Nottinghamshire County Council Capital Strategy

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Purpose and Aims

1. The importance of having a meaningful and comprehensive capital strategy was recognised in the Prudential Code for Capital Finance in Local Authorities that was updated by the Chartered Institute of Public Finance and Accountancy in December 2017. This requires that all Local Authorities have a Capital Strategy to ensure that capital investment is directed to programmes and projects which maximise the delivery of organisational objectives. This report has been developed with reference to the updated Capital Strategy Guidance document that was published in 2021.

2. The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

3. The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long run financing implications and potential risks to the authority.

4. The Prudential Code sets out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

5. This capital strategy sets out a framework for the self-management of capital finance and examines the following areas:

    - Capital expenditure and investment plans
    - Prudential Indicators
    - External debt
    - Treasury Management

Nottinghamshire County Council – Longer Term Investment Influencers

6. Nottinghamshire County Council is the upper-tier Local Authority for the county of Nottinghamshire. The Council is responsible for providing such important public services as Education, Transport, Social Care, Libraries, Trading Standards and Waste Management. How the Council is structured, how it listens to its stakeholders, how it meets its environmental targets and delivers services to its residents will have a major impact on the capital investment decisions that will be made over the longer term.

7. Nottingham and Nottinghamshire councils have been working together to identify areas for greater collaboration and opportunities to make an even bigger

difference for our residents in the future. The national policy context is a driver for this work with the Levelling Up White Paper expected to set out plans for further rounds of devolution.

8. An expression of interest was submitted to Government in September 2021 for Nottingham and Nottinghamshire to be selected as one of the new Devolution deal pathfinders. The ambition is to:

   - Attract significant inward investment, boosting economic growth and raising productivity, as well as growing the private sector
   - Raising living standards and achieve a demonstrable reduction in inequalities including poverty, health and social care
   - Deliver high quality places to live for all residents
   - Regenerate our city and town centres, unlocking difficult sites for development
   - Tackle climate change and protect local people from its impacts including a focus on cleaner air
   - Deliver better services for residents
   - Secure better outcomes and value for money for local taxpayers through a public service reform and efficiencies

   Altogether Nottinghamshire County Council is working towards a stronger, more prosperous Nottinghamshire for everyone.

9. Through the Big Notts Survey, residents have had the opportunity to engage with the Council and they made it clear what matters to them as we recover from the pandemic and look to the future. The Survey helped the Council understand:

   - How the pandemic, lockdown and other restrictions have affected Nottinghamshire
   - Our main challenges and opportunities as we recover from the pandemic
   - Long term goals for residents, our communities and the county

10. In March 2020, the County Council resolved to bring forward proposals for a new Environment Strategy to support the Government's national aspiration to achieving a legally binding target of net-zero greenhouse gas emissions by 2050. The Climate Emergency, which the Council declared in May 2021, heightened expectation further with the Transport and Environment Committee being tasked with overseeing the measures required to achieve the Authority's commitment to achieve carbon neutrality in all its activities by 2030.

11. The current and changing connectivity and access needs across the county with regards to travel and expected changes in user behaviour are being addressed as part of a full highways services review which is being overseen by the Transport and Environment Committee. The outcomes of the review will include:

    - Developing a new Highways Strategy which will set out the highways service the Council wants and the quality / outcomes required within the context of the new Council Plan 2021 – 31

- Refreshing and updating the current Highways Infrastructure Asset Management Plan and Policy
- Embedding a 'right repair, right first time' approach in our Asset Management Plan

Actions arising from this review were reported to the Transport and Environment Committee in December 2021 and will be delivered through a Highways Improvement Plan.

12. Other major areas of service delivery will continue to inform the capital strategy over the next ten years as follows:

13. The Council has a statutory duty to ensure that there continues to be sufficiency of school places for children resident in the county, including special school provision. The Council is also responsible for ensuring that all mainstream schools are maintained to suitable condition.

14. The Council has a rich history and a considerable level of maturity around Smarter Working. As such we were in a good position to respond to the COVID19 pandemic. There have been unforeseen impacts and far-reaching changes to how the Council views its property portfolio. A review of the Investing in Nottinghamshire programme will capture the opportunities provided by the Hybrid Working Strategy, address the Climate Emergency declaration, maximise the environmental benefits available and connects with our communities and ensure the Council maximises the use of our buildings and office spaces. This programme of work will continue to evolve as the pandemic progresses and capital investment will be kept under review.

15. The Council has a continuing successful record of delivering world-class digital infrastructure throughout Nottinghamshire. The Council has achieved 98% superfast broadband coverage to make Nottinghamshire one of the top three most digitally connected in the UK. The Council will continue to invest in new technology as, for example, 5G mobile will have a huge impact on the way people interact with local government and the services they expect.

16. It is important to note that the capital strategy has been prepared against a background of continuing reductions in funding provided to local authorities by central government arising from the need to restrain public expenditure owing to the ongoing economic conditions and to rebalance public finances. At the same time the Council's own resources available to finance capital projects have reduced to a low level and will need to be replenished before any substantial further capital investment can be made. The Council will however work to lever in external funding wherever possible to ensure that continuing capital investment can be made.

17. In summary, the next decade promises both opportunities and challenges for our public services. With the growing, increasingly ageing population, demand for our services will continue to grow. Many services will need to be re-invented and rebuilt to meet the new challenges ahead and the Council is in a good position to meet these challenges.

The Nottinghamshire Plan 2021 – 2031: Healthy, Prosperous, Green

18. At the Full Council meeting held on 25 November 2021, the Council approved The Nottinghamshire Plan 2021-31: Healthy, Prosperous, Green. This ambitious, new plan sets out the strategic vision for the future of Nottinghamshire and the local authority.

19. The activity in the Nottinghamshire Plan is built around achieving a bold 10-year vision for a 'healthy, prosperous and greener future for everyone'. The plan will focus on:

    - Improving health and well-being in all our communities
    - Growing our economy and improving living standards
    - Reducing the County's impact on the environment
    - Helping everyone access the best of Nottinghamshire.

20. These are broad themes that will build resilience in our communities into the future and are supported by nine ambitions which will act as a framework for all County Council activity:

    - Helping our people live healthier, more independent lives
    - Supporting communities and families
    - Keeping children, vulnerable adults and communities safe
    - Building skills that help people to get good local jobs
    - Strengthening businesses and creating more good-quality jobs
    - Making Nottinghamshire somewhere people love to live, work and visit
    - Attracting investment in infrastructure, the economy and green growth
    - Improving transport and digital connections
    - Protecting the environment and reducing our carbon footprint

21. The Plan sets out what the County Council will do over the next four years to achieve these ambitions as well as how it will measure progress and success. This will have a particular focus on supporting Nottinghamshire's communities and businesses to recover from the socio-economic impacts of the COVID19 pandemic. The Plan also details the Council's on-going journey of improvement as we continue to deliver services in a responsive, efficient, financially sustainable and forward-looking way.

22. Finally, the Plan sets the approach the Council will take in planning and delivering its services. Our approach is to:

    - Listen to our communities
    - Support independence
    - Reduce inequalities
    - Spend money wisely
    - Make decisions based on evidence
    - Work together
    - Lead with optimism

23. The vision and ambitions of the Council Plan are far-reaching and cannot be delivered by the County Council alone. The Council is proud to be working towards a stronger future with a wide range of public, private and voluntary sector organisations as well as communities themselves.

Capital Ambitions

24. The Council's ambitious Capital Strategy is prepared principally to enable the Council to achieve its vision and its ambitions. Despite the unprecedented financial and non-financial challenges that Local Government is currently facing, Nottinghamshire's Capital Strategy has delivered and will continue to deliver capital investments that the residents of Nottinghamshire can be proud of. The following section of the Capital Strategy will set a flavour of the capital projects that have been or will be undertaken to help deliver the Council's nine ambitions. The links will take you to a short YouTube video which outlines each ambition.

