NORTH TYNESIDE COUNCIL

CAPITAL INVESTMENT STRATEGY

2022-2027

CONTENTS

1. Introduction

The Investment Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Authority's services and informs decisions on capital spending priorities within the Authority's Investment Plan.

Investment Priorities are considered in the context of the strategic objectives of the Our North Tyneside Plan and other key strategies and plans that support the delivery of Our North Tyneside Plan (Appendix 1) and "Our Ambition for North Tyneside" strategy.

Principles for Capital Investment:

1. Investment must be strategically aligned to deliver the Our North Tyneside plan priorities (see below);
2. The Authority will work within a borrowing ceiling in terms of both value and revenue cost, reviewed annually;
3. Whole life costs are considered as part of a capital investment appraisal; including provision to ensure the asset is maintained;
4. For every potential scheme the Authority will explore all possible funding and delivery options; and,
5. Unsupported (prudential) borrowing is funding of the last resort.

Our Investment Plan priorities are as follows:

- Policy priorities;
- Maintaining existing assets;
- Income generating projects;
- Invest to save projects; and,
- Regeneration and key infrastructure enhancements.

Capital investment is technically described as "Expenditure on the acquisition, creation, or enhancement of 'non-current assets". This is items of land, property and plant which have a useful life of more than one year. A fuller definition is attached at Appendix 2. Expenditure outside this definition will be revenue expenditure.

Most non-current assets are properties that are used in service delivery. As at 31 March 2021 the Authority's land, buildings and infrastructure asset base of over 450 properties has a current use Balance Sheet value of approximately £238 million, approximately 945 kilometres of highways and 235 bridges, subways, culverts and other structures with a historic value of £178 million, council housing stock comprising nearly 15,000 properties with a balance sheet value of £653 million and ICT and other equipment with a balance sheet value of £15m. In addition the Authority has an interest in assets of companies in which the Authority has a financial interest in terms of equity and loans.

Although this Strategy focuses on the Authority's management of its own investment in assets, a wider view of capital investment throughout the Borough by both the public and private sectors will have a major influence on meeting the Authority's aims and objectives. The Authority works in close partnership with its partners including the NHS, Schools, Highways England, the Environment Agency, NEXUS and Northumbrian Water.

The Investment Strategy is presented to Council as a Policy Framework document, and links with both the Treasury Management Strategy and the Corporate Asset Management Plan. Links to both documents are shown in Appendix 1.

In considering the principles, the Authority needs a balance between guidance and prescription to allow a flexible approach to be taken. This Strategy focuses on the key policies for the allocation of capital resources to schemes in line with Authority's priorities and statutory responsibilities.

The management of the Investment Plan is supported by the Authority's approved Financial Regulations and capital governance process through the Investment Programme Board (see Appendix 4) and the Strategic Property Group.

2. Guiding Principles

2.1 Prioritisation and Approval

Delivery of the “Our North Tyneside Plan” sets the challenge of meeting competing priorities against limited financial resources.

A ‘scoring matrix’ has been developed to help inform priority schemes and evaluate competing projects for inclusion in the Investment Plan.

The matrix is an aid to evaluate priorities between often very disparate schemes; the overall value of council contribution to capital is ultimately a full Council decision.

All schemes bidding for inclusion on the Investment Plan must follow the approved Investment Plan Gateway process (attached as Appendix 4) and will be subject to a process of prioritisation using the capital scoring matrix (attached as Appendix 3). This process will take place as a minimum on an annual basis. Any bids outside this timescale should be by exception only and will follow the same process.

All schemes will be required to develop a robust business case detailing full capital costs and full life revenue costs, including provision for ensuring that assets are maintained. This will be provided as part of the Gateway 2 submission to the Investment Programme Board for approval prior to commencement of the scheme.

Where funding has been allocated to a programme without individual schemes being identified at the time of approval, (such as a general allocation to a regeneration project, Local Transport Plan, schools for capital maintenance projects), individual schemes within that allocation are subject to each individual scheme being approved by the Investment Programme Board.

2.2 Alternative Funding and Delivery Opportunities

For every potential scheme the Authority will explore all funding options. As capital funding is reduced the Authority will continue to consider alternative methods of supporting capital expenditure within the Authority, using alternative funding, such as social investment, private sector finance and third sector funding or by other bodies delivering capital schemes instead of the Authority.

