Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

CABINET

24 January 2022

Report of the Executive Director, Corporate Services and Transformation

Capital Programme Approvals, Treasury Management and Capital Strategies for 2022-23

(Corporate Services and Budget)

1 Divisions Affected

1.1 County-wide.

2 Key Decision

2.1 This is not a Key Decision.

3 Purpose of the Report

3.1 To obtain approval for proposals for submission to Council relating to the capital starts programme for 2022-23 and the Treasury Management, Investment and Capital Strategies.

3.2 This report should be read alongside the following reports to this meeting: the Reserves Position and Reserves Policy Report, the Budget Consultation Results Report for 2022-23 and the Revenue Budget Report 2022-23.

4 Information and Analysis

4.1 In line with previous years, the proposed new Capital Starts Programme for 2022-23 has been evaluated and it is recommended to proceed with new borrowing of £31.835m (excluding invest to save schemes). The detailed proposals are set out in Appendix Two of this report.

4.2 The Treasury Management Strategy Report for 2022-23 (Appendix Three) sets out the Council's management of its cash flow, borrowing and investments and the management of its associated risks.

4.3 The Investment Strategy Report for 2022-23 (Appendix Four) deals with the management of the Council's balances and reserves, managing the balance between risk and return.

4.4 The Capital Strategy for 2022-23 (Appendix Five) provides a high-level overview of how capital expenditure and capital financing contribute to the provision of local public services.

5 Consultation

5.1 No consultation is required.

6 Alternative Options Considered

6.1 N/A – the Council is required to have an approved new Capital Starts Programme, and to adopt a Treasury Management Strategy, an Investment Strategy and a Capital Strategy each year. Not producing a Capital Programme Approvals, Treasury Management and Capital Strategies report would be contra to the Council's Financial Regulations and other legislation and statutory guidance.

6 Implications

7.1 Appendix One sets out the relevant implications considered in the preparation of the report.

7 Background Papers

8.1 Papers held electronically by Financial Management & Strategy, Finance & ICT Division, County Hall.

8 Appendices

8.1 Appendix One – Implications.

8.2 Appendix Two – New Capital Starts Programme for 2022-23.

8.3 Appendix Three – Treasury Management Strategy Report for 2022-23.

8.4 Appendix Four – Investment Strategy Report for 2022-23.

8.5 Appendix Five – Capital Strategy for 2022-23.

9 Recommendations

That Cabinet recommends to Council that it:

10.1 Approves the new Capital Starts Programme for 2022-23 set out in Appendix Two.

10.2 Adopts the Treasury Management Strategy for 2022-23 set out in Appendix Three.

10.3 Adopts the Investment Strategy for 2022-23 set out in Appendix Four.

10.4 Adopts the Capital Strategy for 2022-23 set out in Appendix Five.

11 Reasons for Recommendations

11.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

11.2 Government places controls on the financing capacity of the Council. This means that capital expenditure should form part of a programme, should be carefully prioritised in order to comply with the Council Plan, maximise the benefit of scarce resources and comply with *CIPFA's Prudential Code for Capital Finance in Local Authorities (2017)*. The Council's Financial Regulations require that Cabinet will make recommendations on the capital estimates and on any associated financing requirements to Council. The programme will then be approved by Council in February each year.

11.3 Treasury Risk Management at the Council is conducted within the framework of CIPFA's "*Treasury Management in the Public Services: Code of Practice 2017 Edition"* (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year. This report documents the proposed Treasury Management Strategy and requests that Cabinet recommends to Council that it adopts it. This will fulfil the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and also will assist with the requirements in the Council's Financial Regulations, which require that the borrowing and investments of the Council should be arranged in such a manner so as to comply with the CIPFA Code of Practice on Treasury Management.

11.4 Statutory guidance issued by Government in January 2018 requires that the Council adopts an Investment Strategy, focusing on service investments, where the Council uses its money to support local public services by lending to or buying shares in other organisations, and on commercial investments, where the Council uses its money specifically to earn investment income and this is the main purpose of the investment. This report documents the proposed Investment Strategy and requests that Cabinet recommends to Council that it adopts the Investment Strategy.

11.5 The Council's Financial Regulations require that a Capital Strategy is prepared and reported to Cabinet. This report documents the proposed Capital Strategy and requests that Cabinet recommends to Council that it adopts the Capital Strategy.

11.6 The Council Plan values commit to spending money wisely, making the best use of the resources that the Council has.

12. Is it necessary to waive the call in period?

12.1 No

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This report has been approved by the following officers:

On behalf of: Managing Director Executive Director, Corporate Services and Transformation (S151 Officer) Director of Legal Services and Monitoring Officer	

Appendix One

Implications

Financial

1.1 As outlined in the body of the report.

Legal

2.1 None.

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 The Council Plan values commit to spending money wisely, making the best use of the resources that the Council has.

6.2 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

Capital Programme 2022-23

1.1 The proposed new starts programme for 2022-23, along with funding streams, as shown in Table 1, has been evaluated and it is recommended to proceed with new borrowing of £31.835m (excluding invest to save schemes). More details on each individual scheme are set out below.

1.2 Schemes within the capital programme are usually funded from a combination of Government grants, capital receipts, borrowing, use of reserves and contributions from revenue budgets.

1.3 However, due to the Council wishing to preserve its revenue funds to enable it to provide flexibility in managing its budget reductions, the Council changed its approach a couple of years ago by using both capital receipts and borrowing to replace revenue contributions. In light of this, previous revenue contributions of approximately £15.000m reserved for the Adult Care Strategy will now be replaced with borrowing.

1.4 Capital receipts are used to support the overall programme and have normally been in the region of £2.000m-£3.000m per year. However, as the Council is reviewing its approach to property and asset management through rationalisation and Modern Ways of Working, in alignment with both the Council Plan and the Council Service Plans, this will provide the potential to increase capital receipts and assist with future funding of the programme. In cases where a new project is directly dependent on the disposal of an existing asset, for example, the replacement of a school, or where it is a statutory regulation that sales proceeds must be used to improve sports or educational facilities then the receipt from the disposal of the ‘old’ asset can be earmarked to fund the replacement. It is however, expected that future programmes will be able to use more available capital receipts to release both the burden on borrowing and revenue reserves.

1.5 The Capital Programme therefore remains affected by the downward pressure on the Council’s finances, with the main limiting factor on the Council’s ability to undertake capital expenditure being whether there is the revenue resource 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, which is now mainly through capital grants. However, it is recognised that due to the increasing pressures being placed on school places, infrastructure and the backlog of Capital works on Council buildings, borrowing has been increased to ensure that the Council meets its statutory obligations and in turn assists in delivering the Council Plan.

1.6 The Council will receive estimated Government grants of almost £53.000m to address key issues in highways and maintenance, develop integrated transport schemes, and address the most immediate building condition issues in schools. Funding is requested to cover funding gaps, to assist in the building of new schools in response to major housing developments and also in the phased replacement of schools that have ageing buildings and are high on the buildings at risk register. There are also bids to alter Children’s Homes to deliver facilities to support children to enable them to have good opportunities in life, along with adaptations for vulnerable people within Derbyshire.

1.7 Funding has also been made available, as in previous years, to provide financial assistance for disabled people requiring major adaptations to their accommodation.

1.8 To address some of the backlog on other Council properties and reduce the burden on revenue funding of Capital works, a Corporate bid has again been submitted as part of a long-term strategy to targeting the Councils backlog.

