

Northampton Borough Council  
Capital Strategy  
2016-21

## **Northampton Borough Council**

### **Capital Strategy 2016 to 2021**

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#### **1 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.

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.

#### **2 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

### **3 SOURCES OF CAPITAL FINANCE**

#### **Overview**

Decisions on capital investment are made against the background of constrained resources, and the Council is heavily dependent upon capital receipts and grants from central government to support its capital programme. Other available funding sources include prudential borrowing, third party contributions, and revenue contributions. These are all actively pursued to support capital investment.

#### **Capital Receipts**

Capital receipts are derived from both General Fund (GF) and Housing Revenue Account (HRA) asset sales. These could include income to the Council as lessor from finance leases.

NBC do not always receive the full value of these asset sales as some of them are subject to "clawback" arrangements whereby a proportion of the capital receipt must be paid over to the Homes and Communities Agency (HCA).

GF asset sales come from a variety of sources. Generally speaking, 100% of GF asset sales (after any 'clawback') 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. Property assets for disposal are subject to the approval of the Capital Assets Board.

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.

HRA asset sales come from the sale of council houses under 'right to buy' legislation, and from the sale of shared ownership properties. 'Right to buy' receipts are subject to pooling arrangements. Since April 2012 this means that a proportion is paid over to central government for redistribution, a proportion is retained by the Council to fund the HRA capital programme and the remainder is retained for the

funding of one-for-one replacement properties through new-build or purchase. The latter may be in partnership with other registered providers.

### **Prudential Borrowing**

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.

The Housing Revenue Account is currently not subject to an MRP charge.

### **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 the gap will be managed by NBC undertaking borrowing from the Public Works Loan Board (PWLB).

### **Government Grants**

The conditions attached to government grants 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 focussed towards central government priorities.

### **Third Party Contributions**

As with government grants the conditions attached to third party contributions vary.

This category of funding is becoming of increasing importance to the Council in a climate of stretched local government resources. Included here are:

- Planning obligations funding from Section 106 agreements (developer contributions)
- National Lottery grants
- Contributions from local bodies.
- Contributions from national bodies.

### **Revenue and Capital Reserves**

The Council has, as part of its overall financial strategy, set aside reserves in order to provide additional capital funding. These include an element of the New Homes Bonus and the Strategic Investment Reserve, used to fund the purchase of properties that may in the future provide a good return on investment.

### **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.

HRA revenue contributions form a significant element of the funding of the HRA capital programme. Since April 2012 the HRA is self-financing and capital improvements to the stock are funded largely from the Major Repairs Reserve and direct revenue contributions.

### **Leasing (Council as Lessee)**

Leases are classified in accounting terms as either finance or operating leases. This distinction is important because it dictates whether the lease must be classified as capital (finance leases) or revenue (operating leases), and different accounting treatment is required for each.

The LGSS Treasury Team are responsible for advising on and arranging all leases for the Council in conjunction with the Procurement Team. They ensure that the leases comply with all the relevant accounting conditions and requirements. All lease

arrangements entered into on behalf of the Council are authorised and signed by the Council's Section 151 Officer.

In order to demonstrate and achieve value for money, the Council's leasing advisors carry out a full evaluation of any lease proposals on behalf of the Council. This involves an analysis of the quality of the proposed lease and a comparison of the whole life costs of, for example, an operating lease, a finance lease or capital purchase funded by prudential borrowing.

It is generally more cost effective to arrange operating leases through sale and leaseback arrangements with a third party rather than through a direct lease from the supplier. Items financed through an operating lease are coded to and financed as part of the Council's revenue budget. It is the responsibility of the budget holder to ensure that there is sufficient capacity in the revenue budget to fund the annual operating lease costs.

The Council's preference is not to enter into finance leases unless there are exceptional reasons for doing so. Where an operating lease is either not available or not suitable, a capital purchase funded by prudential borrowing generally offers greater benefits than a finance lease. The introduction of IFRS from April 2010 reduced the number of instances where operating leases can be used to finance expenditure, particularly in the case of short life assets such as IT hardware, equipment and vehicles. Where this applies it is likely that such items will be purchased through the capital programme and financed by prudential borrowing, with the revenue cost of the borrowing met from the existing service budget.

## **4 CAPITAL FUNDING STRATEGY**

### **General Fund Capital**

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 – i.e. funding linked directly to a specific scheme, such as grants, third party 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.
- General capital grants – these are not currently available, but if they become a source of funding in the future they will be fully utilised ahead of other funding sources.
- 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.
- 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 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 funding source of last resort.

### **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 Capital Programme 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 Capital 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 some limited scope for prudential borrowing within the HRA, although this is subject to a cap as determined by central government.

### **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 and the HRA Business Plan an appropriate balance of funding is determined between capital investment and repairs and maintenance. This is kept under regular review.

## 5 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

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 by Capital Programme Board 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.

## 6 GOVERNANCE ARRANGEMENTS

### In Year Appraisals and Variations

All new in-year capital schemes must be supported by a capital appraisal and 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 should consult the Capital Team in Finance to ensure forms are completed correctly and expenditure meets the definition of capital. Finance will also need to check that any VAT or other tax implications are properly taken into account.

### Delegation Levels for Appraisals and Variations

#### 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 both General Fund and HRA schemes.

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 appraisals and variations approved under delegation will be reported to Cabinet via the Finance and Performance report.

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

### **Role of the Capital Programme Board (CPB)**

Appraisals and Variations will require approval by the Capital Programme Board before final approval by Cabinet (or the CFO if under delegation). The project manager and/or Head of Service will be invited to attend CPB if required to explain the scheme.

The CPB will meet monthly, therefore project managers need to ensure that appraisals and variations are produced in a timely manner.

### **Block Programmes**

The Capital Programme for 2014/15 onwards includes block programmes for Improvements to Regeneration areas, Parks/Allotments, Operational Buildings and Commercial Landlord responsibilities.

CPB will approve individual schemes within these blocks following the submission of a capital appraisal by the relevant project manager.

### **Urgent Approvals**

Due to their long-term nature, capital investment decisions should be carefully considered. The Capital Team in 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 CPB to consider and approve the scheme within its monthly cycle.

In the rare circumstance where urgent approval is required, this can be secured via e-mail from Steve Boyes as Chair of CPB. The capital appraisal form will still require signatures including the CFO. If the scheme is more than £250k then Cabinet approval will still be required unless an absolute emergency.

## **7 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 input 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 request information on completed projects as part of their ongoing monitoring role.

### **Directorate Management Teams**

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

### **LGSS Finance**

Nominated accountants 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 Directorate Management Teams, Capital Programme Board, Management Board and Cabinet. The Capital 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 Capital Programme Board and Management Board on a monthly basis throughout the year, commencing from period 2 (end of May). Quarterly reporting to Cabinet forms part of the overall

Finance and Performance 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.

## 8 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 Capital Programme Board:

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 Capital Programme 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

## 9 ASSET MANAGEMENT

### Council Assets

The Council owned Property, plant and equipment assets with a total net book value of £509m at March 2015. Council assets included around 11,900 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.

The Corporate Assets Board 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 disposals in order to generate capital receipts.