The Authority can use its assets to support schemes or aim to maximise funding from any source possible, such as Heritage Lottery or Local Enterprise Partnership funding.
The Authority will continue to bid for additional external funding and/or work with other bodies to secure capital investment or consider use of its own assets in a development, but restricts schemes to those which support corporate priorities or statutory service objectives.

Investments on projects should demonstrate sustainability and any requirements for match-funding and future revenue consequences have been considered and approved along with an assessment of the opportunity costs of alternative options. All bids are to be agreed by the Investment Programme Board prior to submission.

The Authority receives capital grant funding from government and is able to bid for grant funding direct to particular government departments or from other grant awarding bodies.

Any un-ring fenced capital grants received, even where these are allocated with service intentions of the identified government body awarding the grant, will be required to be approved by the Authority. Consequently once capital grants have been allocated to a specific service by the Authority, individual schemes within that allocation are subject to each individual scheme being approved by the Investment Programme Board.

2.3 Capital Receipts and Capital Contributions

The Authority receives capital receipts and capital contributions from:

- Asset disposals
- Right to Buy Clawback
- Section 106 and Community Infrastructure Levy (CIL)
- Section 278
- Repayment of loans for a capital purpose

<u>Asset disposals</u>

The proposed disposal of land and buildings is reported to Cabinet for approval and receipts from the sale of all assets sold are used to support the Investment Plan in line with funding the Authority's priorities. An asset disposal will be deemed to occur when the Authority transfers the freehold or a long lease (usually over 40 years).

The Authority will aim to ensure best value when disposing of assets, by enhancing the land prior to disposal, where appropriate; e.g. by obtaining planning permission or providing a development plan. As appropriate the Authority may dispose of assets by tender or by public auction.

The Authority will consider exceptions to this policy where rationalisation of assets used for service delivery is undertaken and in respect of school sites where the Secretary of State has approved the disposal – such exceptions will require a Cabinet decision.

<u>Asset disposals at nil consideration or below market value</u>

The disposal of an asset at below Market Value requires Cabinet approval.

In considering asset disposals, the Authority also needs to take into account the policy on Community Asset Transfers where the Authority will consider, on a case by case basis, the potential transfer of assets to an alternative provider after a full assessment of the long term (full life) risks and rewards of the transfer, including the achievement of best value including potential market value, linked to the Authority's aims and objectives.

The Localism Act 2011 introduced the "Community Right to Bid" and placed a duty upon local authorities in England to maintain a list of assets of community value. Once an asset is "Listed" any disposal will be under the Community Asset Transfer policy or for market value by tender/auction.

Where the Authority proposes to dispose of, or grant a long lease, at nil consideration or at a value below market value this is required to be approved by Cabinet. This will also apply where the disposal is for a community or service benefit.

There may be circumstances, such as the transfer of community school assets under the Academies Act, where assets will also be disposed of at nil consideration.

Right-to-Buy Clawback

In line with statutory regulations, 100% of these receipts are currently used to support the provision of the housing function.

Section 106 contributions and Community Infrastructure Levy (CIL)

Section 106 (S106) monies come from developer contributions through the planning system. There are specific conditions attached to the use of the S106 and the monies are used accordingly to support the Authority's priorities.

Any monies received from the Community Infrastructure Levy (CIL) will be allocated under the CIL arrangements ("the Regulation 123 List") in line with the Authority's investment priorities including any specific funding requirements.

Section 278 Contributions

Funding can be made available under Section 278 (S278) of the Highways Act 1980 whereby a developer may be required to contribute to the provision, alteration or improvement to highways in order to facilitate development.

Repayment of loans for a capital purpose

Where the Authority provides a loan for a capital purpose this will be approved and accounted for as capital expenditure. The repayment of a loan by the borrower will be treated as a capital receipt; however any receipts of this nature will be specifically applied to reduce the value of the outstanding loan.

2.4 Revenue and Reserves

The Authority is able to use revenue funding and reserves for capital schemes. However, as a result of competing revenue budget pressures and the continued reduction in government support for revenue expenditure the Authority' does not generally budget to use revenue or reserve funds to directly fund capital projects, within the General Fund, after the feasibility stage. This policy is reviewed on an annual basis.

The Housing Revenue Account business plan recognises revenue contributions to the HRA investment plan through the Major Repairs Reserve and other general revenue contributions.