1.9 The Elvaston Masterplan, which was previously approved by Cabinet, is being undertaken in phases to secure the future of the estate for forthcoming generations and to also alleviate the considerable financial maintenance impact on the revenue budget in the long term by unlocking its commercial potential and enabling it to be a financially sustainable enterprise.

1.10 As in previous years and in line with the Council’s ICT Strategy, a full capital replacement programme is being developed, to ensure that all capital related ICT hardware and software will be replaced over a five-year cycle. This envisaged borrowing of £2.000m per year, £10m overall, however, due to the significant infrastructure upgrades required, partly due to end of life equipment, £7.200m has already been committed, meaning that this year’s bid of £1.750m will be less than the £2.000m envisaged, to enable the overall plan to remain within the allocated five year plan of £10.000m.

Table 1 Capital Programme Bids 2022-23

Funding Streams	Grant	Borrowing	Invest to Save	Total
	£m	£m	£m	£m
Children's Services				
Basic Need	0.500			0.500
Children's Homes Alterations		1.000		1.000
Devolved Formula Capital	1.274			1.274
Gamesley Rationalisation		0.750		0.750
Norbriggs Primary School Expansion		1.800		1.800
Schools Access Initiative		0.800		0.800
School Condition	10.635			10.635
SEND – High Needs Capital Allocation	2.490			2.490
Swanwick Primary School – Additional Facilities		0.460		0.460
Phased Replacement of The William Allitt School		7.000		7.000
Adult Social Care & Health				
Disabled Facilities Grant Adaptations	7.800	4.000		11.800
Corporate Services and Transformation				
Fire Mitigation		1.200		1.200
Kitchen Ventilation Schemes		1.400		1.400
Planned Maintenance Programme		4.400		4.400
ICT Hardware & Infrastructure Replacement Programme		1.750		1.750
Place				
Elvaston Masterplan		5.000		5.000
Fleet Vehicles			6.020	6.020
Low Emission Vehicle Infrastructure – Council Depots		0.300		0.300
Low Emission Vehicle Infrastructure – Public Facing		1.650		1.650
Local Transport Plan	27.371			27.371
Derelict Land Reclamation and Regeneration	2.676	0.250		2.926
Skips for Household Waste Recycling Centres			1.200	1.200
Transport Mobility Hubs	0.095	0.075		0.170
TOTAL	**52.841**	**31.835**	**7.220**	**91.896**

2 Summary of Individual Schemes

2.1 Childrens Services

Basic Need £0.500m
The Department for Education (DfE) grant allocation for Basic Need schemes is to provide additional school places in areas of population growth. Based on analysis of pupil projections, feasibility studies have been undertaken. Funding will be allocated from a priority list of potential projects once a grant figure is known.

Children’s Homes – Alterations £1.000m
Four of the Council's children's homes are currently under refurbishment but as part of the planning and design work, it has been established that there are alterations needed to ensure that the homes provide the modern, fit for purpose facilities to tie in with the service provided by the Council. The alteration of three of the four homes would ensure that the current demands could be met and provide high quality support for the children in care.

Devolved Formula Capital £1.274m
DfE Grant funding for individual schools to cover the cost of upgrading and maintaining accommodation in line with school asset management plans controlled by individual schools. This capital grant gives all schools money to invest in their buildings, grounds and ICT equipment in order to improve educational standards.

Gamesley Rationalisation £0.750m
Gamesley is an area of high deprivation. The services run in the town are therefore vital to the wellbeing of the community. The current three buildings in use are under-utilised and costly to run and therefore a rationalisation project is under way to identify ways of offering the services in a more cost-effective way. Whilst the decision on the best option is yet to be taken, all options will result in the need for remodelling of the remaining buildings and there is a desire to proceed with the capital work as soon as possible to ensure continued support for the community.

Norbriggs Primary School Expansion £1.800m
Norbriggs Primary School is the normal area school for a large housing development of 650 houses due to be built at Mastin Moor. The school will need to expand to provide the places for pupils from this development and it is anticipated that the funding will be provided by the housing developer, through Chesterfield Borough Council, in the form of Community Infrastructure Levy. There is, however, no security of that funding, nor any timescale, therefore the County will be required to proceed with the project to expand the school to meet its statutory duty and pay the funding back when, and if, the funding is secured.

The school is judged as 'Good' by Ofsted and this expansion will enable the school to continue to provide high quality education to the growing population in this Chesterfield Borough Council area and enhance the life chances of those pupils.

Schools Access Initiative £0.800m
Improving access into Derbyshire schools for children with disabilities by providing reasonable adjustments to school buildings and ensuring compliance with The Equality Act. These works also ensure vulnerable children can access mainstream education.

School Condition Allowance £10.635m
DfE Grant funding to cover the cost of upgrading and maintaining the condition of school accommodation to suit the needs of education in Derbyshire. Projects funded on school buildings where the condition is poor include re-roofing, replacement windows & doors, re-heating and re-wiring. A priority list of potential projects will be finalised once the actual grant figure is known.

School Condition Allowance allows for only the most serious condition related issues to be addressed given that the Council has a backlog of school condition expenditure.

SEND (Special Educational Needs) – High Needs Capital Allocation £2.490m
The allocation from the DfE is for the creation of High Needs places or the improvement of existing provision (for pupils with SEND or requiring alternative provision) at special schools, maintained schools and alternative provision. Funding will be allocated in line with the priorities determined in the SEND Review. The provision of places for pupils with High Needs is a statutory duty for the Council.

Swanwick Primary School – Additional Facilities £0.460m
Swanwick Primary is a popular school with a 'Good' Ofsted rating. The strategy for the school had been to re-build it on a nearby housing development site, as part of the provision of additional places to meet the needs of the new housing, but unfortunately that proved to be impossible, due to the developer's terms for committing Council funding. The school had frozen its plans for development due to that strategy. The school lacks group space for intervention with small groups of students and this small project would address that, as well as improving the library provision. Whilst not overcoming the disappointment of not having a new modern school, it would ensure that they have the facilities that it needs to continue to deliver high quality education to its community and provide places for the children that move on to the new development site.

Phased Replacement of The William Allitt School £7.000m
The William Allitt School in Swadlincote is housed in a building that is close to the end of its economic life and requires replacement. The poor condition of the main building is impacting on the popularity of the school and its journey to achieving at least a 'Good' Ofsted judgement. The full replacement of the school would cost over £20.000m, therefore the proposal is to start a phased programme of replacement, which would provide modern teaching spaces that would meet current standards both in education and building performance.

2.2 Adult Social Care and Health

Disabled Facilities Grant £11.800m
Disabled people requiring major adaptations to their accommodation are able to apply for a Disabled Facilities Grant (DFG) administered by District Councils. The DFG is mandatory if the applicant is unable to access essential facilities within their home. The County Council has a duty to identifying suitable works based upon an assessment of individual needs: however, the decision to approve the grant lies with the relevant District Council.

The DFG process is prescribed by legislation and regulations and requires that applicants are subject to a Test of Resources (means test). The Test of Resources only looks at an applicant’s income and does not take account of their outgoings or personal circumstances. There are three possible outcomes for applicants: a grant to cover the cost of the work (up to a maximum of £30,000), a grant to cover part of the work with the requirement that the applicant meets the remaining costs, or the grant application is deemed ineligible as the applicant is assessed to be able to meet all the costs of the work.