25. The Nottinghamshire Plan - Ambition 1: Helping our people live healthier and more independent lives - YouTube

The Council continues to work with partners to use its land to supply new homes that meet the needs of people of all abilities in Nottinghamshire and help them to live independently. The Top Wighay Farm site, a 40-hectare site situated north-west of the Nottinghamshire town of Hucknall will feature an 805 property housing development, a new primary school and a local community centre. Developers will use modern building techniques to accelerate construction of the housing units, 30% of which have been designated as affordable.

26. [The Nottinghamshire Plan - Ambition 2: Supporting communities and families - YouTube]
A key element of the Children and Young People's capital strategy is to provide support to children with special educational needs and their families. The range of local, specialist service provision will be improved as the Council looks to find ways to better support those preparing for adulthood. The replacement Orchard Special School in Newark was delivered in March 2021 and further funding has been secured to support the provision of new places for children with special educational needs and disabilities in future years.

27. [The Nottinghamshire Plan - Ambition 3: Keeping children, vulnerable adults and communities safe - YouTube]
The Council will keep improving support for vulnerable children and adults and continue to make improvements where we can. Clayfields House is a secure children's home run by the Council. A new, robust modern wing has recently been completed and delivered through our partnership with ARC. The new wing has created a more homely, inspiring space for young people to live, yet making security a top priority. Additional external funding has already been secured to carry out further improvements at Clayfields House.

28. [The Nottinghamshire Plan - Ambition 4: Building skills that help people get good jobs - YouTube]
Working alongside the Government and local developers, the Council will address the growing demand for secondary school places in Gedling, Rushcliffe and Worksop and primary schools in East Leake, Carlton, Colwick and Edwinstowe. We will also ensure sufficient places are provided alongside new housing developments. The Rosecliffe Spencer Academy, a new primary school in West Bridgford, opened in Spring 2021. The new school provides 315 pupil places for the local area together with a 26 place nursery.

29. [The Nottinghamshire Plan - Ambition 5: Strengthening businesses and creating more good-quality jobs - YouTube]

The Council's ambition to develop new opportunities for business growth within the Council's land and premises portfolio has already been seen at the Worksop Turbine Centre. The Centre has been developed through previous capital programmes and is a dedicated business centre which assists small businesses to achieve growth. Further innovative opportunities will be created at Top Wighay Farm where plans are in place to build a range of offices, green spaces and other infrastructure opening up more jobs for local people.

30. [The Nottinghamshire Plan - Ambition 6: Making Notts somewhere people love to live, work and visit - YouTube]

The Council will deliver the Nottinghamshire Visitor Economy Strategy to grow tourism across the county. More opportunities to invest in and improve our beautiful country parks and green spaces, like Rufford Abbey and Sherwood Forest as well as our sporting venue, the National Water Sports Centre. A project to create the Sherwood Forest Visitor Centre has been completed and it is hoped that new, RSPB led building brings higher footfall, increases tourism, aids education, learning and engagement as well as benefitting the local community. Additional external funding has been secured to carry out pioneering work which aims to introduce cutting-edge digital technology in the heart of Sherwood Forest and Rufford Country Park. The project will focus on how 5G technology can boost tourism and environment protection sectors.

31. The Nottinghamshire Plan - Ambition 7: Attracting investment - YouTube

The Council will continue to deliver the major development programme at Lindhurst and Top Wighay Farm. Top Wighay Farm in particular will be developed as a blueprint for sustainable living in Nottinghamshire and will develop more sites over the coming years to supply quality housing and new job opportunities for our residents.

32. The Nottinghamshire Plan - Ambition 8: Improving transport and digital connections - YouTube

The Council will continue to improve and join up local and regional transport connections, opening up employment, training and leisure opportunities to everyone and securing funding to develop new infrastructure where it is needed most. The Gedling Access Road (GAR) is a new 3.8km single carriageway road which will provide a link between the B684 Mapperley Plains and the A612 Trent Valley Road. The new road will provide significant economic and congestion relief benefits and is required to unlock new housing in the Gedling Local Plan, create jobs and provide business opportunities locally.

33. [The Nottinghamshire Plan - Ambition 9: Protecting the environment and reducing our carbon footprint - YouTube]

As part of the Council's ambition to restore our landscapes, ecosystems and biodiversity, the Council will plant 250,000 trees on Council land and set up five new nature reserves to restore our green spaces. The Council has already secured significant external funding from the Department for the Environment, Food and Rural Affairs to create a new community forest in Nottinghamshire. This new 'Trees for Climate' programme was announced as part of the Government's 'Nature for Climate' fund to deliver widespread woodland creation to help combat the climate emergency.

34. In summary, the capital strategy is not intended to be static, it is a dynamic plan that will evolve and change over time alongside the Council's changing priorities. The strategy is set over a ten year period but will be updated annually and include short, medium and long term investment ambitions.

Future Capital Strategy Development

35. As set above, it is recognised that the capital strategy is a continually changing document that will need to develop over time. Potential development actions will be identified during 2022/23 as part of a process of continuous improvement. Such actions include:

- Building on an initial data gathering exercise identifying capital pressures and risks over a ten-year horizon
- Assessment of service asset management plans to inform decision making and inform prioritisations
- Clear scope and post project evaluations to identify learnings
- Review the existing capital strategy and identify any areas that require improving.

Key strategies and policies impacting on the Council's Capital Strategy

36. The Council has a number of strategies and policies in place which significantly influence the Council's Capital Programme. The major ones are as follows.

Corporate Property Strategy

37. The Corporate Property Strategy (2018-2023) provides a framework to support the development and management of the Council's land and property assets to achieve our ambition of delivering collaborative property solutions which achieve corporate objectives.

38. The Corporate Property Strategy is publicly available at: https://www.nottinghamshire.gov.uk/policy-library/60247/corporate-property-strategy-2018-2023

39. Aligned to the Corporate Property Strategy is a five-year Property Asset Management Plan (PAMP). This is updated annually and its main purpose is to:

    - set out the Council's objectives, priorities, programmes and performance in relation to land and property assets
    - provide a clear statement of direction for other land and property stakeholders and customers

40. Service Asset Management Plans (SAMPs), also updated annually, are developed to support the PAMP and to clearly articulate a service's land and property needs. Each will contain important information to help inform capital bids such as anticipated changes to the service, supply and demand detail, prioritised solutions and a delivery plan.

ICT Strategy

41. The ICT Strategy 2021-2024 helped shaped the support business transformation with an emphasis on delivering increasingly jointed up public services that are effective, affordable and designed around the needs of service users. This included several key themes including Smarter Working, Health and Social Care integration, business intelligence and Cloud Services.

42. Finance Committee approved the new strategy 2022-2025 in 2021, building on the existing strategy, was drawn up with the linkages to the new Council Plan. The key themes of this new strategy revolve around Cloud based technologies, technical debt, safe and ethical use of systems and data, reducing ICT's environmental impact, accessible services, transparency and governance.

    ICT Strategy

Pupil Place Planning and School Capital Policy

43. This Policy is a key document enabling the Local Authority to meet its statutory duty to provide sufficient places for the children and young people of Nottinghamshire. It provides a context for all to understand the pressures and considerations when addressing demand for the expansion of existing provision or the creation of new provision across the County.

44. The Pupil Place Planning and School Capital Policy is publicly available at: https://www.nottinghamshire.gov.uk/policy-library/41408/pupil-place-planning

Highway Infrastructure Asset Management Plan

45. This document sets out the asset management strategy and plan for Nottinghamshire, promoting best practice and the implementation of asset management principles in all highway maintenance activities.

46. The Highway Infrastructure Asset Management Plan is publicly available at https://www.nottinghamshire.gov.uk/transport/roads/highway-infrastructure-asset-management-plan

Commercial Strategy

47. The Commercial Strategy sets out the high-level framework for the commercial approach of the Council across a wide number of activities.

48. The Commercial Strategy is publicly available at: https://www.nottinghamshire.gov.uk/policy-library/55851/commercial-strategy

49. The area of Property Investment comes with risk, especially in light of Brexit and the ongoing COVID-19 pandemic. The Council takes a largely risk-averse approach and does not tend to invest in Commercial Property for the sole purpose of revenue return.

