Appendix I

Capital Strategy 2018-19
(Final Budget)

Northamptonshire
County Council

Foreword 2018-19

By the Cabinet Member for Finance – Robin Brown

The strategy sets out Northamptonshire County Council's approach to capital investment for the next five years, aligned to the Council's Medium Term Financial Plan.

It forms a key component of the Council's planning framework and provides a mechanism by which the County Council investment and financing plans can be prioritised and delivered over the medium term planning horizon.

It sets out the governance process by which the Council prioritises and monitors its capital resources to maximise their contribution towards the achievement of the Council's strategic objectives and to meet statutory requirements.

The Capital Strategy will:

- Ensure capital expenditure contributes to the achievement of the Council's strategic aims and objectives.
- Set a capital programme which is affordable and sustainable.
- Maximise the use of the Council's assets and resources and deliver value for money.
- Provide a clear framework for decision making and prioritisation relating to capital expenditure.
- Establish a corporate approach to the review of asset utilisation to ensure efficiency.
- Acquire assets necessary to provide sustainable services to Northamptonshire residents.
- Encourage invest to save investment in assets to make efficiencies within the Council's revenue budget.
- Ensure all investment decisions are based on a robust appraisal process and prioritised in accordance with the strategy.
- Work with partner organisations to maximise the efficiency of assets across the public sector and Northamptonshire.

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1. Background

Operating Environment

Asset and Capital decisions need to be made in context of the following directions and influences to the environment in which they are made:

The National Context – Political, Economic and Market conditions

The snap general election in June 2017 has resulted in a new government being elected. Since the election there has been a change in the Government's legislative programme.

The referendum on 23 June 2016 resulted in the decision for the United Kingdom to leave the European Union. The negotiations on the exit arrangements are ongoing and therefore there is added uncertainty in the economic situation until the conclusion of these negotiations.

This plan period will see Northamptonshire County Council's revenue budget being cut further on top of prior years' reductions, having a direct impact on the Council's ability to self-fund capital investment.

The Government's Autumn Statement 2016 chose to prioritise additional high-value investment, specifically in infrastructure and innovation that will directly contribute to raising Britain's productivity confirming that national capital investment will increase.
The Government has stated that its capacity to meet needs depends upon the productive potential of the economy. The Autumn Statement 2016 brought in the National Productivity Investment Fund (NPIF) to support investment in innovation, infrastructure and housing.

The Spring 2017 Statement confirmed the Autumn direction of travel and announced Capital Investment in a further 110 new free schools continuing the Governments agenda to directly fund through grants specific new free school and academy build projects.

The Autumn Budget 2017 has broadly followed on from the previous year albeit with reduced projections for productivity growth over the term of the parliament.

Key Capital areas announced were:

- The expansion of the NPIF to support innovation, upgrade the UK's infrastructure and to underpin the government's modern Industrial Strategy. The NPIF will last an additional year and total over £31bn. This includes investment in 5G and full fibre technology alongside roads and housing.

- A Transforming Cities Fund of £1.7bn of which 50% will go to the six areas of the country with elected mayors with the other 50%will be open to bids. Whether this will extend outside of formally agreed cities will be within the detail to be published.

- Support for the development of the charging infrastructure for electric cars.

- £1bn of discounted lending for local authorities for high value infrastructure

- Announcement that the Homes and Communities Agency will become Homes England to include money, expertise, planning and compulsory purchase powers to facilitate the new homes needed, with a target to nationally be delivering 300,000 new homes per year by the mid 2020s.

- £10bn Capital investment for the NHS. Although this will not directly come to the Council, it may support efficient service delivery in the care sector.

Over recent years, the Government has revised mechanisms to prioritise capital funding, such as revolving capital pots, increased business case bids and developments, such as the Better Care Fund and the Single Local Growth Fund, to bring together local public sector partners. Through whichever mechanism they are delivered, direct grants are expected to be a significant source of capital funding for the Council.

Northamptonshire County Council Position

The Council is focusing on the Digital Northamptonshire work programme into 2018-19. This is entering its delivery stage and builds upon established principles to ensure that end to end business processes are fully exploiting existing technology.

Delivery structures and models need to be simplified to remove duplication, unnecessary oversight and management and to ensure the right services are delivered in the right place, (for customers), at the right cost. Services based on statutory duties or grant funded will be maintained, but remaining services will be scaled to what is affordable, or what communities can be supported to provide. The optimum mix of duty, quality and cost will be achieved.

January Cabinet agreed a change to delivery structures with the creation of a Directorate of Adults, Communities and Wellbeing Services. This will bring together Northamptonshire Adult Social Services (NASS), including Olympus Care Services, and First for Wellbeing (FfW) into a single management structure. This will create a simplified service delivery model for all adult social care services and community based provision.

The consolidation of capital investment coordination within Place continues to develop in leading the allocation of investment to meet local priorities and local needs focusing on the outcomes for local communities and the prosperity of Northamptonshire.
The reorganisation of posts within the service area and recruitment to an Assistant Director Assets and Capital and an Executive Director, Commercial, Place and Public Health are examples of the Council updating its structures to meet the new opportunities and requirements in order to deliver for Northamptonshire and support financial stability.

This will see the development of innovative solutions to deliver services differently, with new relationships with public/private and voluntary sectors through strategic alliances. One further stream directly related to capital investment is the refresh of the Asset Utilisation Strategy and the adoption of a Corporate Landlord model. The strategy will be far more commercial and ambitious in approach through a targeted capital investment programme that will generate a revenue income for the County Council.

2. Ambition

The Council's long term vision is 'to make Northamptonshire a great place to live and work'. The Capital Strategy supports the achievement of this vision through investment in the assets the Council owns, the delivery of key infrastructure to support growth and improvement in services, and through improvements to the services and systems that the Council utilises.

The Capital Strategy continues to be mapped to the general direction for public sector investment, partly driven by grant funding streams. It is envisaged that major elements within the plan will continue to be as follows:

- Highways maintenance and infrastructure investment funded by grants such as the Local Growth Fund, the Revolving Infrastructure Fund and other Government grant allocations.
- The extension of current schools and new additional schools to meet need, funded by a mix of Basic Needs Grant or specific grants through the Education Funding Agency and other bodies.
- Other key Digital Northamptonshire projects.
- Investment to Save along with other joint investments with partners to generate revenue savings and new ways of delivering services.

The Council is facing unprecedented demand on its services and whilst financial support to provide services from central government declines there is a greater call on local funding to meet the gap. This is driving a requirement over the current planning period to make better more efficient use of the assets that the Council uses to provide services from and to achieve a greater income from the commercial assets that it holds. In this regard, the Council has some bold plans to realise, which require capital investment. However, affordability of the borrowing requirements must be carefully considered and capital schemes are considered against three categories:

1. Capital investment which delivers a saving against current budget pressures.
2. Capital investment which meets additional demand for services through the provision of new or enhanced assets.
3. Capital investment which delivers an improvement in services through asset improvement or investment in new assets.

3. Key Themes/Objectives for the 2018 Capital Strategy – Changes

Links to Themes for Change and Planning

Reduced Scope of Services –
Clear prioritisation

Strong Financial Control –
Review of current schemes and schemes in the Development Pool, not just new proposals
Monthly monitoring improvements, with Programme Management Office support
No block funding – annual allocations
Benchmarking of costs
Review of lessons learnt
Revenue impact and refocus back to revenue in later part of plan

Clear income and debt strategies –
Review use of non ring-fenced grants
Review implications and level of short term/bridge funding
Review of unviable schools assets
Maximisation of income potential from assets

Market Management & Opportunities examples –
Moray Lodge and retirement village proposals

Strengthened and Strategic Commissioning examples –
Corporate landlord

New Funding Sources and Models examples –
Managing Agent
Investment Property Initiative
Strategic Landholdings development

Automation to drive cost reductions -
Modular build considerations

Shared Utilisation of Assets –
Community Hubs initiative
Community transfers

4. Funding Streams

Prudential Borrowing

- 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. This funding can also be used as an option to front fund developments to stimulate growth. This type of borrowing has revenue implications for the Council in the form of financing costs.

