact on the local area, reducing emissions of greenhouse gases across the area and planning for and adapting to the impacts of climate change and these were all considered as part of setting the initial capital programmes that have subsequently led to the baseline capital programme within this report.

6.7 Community Impact

6.7.1 No distinct community impacts have been identified as a result of the proposals included in this report, however, the successful delivery of various projects will have a positive result in the local communities once completed.

7. Background Papers

7.1 Sovereign Councils' Capital Programmes and Strategies

Previous reports to North Northamptonshire Shadow Executive Committee 7th December 2020:

<https://cmis.northamptonshire.gov.uk/cm5live/MeetingsCalendar/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/3815/Committee/458/Default.aspx>