50. Investment Properties represent only 3.7% of total Long-Term assets.

51. Sales of property has and continues to deliver capital receipts, but in the main the property was not originally acquired for this purpose.

52. The Council owns a number of commercial units and farms that deliver a return through rental income but these were not originally purchased for the purpose of generating a commercial return. The net figure for rental income and expenditure from these properties in 2020-21 was £397k.

Corporate Environmental Policy

53. The Council recognises the impact its operations and decisions have on the environment and how its position as a service provider, major employer, community leader and partner can have positive environmental outcomes. This

policy outlines the Council's commitment to protecting and enhancing the environment for today and for future generations.

54. The Corporate Environmental Policy is publicly available at: https://www.nottinghamshire.gov.uk/policy-library/72901/corporate-environmental-policy

Working with External Partners

55. Delivering investment across the county to meet the Council's ambition needs a strategic approach with the public, private, voluntary and community sectors. In delivering its capital strategy the Council works with a number of external partners, each of whom have their own strategies, priorities and availability of funding, which in turn interact with the Council's capital strategy. These partners include:
    - Central government and its Agencies
    - D2N2 Local Enterprise Partnership
    - Other local authorities in the region
    - Local NHS providers
    - Local Universities and Further Education Providers
    - Charities and other voluntary organisations

Working in Partnership
Arc and Via – A Collaboration to Deliver Economic Growth

56. Arc Partnership and Via East Midlands are Alternative Service Delivery Models established by the Council to deliver services in line with their Service Agreements and empowered to deliver third party works under the auspices of Local Authority Trading Companies, as both are classed as 'Teckal Companies'. Both companies are either wholly or partly owned by the Council.

57. Arc Partnership delivers multi-disciplinary property design, consultancy, master planning, regeneration, project/programme management, construction; emergency, reactive, compliance, asset management and planned servicing on behalf of the Council and the communities and people it represents.

58. Via East Midlands delivers multi-disciplinary engineering and fleet management services, including highways maintenance, design and consultancy, project/programme management, construction, signals and lighting, drainage, landscaping, environmental assessment, road safety, fleet services and a highway training centre.

59. Both organisations already collaborate and partner in a number of areas in delivering projects and programmes of work that deliver value for money, quality of output and customer excellence. They are looking to formalise this collaboration in order to deliver greater joint working, cross selling, and establish a framework which will bring forward a number of key regeneration, inward investment and economic growth opportunities.

What is Capital Expenditure?

60. 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 of capital, there may be opportunities to finance the outlay from capital receipts or by spreading the cost over future years' revenues.

61. Capital expenditure is where the Council spends money on buying, building or enhancing long-term fixed assets that will yield benefits for the Council and be used for more than one financial year.

62. Examples of long-term assets include but are not limited to: land and buildings, vehicles, infrastructure such as roads and bridges.

63. In Local Government this includes spending on assets owned by other bodies and loans / grants to other bodies enabling them to buy assets.

Funding Streams

64. Nottinghamshire County Council's Capital Programme is funded from a mix of sources including: -

- **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. The Council must ensure that unsupported borrowing is affordable, prudent and cost effective. This funding can also be used as an option to front fund development to stimulate growth. This has provided the Council with the flexibility to raise capital funding as demand and business need have dictated. This type of borrowing has revenue implications for the Council in the form of financing costs.

- **External Grants** – The largest form of capital funding comes through as external grant allocations from central government departments such as the Department for Transport and the Department for Education.

- **Section 106 and External Contributions** – Elements of the capital programme are funded by contributions from private sector developers and partners. Growth in Nottinghamshire has resulted in Section 106 contributions from developers accounting for significant elements of funding of the capital programme in recent years.

- **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 therefore the preference is for Invest to Save options to be adopted where feasible.

- **Capital Receipts** – The Council is able to generate capital receipts through the sale of surplus assets such as land and buildings. The Council seeks to maximise the level of these resources which will be available to support the Council's plans.

65. The size of the Capital Programme will be influenced by funding sources and financing costs and any related constraints. The Strategy has been prepared against a background of continuing reductions in funding provided to local authorities by central government and its agencies, arising from the need to restrain public expenditure owing to the ongoing economic conditions and to rebalance public finances.

66. The main limiting factor on the Council's ability to undertake capital investment is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by central government, now mainly through capital grants.

Approach to Capital Investment

67. Nottinghamshire County Council's Capital Strategy defines and outlines the Council's approach to capital investment and is fundamental to the Council's financial planning processes. It aims to ensure that:

    - Capital expenditure contributes to the achievement of the Council's strategic plan.
    - An affordable and sustainable capital programme is delivered.
    - Use of resources and value for money is maximised.
    - A clear framework for making capital expenditure decisions is provided.
    - A corporate approach to generating capital resources is established.
    - Access to sufficient long-term assets to provide services are acquired and retained.
    - Invest to save initiatives to make efficiencies within the Council's revenue budget are encouraged.
    - An appraisal and prioritisation process for new schemes is robust.

Capital Prioritisation

68. It is usual that demand for capital resources to meet investment needs and aspirations will exceed the resources available to the Council. In times of financial difficulty this situation is exacerbated.

69. To ensure that capital resources are allocated to the Council's priorities it is essential that an objective, structured prioritisation process is adopted when determining new schemes within the capital programme. This capital prioritisation process will then assist the Corporate Asset Management Group in making recommendations to the Corporate Leadership Team and Members in respect of the content of the Capital Programme.

70. The prioritisation process specifically addresses the key requirements of the Prudential Code:-

- Affordability, prudence and sustainability – the integration of the capital and revenue planning processes ensure that coherent decision-making takes place with regard to the level of borrowing.

    - Spend to save schemes must be able to demonstrate clearly the level of forecast revenue savings. These savings will be applied towards the repayment of the capital investment required. Subsequent savings will accrue to departmental budgets.

    - External funding may include earmarked capital receipts that require agreement with Strategic Property with regard to value and timing. Any external funding must be confirmed prior to project commencement.

- There should be a regard for the stewardship of the Council's assets – with explicit regard to the Council's Asset Management Plan.
- All capital expenditure should link into, and be consistent with, current corporate / service strategic objectives and be supported by appropriate levels of option appraisal and consultation to ensure value for money.

71. The practicalities of the capital expenditure plan – i.e projects are realistically phased and are capable of being delivered in physical terms.

    Particular types of projects are prioritised as follows:

    - **Externally Funded Schemes**
      Schemes that are totally funded by external sources and have no revenue or capital impact on the County Council are not subject to prioritisation. This would include 'spend to save' schemes where expenditure is fully funded by savings within the same financial year. These schemes are automatically absorbed into the capital programme once necessary funding and approvals are confirmed.

    - **Immediate, Unavoidable Obligations**
      These schemes would have the highest priority against available funding and would include, for example, compulsory and immediate legislative changes requiring funding.

    - Other schemes
      These are scored and prioritised according to the following criteria:

        - Funding criteria: for example Spend to Save initiatives and projects that lever in external funding / capital receipts
        - Service needs
        - Corporate priorities.

Governance Arrangements

Capital Programme Approvals

72. The Authority's constitution and financial regulations govern the capital programme as set out below:

- All capital expenditure must be carried out in accordance with the financial regulations and the Council's Constitution.
- The expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards.
- The Capital Programme approved by Full Council as part of the Council's annual budget report sets the capital funding availability for the Council, the prioritisation of funding and the schemes receiving entry into the Capital Programme.
- All schemes are formally approved into the capital programme by following a process as set out in the financial regulations.
- Officers are not authorised to commit expenditure without prior formal approval as set out in the financial regulations.
- Each scheme must be under the control of a responsible person/project manager.
- Corporate Directors must take a Latest Estimated Cost report to Finance and Major Contracts Management Committee where the capital cost is over £1 million.
- Any agreements (such as section 106) which contractually commit to procure capital schemes will need to follow the same approval process as other capital expenditure before it can be formally incorporated into the capital programme.