Private Finance Initiative (PFI)

- The Council has made use of additional government support through PFI schemes. Current schemes funded this way include some Northamptonshire schools, adult social care provision and street lighting.

Section 106 (S106) and External Contributions

- Elements of the Capital Programme are funded by contributions from private sector developers and partners. Growth in Northamptonshire has resulted in S106 contributions from developers accounting for significant elements of the funding of the Capital Programme in recent years.
- Funding has supported education and highways infrastructure programmes and is received in line with trigger points within individually negotiated S106 agreements.

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 on a 50/50 basis, (see Golden Rule Two and comments about the impact of the current flexibility around the use of capital receipts to fund transformation).

Revenue Funding

- The Council can use revenue resources to fund capital projects on a direct basis and this funding avenue has been used in the past. However, the impact of austerity on the Council's revenue budget has reduced options in this area, and there is therefore a preference for Invest to Save business cases.

External Grants

- The largest form of capital funding comes through as external grant allocations from central government departments. 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.
- Sources of grant funding continue to evolve with the SLGFs and the increased role of LEPs. The Education sector has also seen similar changes with the Education Funding Agency providing direct support and grants to specific free school and academy build projects.

5. Flexible Use of Capital Receipts

SR 2015 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 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. This will see the Golden Rule relaxed to accommodate the transformation in the early years of the plan with a renewed focus on repayment of debt towards the end of the plan period as the transformation is embedded.

Following the extension of the Use of Capital Receipts Flexibility for a further 3 years, i.e. 2019-20 to 2021-22, the Council is currently reviewing its ability to raise finance through assets which will lead to the above targets being reviewed and revised. A report on Capital Asset Exploitation is due to go to February Cabinet and this will give more detail on the proposed approach, specifically in relation to One Angel Square.

Impact on Prudential Indicators and the Councils Golden Rules

The above approach to the use of capital receipts will have the following impact:

1. Golden Rule 1 – Discretionary finance cost ceiling of 9%.

   There will be pressure on this indicator due to flexibility increasing the level of borrowing requirement (CFR) and the related interest and MRP costs.

2. Golden Rule 2 – Capital Receipts allocation 50% to repay borrowing and 50% to re-invest

   There will be no availability of capital receipts to paydown borrowing or fund new investment. This reduces the ability to support new schemes as well as impacting Prudential Indicators.

3. Prudential Indicators:

- CFR – 2016-17 and 2017-18 use of capital receipts to support transformation is estimated at £21m and £35.6m, a total of £56.6m. Not utilising 50% of forecast capital receipts to repay debt increases the 2017-18 outturn CFR by £28.3m over what it would have been with adherence to the Golden Rules, i.e. an increase from £664m to £692m .

- Treasury costs, (interest and MRP), as a % of net revenue budget – additional £28.3m of borrowing costs 2017-18 and additional MRP equating to approx. £550k in 2017-18, (part year effect), and £1.1m from 2018-19.

  In 2018-19, this would increase the Prudential Indicator for Treasury costs as a % of net revenue budget to 7% compared to the forecast of 6.7% if 50% of capital receipts were utilised to repay borrowing.

6. Borrowing Prioritisation

The ability for the Council to borrow funding for capital investment is determined by four key principles:

1. The ability to afford the borrowing from revenue budgets.
2. The adoption within the Council's SORP of a borrowing 'golden' rule which limits capital borrowing to 9% of the total revenue budget.
3. The allocation of capital receipts 50:50 towards the repayment of Council borrowing, and to reinvest in funding of the capital programme.
4. Invest to save borrowing is not constrained by principle 1, however repayment must be charged back to service budgets in accordance with the business case identifying the savings and follow a strict governance process.

The above points must be tested against when considering capital investment proposals.

As borrowing headroom reduces, the ability of the Council to afford borrowing for discretionary schemes is limited and the strategy must prioritise investments which either deliver savings against revenue pressures, or which help meet additional demand for services by the provision of new or enhanced assets. It is hoped that an improvement in services may also be achieved through this in many circumstances. The exception to this is where service provision is demonstrably failing due to a lack of asset investment, requiring capital investment to improve service provision without other savings being realised.

Current Borrowing Limits

The Council is expected to set its own borrowing limits based on revenue affordability, risk, etc. The table below shows the borrowing limits which are in line with the outstanding unfinanced capital described as the Capital Financing Requirement (CFR).
The figures are as reported in the Final Treasury Management Strategy 2018-19

	2017-18 Budget (£m)	2017-18 Forecast Q2 (£m)	2018-19 Budget (£m)	2019-20 Budget (£m)	2020-21 Budget (£m)	2021-22 Budget (£m)	2022-23 Budget (£m)
Authorised Limit	757	752	799	824	819	812	806
Operat. Boundary	727	722	769	794	789	782	776
CFR	697	692	739	764	759	752	746
External borrowing	547	584	641	678	686	692	699

The KPMG Benchmarking Report from Autumn/Winter 2016 made a couple of observations in respect of NCC capital financing:

1. NCC had the highest capital financing requirement to net revenue expenditure ratio of its peers, (other county councils), suggesting the authority has yet to pay for more capital expenditure than its peers relative to its size 1.73X, (net budget £417m, CFR £722m). The other fifteen in the comparator group were between 0.75 and 1.5.
2. NCC sat within the middle of its peer group in terms of ratio of long-term borrowing to revenue expenditure. This may seem to conflict with the observation in point 1, but is due to the fact that a significant element, (around 50%), of the CFR of £722m is being financed by internal and short-term borrowing, leaving only 50% being

financed by long-term borrowing agreements. Internal borrowing occurs as a result of cashflow and reserves within the Council.

The outcome of the above is that the Council could be at risk from increases in interest rates meaning new borrowing to replace short term borrowing or any reduction in internal borrowing could put significant revenue pressures on the Council.
The management of this, and decisions in line with prudential concepts of how, where and when to borrow, are made by the Treasury Management team based on advice from specialists in the sector.

The recent peer group review identified that within NCC there is a very short-term focus on solving the financial problems of today which could be to the detriment of the medium to longer term. This particularly relates to the use of capital receipts, Section 106 monies and other treasury management approaches, many of which have revenue implications in the future. The middle to later part of the Capital Strategy needs to address this and refocus on repaying debt to reduce the council's vulnerability to interest rate changes.

Treasury Management Strategy relating to CFR
The strategy of internally borrowing, by carefully managing the Council's balance sheet, is currently the most appropriate strategy which enables savings to be generated and reduces the level of cash invested and credit risk associated with investing. However the projected level of internal borrowing is not sustainable so loans from the PWLB and other sources are currently being considered.