The decision on DFG funding is the responsibility of the relevant District Council. However, the County Council, as part of its legal duties under the Chronically Sick and Disabled Peoples Act (1970) s2(1)(e), is required to consider providing financial assistance where 1) the applicant requests assistance towards his/her assessed contribution due to financial hardship and/or 2) that the costs of the work assessed as being necessary are above the current £30,000 DFG limit and the applicant appears to be unable to meet the additional costs.

2.3 Corporate Services and Transformation

Fire Mitigation £1.200m
To fund the continuation of a planned programme of fire risk mitigation works in Council premises, including schools, where the Council has a duty of care to its employees to ensure they have safe environments to work in.

Under The Regulatory Reform (Fire Safety) Order 2005 the Council is required to undertake fire risk assessments on its building portfolio. These consist of operational assessments by establishment managers and technical assessments by property professionals in Corporate Property. Technical assessments consider the building components, the means of escape, the suitability of compartmentation, warning systems and equipment, etc.

Assessments are carried out against an established programme, agreed with the Derbyshire Fire & Rescue Service, to identify and improve the building form/fabric to a suitable standard. The Council's ongoing survey programme has identified the need for further funding to address these works.

Kitchen Ventilation Schemes £1.400m
The Kitchen ventilation replacement Programme has been ongoing for a number of years and is to fund investment in the kitchen ventilation systems, to ensure statutory compliance in meeting The Gas Safety (installation & use) Regulations 1998 and reduce corporate risk for the Council. The funding is to improve the condition and infrastructure to both gas and electric kitchen ventilation systems situated at various locations throughout the County, across a range of non-school and school buildings. Funding pressures and limited availability of parts and equipment, coupled with deteriorating and aged systems, have contributed to increased defects and risk of system failure leading to potential kitchen closure and unsuitable/unsafe working conditions.

A range of interventions will be required including, but not limited to replacement ventilation/extract systems, replacement pipework distribution systems, replacement ducting and improved safety measures and controls.

Planned Maintenance Programme £4.400m
The Council's quinquennial building condition surveys have highlighted significant building improvements that require redress, to ensure the continued use of buildings as well as safety to building occupants and members of the public. This new approach, in the last year for the Planned Maintenance Programme to be funded from borrowing rather than revenue, has been introduced to reduce the burden placed upon the Corporate Maintenance Budget, which covers reactive maintenance and repairs, and had previously funded the Planned Maintenance Programme up to 2020-2021.

The limited funding available from the Corporate maintenance budget for the Planned Maintenance Programme was only able to fund the highest priority work. Meanwhile, the reactive day to day maintenance was limited to emergency only repairs as the budget was insufficient to meet demand. The introduction of the Corporate Buildings Capital Investment Programme in 2021-2022 increased the funding capacity to address the condition and suitability of Council buildings, and increased the availability of revenue funding to respond to repairs and maintenance, allowing the restriction of emergency repairs only to be lifted. The Planned Maintenance Programme is designed to target essential capital improvements to address building suitability and condition in line with the Asset Management Framework.

The Council has a legal duty to ensure the safety of staff occupying corporate buildings, together with members of the public visiting such buildings. Funding pressures over recent years have contributed to the decrease of building standards, resulting in an increase in building defects and issues.

ICT Hardware and Infrastructure Replacement Programme £1.750m
As part of the ICT Strategy that was previously agreed by Cabinet it was proposed that major ICT infrastructure projects in ICT Services are funded through capital borrowing for the five year period of the Strategy, at a cost of £2.000m per annum, or £10.000m over five years. £7.200m has been received for years one to three. This bid of £1.750m is for year four and reflects:

(1) The slowing down of the desktop hardware replacement programme due to a global shortage of microchips affecting the supply chain, as a result of Covid-19 and Brexit, and the additional logistical difficulties of configuring and distributing hardware with most employees working from home.
(2) The change in networking and connectivity requirements for buildings as a result of the Modern Ways of Working programme.
(3) The 'end of life' of a number of infrastructure components, meaning software and security updates are no longer available.

2.4 Place

Elvaston Masterplan £5.000m
Cabinet approved the Elvaston Castle Masterplan Delivery Programme in September 2020, which agreed in principle to the approval of the implementation of a delivery programme for the Elvaston Castle Masterplan and to secure funding in accordance with the Funding Strategy outlined in the report. A revenue bid was submitted for 2021-22 to enable the project to progress to the successful determination of planning permission. The planning application was expected to be submitted in December 2021, with planning determination by April 2022.

This capital bid will enable work to commence on the first phase of delivery, once planning permission is granted. This initial phase of delivery is to unlock the estate's commercial potential and therefore 'phase 1' includes the new access drive, car park, services/utilities, the new build cafe and regeneration of the stable yards and other core buildings, which will provide catering, retail and visitor facilities. All of these elements are fundamental to Elvaston's commercial success.

At the time that the Masterplan was approved by Cabinet, it was considered that the £5.000m for the access drive and car park would be subject to a LEP funding bid, with the £3.100m for services and site infrastructure acting as match funding. It is now known that the potential funding stream from LEP is no longer available, but the initial investment continues to be crucial to the project and without securing an alternative source for the funding, the project will stall. Further funding required for the new build cafe and the regeneration of the core buildings and courtyards will directly generate commercial income from visitors on site and the funding strategy for this element is that, subject to the Council's borrowing criteria, this funding could be secured on an invest to save basis.

Fleet Vehicles £6.020m
The vehicle replacement programme is designed to ensure that all vehicles are replaced in a timely manner based on age, mechanical condition and directives on climate change for emissions produced by them. Additionally the programming and scheduling of vehicles for planned maintenance is vital to ensuring roadworthiness standards are maintained, however with ageing vehicles and through operational use, the wear and tear on critical components renders them less economical to maintain and reliability can suffer, which in turn can affect service provision for departments. Investment will assist in the continued increased operation of low or ultra-low emission vehicles within the Council fleet to reduce carbon dioxide (CO_2), particulate and nitrous oxide (NOX) emissions to improve air quality for residents, and ensuring vehicles can be operated in clean air zones with the added knowledge and confidence that all fleet vehicles remain economically viable, reliable and safe.

Fleet vehicles are predominantly specialised in design and with the current pandemic and semi-conductor shortage, vehicle delivery dates may take up to twelve months from the point of the order being placed. The Council requires the replacement of gritting vehicles, non-clean air zone (CAZ) compliant vehicles and additional vehicles required by highways and adult care in 2022-23 and 2023-24 and therefore in order to ensure supply of vehicles within this timeframe it is vital that funding is secured to enable the placement of orders as early as possible in 2022.

Low Emission Vehicle Infrastructure – Council Depots £0.300m
The capital investment in low emission vehicle infrastructure to support the on-going roll out of the electrification of the Council's fleet, including its e-pool vehicles, is essential if the Council is to achieve its in-house ambition of being net carbon zero by 2032. By not investing in this infrastructure it will be difficult for the Council to encourage employees to use electric cars for grey fleet purposes. This will have both a carbon emissions effect and a financial impact. It will also demonstrate the Council is leading by example and hopefully encourage the general public to follow that example and enhance the Council's 'green' reputation.