Capital Programme Bodies

73. The main internal bodies that are responsible for the governance and management of the capital programme are the Full Council, Policy Committee, Finance Committee and the Corporate Asset Management Group.

74. **Full Council:**

- Approves the capital programme as part of the Annual Budget Report within the strategic boundaries set by the Council.
- Approves capital schemes into the approved capital programme to enable commencement of delivery and schemes to start to incur expenditure.

75. **Policy Committee / Finance Committee:**

- Approves additional schemes into the capital programme and cost variations to existing schemes.
- Receives Latest Estimated Cost reports where the capital costs are in excess of £1m.

76. **Corporate Asset Management Group (CAMG)** – CAMG is a cross-service group of officers with a finance, service and property management background. It is responsible for ensuring that the County Council has a clear and cohesive strategy for managing its physical assets and to oversee the development and delivery of the County Council's capital programme in support of that strategy.

Skills & Training

77. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. All staff are encouraged to keep abreast of new developments and skills to ensure their continuous professional development.

78. The Council's property portfolio is valued by a team of internal valuers working in accordance with the statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. The team has extensive knowledge of the Nottinghamshire property market and experience dealing with a mix of property types.

Overview of the Capital Programme

79. The following table shows Nottinghamshire County Council's overall Capital Programme by Committee and how it is funded from 2021/22 to 2025/26:-

Table D1 - Capital Programme by Committee

	Revised 2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	TOTAL £m
Committee:						
Children & Young People*	19.844	43.193	12.139	11.301	6.500	92.977
Adult Social Care & Public Health	0.971	0.000	0.000	0.000	0.000	0.971
Transport & Environment	57.903	46.268	27.908	28.502	26.903	187.484
Communities	2.013	1.943	0.500	0.500	0.500	5.456
Economic Devt & Asset Mngt	20.438	23.806	6.400	3.335	2.400	56.379
Finance	10.083	7.069	5.145	3.645	2.610	28.552
Personnel	0.151	0.000	0.000	0.000	0.000	0.151
Contingency	0.000	4.600	4.600	4.600	4.600	18.400
Capital Expenditure	**111.403**	**126.879**	**56.692**	**51.883**	**43.513**	**390.370**
Financed By:						
Borrowing	39.751	56.420	17.660	14.595	13.660	142.086
Capital Grants	64.312	65.586	35.774	35.072	29.077	229.821
Revenue / Reserves	7.340	4.873	3.258	2.216	0.776	18.463
Total Funding	**111.403**	**126.879**	**56.692**	**51.883**	**43.513**	**390.370**

*This table excludes funding that is given directly to schools.

Description of Major Schemes

80. The main capital projects / programmes of work that are incorporated into the Authority's capital programme are identified below:

- **Schools Building Improvement Programme (SBIP) –** The SBIP focuses on the most immediate condition issues relating to heating, lighting and power, windows and roofing of the County Councils' maintained school building stock.
- **School Places Programme** - The School Places Programme focuses on the Council's statutory duty to provide sufficient school places. This applies to sufficiency planning across all schools, including academies. It is expected that local authorities will work closely with academies and the voluntary aided sector to meet this statutory responsibility and function. The fulfilment of this duty is described as meeting Basic Need. Children and Young People's Services analyse the pupil projection data available to identify schools which would be best suited to fulfil the Basic Need requirement and secure diversity of provision and increase the opportunity for parental preference.

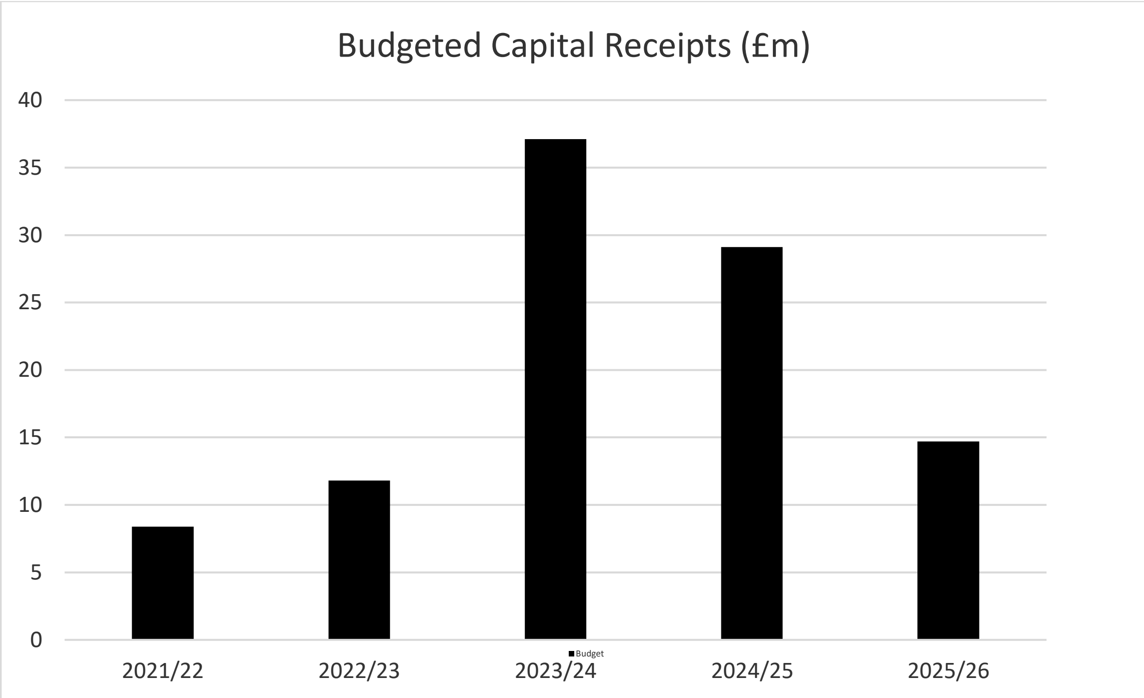
- **New / Replacement Schools** –The Schools Place programme focuses on the Council's statutory duty to provide sufficient school places. The Council works closely with academies and the voluntary aided sector to meet this statutory responsibility and function. As part of this programme four new / replacement schools are / have been built in Bestwood Hawthorne Primary, Orchard Special School, Newark, Hucknall Flying High Academy and Rosecliffe Spencer Academy, Edwalton with new schools at East Leake and Bingham in the pipeline.
- **Roads Maintenance and Renewals -** This major programme of work supports local highway maintenance across the County and is funded mainly from Department for Transport grant with a local top up funded from capital allocation.
- **Integrated Transport Measures (ITM) -** The ITM is a package of capital schemes developed to support the Local Transport Plan and is funded mainly by direct grant from Government with a local top up funded from capital allocation.
- **Gedling Access Road (GAR) -** This major transport scheme will enable the realisation of a key strategic development site in Gedling. It will also fulfil the long-term proposal to provide a bypass around Gedling village. The project is to be delivered by key public sector partners working jointly towards achieving common objectives for the future redevelopment of the former Gedling Colliery site.
- **Building Works -** The building works capital budget funds essential capital works to maintain the condition of the Council's property portfolio.
- **Homes England** – The Council has been successful in securing Homes England Local Authority Accelerated Construction Fund funding to assist the development of three sites in its ownership. The fund aims to make the best possible use of public sector land to increase the supply of new homes by removing the barriers facing local authorities with development on their sites.
- **Investing in Nottinghamshire** – As set out in a report to Economic Development and Asset Management Committee in November 2021, the Council has established an Investing in Nottinghamshire capital programme that sets out to utilise the Council's property estate to deliver, environmental, economic and financial benefits in a post- COVID19 world. This programme funding allows for the delivery of an ambitious programme of projects that will improve, refurbish or build new offices across multiple sites of the Council's estate which in turn would deliver widespread benefits across our services and the local economy.
- **Digital Connectivity in Nottinghamshire** - Nottinghamshire has cemented its position in the top three most digitally connected counties in the UK through its range of strategies, policy initiatives and capital funding. The Council has an outstanding record of delivering world class digital infrastructure particularly the roll-out of superfast broadband. Standing at 76% coverage in 2011, the figure is now 98.7% a figure that is 2% higher than the national average and our neighbouring counties. The programme is now aiming at the goal of achieving 99% by the end of 2021/22. Take-up in the county also continues to rise thereby triggering gainshare funding which will be used to fund further improvements. The Council, in partnership with academic researchers and

local businesses, has also created the world's first 5G Connected Forest within the historic Sherwood Forest area, due for completion in March 2022 and, through the Getting Building Fund, is delivering the 5G Digital Turbine project.