Prudential Indicator
This is the ratio of financing costs to net revenue stream and Golden Rules state it should be below 9%. The Treasury Revenue Budget 2017-18 represents 7.1 %, (this includes net interest costs and MRP). The June 2016 National Audit Office Report 'Challenges of Capital Resourcing' identified that 'a quarter of single tier and county councils now spend the equivalent of 9.9% or more of their revenue expenditure on debt servicing.'
The Final Treasury Strategy 2018-19 forecasts an increase in this % over the MTP period to 7.6%

Borrowing Headroom
The current revenue budget and growth proposals in the MTFP allow for the implications of the current approved Capital Programme and the discretionary funding implications of the Development Pool 2017-18, as well as providing potential for further new schemes or funding gaps/pressures within current schemes to be addressed.
The implications of previous funding swaps and current year reviews to support revenue are also factored in, in line with the January 2018 reported revenue and capital monitoring positions.

Given the Councils current financial position it is important that schemes not currently in delivery are reviewed against funding priorities, risks and implications and are agreed between senior officers and Cabinet members.

7. Grant Funding

Education Funding Agency Grants

- The Education Funding Agency (EFA) administers education revenue and capital funding for learners between the ages of 3 and 19, or up to 25 for those with special educational needs and disabilities. It also supports building and maintenance programmes for schools, academies, free schools and sixth-form colleges. EFA is an executive agency of the Department for Education.

Regional Growth Deals (including SLGF)

- Growth Deals were a direct response to the London-focused and over centralised UK economy and form part of the proposed response following the publication of Lord Heseltine's report 'No Stone Unturned', placing power and money in the hands of cities, towns and counties for local communities to prioritise.

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

Capital Grant Settlements 2018-19 to 2022-23

- Detailed capital grant settlements and assumptions from government departments are:

Department of Transport	**Indicative**				
All figures £m	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Integrated Transport Block (ITB)	3.08	3.08	3.08	3.08	3.08
Highways Capital Maintenance – Needs Based	12.29	12.29	12.29	12.29	12.29
HS2 Road Safety Fund	0.35	0.80	0.50	0	0
Total LA Funding	**15.72**	**16.17**	**15.87**	**15.37**	**15.37**

- The settlement from the Department for Transport (DfT) is not ring-fenced although it should ideally be used within the scope of the Local Transport Plan (LTP).

- The Government announced Integrated Transport Block and Highways Capital Maintenance levels in the Autumn Statement 2014 with figures to 2017-18 only. Allocations for 2018-19 to 2020-21 are due to be announced shortly, with the figures currently shown being indicative pending a data refresh, the collection of cycleway and footway data and review of the bridges element within the formula. It is expected that allocations for 2021-22 and futures years will be advised towards the end of 2020-21.

- The allocation from the HS2 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.

- No similar forward allocations are made for the Highways Maintenance Incentive and Challenge Funds which are allocated on an annual basis.

- 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.

- Further potential changes to the mechanism for Highways Funding are being considered as part of the current consultation on the Government's devolution agenda around the 75% Business Rates Retention target from 2021.

Department for Education

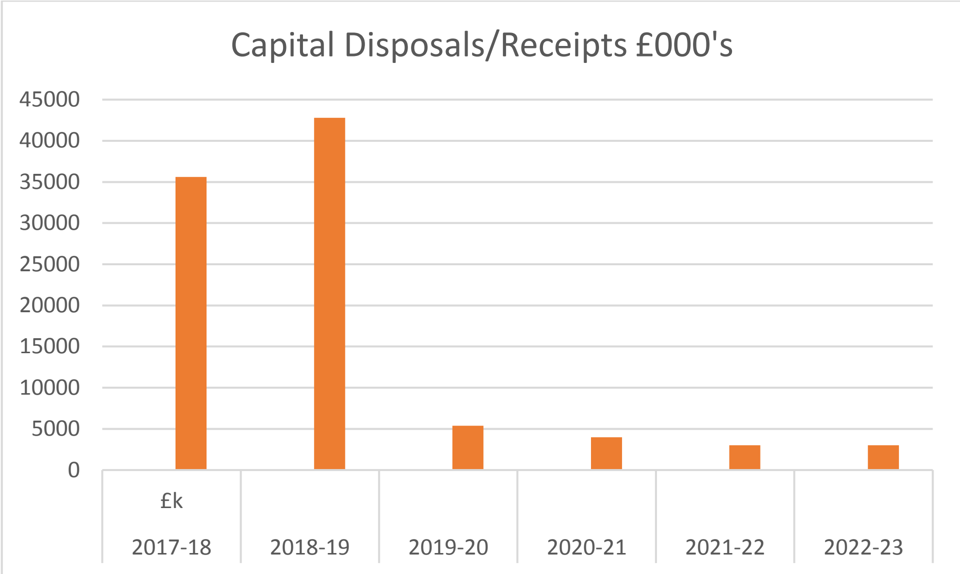
All figures £m	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Basic Need	1.49	18.85	TBA	TBA	TBA
School Condition Allocation (SCA)	3.84	3.50	TBA	TBA	TBA
SEND Capital Grant	0.94	0.94	TBA	TBA	TBA
Total LA Direct Funding	**6.27**	**23.29**	**-**	**-**	**-**
Devolved Formula Capital (DFC)	0.49	0.25	0.1	0.1	TBA

- The settlement from the Department for Education (DfE) is not ring-fenced although its use is monitored as part of annual capital spend data returns.
- DFC is passported directly to schools to enable them to invest in ICT, minor repairs, etc.
- The School Condition Allocations have been announced for 2017-18 and the DfE have confirmed that the formula used to calculate this funding stream will remain the same for 2018-19. NCC can expect a small reduction of this funding stream as a result of schools that have converted to academy status since the last announcement.
- The Basic Need allocation for 2019-20 has increased by over £17m when compared to the previous year. At the present time, it is unclear whether this reflects a shift away from the central government policy of providing new school places through the ESFA's 'Free School' programme or an attempt to redress historic underfunding of school places in the county.
- Capital allocations for Voluntary Aided Schools are not included in the figures above.
- The DfE has announced a separate capital fund to allocate to local authorities to supplement their basic need funding and help them to enhance provision for children with EHC plans. NCC were allocated £2.82m over a three year period from 2017.

Department for Health (DOH)

- The announcement of the introduction of the Better Care Fund (BCF) saw the former PSS capital grant from the Department of Health being incorporated along with the Disabled Facilities Grant into the BCF.

8. NCC Funding Streams



- Capital receipts have in the past provided an important funding stream to enable the Capital Programme to be supported.
- Following the announcement of SR 2015 allowing local authorities to use capital receipts to fund revenue costs of transformation projects the Council has agreed to utilise a vast majority of its Capital Receipts from 2016-17 to 2021 in this way, (see Section 5).
- Excluding the remainder of the Northampton Schools reorganisation sites, Strategic Land Holdings (SLH) remain the only area of sizeable asset ownership under the Council's control. However, predicting the timescales and values of receipts on these areas is problematic due to the complex nature of these sites and the multiple interests of partners, developers and local interest groups. The need to secure appropriate infrastructure and receipts from the sale of strategic land holdings continues to be challenging.

Discretionary Funding Availability

- Assessment of the affordability of Council discretionary capital investment has been reviewed taking into account key areas such as capital receipts, interest rates, capital golden rules, grant allocations, austerity measures and the underlying need to invest.
- Discretionary investment this year will be prioritised to support three key areas:
  - Ongoing support to the Council's revenue budget,
  - Extending the plan period by an additional year, and
  - Dealing with risks and pressures within schemes in the current Capital Programme, e.g. Northampton International Academy.
- The policy continues to incorporate the use of Central Government grants where it is practical, affordable and necessary to support local prioritisation of investment.
- The Council reviews each year the discretionary funding envelope it is able to prioritise, including the use of grants it wishes to consider as part of its 'Discretionary Funding Pot'.