Low Emission Vehicle Infrastructure – Public Facing £1.650m
The capital investment in low emission vehicle infrastructure to help meet the exponential growth in demand for electric vehicles, predicted over the next five to ten years, will be essential if the Council is to achieve its countywide ambition of being net carbon zero by 2050. By not investing in this infrastructure it will be difficult for the Council to encourage members of the general public to purchase electric vehicles. This will have a detrimental effect on carbon emissions and local/regional air quality and impact significantly on delivering the Council's green agenda. Conversely, by investing in this infrastructure it will demonstrate the Council is leading by example and help attract both the private sector and other public sectors, including Government, to invest proportionately in the county, increasing further the prospect of meeting the Council Plan commitment of 1000 public facing Electric Vehicle Charging points by 2025.

Local Transport Plan £27.371m
The Local Transport plan capital programme supports a number of Council Plan priorities and is fundamental to retaining highways assets in good condition, towards which the majority of the available capital funding is dedicated. The programme also supports road safety schemes and traffic management engineering schemes, and others to provide infrastructure, encouraging the use of public transport, walking and cycling.

Derelict Land and Regeneration Capital Programme £2.926m
Funding for the land reclamation programme is predominantly provided through capital grants secured from a variety of external funding organisations, with the Council providing some pump-prime investment. The funding may be used to match other funding from outside bodies and will continue to do so with further bids, working together with the Countryside team. It also assists with early scheme development on proposed works. The funding is also required to enable the Council to meet statutory obligations on land in its ownership, particularly around physical and environmental work on mines, tips and quarries to deal with hazards and contamination. The work on Chesterfield Canal also supports many hours of volunteer time through partnership working and the Memorandum of Understanding which, together with significant capital investment from the Chesterfield Canal Trust, all contributes to the ongoing restoration programme.

Funding for Markham Vale is predominantly provided through capital grants secured from a variety of external sources and capital receipts from land sales with the Council providing some investment.

Skips for Household Waste Recycling Centre £1.200m
The Council is currently re-procuring a contract for the management of its eight Household Waste Recycling Centres (HWRCs) across the county that utilise approximately 200 industrial 45 cubic metre skips. The contract is for a seven- or ten-year period and traditionally the contractors have purchased the skips (approximate cost of £1.200m) and written them off over the lifetime of the contract. However, these skips have a lifespan of between 15 - 20 years and the contractors have enjoyed the financial benefit of this on the expiry of the contract. In the new contract, commencing in October 2022, it is proposed that the Council procures the skips directly and has the financial advantage of retaining them for the next contract to maximise the value from them. The contract commencing in October 2022 will require the contractor to maintain the skips to a high standard to ensure that they are in a good condition to be transferred to the next contract.

Transport Mobility Hubs £0.170m
The development of low carbon transport mobility hubs located strategically across the county, to integrate all forms of transport as an alternative to private cars, will become increasingly necessary to help the Council achieve its ambition of being net carbon zero by 2050. These hubs will provide for alternative and innovative transport solutions, such as electric vehicle charging points, storage for e-bikes, cycle repair shops, car clubs, hire of e-bikes and electric car hire. Transport Hubs that meet the needs of both local communities, and those visiting the area, will provide choice that will mean less reliance on the private car resulting in reduced congestion on the county's road network, improved air quality and enhanced physical and mental well-being for both residents and visitors.

2.5 Other Recommendations

In addition to the Capital Bids detailed above the Council recommends approval of an additional £10m, to facilitate work on waste management options. This is expected to be financed by £7m of Borrowing and a one-off contribution from Revenue of £3m, which will include technical and professional external support to ensure the optimal outcome of the Waste Treatment Facility and provision of associated services.

Treasury Management Strategy Report 2022-23

1 Introduction

1.1 Treasury Management is the management of the Council's cash flows, borrowing and investments and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk is therefore central to the Council's prudent financial management.

1.2 Treasury Risk Management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's "*Treasury Management in the Public Services: Code of Practice 2017 Edition"* (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.3 Investments held for service purposes or for commercial profit are considered in the Investment Strategy (Appendix Four).

2 External Context

Economic background

2.1 The ongoing impact on the UK of the Covid-19 pandemic, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Council's Treasury Management Strategy for 2022-23.

2.2 The Bank of England (BoE) increased its Bank Rate to 0.25% in December 2021 whilst maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

2.3 Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the BoE also considered the UK economy to be evolving in line with expectations, however given the increased uncertainty and risk to activity the new variant presents, the BoE revised down its estimates for fourth quarter Gross Domestic Product (GDP) growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with UK Consumer Price Inflation (CPI) likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4%, compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

2.4 UK CPI for November 2021 was 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% year on year, from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% whilst the employment rate rose to 75.5%.

2.5 In October 2021, the headline 3-month average annual growth rate for wages was 4.3% for regular pay. In real terms, after adjusting for inflation, regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, with a fall in the number and proportion of lower paid jobs.

2.6 GDP grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% quarter on quarter in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. During the quarter, activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, whilst monthly GDP readings suggest there had been some increase in momentum in the latter part of the third quarter of 2021, fourth quarter growth is expected to be less strong.

2.7 GDP growth in the Eurozone increased by 2.2% in the third quarter of 2021, following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% year on year in November 2021, the fourth month of successive increases. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

2.8 The US economy expanded at an annualised rate of 2.1% in the third quarter of 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled that it is in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

Credit outlook

2.9 Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low. CDS prices had steadily edged down throughout the year, up until mid-November 2021, when the emergence of Omicron caused them to rise modestly. However, the generally improved economic outlook during 2021 has helped banks' profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of Covid-related business support measures by Government means that the full impact on banks' balance sheets may not be known for some time.

2.10 The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessments of the outlook for UK Sovereign as well as several financial institutions, revising them from negative to stable, and even making a handful of rating upgrades.

2.11 Looking ahead, whilst there is still the chance of bank losses from bad loans as Government and central bank support is removed, the institutions on the Council's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Council's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast

2.12 The Council's Treasury Management Adviser, Arlingclose, is forecasting that BoE Bank Rate will continue to rise in the first calendar quarter of 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

2.13 Investors continue to price in multiple rises in BoE Bank Rate over the next forecast horizon, and the Council's Treasury Management Adviser believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around the Council's Treasury Management Adviser's central case are to the upside, whilst over the medium-term the risks become more balanced.

2.14 Yields are expected to remain broadly at current levels over the medium-term, with the 5-, 10- and 20-year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around short and medium-term yields are initially to the upside but shifts lower later, whilst for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

2.15 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A to this Treasury Management Strategy Report 2022-23.

2.16 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 0.50%, and that new long-term loans will be borrowed at an average rate of 2.21%. based upon an average term of 17 years.

3 Local Context

3.1 On 31 December 2021, the Council held £421.399m of borrowing and £372.377m of investments. This is set out in further detail at Appendix B to this Treasury Management Strategy Report 2022-23. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.21 Actual £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
General Fund CFR	525.679	606.299	699.469	776.239	839.399
Less: Other debt liabilities*	-64.548	-59.981	-62.986	-58.032	-52.872
Loans CFR	**461.131**	**546.318**	**636.483**	**718.207**	**786.527**
Less: External borrowing**	-360.899	-379.899	-356.579	-259.174	-256.429
Internal borrowing	**100.232**	**166.419**	**279.904**	**459.033**	**530.098**
Less: Usable reserves***	-395.100	-308.709	-253.466	-222.484	-207.784
Less: Working capital	-43.418	-43.418	-43.418	-43.418	-43.418
New borrowing (or Treasury investments)	**-338.286**	**-185.708**	**-16.980**	**193.131**	**278.896**

* Finance lease and PFI liabilities that form part of the Council's total debt. The new accounting standard IFRS 16 Leases is due to be adopted in 2022-23. The liabilities relating to leases which were previously treated as operating leases will be recognised on the Council's balance sheet. An estimate has been made of the impact of this change and included in the balance sheet summary and forecast. This change increases the General Fund CFR and other debt liabilities by an equal amount; therefore Loans CFR is unaffected.