Capital Receipts / Disposals

81. Anticipated capital receipts are reviewed on a regular basis by the Finance Committee. All forecasts are based on estimated disposal values of identified properties and prudently assume a slippage factor based on risks associated with each property.

82. The chart below shows the budgeted capital receipts for the four years to 2025/26:



83. As part of the recent capital programme review, a decision was taken to limit borrowing to what is already approved in the capital programme. To further minimise the impact of the cost of borrowing on the revenue budget it is proposed that capital receipts, to the value approved as part of the February 2021 budget report, are set against previous years' borrowing thereby reducing the impact of the Minimum Revenue Provision on the revenue accounts. This will enable excess capital receipts to be used to fund any future additional capital investment.

2022/23 PRUDENTIAL INDICATORS FOR CAPITAL FINANCE

84. This section of the capital strategy sets out the prudential indicators and outlines how expenditure will be financed by borrowing in an affordable, prudent and sustainable way.

Information and Advice

85. The Local Government Act 2003 enables local authorities to determine their programmes for capital investment and associated borrowing requirements, provided they have regard to the Prudential Code for Capital Finance in Local Authorities developed by CIPFA and also take advice from the Section 151 Officer.

86. The Executive Summary of the Code states that “The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.”

87. The Code sets out a number of prudential indicators designed to support and record local decision making and it is the duty of the Service Director – Finance, Infrastructure and Improvement (the Council’s Section 151 Officer) to ensure that this information is available to Members when they take decisions on the County Council’s capital expenditure plans and annual budget. Key issues to be considered are:

   - Affordability (e.g. implications for Council Tax)
   - Prudence and sustainability (e.g. implications for external borrowing and whole life costing)
   - Value for money (e.g. option appraisal)
   - Stewardship of assets (e.g. asset management planning)
   - Service objectives (e.g. alignment with the Council’s Strategic Plan)
   - Practicality (e.g. whether the capital plans are achievable).

Affordability

88. The fundamental objective in the consideration of the affordability of the Authority’s capital plans is to ensure that the level of investment in capital assets proposed means that the total capital investment of the authority remains within sustainable limits.

89. In considering the affordability of its capital plans, the Authority is required to consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, income and expenditure forecasts.

90. The costs of financing capital expenditure are:

- Interest payable to external lenders less interest earned on investments; and
- Amounts set aside for repayments of amounts borrowed (including repayments of amounts relating to PFI schemes and other finance lease liabilities).

The relevant figures from the 2020/21 Accounts are as follows.

Table D2 – 2020/21 Capital Financing Costs and Net Revenue Stream

Capital Financing Costs	**£'m**
Interest Payable (incl. PFI/Finance Leases)	34.511
Interest and Investment Income	(0.563)
Repayment of Previous Years' Borrowing	5.208
Repayment of PFI/Finance Lease Liabilities	6.594
Other Amounts Set Aside for Repaying Debt	11.576
Total Capital Financing Costs	**57.326**

Net Revenue Stream	**624,137**

91. The Capital Financing Costs as a proportion of Net Revenue Stream for 2020/21 and future years are shown in the table below:

Table D3 – Capital Financing Costs as a Proportion of Net Revenue Stream

Capital Financing Costs as a proportion of Net Revenue Stream		
Actual	2020/21	9.2%
Estimates	2021/22	9.3%
	2022/23	9.6%
	2023/24	9.5%
	2024/25	9.4%
	2025/26	10.2%

92. The prudential indicator that sets out the proportion of capital financing costs to net revenue stream will be kept under review.

Prudence and Sustainability

93. The Prudential Code requires that the Authority shall ensure that all of its capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt and consideration of risk and the impact on the Authority's overall fiscal sustainability.

94. The Authority is required to make reasonable estimates of the total capital expenditure that it plans to incur in the forthcoming financial year and at least the following two financial years. These indicators, together with anticipated sources of finance, are as follows.

Table D4 – Estimates of Capital Expenditure

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Capital Expenditure	**126.879**	**56.692**	**51.883**	**43.513**
Funded from:				
Borrowing	56.420	17.660	14.595	13.660
Grants and Contributions	65.586	35.774	35.072	29.077
Revenue / Reserves	4.873	3.258	2.216	0.776
Total Capital Financing Costs	**126.879**	**56.692**	**51.883**	**43.513**

95. The proposed level of borrowing under the Prudential Code for 2022/23 is £56.4m.

96. One of the features of the Prudential Code arrangements is the need to calculate the Capital Financing Requirement. This figure covers capital expenditure which has not yet been permanently financed through the revenue account. It is derived by consolidating a number of Balance Sheet items as follows.

Table D5 – Capital Financing Requirement 2020/21

	£m
Fixed Assets	1,462
Short-term Assets Held For Sale	5
Capital Adjustment Account	(423)
Revaluation Reserve	(228)
Capital Financing Requirement as at 31/3/21	**816**

97. The Code states that “In order to ensure that over the medium term net debt will only be for a capital purpose, the local authority should ensure that net debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.” This is a key indicator of prudence.

98. The Capital Financing Requirement needs to be rolled forward to the estimated position at the end of 2021/22:

Table D6 – Estimated Capital Financing Requirement 2021/22

	£m
Capital Financing Requirement 2020/21	**816**
Borrowing in 2021/22	40
Additional PFI/Finance Lease Liabilities in 2021/22	3
Repayment of PFI/Finance Lease Liabilities in 2021/22	(7)
Capital Receipts set against previous borrowing in 2021/22	(5)
Other amounts set aside for Repayment of Debt in 2021/22	(12)
Estimated Capital Financing Requirement 2021/22	**835**

99. The additional Capital Financing Requirements for the next 3 years are:

Table D7 – Estimated Capital Financing Requirements 2022/23 - 2024/25

	2022/23 £m	2023/24 £m	2024/25 £m
New Borrowing	56	18	15
Additional PFI/Finance Lease Liabilities	7	2	1
Repayment of PFI/Finance Lease Liabilities	(6)	(7)	(8)
Capital Receipts set against previous borrowing	(11)	(14)	(10)
Other amounts set aside for Repayment of Debt	(13)	(13)	(13)
Capital Financing Requirement Net Additions	**33**	**(14)**	**(15)**
Estimated Capital Financing Requirement	**868**	**854**	**839**

100. As such there is a requirement to ensure that net debt (the sum of borrowing and other long-term liabilities, net of investments) in 2022/23 does not, except in the short term, exceed £868m (i.e. the estimated CFR for 2022/23). It should be noted that the estimated increase in finance lease liabilities in 2022/23 are as a result of the implementation of the new IFRS16 leasing standard.

External Debt

101. The Local Government Act 2003 requires the County Council to set two borrowing limits for next year and the following two years with respect to external borrowing.

102. Operational Boundary – has to be set for both borrowing and long-term liabilities. This measure encompasses all borrowing and is used in-year as a tool for monitoring the Council’s prudent borrowing requirements. The operational boundary is calculated by taking account of existing borrowing and long-term liabilities, planned new borrowing, net change in long term liabilities and any amounts set aside for repayment of debt.

103. Authorised Limit – this higher measure, is the upper limit on the level of gross indebtedness which must not be breached without County Council approval. If it appears that the Authorised Limit might be breached, the Service Director – Finance, Infrastructure and Improvement has a duty to report this to the County Council for appropriate action to be taken.