The first round of prioritisation and an affordability review have taken place since the Draft Capital Strategy was published in December 2017. As a result, the Discretionary Funding Pot is now confirmed as:

Discretionary Funding	**£m**
Capital Strategy 2017-18 to 2021-22	39.552
Less, approvals to date and forecast to end of 2017-18	4.616
Balance remaining/approved in 2017-18 Strategy for 2018-19 onwards	34.936
Plus, new Discretionary funding	40.082
Total Discretionary Funding Pot	75.018

Invest to Save and Innovative Funding Availability

- The Council considers Invest to Save and Innovative Funding Investment critical to deliver the step changes required both in terms of managing pressure on Council budgets, but also in the delivery of services, jobs, growth and economic prosperity for Northamptonshire.
- The Council's ability to invest in capital projects is underpinned by the prudent self-imposed funding envelopes, (Golden Rules), and its current revenue budget funding. However, the discretionary funding envelope is only in place to control capital investment prioritised purely for, or to aid, service delivery.
- The Council continues to pursue innovative funding mechanisms and invest to save initiatives that will provide financial and/or economic benefits for the Council and/or Northamptonshire, and capital investment in these areas continues to be developed.
- These type of schemes increase the Council's short term financing costs but the Council and Northamptonshire is compensated by the long term financial and non-cashable future benefits. This investment is not included with the 'traditional' measure of discretionary financing costs, however, robust capital governance continues to be maintained to ensure the distinction between elements remains clear and transparent

9. Capital Programme

Committed Programme Expenditure

- The Council's Medium Term Capital Programme (MTCP) only shows the committed expenditure on schemes that have passed the first gateway in the Capital Programme process, i.e. have passed the scheme outline, corporate review of the business case and funding and prioritisation stages, and are now at least at the detailed scheme planning phase and can start to incur spending.
- The committed programme is funded using a number of different mechanisms. All external grants or contributions have either been received by the Council, are contractually committed to be received or fall into the indicative and prudent predictions of Government grant settlements or announcements that the Council will be allocated over the plan period.
- The Table below represents the Forecast Plan as at December 2017

Current Programme Expenditure	Forecast 2017-18 £m	Forecast 2018-19 £m	Forecast 2019-20 £m	Forecast 2020-21 £m	Forecast 2021-22 £m	Forecast Total £m
Environment, Development and Transport	81.7	43.1	6.6	1.8	1.8	**135.0**
Children, Families and Education	63.8	30.5	3.5	1.6	0	**99.4**
Adult Social Care Services	0.3	2.6	0	0	0	**2.9**
Public Health and Wellbeing	0.6	0.2	0	0.1	0	**0.9**
IT Infrastructure/ Development	2.7	0.3	0	0	0	**3.0**
Property Maintenance/ Investment *	8.0	19.5	0.5	0	0	**28.0**
NCC Core	0.3	0.9	0.4	0.4	0	**2.0**
Total	**157.4**	**97.1**	**11.0**	**3.9**	**1.8**	**271.2**

*The previous Property Maintenance heading is now expanded to include Property Investment with a current programme of £20m.

Committed Programme Funding

- The Property Investment strategy was introduced through the 2017-18 Medium Term Plan as a means of generating income from investment to support revenue. The scheme was approved at December Cabinet for inclusion in the current Capital Programme.
- Discretionary funding amounts to some £53.1m, (21%), of the overall committed Capital Programme, (excluding the Investment Property Scheme), over the plan period. This reflects the decisions to invest Council resources in the county's infrastructure, and also strategies to support the Council's revenue position through S106 funding switched to prudential borrowing and the review of the capital/revenue budgets within Highways.

- Total Council investment, (discretionary funding, invest to save, innovative and rvenue funding), accounts for £78m, (31%), of the overall committed Capital Programme, (excluding the Investment Property Scheme), over the plan period. It should be noted that Innovative Funding is only temporary in nature (front funding) but does carry short term financing costs which need to be met from existing resources.
- The time lag nature of capital investment dictates that a decision to invest can sometimes be expensed many years later, e.g. the decision to invest in the construction of a new road that could take 3 to 4 years to construct before it becomes operational.

Funding table

Capital Programme Funding	**Forecast 2017-18 £m**	**Forecast 2018-19 £m**	**Forecast 2019-20 £m**	**Forecast 2020-21 £m**	**Forecast 2021-22 £m**	**Forecast Total £m**
Grants and External Funding	108.6	51.6	6.8	2.8	3.2	**173.0**
Discretionary (inc. use of capital receipts)	29.5	20.5	3.8	0.7	-1.4	**53.1**
Invest to Save	0.2	4.5	0.4	0.4	0	**5.5**
Innovative	15.5	4.1	0	0	0	**19.6**
Investment	3.6	16.4	0	0	0	**20.0**
Revenue Contributions	0	0	0	0	0	**0**
Total Funding	**157.4**	**97.1**	**11.0**	**3.9**	**1.8**	**271.2**

Selected Major Scheme Details (committed and development pool)

Some of the larger schemes the Council will be delivering over the course of the plan period include:

Scheme Name	Scheme Description	Total Scheme Cost £m
Northampton International Academy	The 2 to 19 academy will eventually house 2,220 pupils, comprising 420 primary, 1,500 secondary and 300 post-16 students. Children in Reception and Year 7 were admitted from September 2016. EMLC Academy Trust is the sponsor of the 'all-through' academy and a unique feature of the Barrack Road site is the commercial opportunities that have been developed into the design. The aim is to create an outstanding and high performing international academy which offers a strong academic curriculum, specialising in modern foreign languages.	44.9
A45 Daventry Development Link	Identified as a priority in the Northamptonshire Arc to create additional road network to release future growth and development in the west of the county earmarked for substantial growth. This scheme is developed and delivered with partner organisations adopting innovative funding approaches that will see the removal of traditional barriers to funding key infrastructure. Funding will be from development related income along with grants and contributions. This approach has been badged as a Northamptonshire Revolving Infrastructure approach (NRIF).	39.2
Superfast Broadband	This scheme will deliver the roll-ut of superfast broadband to provide coverage of the 'white areas' of the county. National Government, through BDUK, plans to ensure the UK has the best broadband network in Europe and this scheme will provide the infrastructure for areas not already being planned under existing commercial rollouts. There is a requirement for local investment to match BDUK grants to fill the gap in financial viability for commercial delivery.	22.3
Investment Estate Portfolio	This scheme will acquire standing commercial property investments that generate an immediate income, through being let on commercial terms. The income yield (return) will have a clear margin over the cost of capital which has the potential to increase through future rental growth. It will achieve an even balance of risk and return through portfolio diversification and the properties will possess characteristics that retain liquidity and preserve capital, (notwithstanding market movement).	20.0

10. Capital Investment

Key Areas of Capital Investment 2018-19 to 2022-23

- The annual budget cycle has focussed on the capital funding the Council does have and the key areas it wishes to invest in. During this particularly austere period the Council does not have sufficient capital resources to invest in all the areas identified as part of the budget process.
- Given the anticipated continuing long term reduction in the availability of Council capital funding and the challenges of disposing of capital assets, the Council is actively exploring new methods of financing and paying for infrastructure such as Innovative funding.
- Key areas of capital investment, i.e. schemes, which have been granted valid submissions have been divided into two groups:

Development Pool – schemes that the Council would be prepared to fund, subject to final negotiations, confirmation and evidencing of funding and submission of robust business cases to the Capital Programme Board (CPB) for approval by Cabinet.

Pre-Qualification Group – schemes on which the Council will conduct a preliminary appraisal, but at this stage remain unaffordable pending scheme funding allocations.