** Shows only loans to which the Council is committed and excludes optional refinancing.

*** Excluding earmarked reserve arising from adjustment of modified loans balances on adoption of IFRS 9. This was a non-cash adjustment, therefore did not affect resources available to invest/reduce borrowing.

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). Usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3 The Council has an increasing CFR as a result of its Capital Programme.

3.4 Investments are forecast to fall to £185.708m by 31 March 2022 as the Council continues to use internal borrowing to fund capital expenditure. The Council is forecast to require additional borrowing by 31 March 2024, however, in reality, slippage of approximately 25% to 35% of the capital programme is to be expected based on past experience.

3.5 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2022-23.

Liability benchmark

3.6 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31.3.21 Actual £m	**31.3.22 Estimate £m**	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**	**31.3.25 Forecast £m**
Loans CFR	461.131	546.318	636.483	718.207	786.527
Less: Balance sheet resources	-438.518	-352.127	-296.884	-265.902	-251.202
Net loans requirement	**22.613**	**194.191**	**339.599**	**452.305**	**535.325**
Plus: Minimum investments*	10.000	10.000	10.000	10.000	10.000
Liability benchmark	**32.613**	**204.191**	**349.599**	**462.305**	**545.325**

* This is the liquidity allowance under MIFID II, which is a legislative framework instituted by the European Union to regulate financial markets and improve protections for investors, aiming to standardise practices across the EU and restore confidence in the industry.

3.7 Following on from the medium-term forecasts in Table 1 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £193.131m in 2023-24 and £278.896m in 2024-25 and minimum revenue provision on new capital expenditure based on a 40 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year. In reality, there is likely to be some slippage of the capital programme.

4 Borrowing Strategy

4.1 The Council currently holds £421.399m of loans, an increase of £60.500m on the previous year, as part of its long-term strategy for funding previous years' capital programmes and short-term operational cash-flow management. The balance sheet forecast in Table 1 shows that the Council expects to reduce its borrowing in 2022-23. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £769m (General Fund CFR £699.469m x 110%).

4.2 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy

4.3 Given the continued uncertainty of future local government funding, the Council's borrowing strategy continues to address the key issue of affordability, without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.5 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs, by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2022-23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.6 The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding, in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to HM Treasury's PWLB lending facility.

4.7 Alternatively, the Council may arrange forward starting loans during 2022-23, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.8 In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of borrowing

4.9 The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Loans Works Board).
- Any institution approved for investments (see below).
- Any other bank or building society authorised to operate in the UK.
- Any other UK public sector body.
- UK public and private sector pension funds (except Derbyshire Pension Fund).
- Capital market bond investors.
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.
- D2N2 Local Economic Partnership.

Other sources of debt finance

4.10 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing.
- Hire purchase.
- Private Finance Initiative.
- Sale and leaseback.

Municipal Bonds Agency

4.11 UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet.

LOBOs

4.12 The Council holds £5.000m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £5.000m of these LOBOs have options during 2022-23, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £5.000m.

Short-term and variable rate loans

4.13 These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling

4.14 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5 Treasury Investment Strategy

5.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past twelve months, the Council's treasury investment balance has ranged between £345.166m and £462.841m. This level of investment is expected to fall in subsequent years as short-term external borrowing is repaid and additional internal borrowing is utilised to fund capital expenditure.

Objectives

5.2 The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates

5.3 The Covid-19 pandemic has increased the risk that the BoE will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates would be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

5.4 Given the increasing risk and very low returns from short-term unsecured bank investments, the Council has diversified into higher yielding asset classes, with £70m currently invested in strategic pooled investments. This diversification has generated over £10m in income and will represent a continuation of this strategy first adopted in 2015-16.

5.5 The majority of the Council's surplus cash is currently invested in Local Authority loans, short-term unsecured bank deposits and money market funds.

Business models

5.6 Under the IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties

5.7 The Council may invest its surplus funds with any of the counterparty types in Table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits (County Fund)

Sector	Time Limit	Counterparty Limit	Sector Limit
UK Government	50 years	Unlimited	n/a
Local Authorities & Other Gov't Bodies	25 years	£30m	Unlimited
Secured investments *	25 years	£30m	Unlimited
Banks (unsecured) *	13 months	£30m	Unlimited
Building societies (unsecured) *	13 months	£30m	£50m
Registered providers (Unsecured) *	5 years	£10m	£50m
Money market funds *	n/a	£30m	Unlimited
Strategic pooled funds	n/a	£30m	£100m
Real estate investment trusts	n/a	£10m	£50m
Other investments *	Individual Cabinet Approval		

5.8 **County Fund**: It is requested that the limit for the Council's main operational bank (currently Lloyds) of £60m is maintained (£30m overnight only and £30m up to 13 months in duration).

5.9 **D2N2**: It is requested that the overnight limit of £10m (currently Lloyds) is maintained.

5.10 ***Minimum Credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.11 **Government:** Loans to, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

5.12 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

5.13 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

5.14 **Registered providers (unsecured):** Loans to, and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England). As providers of public services, they retain the likelihood of receiving Government support if needed.

5.15 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access.

5.16 **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.17 **Real Estate Investment Trusts (REITs):** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile, especially as the share price reflects changing demand for the shares, as well as changes in the value of the underlying properties.

5.18 **Other:** This category covers non-treasury investments. Loans to unrated companies will only be made following appropriate due diligence which may include an external credit assessment. Cabinet will consider approval on an individual case by case basis.

5.19 **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25bn. These are not classed as investments, but are still subject to the risk of a bank bail-in. BoE has stated that in the event of failure, banks with assets greater than £25bn are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk assessment and credit ratings

5.20 Credit ratings are obtained and monitored by the Council's Treasury Management Adviser, who will notify changes in ratings as they occur. Where an entity has its credit-rating downgraded so that it fails to meet the minimum approved investment criteria then:

- No new investments will be made.

- Any existing investments that can be recalled or sold at no cost will be.
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.21 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the minimum approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments

5.22 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council’s Treasury Management Adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

5.23 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government or with other Local Authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits (County Fund)

5.24 The Council’s Total Useable Reserves available to cover investment losses are forecast to be £308.709m at 31 March 2022. In order to minimise risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government or Lloyds Bank (operational bank accounts)) will be £30m and capitalised interest. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

5.25 Credit risk exposures arising from non-treasury investments, financial derivatives and balances in operational bank accounts greater than £30m count against the relevant investment limits.

5.26 Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£30m per manager
Negotiable instruments held in a broker's nominee account	£100m per broker
Foreign countries	£30m per country

Liquidity management

5.27 The Council uses purpose-built cash flow forecasting software and Excel spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

5.28 In times of uncertainty, the Council will spread its liquid cash over a number of providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

6 Treasury Management Indicators

6.1 The Council measures and manages its exposures to Treasury Management risks using the following indicators.

Security

6.2 The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 5:

Credit risk indicator	Target
Portfolio average credit rating	A

Liquidity

6.3 The Council has adopted measures to monitor its liquidity risk and can use either Liquidity risk indicator Option 1 or Option 2 below, as appropriate.