104. The Operational Boundary for external debt for the next three years is built up from the existing level of external borrowing, which was £516m, and the level of relevant liabilities (including finance lease liabilities), which was £108m, on the Balance Sheet at 31 March 2021.

105. These figures can be rolled forward to provide the proposed Operational Boundaries for 2022/23 and subsequent years.

Table D8 – Operational Boundaries 2022/23 – 2024/25

	Borrowing £m	Other Long-Term Liabilities £m	TOTAL £m
External borrowing at 31 March 2021	516	-	516
Other Long-Term Liabilities at 31 March 2021	-	109	109
Net new borrowing in 2021/22	(12)	-	(12)
Net change in PFI/finance lease liabilities	-	(4)	(4)
Estimated external borrowing at 31 March 2022	504	105	**609**
Capital expenditure financed by borrowing 2022/23	56	-	56
Amounts set aside for repayment of debt	(23)	-	(23)
Net change in PFI/finance lease liabilities	-	1	1
Contingency for changes in cash flow forecast	40	-	40
Operational Boundary 2022/23	577	106	**683**
Capital expenditure financed by borrowing 2023/24	18	-	18
Amounts set aside for repayment of debt	(18)	-	(18)
Net change in PFI/finance lease liabilities	-	(7)	(7)
Contingency for changes in cash flow forecast	40	-	40
Operational Boundary 2023/24	617	99	**716**
Capital expenditure financed by borrowing 2024/25	15	-	15
Amounts set aside for repayment of debt	(23)	-	(23)
Net change in PFI/finance lease liabilities	-	(6)	(6)
Contingency for changes in cash flow forecast	40	-	40
Operational Boundary 2024/25	649	93	**742**

106. The Authorised Limits should not need to be varied during the year, bar exceptional purposes. It is proposed to add a further £25m to the Operational Boundaries for Borrowing to provide sufficient headroom for events such as unusual cash movements. The proposed Authorised Limits are:

Table D9 – Authorised Limits 2022/23 – 2024/25

	Authorised Limit		
	Borrowing £m	**Other Long-Term Liabilities £m**	**Borrowing and Other Long-Term Liabilities £m**
2022/23	602	106	708
2023/24	642	99	741
2024/25	674	93	767

107. Both the Authorised Limits and Operational Boundaries are less than the Capital Financing Requirement because best practice in treasury management means that actual borrowing is below the notional underlying borrowing requirement.

108. The Prudential Code indicator in respect of treasury management is the adoption of the CIPFA Treasury Management Code of Practice. The County Council has formally adopted the code and approves an annual Treasury Management Policy and Strategy. This includes setting the treasury indicators:

- upper limits for fixed and variable interest rate exposures
- upper limit for investments over 364 days
- upper and lower limits for the maturity structure of borrowing.

Value for money – option appraisal

109. The County Council's Capital Programme is driven by the desire to provide high quality, value for money public services and is monitored by the CAMG. Business cases for proposed new capital schemes are reviewed by this group against an agreed prioritisation criteria. The results of this exercise are presented to Finance and Major Contracts Management Committee.

Stewardship of Assets

110. The Council's Asset Management Plan sets out the condition of its assets and the arrangements for managing these effectively. The Council's Corporate Property Strategy enhances these arrangements, including increasing the awareness that efficient use of property is an important element of maximising the value obtained from the Council's overall resources.

Service Objectives

111. The option appraisal of proposed capital schemes overseen by CAMG considers, amongst other factors, the following:

- How the proposal helps achieve the objectives and priorities set out in the Council's Strategic Plan.
- How the proposal will help achieve objectives set out in Departmental Strategic Plans.
- The service improvements and other anticipated benefits expected to be delivered from the investment.

112. **Practicality / Monitoring**

- Capital budget holders are responsible for providing monthly forecasts to the Financial Strategy and Accounting Team. Any slippage on schemes is identified as soon as possible.
- All forecasts are collated by the Financial Strategy and Accounting Team and reported to Finance Committee on a monthly basis.

Recommendation

113. It is recommended that the Prudential Indicators in Table D10 are approved as part of the 2022/23 budget.

Table D10 – Prudential Indicators 2022/23 – 2024/25

	2022/23	**2023/24**	**2024/25**
Estimated capital expenditure	£126.9m	£56.7m	£51.9m
Estimated Capital Financing Requirement	£868m	£854m	£839m
Authorised limit for external debt	£708m	£741m	£767m
Operational boundary for external debt	£683m	£716m	£742m
Financing costs as a % of net revenue stream	9.6%	9.5%	9.4%

Report of the Service Director (Finance, Infrastructure & Improvement)

Treasury Management Strategy 2022/23

Introduction

114. Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as:

> “the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

115. The Local Government Act 2003 (the Act) requires local authorities “to have regard –

> (a) to such guidance as the Secretary of State may issue, and
> (b) to such other guidance as the Secretary of State may by regulations specify for the purposes of this provision.”

116. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 state that:

> “In carrying out its capital finance functions, a local authority must have regard to the code of practice in ‘Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes’ (regulation 24).”

117. The 2003 regulations further require local authorities to have regard to the code of practice entitled the ‘Prudential Code for Capital Finance in Local Authorities’ (published by CIPFA), when considering how much they can afford to borrow. Both the Treasury Management Code (the Code) and the Prudential Code were updated in December 2017.

118. With regard to investment of funds, the Secretary of State issued revised guidance in 2010 that requires local authorities to prepare an annual investment strategy which has the key objectives of security and liquidity of funds.

119. The Code has 3 key principles which are:

- the establishment of ‘comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury activities’.
- the effective management and control of risk are prime objectives and that responsibility for these lies clearly within the organisation.
- the pursuit of value for money and the use of suitable performance measures are valid and important tools.

120. In accordance with the CIPFA Code, the Council adopts the following:

(a) The Council will create, and maintain, as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its treasury management activities
- suitable Treasury Management Practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject to amendment only where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the Council materially deviating from the Code's key principles.

(b) The Council will receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

(c) The Council delegates responsibility for the implementation, scrutiny and monitoring of its treasury management policies and practices to the Treasury Management Group, comprising:

- Service Director (Finance, Infrastructure & Improvement)
- Group Manager (Financial Services)
- Senior Accountant (Financial Strategy & Accounting)
- Senior Accountant (Pensions & Treasury Management)
- Investments Officer

The responsible officer for the execution and administration of treasury management decisions is the Senior Accountant (Pensions & Treasury Management), who will act in accordance with the policy statement and TMPs.

121. With regard to cash balances that form part of the Nottinghamshire County Council Pension Fund, the Council delegates responsibility for the setting of treasury management policies and practices to the Pension Fund Committee.

122. This Treasury Management Strategy has been prepared in accordance with regulations, guidance and codes of practice to support the Council's Medium-Term Financial Strategy and in particular the financing of the capital programme and the management of cash balances. In addition to this strategy there is a Treasury Management Policy Statement in Appendix E that underpins the strategy, together with the TMPs that govern treasury management operations.

123. The strategy covers:
    - Current treasury position
    - Borrowing requirement
    - Treasury Indicators
    - Interest rate forecasts

- Borrowing strategy
- Investment strategy

Current Treasury Position

124. The table below shows the Council's forecast treasury position as at 31 March 2022:

Table D11		Total £m	Average Interest Rate
EXTERNAL BORROWING			
Fixed Rate	PWLB	404.4	3.94%
	Market loans	90.0	3.83%
Total External Borrowing		**494.4**	
Other Long Term Liabilities		104.9	
Total Gross Debt		**599.3**	
Less: Cash balances		(25.4)	
Total Net Debt		**573.9**	

Note 1: PWLB = Public Works Loans Board
Note 2: Figures exclude accrued interest

Borrowing Requirement

125. Under the Prudential Code, the Council is required to calculate the 'Capital Financing Requirement' (CFR). This represents the Council's underlying need to borrow for the approved capital programme. New capital expenditure, financed by borrowing or by credit arrangements such as finance leases and private finance initiative schemes, increases the CFR.