2.5 Approach to Borrowing

In line with the Treasury Management Strategy, the Authority is able to borrow money on the money market or from the Public Works Loans Board to fund capital schemes or, use its own internal resources (i.e. cash flow). However for all schemes funded from borrowing, the Authority must fund the repayment and interest costs as since 2011 any central government "supported borrowing" allocations and related revenue support ceased. There is an intention that a cap is placed on the overall level of borrowing and that over a 10 year cycle the level of borrowing should reduce. The policy governing the repayment of this borrowing for the General Fund, the Minimum Revenue Provision (MRP) policy, is approved annually by full Council. Repayment of Housing Revenue Account borrowing is laid out in the 30 year Business Plan.

The Authority is only able to borrow for "unsupported borrowing" (also known as Prudential Borrowing) under the guidance contained in the CIPFA Prudential Code whereby, in summary, the Authority is required to ensure that all borrowing is both prudent, sustainable and affordable. Under the Prudential Code a number of indicators showing ratios of costs and levels of borrowing, are required to be considered and approved by full Council. All schemes funded from prudential borrowing are approved by full Council or Cabinet and are in line with Financial Regulations.

The Authority's Treasury Management Strategy recognises the need to take borrowing to support a number of capital projects, included within the Investment Plan approved by full Council, and reduce the level of internal borrowing. Based on current projected Public Works Board Lending rates, the cost of 2.0-3.5% should be assumed for new borrowing in 2022/23.

The Authority takes a prudent approach to new borrowing, paying particular regard to the robustness of the business case to include forward predictions of affordability, with the aim that projects should be self-funding (i.e. create a revenue stream so that the cost of borrowing is cost neutral on Council Tax). It is essential that any new proposals for a self-funding or invest to save scheme supported by borrowing has a robust business case that is presented to the Investment Programme Board prior to approval by Council or Cabinet.

To support its revenue budget the Authority will continue to evaluate any capital investment projects either acting alone or with partners that will produce an on-going revenue income stream for the Authority. This is one of the scoring criteria now adopted by the Authority when assessing competing capital projects.

There may be the need for borrowing that has no identifiable future revenue stream, for example, to repair or construct key infrastructure assets. Here a broader view can be taken of the value of repairing the asset to the overall economy of the Authority. The cost of such borrowing falls on the tax payer through payments of debt interest on the Authority's General Fund revenue account and repayment of debt over a specified period of time. There may still be a need for such borrowing but each proposal should be reviewed on a case by case basis, using the Gateway and prioritisation process, with the project evaluation clearly stating how the borrowing is to be afforded.

2.6 Investment Opportunities (including capital loans)

The Authority will consider, if the opportunities arise, the purchase of land and property as an investment – to both generate an on-going income stream or to realise an increased capital value in the future. Depending on the capital funding proposed the appropriate approvals will be requested at that time. Loans for a capital purpose can also be approved subject to a business case and due diligence on the borrower including, as appropriate, guarantees and bonds to secure the repayment of the loan. Any such opportunities would be considered in the first instance by the Investment Programme Board and Cabinet for approval in accordance with Financial Regulations.

Appendix 1 – Key Strategies and Plans linked to the Investment Strategy

Our North Tyneside Plan

Caring and Family friendly	**Secure**	**Thriving**	**Green**	**Organisation**
Joint Strategic Needs Assessment	Local Plan and Master Plans • Community Infrastructure Levy Schedule (Regulation 123 List)	Strategic Economic Plan	Climate Emergency • Climate Emergency Action Plan • Low Carbon Plan 2016-2027	ICT- Digital Strategy
Health and Wellbeing Strategy	Transport Strategy • Highways Asset Management Plan (HAMP) • Parking Strategy • Cycling Strategy • Network Management Plan	Employment and Skills Strategy	10 Year Plan for Waste	Human Resources- Our Team Plan and Our OD Plan Children's Workforce Strategy
Community Safety Strategy	Housing Strategy • Strategic Housing Market Assessment (SHMA) • Strategic Housing Land Availability Assessment (SHLAA) • HRA business plan • HRA Asset Management Plan	Inclusive Economy strategy	Transport Strategy • Highways Asset Management Plan (HAMP) • Parking Strategy • Cycling Strategy • Network Management Plan	Financial Strategy
Ambition for Education		Estates Strategy		Asset Management Plan
Children and Young People Plan	Flood Alleviation • Flood Risk Management Strategy • Coastal Strategy	Our Ambition for North Tyneside		Treasury Management Strategy Statement
	North Shields Master Plan	North Shields Master Plan		Minimum Revenue Provision Policy
				Prudential Indicators