Development Pool
The table below shows the Development Pool Schemes requiring discretionary funding which have now been through a prioritisation process with Cabinet.

	Budget 2018-19 to 2022-23 B/F	**Prioritised Balance 2018-19**	**Prioritised Balance 2019-20**	**Prioritised Balance 2020-21 to 2021-2022**	**New Discretionary 2022-23**	**Total Discretionary Funding 2018-19 to 2022-23**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Property Minor Works	**4,000**	1,000	1,000	2,000	**2,000**	**6,000**
Highway Management	**8,700**	0	3,250	5,450	**2,200**	**10,900**
Highway Asset Maintenanc Strategy(capitalisation)	**8,000**	2,000	2,000	4,000	**2,000**	**10,000**
New Schools to support Housing Growth funding shortfall Inc. NIA	**0**	0	6,000	0	**10,000**	**16,000**
Octigo Phase 3 & 4	**140**	140	0	0	0	**140**
A509 Wellingborough Dev. Link Phase 1 (Isham bypass (funding gap)	**0**	1,305	0	0	0	**1,305**
A43 Northampton to Kettering Phase 1b (fundin gap)	**0**	0	6,000	0	0	**6,000**
Northampton Northern Orbital Preliminary Works	**0**	1,551	1,067	800	0	**3,418**
Chester Farm (funding gap	**0**	2,200	0	0	0	**2,200**
Fire Schemes *	**8,552**	0	0	0	0	**0**
Other funding not now required	**209**	0	0	0	0	**0**

Total Discretionary Funding APPROVED	**29,601**	**8,196**	**19,317**	**12,250**	**16,200**	**55,963**
Balance of funding available	**0**	**4,585**	**3,970**	**8,300**	**2,200**	**19,055**
Bids still under Cabinet Review		**2018-19**	**2019-20**	**2020-21 to 2021-22**	**2022 onwards**	**Total**
		£000	**£000**	**£000**	**£000**	**£000**
IT Infrastructure	**5,155**	1,385	1,470	2,900	400	**6,155**
A14 Cambridge to Huntingdon Improvement Scheme	**180**	0	60	120	60	**240**
Daventry Development Link Rd. Pressure	**0**	1,700	0	0	0	**1,700**
Community Hubs	**0**	0	1,000	2,000	0	**3,000**
Angel Square - Maximise Utilisation	**0**	500	0	0	0	**500**
Central Contingency to deal with risk/pressures	**0**	1,000	3,000	8,000	4,000	**16,000**
Total Discretionary Funding UNDER REVIEW	**5,335**	**4,585**	**5,530**	**13,020**	**4,460**	**27,595**

*Fire Schemes are now removed from approved Capital Discretionary Funding pending the transfer to the Office of the Police and Crime Commissioner.

The schemes in the lower half of the table will now progress through a second level of scrutiny/challenge to confirm their acceptance, or not, for discretionary funding, the remaining balance being utilised for the Central Contingency/Risk pot to be held by the Executive Director, Commercial, Place and Public Health as the lead for capital delivery.

Olympus Care Services transfer back under NCC discussed earlier under the 'Current Operating environment' has an attached proposal for assets to be purchased back by NCC at a net book value of approx. £1.5m. This will further increase commitments against discretionary funding in excess of the Table above. It will need to be considered whether this can be contained within the original discretionary funding envelope or whether this will further increase treasury costs.

Pre-Qualification Pool

- The Pre-Qualification Pool recognises the schemes/priorities the Council wishes to consider for future capital investment.
- Schemes will be only included in the Pre-Qualification Pool due to factors such as:
  - Scheme is in early stage of development
  - Scheme requires submission of revised outline business case
  - Funding is unavailable

11. Governance

Committed Capital Programme Approval

- All capital expenditure must be carried out in accordance with financial regulations, the Council's Constitution and the Council's Contract Procedure Rules.
- The expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards.
- The Capital Strategy approved by Full Council as part of the Council's annual budget (usually in February of each year) sets the capital funding availability for the Council, the prioritisation of funding and the schemes receiving entry into the Capital Strategy.
- Schemes are formally approved into the Council's Committed Capital Programme, enabling schemes to progress to the committing of expenditure, following Cabinet approval, (usually following CPB recommendation). Cabinet sign off is normally obtained through the Monthly Capital Report (MCR).
- Schemes requesting entry into the Council's Committed Capital Programme not already entered into the Council's Capital Strategy require recommendation from Cabinet for Full Council approval, (subject to a lower limit of £100k).
- All schemes must be approved by Cabinet via the procedures outlined in this document and the wider documentation available within the Council.
- Officers are not authorised to commit expenditure without prior formal approval as outlined.
- Each scheme must be under the control of a nominated budget/project manager and a nominated project sponsor, (senior responsible officer (SRO)).
- A separate Cabinet report is required for any capital scheme(s) which have a capital expenditure value of £500k or above.
- Any agreements, e.g. Section 106, which contractually commit to procure capital schemes, (such as school builds), will need to follow the same approval process as other capital expenditure before they can formally be entered into the Council's Capital Programme. Schemes of this type valued at £500k or above will also need a separate Cabinet report.

Capital Strategy improvements

Following the LGA Peer Review recommendations it is proposed to strengthen governance arrangements with the following governance structure and responsibilities:

1. Capital Approvals Board
    - to own the capital strategy
    - to decide on in-year scheme bids and variations
    - to monitor programme contingency
    - to approve schemes moving forward though gateways: Development Pool submission, Feasibility, Detailed Business Case (Cabinet approval) and PID, Close (benefits realisation and lessons learnt)
    - The Full Business Case must identify the funding mechanism for the scheme and load the budget changes into the MTFP

- Block allocations not permitted

2. Value Management workshop
   - All schemes much have gone through value management workshop to review specification, asset performance, value engineering and contract options.
   - This must be ahead of PID approval.

3. Review and ensure a robust performance management approach to capital scheme delivery:

   Capital Projects Board
   - monitor progress
   - challenge delivery and contracts
   - update forecasts and risks
   - all schemes must have gone through a quantified risk assessment before entry into programme board monitoring

This purpose of this structure is to reinforce monitoring of capital expenditure and approvals to ensure that schemes represent the best value possible and to protect the limited borrowing capacity of the Council, having reference to capital rules and regulations and agreed project management best practice.

Virements

- Virement of funding from one capital scheme to another is not permitted within the Council's capital governance arrangements. This results in a consistent approach over the treatment of any over or underspends against approved funding limits.

Review and Challenge

- The plan is scheduled to last for the duration of the financial year 2018-19
- It will be kept under review and replaced on an annual basis during the formal budget approval round.