126. The Council also sets aside an amount each year as a provision for the repayment of debt. This is known as the Minimum Revenue Provision (MRP) and is, in effect, the principal repayment for the borrowing expected to be undertaken by the Council to finance its capital programme. MRP set aside reduces the CFR.

127. The difference between the CFR and the total of long-term liabilities and existing and new borrowing indicates that the Council has made temporary use of internal cash balances (from its own earmarked reserves and working capital) to finance the capital programme. This is known as "internal borrowing". Internal borrowing is a way of making short-term savings and avoiding the risks associated with holding large cash balances and is explained further in the "Borrowing Strategy" section below.

128. The Local Government Act 2003 and supporting regulations requires the Council to determine and keep under review how much it is prepared to borrow, termed the "Authorised Limit". This limit is determined for external borrowing (including both long-term and temporary borrowing and other forms of long-term liability, such as credit arrangements). This limit reflects the need to borrow for capital purposes. The Authorised Limit is set for at least the forthcoming financial year and two successive financial years. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that its total capital investment is 'affordable, prudent and sustainable'.

129. In practice during the year the level of borrowing will be monitored against the "Operational Boundary". This represents the planned level of borrowing for capital purposes and, as shown in paragraph 102, is made up as follows:

- Existing borrowing and other long-term liabilities
- Increased by:
  - planned new borrowing
  - net change in long-term liabilities
- Reduced by amounts set aside for repayment of debt (referred to as Minimum Revenue Provision or MRP).
- Contingency for changes to reserves forecast

130. The Operational Boundary is set for the forthcoming financial year and next two financial years. Any breach of this indicator would provide an early warning of a potential breach of the Authorised Limit and allow time for the Council to take appropriate action.

131. There are two main reasons why planned actual borrowing may be lower than that shown as being required to finance the capital programme. These are slippage in capital schemes and the Council temporarily making use of its cash reserves to delay external borrowing (the internal borrowing referred to above). The main components involved in calculating planned actual borrowing over the next three years are shown in the table below.

	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Closing Capital Financing Requirement	816.0	835.0	868.0	854.0	839.0	822.0
Less:						
- Long-term liabilities	-108.2	-104.9	-105.6	-98.8	-92.3	-84.6
- Existing borrowing	-505.2	-494.4	-483.6	-472.8	-462.3	-452.2
- Cap Ex to be financed by borrowing (a)			-56.0	-18.0	-15.0	-14.0
- Cumulative replacement borrowing (b)			36.0	-15.6	-25.6	-32.4
Internal borrowing (A)	**202.6**	**235.7**	**258.8**	**248.8**	**243.8**	**238.8**
Cash and cash equivalents	62.2	26.1	20.0	20.0	20.0	20.0
Fixed investments	30.0	30.0	0	0	0	0
Y/E investment balances (B)	**92.2**	**56.1**	**20.0**	**20.0**	**20.0**	**20.0**
Cash deployed (A+B)	**294.8**	**291.8**	**278.8**	**268.8**	**263.8**	**258.8**
comprising:						
- Usable reserves	236.0	233.0	220.0	210.0	205.0	200.0
- Estimated provisions / working capital	58.8	58.8	58.8	58.8	58.8	58.8
Cumulative minimum borrowing requirement (-a-b)	**0.0**	**0.0**	**20.0**	**33.6**	**40.6**	**46.4**
Cumulative annual borrowing requirement	0.0	0.0	20.0	30.0	40.0	50.0

132. The table above shows that the latest capital expenditure, financing and reserves forecasts. From this can be calculated the Council's estimated internal borrowing and its cumulative minimum borrowing requirement. It can be seen that the Council is expecting to borrow approximately £20m in 2022/23, with a further £30m from the financial markets over the subsequent 3 years, some £50m in total.

133. This forecast assumes that temporarily held cash surpluses will be used in the first instance to delay borrowing and keep year-end cash balances to a comfortable minimum (£20m). Therefore, if reserve balances are used quicker than forecast, or if working capital is reduced, then a higher amount of borrowing will be necessary. On the other hand, slippage in the capital programme will mean borrowing can be delayed and so this £50m could be reduced.

134. Under the capital finance regulations, local authorities are permitted to *fully borrow* (ie. use no internal borrowing) up to three years in advance of need as determined by the Capital Financing Requirement. This will only be done if cashflow dictates or if market conditions indicate that it is the best course of action.

135. The main reason for borrowing more than the minimal amount is to take advantage of, and lock in, low long-term interest rates, making long-term savings and also reducing the Council's exposure to variable interest rate risk. However, this would almost certainly result in a short-term 'cost of carry', especially as interest rates on invested surplus cash are effectively zero. The financial implications of any amounts borrowed long-term would therefore be fully evaluated by Treasury Management Group before commitment.

136. Borrowing in advance of need also increases the level of temporary investments and makes the security of those funds even more important. However, the Council's treasury management practices ensure that the risks of investing funds are minimised.

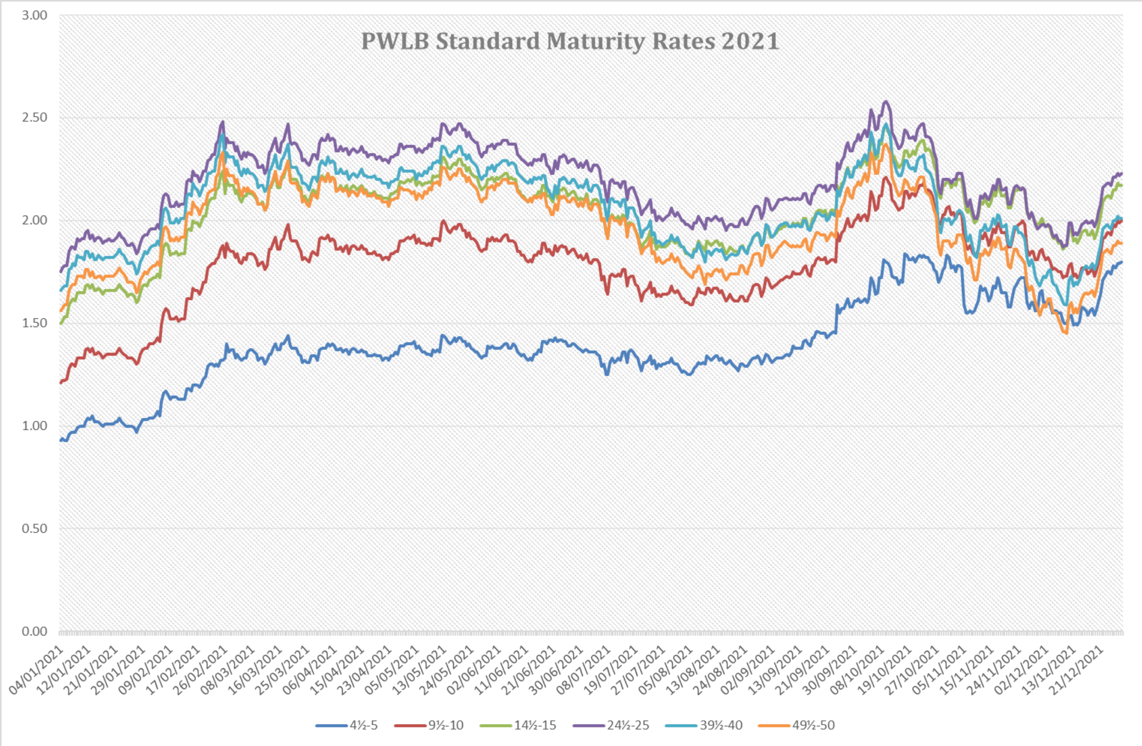
137. A summary of the proposed Treasury Management Indicators for the years to 2024/25 are set out in tables D13 and D14 below. Please note that the ‘Authorised Limit and ‘Operational Boundary’ are detailed in paragraphs 105 and 106.