- **Liquidity Option 1 –** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one-month period, without additional borrowing.

Table 6:

Liquidity risk indicator	Target
County Fund: Total cash available within 1 month	£10m

- **Liquidity Option 2 –** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.

Table 7:

Liquidity risk indicator	Target
County Fund: Total sum borrowed in past 3 months without prior notice	£30m

Interest rate exposures

6.4 This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Table 8:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.435m
Upper limit on one-year revenue impact of a 1% fall in interest rates	-£1.435m

6.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Maturity structure of borrowing

6.6 This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Table 9:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	60%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	20%	0%
10 years and within 20 years	40%	10%
20 years and within 30 years	40%	10%
30 years and above	40%	10%

6.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year

6.8 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 10:

Price risk indicator	31/03/23	31/03/24	31/03/25
Limit on principal invested beyond year end (including strategic pooled funds & non-treasury investments)	£150m	£125m	£100m

7 Related Matters

7.1 The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.

Financial Derivatives

7.2 Local authorities have previously made use of financial derivatives embedded into loans and investments, both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

7.3 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall Treasury Risk Management Strategy.

7.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

7.5 In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive

7.6 The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's Treasury Management activities, the Council's S151 Officer believes this to be the most appropriate status.

Financial Implications

7.7 The budget for investment income in 2022-23 is £4.016m, based on an average investment portfolio of £240m traditional investments at an interest rate of 0.50%, and £70m of strategic pooled funds with dividends averaging 4.00%. The budget for long term external borrowing debt interest in 2022-23 is £12.525m, based on an average long-term debt portfolio of £273m, at an average interest rate of 4.50%, together with short-term debt of £0.240m. If actual levels of investments and borrowing, or actual interest rates, differ from forecasts, performance against budget will be correspondingly different.

Other Options Considered

7.8 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Council's S151 Officer, having consulted the Cabinet Member for Corporate Services and Budget, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Table 11:

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Treasury Management Advisors' Economic & Interest Rate Forecast - December 2021

Underlying assumptions

- The global recovery from the Covid-19 pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official Gross Domestic Product (GDP) data indicates that growth was weakening into the fourth quarter of 2021. Other data, however, suggested continued momentum, particularly for November 2021. Retail sales volumes rose 1.4%, Purchase Managers' Index (PMI) increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The Consumer Price Index (CPI) inflation rate rose to 5.1% for November 2021 and will rise higher in the near term. Whilst the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is of persistent medium-term price pressure.
- These factors prompted the Monetary Policy Committee (MPC) to raise the Bank of England (BoE) Bank Rate to 0.25% at the December 2021 meeting. Short-term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – fourth quarter 2021 and first quarter 2022 activity could be weak at best.
- Longer-term Government bond yields remain relatively low, despite the more hawkish signals from the BoE and the United States' Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in BoE Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

Forecast

- The MPC will want to build on the strong message it delivered by tightening policy despite Omicron uncertainty.
- The Treasury Management Advisors for the Council, Arlingclose, therefore expect BoE Bank Rate to rise to 0.50% in the first quarter of 2022, but then remain there. Risks to the forecast are initially weighted to the upside, then becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in BoE Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for BoE Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short-term and medium-term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

Table 12:

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment and Debt Portfolio Position

Table 13:

	31 Dec 2021 Actual Portfolio £m	31 Dec 2021 Average Rate %
External Borrowing:		
Public Works Loan Board	257.899	4.50
Local authorities (including D2N2)	148.500	0.14
LOBO loans from banks	5.000	4.50
Other loans	10.000	4.69
Total External Borrowing	**421.399**	**2.78**
Other long-term liabilities		
Private Finance Initiative (PFI)	59.753	
Finance Leases	4.639	
Transferred Debt	0.156	
Total Other Long -Term Liabilities	**64.548**	
Total Gross External Debt	**485.947**	
Treasury Investments:		
Local Authorities	176.000	0.50
Banks (unsecured)	102.050	0.25
Registered Providers (unsecured)	10.000	1.58
Money Market Funds	0.000	0.00
Total Deposits:	**288.050**	**0.45**
Bonds	5.092	2.12
Equities UK	8.331	5.00
Equities Global	6.239	2.95
Multi Asset Funds	25.400	3.33
Property	26.341	3.46
Total Strategic Pooled Funds	**71.403**	**3.45**
Total Treasury Investments	**359.453**	**1.10**
Net Debt	**126.494**	

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Appendix Four

Investment Strategy Report 2022-23

Introduction

1.1 The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**);
- to support local public services by lending to or buying shares in other organisations (**service investments**); and
- to earn investment income (known as **commercial investments** where this is the main purpose).

1.2 This Investment Strategy meets the requirements of statutory guidance issued by Government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

2.1 The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, leads to a cash surplus, which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of Treasury Management investments is expected to fluctuate between £257m and £379m during the 2022-23 financial year.

2.2 **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective Treasury Management activities.

2.3 **Further details:** Full details of the Council's policies and its plan for 2022-23 for Treasury Management investments are covered in the Treasury Management Strategy included at Appendix Three.

Service Investments: Loans

3.1 **Contribution:** The Council lends money to its local regeneration partners to stimulate local economic growth. The Council also lends money to its local Community Trusts to support local public services.

- £11.390m + capitalised interest and fees - Buxton Crescent Hotel Ltd – to regenerate the historic Buxton Crescent by redeveloping a derelict Grade I listed building at Buxton Crescent into a boutique hotel and spa. This will boost the economy and tourism in Buxton and the High Peak area. Contribution of £0.343m estimated for 2022-23.

- £0.500m - Community Trusts – to Chesterfield Football Club Community Trust for sporting and community provision in the greater Chesterfield area. Contribution of £0.020m estimated for 2022-23.

3.2 **Security:** Each loan requires individual Cabinet approval. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes

	31 March 2021 actual			**2022-23**
Category of borrower	**Balance owed £m**	**Loss allowance £m**	**Net figure in accounts £m**	**Approved Limit £m**
Local Regeneration Partners	12.325	-1.232	11.093	13.000
Local Community Trusts	0.500	-0.050	0.450	0.500
TOTAL	**12.825**	**-1.282**	**11.543**	**13.500**

3.3 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.4 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by:

- Buxton Crescent Hotel Ltd – the hotel sector has faced a difficult year, with either a full lockdown or partial restrictions from 31 October 2020 until 19 July 2021 in Derbyshire.
- The Council agreed to the directors' request to re-negotiate the terms of the loan including an amended split fixed/variable interest rate, an extension to the term of the loan and an extension to the repayment holiday.

- The Council's borrowing is secured by a legal charge over the property. The directors provide quarterly management information. The risk of loss based upon the Council's Treasury Management Adviser's (Arlingclose) non-rated corporate estimate of 10.0%, is £1.246m on the current loan amount outstanding of £12.461m. The Council's borrowing is secured by a legal charge over the property.

- Chesterfield Football Club Community Trust – The Council's borrowing is fully secured on the stadium. The risk of loss based upon an Arlingclose non-rated corporate estimate of 10.0%, is £0.050m on the current loan amount outstanding of £0.500m.
- Chesterfield Football Club has suffered from Covid-19 restrictions, resulting in no, or reduced, income from restrictions on fans attending home matches for a period. The Council's borrowing is fully secured on the stadium.