Appendix 2 – Definition of Capital Expenditure

Capital investment is simply described as:

> ***Expenditure on the acquisition, creation or enhancement of "non-current assets"***
>
> ***(non-current assets are items of land and property which have a useful life of more than 1 year)***

This definition of capital expenditure that the Authority has to comply with for the classification and, therefore, the funding of capital expenditure in linked to International Financial Reporting Standards. "Qualifying Capital Expenditure" under s25 of Local Government Act 2003 is defined when:

> "The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with "proper practices""

"Proper Practice" (from 1 April 2010) is under International Financial Reporting Standards (IFRS) rules. The relevant standard is IAS16 which has the following definition of capital expenditure:

> "Expenses that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management".

"Directly attributable" means that, for example, if building a school, it is the costs linked to the actual construction of the building, not temporary accommodation, moving people around etc.

Subsequent Capital Expenditure on an asset is defined as:

> "Expenses that make it probable that future economic benefits will flow to the authority and whose cost can be measured reliably" subject to "if the expenditure is to replace a component, the old component must be written out of the balance sheet".

Future economic benefits means that it is not necessary for the expenditure to improve the condition of the asset beyond its previously assessed standard of performance. The measurement is against the actual standard of performance at the date of expenditure; e.g. if service potential or asset life is increased.

Appendix 3 – Capital Scoring Matrix

Capital Projects Assessment Criteria

Possible Weightings

1. Council Plan Priorities

	Specifically identified in Council Plan		PASS/FAIL
	Identified as a key Project/Activity in the Council Plan or directly supports a number of specific outcomes		
	Generally supports specific Actions or outcomes		
	Will not deliver any identified outcomes		

2. Potential to generate future revenue savings and/or investment return

3 points	Considerable additional net revenue saving and/or income stream meets both £100k pa and > 25% of project cost)	factor = x	**5**
2 points	Moderate additional net revenue saving and/or income stream (meets both £50k - £100k pa and 10-25% of project cost)	Max score	**15**
1 point	Small additional net revenue saving and/or income stream (meets both <£50k pa and < 10% of project cost)		
0 points	No potential net revenue income		
-2 points	Additional on-going resources required over existing budgets		

3. Specific External resources to support scheme (including Regional funding)

3 points	Specific (ring fenced) funding requires no additional Council funds (capital or revenue)	factor = x	**4**
2 points	Specific (ring fenced) funding and requires Council funds of both 10% match funding or up to £250k (capital or revenue)	Max score	**12**
1 point	Specific (ring fenced) funding and requires Council funds of both 50% match funding or between £250-500k (capital or revenue)		
0 points	Specific (ring fenced) funding but requires Council funds of both 75% match funding or > £500k (capital or revenue)		

4. Statutory Status: includes support of a statutory service requirement

3 points	Meets a specific immediate or forthcoming statutory requirement	factor = x	**4**
2 points	Meets an underlying statutory duty	Max score	**12**
1 point	Meets a discretionary requirement		
0 points	no indication of status		

5. Risk to Community of NOT doing (i.e. identified in Risk Register)

3 points	High risk (9-16)	factor = x	**2**
2 points	Medium risk (5-8)	Max score	**6**
1 point	Low risk (1-4)		
0 points	no risk identified		

6. Risk of doing (can project be delivered?) - achievability, timescale, resources required

3 points	Low risk (1-4)	factor = x	**2**
2 points	Medium risk (5-8)	Max score	**6**
1 point	High risk (9-16) with mitigation		
0 points	High risk (9-16) with no mitigation		

7. Condition, health and safety risk and strategic importance of asset issues

3 points	Expenditure on asset will reduce impact of 3 issues	factor = x	**1**
2 points	Expenditure on asset will reduce impact of at least 1 issue	Max score	**3**
1 point	Expenditure will have a possibility of reduced impact in at least 1 issue		
0 points	No demonstrated impact on any issues		

8. Outcomes, added value, cross-service benefit

3 points	Good - Large number of beneficiaries / target groups (>25,000)	factor = x	**1**
2 points	Satisfactory - Significant number of beneficiaries / target groups (10,000-25,000)	Max score	**3**
1 point	Fair - Reasonable number of beneficiaries / target groups (1,000-10,000)		
0 points	Poor - Few beneficiaries / target groups (<1,000)		

Max score	**57**

Appendix 4 – Investment Plan Gateway Process

Investment Programme Board
Governance arrangements for Capital Projects

The purpose of the Gateway process is to ensure that all necessary approvals are secured at all key stages of any Capital project.
Project Officers are responsible for the completion and submission of all Gateway Forms to the Strategic Investment and Property Team (FAO Iain Betham / Fiona Lucas) and must include sign off by the relevant Cabinet Member. The team will then ensure that all Gateway Forms are presented to IPB as required.