Table D13 TREASURY INDICATORS	**Proposed 2022/23 £m**	**Proposed 2023/24 £m**	**Proposed 2024/25 £m**
Upper limit for Rate Exposure (fixed-term investments)			
Fixed Rate	100%	100%	100%
Variable Rate	75%	75%	75%
Upper limit for principal sums invested for over 364 days	Higher of £20m or 15%	Higher of £20m or 15%	Higher of £20m or 15%

Table D14 Maturity structure of fixed rate borrowing	**Lower limit**	**Upper limit**
under 12 months	0%	25%
12 months and within 24 months	0%	25%
24 months and within 5 years	0%	75%
5 years and within 10 years	0%	100%
10 years and above	0%	100%
Adoption of CIPFA’s Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes	Adopted	

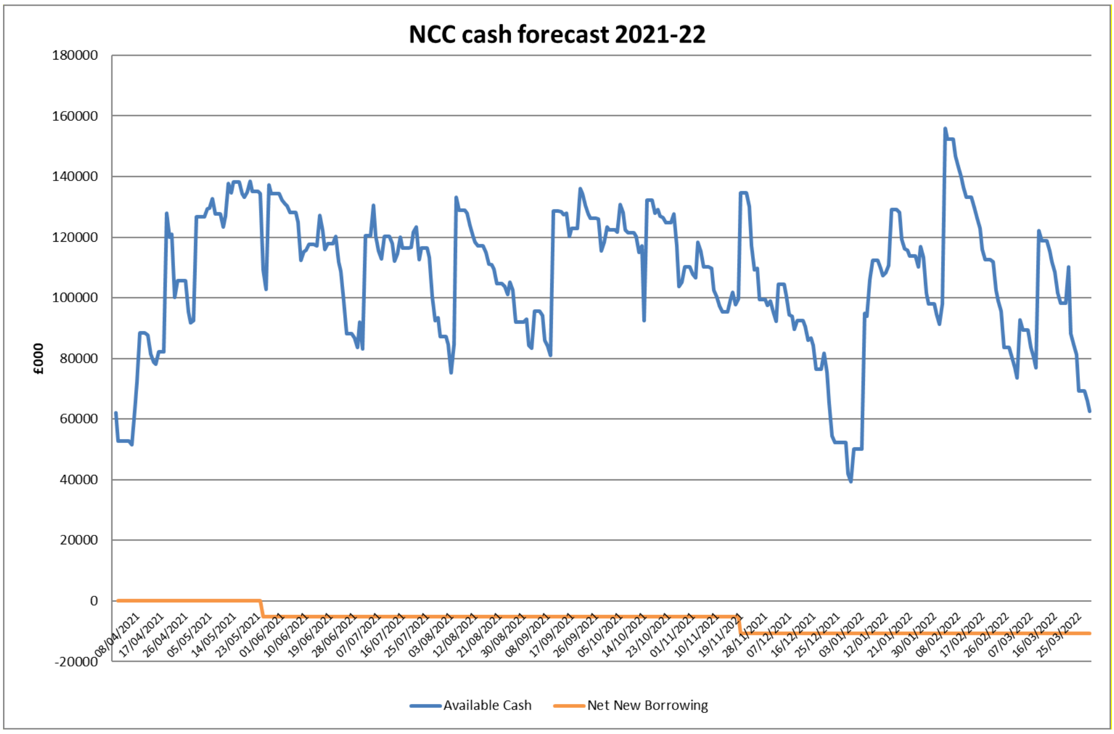
Borrowing Strategy

138. PWLB rates increased towards the close of 2021, in line with inflation expectations. This can be seen in the chart below:



139. The chart below shows how the Council's instant-access cash position has progressed over the financial year to January 2022 and how it is forecast to progress until the year-end. This position varies over the course of the year but averages about £107m. The line reflects the day-to-day impact of the Council's revenue and capital expenditure, grant and precept income, together with any borrowing or fixed-term lending decisions made by the Council's treasury management team.

140. The lower line shows the Council's net new borrowing which was negative over the course of the year. During 2021/22 approximately £10.8m matured and no new borrowing was undertaken.



141. Over the past several years the Council has financed the capital programme (on a temporary basis) mainly by using its cash balances. These are essentially earmarked reserves, general fund reserves and net movement on current assets. As the cash in these reserves is not required in the short term for the reserves' specific purposes, it has been utilised in order to reduce external borrowing, and is known as 'internal borrowing'.

142. The advantage to the Council of internal borrowing is that it costs less than external borrowing, the cost being the opportunity cost of interest foregone by not investing the cash (investment rates are currently below 0% for short-term deposits). It therefore generates short-term savings for the Council. Another advantage is that counterparty risk is reduced by having less cash to invest.

143. On the other hand, by postponing its long-term borrowing the Council is in effect increasing its exposure to interest rate risk, as rates will fluctuate in the intervening period until long-term fixed rate borrowing is taken. Treasury management staff monitor this risk, and regularly review interest rates.

144. As a result of all this, the borrowing strategy needs to provide funds not only to finance the capital programme but also funds (i) to replenish reserves as and when these are required and (ii) to cover principal repayments on any maturing debt. If long-term borrowing is not taken to cover these outflows of cash then the Council would need to consider other sources of finance (such as an ongoing bank overdraft facility or a series of short-term loans).

145. These strategic factors drive the Council's objective need to secure long-term debt finance, but there are a number of day-to-day factors – relating to market conditions and the Council's own revenue budget - that must be taken into account when deciding precisely when to borrow.

146. Long-term rates being offered by PWLB remain relatively attractive. Occasionally, in addition, long-term loans offered by the market or by other local authorities can be a competitive alternative to PWLB loans, and these are worth considering.

147. However, as at December 2021 short-term PWLB debt is around 0.5% cheaper than long-term debt, and this may be worth considering, especially as interest rates on surplus cash held by the Council are effectively zero.

148. It should be borne in mind though that there would be a risk if the Council were to take *only* short-term debt. This is because short-term loans need more frequent refinancing and at such points the Council would find itself exposed to whatever the prevailing interest rates were at the time. If this happened the Council could find itself facing considerably higher interest rates, which would quickly undermine any saving made by taking short-dated debt.

149. In practice, a balanced portfolio will include a mix of:
    - Temporary use of the Council's cash reserves
    - Short-term debt provided by the market/other local authorities
    - Short-term or variable rate debt provided by PWLB
    - Long-term debt provided by PWLB
    - Long-term debt provided by the market or other local authorities

150. Given these contingencies the amount, type, period, rate and timing of new borrowing will be an operational matter falling under the responsibility of the Service Director (Finance, Infrastructure & Improvement) exercised by the Senior Accountant (Pensions & Treasury Management) within the approved borrowing strategy, taking into account the following factors:

    - expected movements in interest rates as outlined above.
    - current debt maturity profile.
    - the impact on the medium-term financial strategy.
    - the capital financing requirement.
    - the operational boundary.
    - the authorised limit.

151. Opportunities to reschedule debt will be reviewed as and when they occur during the coming year. However, prevailing conditions make rescheduling a costly activity.

Investment Strategy

152. During 2022/23 it is intended to keep cash balances at a low level with the aim of maintaining a minimal working cash balance of around £20m. This will provide a level of liquidity without recourse to temporary borrowing, ie. having to seek funds at short notice when availability may be restricted and therefore expensive.

153. The Council manages counterparty risk by monitoring the ratings of the institutions in which it could invest. Exposure to the Eurozone is limited by investing in UK banks and high credit quality overseas banks. The criteria for selecting counterparties are detailed in TMP 1 in Appendix E.

154. A further measure to ensure security of the Council's cash investments is to maintain the Council's exposure to the UK local authority sector and UK government securities. When lending to local authorities fixed term deposits would be used but these are subject to demand and cannot be relied upon in the same way as bank lending. The use of treasury bills and UK government gilts may be considered and would ensure priority is given to security and liquidity of funds.

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