12. Development Pool Bids 2018-19

	Schemes	Service Area	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	Total MTP £000	Funding Source
1	Care Village	ASC	6,600	6,600	6,600	0	0	**19,800**	**Invest to Save**
2	Community Equipment	ASC	900	0	0	0	0	**900**	**Grant**
3	Ridgeway House ExtraCare Facility	ASC	500	6,500	0	0	0	**7,000**	**Invest to Save**
4	Brackley ExtraCare Facility	ASC	500	4,000	3,500	1,000	0	**9,000**	**Invest to Save**
5	Olympus Care Services Assets	ASC	1,500	0	0	0	0	**1,500**	**TBC**
	Total ASC		**10,000**	**17,100**	**10,100**	**1,000**	**0**	**38,200**	

	Schemes	Service Area	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	Total MTP £000	Funding Source
6	New Primary Schools to support housing growth	CFE	1,700	12,800	15,300	10,800	39,500	**80,100**	**DFE, S106 & External**
7	New Secondary Schools to support housing growth	CFE	2,500	15,000	22,500	10,000	25,000	**75,000**	**DFE, S106 & Discretionary**
8	Secondary Schools: extensions for new pupil places	CFE	600	10,900	5,500	0	0	**17,000**	**DFE & S106**
9	Primary School extensions	CFE	785	1,185	935	375	250	**3,530**	**DFE & S106**
10	Devolved Formula Capital	CFE	TBA	TBA	TBA	TBA	TBA	**0**	**DFE**
11	Schools Strategic Repairs and Maintenance	CFE	1,000	1,000	750	750	750	**4,250**	**DFE**
12	Schools Temporary Accom./Mobile Classrooms	CFE	500	500	500	500	500	**2,500**	**DFE**
	Total CFE		**7,085**	**41,385**	**45,485**	**22,425**	**66,000**	**182,380**	

	Schemes	Service Area	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	Total MTP £000	Funding Source
13	LTP Maintenance	EDT	11,542	11,542	11,542	11,542	11,542	**57,710**	**DfT**
14	Highways Asset Management	EDT	750	750	750	750	750	**3,750**	**DfT**
15	LTP Integrated Transport	EDT	2,828	2,301	3,078	3,078	3,078	**14,363**	**DfT**
16	Victoria Promenade	EDT	250	0	0	0	0	**250**	**DfT**
17	Incentive fund	EDT	1,750	1,280	768	0	TBC	**3,798**	**DfT**
18	Pothole Fund	EDT	TBC	TBC	TBC	TBC	TBC	**0**	**DfT**
19	S106 Developers Contribution Schemes	EDT	0	0	3,083	4,091	2,113	**9,287**	**S106**
20	Smart Corridor	EDT	1,000	1,500	1,500	1,300	0	**5,300**	**S106**
21	Northampton North West Relief Road - Grange Farm A5199	EDT	1,626	5,304	11,000	5,000	0	**22,930**	**Grant & Innovative**
22	Heritage Gateway	EDT	1,500	5,000	2,000	1,000		**9,500**	**Invest to Save**
23	A509 Wellingborough Development Link Phase 1 (Isham Bypass)	EDT	2,258	10,982	15,767	10,695	0	**39,702**	**Grant, Innovative & Discretionary**
24	A43 Northampton to Kettering Phase 1B	EDT	3,400	3,000	0	0	0	**6,400**	**Discretionary & S106**
25	A43 Northampton to Kettering Phase 3 (Overstone Grange to Holcot/Sywell)	EDT	0	800	10,700	10,600	0	**22,100**	**Grant & Innovative**
26	Smart Commuter	EDT	1,500	0	0	0		**1,500**	**S106**
27	Highway Structural Maintenance	EDT	0	3,250	2,900	2,550	2,200	**10,900**	**Discretionary**
28	A14 Cambridge to Huntingdon Improvement Scheme	EDT	0	60	60	60	60	**240**	**Discretionary**
29	Highway Asset Maintenance Strategy	EDT	2,000	2,000	2,000	2,000	2,000	**10,000**	**Discretionary**

30	St James Mill Link Road	EDT	600	2,000	0	0	0	**2,600**	**NBC**
31	Northampton Northern Orbital Preliminary Works	EDT	1,551	1,067	800	0	0	**3,418**	**Discretionary**
32	Commercial Property Strategy	EDT	0	10,000	TBA	TBA	TBA	**10,000**	**Investment to generate revenue**
33	Property Asset Mgmt. Minor Works	EDT	1,000	1,000	1,000	1,000	2,000	**6,000**	**Discretionary**
34	HS2 Road Safety Fund	EDT	350	800	500	0	0	**1,650**	**DFT Grant**
35	Eskdale Street, Kettering	EDT	2,000	0	0	0	0	**2,000**	**S106**
36	Cliftonville Improvements	EDT	591	2,000	0	0	0	**2,591**	**Grant & LTP**
37	Chester Farm – external funding risk	EDT	2,200	0	0	0	0	**2,200**	**Discretionary**
38	Daventry Development Link Road Uplift	EDT	1,700	0	0	0	0	**1,700**	**Discretionary**
39	Community Hubs	EDT	0	1,000	1,000	1,000	0	**3,000**	**Discretionary**
40	Angel Square - Maximise Utilisation	EDT	500	0	0	0	0	**500**	**Discretionary**
	Total EDT		**40,896**	**65,636**	**68,448**	**54,666**	**23,743**	**253,389**	

	Schemes	**Service Area**	**2018-19 £000**	**2019-20 £000**	**2020-21 £000**	**2021-22 £000**	**2022-23 £000**	**Total MTP £000**	
41	Tablet Refresh	LGSS	0	400	400	400	400	**1,600**	**Discretionary**
42	PC Refresh	LGSS	0	0	0	400	0	**400**	**Discretionary**
43	Wide Area Network	LGSS	0	600	400	0	0	**1,000**	**Discretionary**
44	Security Solutions to meet new standards	LGSS	0	70	100	0	0	**170**	**Discretionary**
45	Exchange Upgrade	LGSS	230	0	0	0	0	**230**	**Discretionary**
46	SQL Server Farm Refresh	LGSS	270	0	0	0	0	**270**	**Discretionary**
47	SAN Replacement	LGSS	0	0	0	1,000	0	**1,000**	**Discretionary**

48	Netscaler Replacement	LGSS	0	0	0	200	0	**200**	**Discretionary**
49	Replacement of GCF and GCSX	LGSS	185	0	0	0	0	**185**	**Discretionary**
50	NCloud Server	LGSS	0	400	0	0	0	**400**	**Discretionary**
51	‘Compute’ capacity disaster recovery	LGSS	200	0	0	0	0	**200**	**Discretionary**
	Total LGSS		**885**	**1,470**	**900**	**2,000**	**400**	**5,655**	

	Schemes	**Service Area**	**2018-19 £000**	**2019-20 £000**	**2020-21 £000**	**2021-22 £000**	**2022-23 £000**	**Total MTP £000**	**Funding Source**
52	SharePoint Upgrade or Replacement	CES	108	0	0	0	0	**108**	**Recycled balances**
53	Upgrade Carefirst Oracle to 12c	CES	78	0	0	0	0	**78**	**Recycled balances**
54	Carefirst Replacement	CES	375	503	0	0	0	**878**	**Discretionary, recycled & new**
	Total CES		**483**	**503**	**0**	**0**	**0**	**986**	

	Schemes	**Service Area**	**2018-19 £000**	**2019-20 £000**	**2020-21 £000**	**2021-22 £000**	**2022-23 £000**	**Total MTP £000**	**Funding Source**
55	Octigo phase 4	PHWB	140	0	0	0	0	**140**	**Discretionary**
	Total PHWB		**140**	**0**	**0**	**0**	**0**	**140**	
	Total Development Pool Bids		**59,489**	**126,094**	**124,933**	**80,091**	**90,143**	**480,750**	