Capacity, Skills and Culture

4.1 **Elected members and statutory officers**: Elected members receive periodic training from the Council's S151 Officer on Treasury Management (including non-treasury investments).

4.2 The Council's S151 Officer holds semi-annual meetings with the Council's Treasury Management advisors to discuss Treasury Management Strategy options.

4.3 **Commercial deals:** The Council's S151 Officer is aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

4.4 **Corporate governance:** The Council's corporate governance arrangements are fully detailed in the Treasury Management Manual.

4.5 **Investment Indicators:** The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

4.6 **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

Table 2: Total investment exposure

Total investment exposure	31.03.2021 Actual £m	31.03.2022 Forecast £m	31.03.2023 Forecast £m
Treasury management investments	338.286	310.395	255.336
Service investments: Loans	12.825	13.044	13.388
TOTAL INVESTMENTS	**351.111**	**323.439**	**268.724**
Commitments to lend	0.214	0.357	0.367
TOTAL EXPOSURE	**351.325**	**323.796**	**269.091**

4.7 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 3: Investments funded by borrowing

Investments funded by borrowing	31.03.2021 Actual £m	31.03.2022 Forecast £m	31.03.2023 Forecast £m
TOTAL FUNDED BY BORROWING	**0.000**	**0.000**	**0.000**

4.8 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 4: Investment rate of return (net of all costs)

Investments net rate of return	2020-21 Actual %	2021-22 Forecast %	2022-23 Forecast %
Treasury management investments (excluding *)	0.94	0.55	0.55
*Strategic Pooled Funds	4.13	3.59	4.00
Service Investments: Loans	4.85	2.71	2.71
ALL INVESTMENTS	**1.64**	**1.31**	**1.87**

Table 5: Other investment indicators

Indicator	2020-21 Actual	2021-22 Forecast	2022-23 Forecast
Debt to net service expenditure ratio	1:1.49	1:1.50	1:1.55
Service Loans income to net service expenditure ratio	1:851	1:1451	1:1535

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Appendix Five

Capital Strategy 2022-23

1 Introduction

1.1 The Capital Strategy outlines the principles and framework that shape the Council's investment proposals, aiming to deliver an affordable programme of capital investment which is consistent with the Council's financial strategy and contributes to the priorities set out in the Council Plan.

1.2 The Capital Strategy sets the Council's approach to capital investment identifying the issues and options affecting capital spending and sets out how available resources to fund the capital programme will be managed.

1.3 Local authorities continue to operate in a financially challenging environment with continued reductions in levels of government funding, the effects of Covid-19 and the impact of Brexit, which remains uncertain. Covid-19 will continue to have a financial impact on the Council for the medium term, therefore the Council will need to consider the operation of its services in the future and how capital resources are identified, deployed and managed.

1.4 The Prudential Code for Capital Finance in Local Authorities sets out a framework that was updated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2021. The framework supports local strategic planning, local asset management planning and option appraisal.

1.5 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.

1.6 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-term financing implications and potential risks to the authority.

1.7 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, 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.

1.8 In addition to the approved capital investment programme the Capital Strategy also considers the Council's ambitions over the medium to long term, the implementation of this strategy will ensure that:

- Capital Investment has a direct relationship to the Council Plan and supports its corporate objectives.
- Members and senior officers have a common understanding of the long-term context in which investment decisions are made and the financial risks which the council is exposed to.
- There is a framework for the review and management of existing and future assets (The Asset Management Plan).
- There is an investment programme that is expressed over the medium term.
- There is a framework that prioritises the use of capital resources.

1.9 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.

2 Objectives of the Strategy

2.1 The capital budgets should support the key priorities laid out in the Council's Council Plan. Each capital proposal is required to clearly demonstrate the project links to the Council's priorities, which are:

1. Resilient, healthy and safe communities.
2. High performing, value for money and resident focuses services.
3. Effective early help for individuals and communities.
4. A prosperous and green Derbyshire.

3 Key Projects

3.1 Within the Council Plan are a number of key projects which are, or will have an impact on the Council's Capital Programme:

- Delivered the Information and Communications Technology Strategy 2018-23 to streamline service delivery and embed modern working practices.
- Increased fibre enabled broadband coverage across Derbyshire for homes and business.
- Invested in well maintained roads and highways infrastructure.
- Investment to install 88,000 LED lights across the County in order to reduce 16,900 kwh of electricity saving £1.7m.
- Supported the development of a network of electric vehicle charging points across the county.

- Developed, agreed and begun to implement the Older People's Housing, Accommodation and Support Strategy.
- Ensure all Council run adult care homes have Quality of Care graded as good or outstanding.

3.2 In addition to this, the Council's Asset Management Framework identifies additional activities which are property specific including:

- Develop a model for the community management of Council property assets under the Thriving Communities agenda.
- One Public Estate projects.
- Delivery of major regeneration projects including Elvaston Castle.
- Delivery of the schools capital programme.
- Smarter working projects.

4 Approach to Capital Investment

4.1 The 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:

- 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 expenditure contributes to the achievement of the Council's Strategic Plan.

5 Commercial Activity and Investment Property

5.1 The CIPFA Code defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income-driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

5.2 The Council does not currently borrow to fund these types of activities.

6 Loans

6.1 The Council has discretion to make loans for a number of reasons, primarily for economic development. These loans are treated as capital expenditure.

6.2 In making loans the Council is exposing itself to the risk that the borrower defaults on repayments. The Council, in making these loans, must therefore ensure they are prudent and has fully considered the risk implications, with regard to both the individual loan and that the cumulative exposure of the Council is proportionate and prudent.

6.3 The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are agreed by Cabinet. All loans are subject to close, regular monitoring.

6.4 For further details, refer to the Investment Strategy above.

7 Governance Arrangements

Capital Programme Approvals

7.1 The Council'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.
- Prioritisation of funding and the schemes receiving entry into the Capital Programme.
- Each scheme must be under the control of a responsible person/ project manager.
- 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 be incorporated into the Capital Programme.

Capital Programme Bodies

7.2 The main internal bodies that are responsible for the governance and management of the Capital Programme are the Full Council, Cabinet, Cabinet Member and the Capital Strategy Group.

- **Full Council:**
  Approves the Capital Programme as part of the Annual Budget Report within the strategic boundaries set by the Council.

- **Cabinet/Cabinet Member:**
  Approves additional schemes into the Capital Programme and cost variations to various schemes

  Cabinet also receives the capital monitoring reports.

- **Capital Strategy Group:**
  This is a cross-service group of Officers with a finance, service and property management background.

  It is responsible for ensuring that the Council has a clear and cohesive strategy for managing its physical assets and to oversee the development and delivery of the Council's Capital Programme in support of that strategy.

8 Funding Streams

8.1 The 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 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 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 Derbyshire 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.

8.2 The size of the Capital Programme will be influenced by funding sources and financing costs. 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.

9 Key strategies impacting on the Council's Capital Strategy

9.1 There are three key strategies in place that will significantly influence the Council's Capital Programme over the medium term.

(a) Property Asset Management Framework

9.2 The strategic aim of the Property Asset Management Framework is to ensure that the Council has appropriate, cost effective buildings from which to deliver services.

9.3 The aim of the strategy is to give clarity to the way we manage our assets, including:

- The organisational arrangements for asset management including polices and protocols.
- The corporate processes for decision making in relation to our assets – Corporate Governance.
- The performance measures and monitoring.
- How we manage and maintain our data on land and buildings.