Regional Projects

All regional projects come through the IPB Governance arrangements, even if they have already passed regional Gateways. North Tyneside Council to sign off and govern its involvement. All proposals come through Gateway 0—go out to the regional processes—the outputs from that and all necessary information then come back into Gateway 1.

Gateway 0 Strategic Fit

Purpose: Information contained in this submission should be brief but sufficient to demonstrate that a mandate exists, the project or programme has been prioritised and an outline business case has been developed. There is also a requirement to convey how far the idea has been developed in terms of feasibility.
Role: The submission will be scrutinised by the IPB in terms of strategic fit, corporate priorities, available capital resources and estimated revenue implications. This allows the Project Officer to commence the feasibility stage.
Available options: Approve or advise / refer back / reject
Associated Form—Gateway 0

Gateway 1 Feasibility

Purpose: This document constitutes a formal bid for capital investment including inclusion in the Investment Plan. It should provide sufficient information to enable effective financial and technical scrutiny ahead of further review at strategic and member level. Figures on cost and funding should be as accurate as possible. At Gateway 1 there is a focus on viability, affordability, procurement and delivery. The initial submission of the Gateway 1 form will be considered by a sub group of IPB as part of the new scoring matrix. This will ensure that all projects are aligned to the Council's Our North Tyneside Plan and that any financial or other implications are addressed prior to consideration by the full IPB Board
Role: The IPB will scrutinise the bid in terms of its financial and technical viability and management of risk. The IPB will be briefed on outcomes and recommended actions and may wish to prioritise, amend or modify the submission in light of these comments. The IPB provide recommendations to Cabinet to form part of the budget setting and financial management processes, if required.
Available options: Approve or advise / refer back / reject
Associated Form—Gateway 1

Gateway 2 Approval and Delivery

Purpose: Spending approval at Gateway 2 must be secured before any capital expenditure is incurred on a programme / project. This template brings together all the information needed for an appraisal and approval to be given. If the request varies from the budget either in terms of expenditure, funding or both you must explain this variance in Section A8. **In addition this Gateway Form MUST provide information on the spend profile which will be monitored as part of the overall investment plan.** Part A is normally completed by the Programme / Project Manager in consultation with the Finance Link Officer. Part B should be completed by the Programme / Project Manager
Role: Officers in both the Strategic Investment & Property Team and the Client Finance Team will complete final checks to confirm that relevant information has been submitted correctly in Part A & relevant sections of Part C.
Available options: Approve or advise / refer back / reject
Associated Form—Gateway 2

Gateway 3 Exception Report

Purpose: Information contained in this submission should provide the IPB with information on the project & the specific issues as to why the matter has been escalated to the IPB. This could cover project delays, financial concerns or new information that may now have an impact on the project. **In addition this Gateway Form MUST provide information on the spend profile which will be monitored as part of the overall investment plan.** A Gateway 3 submission may be required on more than 1 occasion subject to the issues / matters that may / may not be raised regarding a particular project. **The relevant Project Officer responsible for the project will be expected to attend the IPB to present the Gateway 3 submission.**
Role: The submission will be scrutinised by the IPB in terms of the wider strategic fit, corporate priorities together with the associated implications for capital resources and revenue budgets, prior to submission to Cabinet or Council as required.
Available options: Approve or advise / refer back / reject
Associated Form – Gateway 3

Gateway 4 Project Close

Purpose of Document: The purpose of this document is to confirm financial completion, transfer or the abandonment of a project and to report on the status of associated records. Responsibility for completion of this template should be identified in the follow-on actions and handover plan. Completion of all relevant sections is mandatory to enable consolidated reporting on the Investment Plan.
Scrutiny and Review: The Investment Programme Board will review this submission including for capital accounting and financial closure purposes.
Available options: Approve or request additional information
Associated Form – Gateway 4