13. Pre-Qualification Pool Bids 2018-19

	Schemes	Service Area	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	Total MTP £000	Funding Source
1	Adult Social Care Reviews	ASC	TBA	TBA	TBA	TBA	TBA	-	**Invest to Save**
2	Adult Social Care Service Transformation	ASC	TBA	TBA	TBA	TBA	TBA	-	**Invest to Save**
3	Telephony Upgrade - call centre technology	CEx	10	0	0	0	0	**10**	**Discretionary**
4	New Models of Care Delivery - Placement Management Services	CFE	TBA	TBA	TBA	TBA	TBA	-	**Invest to Save**
5	Early Years Learning Provision	CFE	TBA	TBA	TBA	TBA	TBA	-	**DfE & External**
6	Buildings for Complex Needs	CFE	TBA	TBA	TBA	TBA	TBA	-	**Discretionary & External**
7	CFE Conferencing Facilities	CFE	TBA	TBA	TBA	TBA	TBA	-	**Discretionary & External**
8	Buildings for 'Stay Close' Duty	CFE	TBA	TBA	TBA	TBA	TBA	-	**Discretionary & External**
9	Safe Space/'Short Stay' Project	CFE	TBA	TBA	TBA	TBA	TBA	-	**Discretionary & External**
10	A509 Wellingborough Development Link Phase 2 (Isham to Wellingborough Imp.)	EDT	500	750	750	3,500	28,500	**34,000**	**Grant/Developers**
11	Weekley/Warkton Avenue	EDT	500	500	500	1,000	37,500	**40,000**	**Grant/Developers**
12	Third Party (Developer) Highway Scheme Delivery	EDT	1,500	1,500	1,500	1,500	1,500	**7,500**	**External**
13	A43 Northampton to Kettering Phase 4 (location to be determined)	EDT	0	0	0	0	20,000	**20,000**	**External**

14	A509 Park Farm Way	EDT	0	0	0	0	23,900	**23,900**	**Grant/Developers**
15	A422 Farthinghoe Bypass	EDT	0	0	0	0	12,000	**12,000**	**External**
16	Other Local Authority Highway and Transport Schemes	EDT	1,000	1,000	1,000	1,000	1,000	**5,000**	**External**
17	A508 Plough Hotel and Inner Ring Road Improvements	EDT	0	2,000	4,000	2,950	0	**8,950**	**External**
18	Queen Street, Kettering	EDT	0	0	0	0	2,000	**2,000**	**S106**
19	Flood Alleviation	EDT	609	359	230	230	230	**1,658**	**External**
20	NORTONOMOUS	EDT	3,000	7,300	0	0	0	**10,300**	**External**
21	Integrated Transport Third Party Schemes	EDT	200	200	200	200	200	**1,000**	**External**
22	Eastern Way, Daventry	EDT	0	800	0	0	0	**800**	**External**
23	Highway Maintenance Challenge Fund	EDT	TBA	TBA	TBA	TBA	TBA	**-**	**DfT**
24	Burcote Road Improvement Scheme	EDT	0	0	0	250	250	**500**	**S106**
25	Infrastructure for new Highways Contract	EDT	0	0	TBA	0	0	-	**Discretionary**
26	North Northern Orbital Main Works	EDT	0	0	792	23,977	24,000	**48,769**	**DfT, External & Discretionary**
27	A6 Finedon Roundabout	EDT	0	100	0	0	0	**100**	**Grant/Developers**
28	Corby Northern Orbital (CNOR)	EDT	500	5,000	500	0	0	**6,000**	**Grant/Developers**
29	A43 Junction Improvements in North Northamptonshire	EDT	1,000	6,000	6,000	6,000	11,000	**30,000**	**Grant/Developers**
30	SMART Commuting in North Northants	EDT	1,000	2,500	1,000	0	0	**4,500**	**Grant/Developers**
31	A6 Rushden	EDT	500	2,000	6,000	7,500	4,000	**20,000**	**Grant/Developers**
32	LED Street Lighting Replacement	EDT	500	250	0	0	0	**750**	**Salix Loan & Invest to Save**

33	Development of an Energy From Waste Facility	EDT	TBA	TBA	TBA	TBA	TBA	**-**	**Invest to Save & External**
34	Total Transport	EDT	TBA	TBA	TBA	TBA	0	-	**Invest to Save & External**
35	Olympus Care Property Improvements	EDT	500	500	0	0	0	**1,000**	**External**
36	People's Network Replacement	PHWB	150	0	0	0	0	**150**	**Invest to Save**
37	Library Management System	PHWB	0	0	0	350	0	**350**	**Discretionary**
38	Digital Community Information Screens	PHWB	100	0	0	0	0	**100**	**Discretionary**
39	Sywell Country Park Reservoir Trail	PHWB	175	0	0	0	0	**175**	**Discretionary**
40	Sywell Country Park Car Park Expansion	PHWB	100	0	0	0	0	**100**	**External**
41	Public Access Wi-Fi	PHWB	100	0	0	0	0	**100**	**Discretionary**
42	Ceremony Planning System	PHWB	30	0	0	0	0	**30**	**Invest to Save**
43	Country Parks Minor Developments	PHWB	TBA	TBA	TBA	TBA	TBA	**-**	**External**
44	Sywell Country Park Reservoir Heritage	PHWB	120	0	0	0	0	**120**	**External**
45	Houghton Gate Park and Ride Site and Development	EDT	TBA	TBA	TBA	TBA	TBA	**-**	**External**
46	Houghton Gate Free School	CFE	TBA	TBA	TBA	TBA	TBA	**-**	**DFE**
	Total Pre-Qualification Pool		**12,094**	**30,759**	**22,472**	**48,457**	**166,080**	**279,862**	

14. Appendices

13.1 What is Capital Expenditure?

Capital expenditure and finance is governed and operated under the Prudential Framework for Local Authorities in England. The Prudential Framework is an umbrella term for a number of statutory provisions and professional requirements that allow authorities largely to determine their own plans for capital investment and expenditure, subject to an authority following due process in agreeing these plans and being able to provide assurance that they are prudent and affordable.

Long term assets, often referred to as ‘fixed assets’, are defined as those that have an economic life of more than one year. The provision of long term assets is further defined as being capital expenditure.

An understanding of what constitutes capital expenditure is fundamental to realising the benefits that an authority can obtain under the Prudential Framework. Unless expenditure qualifies as capital it will normally fall outside the scope of the framework and be charged to revenue in the period that the expenditure is incurred. If expenditure meets the definition, there may be opportunities to finance the outlay from capital receipts or by spreading the cost over future years’ revenues.

In England and Wales, there are three routes by which expenditure can qualify as capital under the framework:

- The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with ‘proper practices’.
- 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.

Section 16 of the Local Government Act 2003 specifies that the definition of capital expenditure comprises these three descriptions of expenditure.

Regulation 29A of the Capital Financing Regulations (England) 2003 then exempts these three categories from being charged as revenue.

Regulations 31 (England) define proper accounting practices as those contained in the SORP.

Financial regulations prescribe certain costs from being capitalised, in particular administrative and other general overheads, together with employee costs not related to the specific asset, (such as configuration and selection activities). Authorities are also required to write off abnormal costs that arise from inefficiencies, (such as design faults, thefts of materials, etc.). The following table provides some examples of the costs incurred by a local authority in the process of constructing a new administrative building on the site of an existing office accommodation.

The positions taken in relation to each item should be regarded as illustrative rather than definitive – any interpretation of the accounting rules will require some subjective judgement that will depend on the specific circumstances of each project.