Property Policies and Protocols

9.4 There are a number of policies and protocols that need to be in place to deliver strategic asset management effectively:

- Property Acquisition Protocol.
- Property Disposal Protocol.

- Community Asset Transfer Protocol.
- Lettings Protocol.
- Process for departments to follow when they have a property need.
- Process for departments to follow when they wish to vacate a property.
- Decommissioning Process.
- Property Review Process.

(b) ICT Strategy

9.5 The Council recognises that ICT is a key enabler of service delivery. The strategy outlines how ICT will deliver new technologies to support the ambitions and outcomes of the Council Plan and Derbyshire's approach to becoming an Enterprising Council.

9.6 In order to achieve this, a five-year replacement capital programme will be developed, and initial requirements over this period are likely to be around £10m:

Summary of Strategy Deliverables

- Changing Service Models
- ICT Governance Structure
- Modern Ways of Working
- Digital by Default
- Workforce ICT Competencies
- Corporate and Business systems
- ICT Infrastructure Delivery
- Responsible Data management

(c) Highways Infrastructure Asset Management Strategy

9.7 Highway infrastructure is the largest and most visible asset the Council is responsible for. With a gross replacement cost of £11.0bn, it is fundamental to the delivery of the Council Plan. It includes over 5,000km of road network, as well as supporting public transport through cycle routes, public rights of ways, canals, bus stations and shelters, on-street parking, school buses and vehicle fleet. It reflects the character and quality of the local areas that it serves and makes an important contribution to the wider Council priorities, including regeneration, social inclusion, education, employment, recreation and health. In order to deliver these aims and strengthen local communities, it is crucial that it is maintained to enable safe, reliable and sustainable journeys.

9.8 There are a variety of factors that need to be taken into consideration when determining the Council's expectations for the highway service:

- Meeting national policy, guidance and codes of practice.
- Delivering Council goals – including maintenance policy and Local Transport Plan.
- Supporting Council Vision.
- Complying with legal duties, including Highways Act 1980, Traffic Management Act 2004 and The Equalities Act 2010.
- Enabling effective whole Government accounts and local financial reporting.
- Managing Stakeholder expectations – the Council readily engages with stakeholders through Elected Members, the National Transport and Public Satisfaction Survey, the DCC website, officer workshops and Midland Service Improvement Group (MSIG).
- Understanding future demands of the highway infrastructure assets.
- Making the best of financially constrained budgets.
- Delivering efficiency and value for money.
- Delivering long term improvements to the condition of the network.
- Providing a safe and reliable network.

9.9 The major groups of assets covered by the Strategy are:

- Carriageways
- Footways and Cycleways
- Structures (Bridges/retaining walls)
- Drainage
- Street Lighting
- Electronic Traffic Management
- Street Furniture (Traffic Signs/Vehicle Restraint Systems etc)

9.10 The major source of capital funding for the network is from the Local Transport Plan grant from central government which is approximately £22m per annum.

10 2022-23 Prudential Indicators for Capital Finance

10.1 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

10.2 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.

10.3 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."

10.4 The Code sets out a number of prudential indicators designed to support and record local decision making and it is the duty of the Chief Financial Officer (the Council's Section 151 Officer) to ensure that this information is available to Members when they take decisions on the 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.
- Stewardship of assets (Service objectives (e.g. alignment with the Council's Strategic Plan).
- Practicality (e.g. whether the capital plans are achievable).

Affordability

10.5 The fundamental objective in the consideration of the affordability of the Council's capital plans is to ensure that the level of investment in capital assets proposed means that the total capital investment of the Council remains within sustainable limits.

10.6 In considering the affordability of its capital plans, the Council 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.

10.7 The costs of financing capital expenditure are:

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

Table 1 – Actual and Estimates of financing costs to net revenue stream

10.8 This indicator identifies the trend in the cost of capital against the net revenue stream, based on the Capital Programme.

	2020-21 Actual £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
Financing costs of CFR	44.760	47.100	55.576	65.098	69.670
Net Revenue stream inc DSG	974.037	931.081	933.280	947.128	966.735
Percentage	**4.60%**	**5.06%**	**5.95%**	**6.87%**	**7.21%**
Net Revenue stream excluding DSG	612.373	556.391	558.59	572.438	592.045
Percentage	**7.31%**	**8.47%**	**9.95%**	**11.37%**	**11.77%**

Prudence and Sustainability

10.9 The Prudential Code requires that the Council shall ensure that all of its capital expenditure, investments and borrowing decisions are prudent and sustainable.

10.10 In doing so it will take into account its arrangements for the repayment of debt and consideration of risk and the impact on the Council’s overall fiscal sustainability.

10.11 The Council 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.

10.12 As part of the Prudential Code arrangements the Council needs to calculate the Capital Financing Requirement (CFR). This figure is simply historic outstanding capital expenditure which has not yet been permanently financed through either capital or revenue resource. It is a measure of the Council’s indebtedness and the underlying need to borrow. Any capital expenditure which has not immediately been paid for through revenue or capital expenditure will increase the CFR.

10.13 The Code also 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.

Table 2 – Estimates of Capital Expenditure and Capital Financing Requirement

10.14 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 £699.469m (i.e. the estimated CFR for 2022-23).

	2020-21 Actual £m	**2021-22 Estimate £m**	**2022-23 Estimate £m**	**2023-24 Estimate £m**	**2024-25 Estimate £m**
Capital Expenditure	**91.062**	**163.380**	**231.400**	**127.390**	**105.670**
Funding Sources:					
Borrowing	14.359	92.430	123.610	104.550	92.410
Capital receipts	2.591	9.260	10.040	0.500	1.100
Capital grants	74.112	61.690	102.460	22.330	12.160
Revenue	0.000	0.000	3.000	0.000	0.000
Total CFR at year end	**525.679**	**606.299**	**699.469**	**776.239**	**839.399**
Net movement in CFR	0.510	80.620	93.170	76.770	63.160
Minimum Revenue Provision	13.849	11.810	22.730	27.790	29.250
PFI & Leases in CFR	64.393	59.832	62.845	57.899	52.747
PFI & Leases in MRP	4.326	4.560	4.787	5.046	5.251

External Debt

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

10.16 Operational Boundary – must be set for both borrowing and long-term liabilities.

10.17 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.

10.18 Authorised Limit for external debt is a key prudential indicator, it is a control on the maximum level of borrowing; it represents a legal limit beyond which external debt cannot exceed, this limit needs to be set or revised by full Council. It reflects the level of external debt which whilst not desired, is affordable in the short-term but is not sustainable in the longer term

10.19 The Operational Boundary for external debt for the next three years is built up from the existing level of external borrowing, which was £360.899m, and the level of relevant liabilities (including finance lease liabilities), which was £64.548m, on the Balance Sheet at 31 March 2021.

10.20 The Authorised Limit for 2022-23 is to be £769m and the Operational Boundary is to be £734m.

Table 3 – Authorised Limit for External Debt

	2020-21 Actual £m	**2021-22 Estimate £m**	**2022-23 Estimate £m**	**2023-24 Estimate £m**
Authorised limit for external debt	**847**	**707**	**769**	**854**
Operational boundary for external debt	**816**	**675**	**734**	**815**
Borrowing	361	380	357	259
Other debt liabilities	65	60	63	58
Total	**426**	**440**	**420**	**317**

11 Knowledge and Skills

11.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as its Treasury Management Adviser. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.