Item of expenditure	Capital or revenue?
Feasibility Studies	Revenue. All costs incurred whilst an authority is deliberating on the problems it wishes to resolve by having a new building, scoping potential solutions and choosing between them and assessing whether resources will be available to finance a project will normally be revenue. This is because, until a specific solution has been decided upon, costs cannot be directly attributable to bringing an asset into working condition.
Demolition of existing building	Capital. Demolition would usually be an act of destruction that would be charged to revenue. However, if the costs are incurred as a necessary step in preparing a site for a new building, it can be argued that they are an integral part of the new works.
Costs of renting alternative accommodation for staff during building works	Revenue. All costs incurred in carrying out the authority's regular business while construction is under way, (no matter how great the cost of the inconvenience caused), will be revenue as they make no direct contribution of any value to the new building.
Site security during construction	Revenue. This activity protects the investment made in the building during construction, but does not enhance it.
Professional fees	Capital. To the extent that the services provided make a contribution to the physical fabric of the new building (e.g. architecture design) or the work required to bring the property into working condition for its intended use (e.g. legal advice in the preparation of building contracts).
Furniture and fittings	Capital. Items that are needed to bring an asset into working condition for its intended use are often capitalised as part of the overall cost of the property, even if such items would normally be below the authority's de minis limit.
Rectification of design faults	Capital. Rectification work will take an asset closer to being in working condition. However, the expenditure previously incurred on the defective work would need to be written off to revenue.
Training and familiarisation of staff in operation of new building	Revenue. The building will be regarded as being in working condition, even if there is no one competent at the authority actually to operate it. Training and associated costs do not therefore qualify for capitalisation.
Apportionment of costs of capital expenditure team and internal audit	Revenue. These costs are generally incurred to make sure the project runs as intended, rather than enhancing it.

13.2 Golden Rules

Golden Rule One – Discretionary finance cost ceiling of 9%

Northamptonshire County Council's annual discretionary capital financing costs (not including Invest to Save and Innovative type investment) should not rise above the self-imposed ceiling of 9% of its annual net revenue budget over the plan period and any future plan periods.

Impacts and outcomes:

- Financing costs include both interest and minimum revenue provision (MRP) costs.
- As revenue budget levels come under pressure during the plan period it is critical that financing costs do not rise to unaffordable levels. This will protect revenue funding for direct service delivery. The level of revenue funding available may be less than the 9%.
- This rule will not be affected by Invest to Save Schemes as financing costs for such schemes will be met by the scheme directly and schemes of this nature are delivered to provide budgetary savings and wider benefits.
- This rule is not affected by Innovative Investment which by its nature is a temporary 'bridge' funding pending repayment from external contributions and partners over a pre-determined timeframe.
- This rule results in a funding ceiling, prudent and affordable, which the Council will seek to operate within to fund the Council's Capital Programme priorities over the plan period.
- The Council's use of the capitalisation flexibilities set out in the Local Government Finance Settlement, will impact on the level of borrowing the Council needs to undertake where capital receipts are used to fund transformation costs.

Golden Rule Two – Capital receipts allocation

All net capital receipts/disposals will be allocated in the first instance:

- 50% to repay Council borrowing, and
- 50% to re-invest in the funding of the Council's Capital Programme

Impacts and outcomes:

- Release and prioritisation of the 50% of capital receipts to be re-invested in the Capital Programme will be through the normal governance routes concluding with Council approval as part of the annual budget and Medium Term Financial Plan (MTFP).
- SR 2015 announced the government will allow local authorities to spend up to 100% of their fixed asset receipts on the revenue costs of transformation projects. The Council intends to take advantage of this concession and this will see the Golden Rule relaxed to accommodate the transformation in the early years of the plan with a renewed focus on repayment of debt towards the end of the plan period as the transformation is embedded.

- As a general rule capital receipts cannot be earmarked for specific scheme delivery. However, exceptional circumstances may result in this being advantageous for the Council to support priority projects and agendas.

Golden Rule Three – Invest to Save and Innovative unlimited

Invest to Save and Innovative Capital Funding will be unlimited but are subject to strict investment criteria and robust business cases.

Impacts and outcomes:

- Robust business cases must be submitted and formally approved following strict governance arrangements before funding can be made available.
- The embedded net revenue savings will be built into service budgets over the timeframe approved within the business case. This will be set in stone in service budgets and will not flex if revenue budgets come under pressure from other external sources.
- These types of schemes can increase the Council's short term financing costs where the Council is more than compensated by the long term financial and non-cashable benefits in the future.
- Financing costs (MRP and interest) will be charged to service area budgets along the lines of the business case agreement.
- Interest rates will be amended by taking into account prevailing interest rates as and when it is prudent and necessary to do so. This will be communicated to service areas to enable the correct rate to be used in formulating the business case. This rate will remain fixed for the term of the investment period.
- Invest to Save and Innovative evaluation will be undertaken considering various investment measurements including Net Present Value (NPV), Internal Rate of Return (IRR) and payback periods. Direct annual revenue effects will also be considered when assessing affordability.

13.3 Northamptonshire Local Growth Deals (Grant)

Local Growth Deal Funding

- The County Council has been awarded £72m from Government through the Local Growth Deal Funding for projects in Northamptonshire.
- This funding is awarded through the Local Enterprise Partnership(s).
- A formal Memorandum of Understanding is in place between the County Council, SEMLEP and Luton Council (the Accountable Body) which covers these projects and related governance and other arrangements.

Schemes	Total cost £m[1]	Total LGF Funds £m	LGF claim 2014-17 £m	LGF spend 2017-18 £m	LGF spend 2018-21 £m	Comments
Daventry Development Link	35.2	14.0	14.0	0	0	Due to complete summer 2018
A43 Northampton to Kettering 1b	17.8	7.9	1.1	0.6	6.2	
Superfast Northamptonshire	33.5	2.0	2.0	0	0	LGF element of project complete
A43 Northampton to Kettering Phase 2	9.3	6.5	2.8	3.7	0	Due to complete Spring 2018
Smart Commuting	3.5	3.5	0.2	0.8	2.4	Delivery underway and focusing on the deployment of technology on the network and mechanisms to provide live travel information to users and optimise the use of the network
Smart Corridors	9.5	3.5	1.5	2.0	0	Weedon Road Smart Corridor complete Summer 2017. Progression of other Smart Corridors dependent on developer income and other funding
A509 Wellingborough to Kettering (Isham Bypass)		25.0	0	0	25.0	Project funding held by DFT. This includes £10m awarded through the third round of Local Growth Funding (LGF3). Funding agreement not yet in place
Wootton Hall Access		1.7	1.7	0	0	Complete
Northampton North West Relief Road		7.9	0	0	7.9	This is awarded through LGF3. Funding agreement not yet in place
TOTAL		72.0	23.3	7.1[2]	41.6	

National Productivity Investment Fund

In October 2017 Government announced that the County Council has also secured £1.814m towards the Cliftonville Smart Corridor scheme (Northampton) from the National Productivity Investment Fund (NPIF). This is for spend between 2018-19 and 2019-20. The total scheme costs are estimated at £2.591m.

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[2] At April 2017 the County Council held £13.2m of LGF for the delivery of the above projects (excluding LGF3 projects). A further £2m is due to be paid to the County Council via SEMLEP and Luton Council.

13.4 Major Schemes completed and due to complete in 2017-18

Scheme	**Funding**	**Project Type**	**Total Cost £m**
Project Angel	Discretionary	Administration Building	49
EN Restructure (except Prince William)	DFE Condition Grant/S106/Capital Receipts/Discretionary	Schools Reorganisation	21
A43 Phase 2	SLGF/S106	Highways	9
Pineham Barns	Basic Needs Grant/S106	School	9
Broadband Contract 2	BDUK/NCC/Districts/SLGF	Infrastructure	8
Corby Technical College	Basic Needs Grant/S106	School	8
A605 Thrapson to County Boundary	DFT Specific Grant and DFT annual grant	Highways	6
NIA Temporary Accommodation	Basic Needs Grant/ (EFA Grant bid)	School	4