FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

CABINET

2 February 2023

Report of the Interim Director of Finance & ICT

Capital Programme Approvals, Treasury Management and Capital Strategies for 2023-24

(Corporate Services and Budget)

1 Divisions Affected

1.1 County-wide.

2 Key Decision

2.1 This is a Key Decision because it is likely to result in the Council incurring expenditure which is, or savings which are significant, having regard to the budget for the service or function concerned (this is currently defined as £0.500m).

3 Purpose of the Report

3.1 To obtain approval for proposals for submission to Council relating to the Capital Starts Programme for 2023-24 and the Treasury Management, Investment and Capital Strategies.

3.2 This report should be read alongside the following reports to this Council meeting: the Reserves Position and Reserves Policy Report, the Budget Consultation Results Report for 2023-24 and the Revenue Budget Report 2023-24.

4 Information and Analysis

4.1 In line with previous years, the proposed new Capital Starts Programme for 2023-24 has been evaluated and it is recommended to proceed with new borrowing of £13.050m (excluding invest to save schemes). The detailed proposals are set out in Appendix Two of this Report.

4.2 A detailed list of the Planned Maintenance Programme of £2.000m for 2023-24 is set out in Appendix Three of this Report.

4.3 The Treasury Management Strategy Report for 2023-24 (Appendix Four) sets out the Council's management of its cash flow, borrowing and investments and the management of its associated risks.

4.4 The Investment Strategy Report for 2023-24 (Appendix Five) deals with the management of the Council's balances and reserves, managing the balance between risk and return.

4.5 The Capital Strategy for 2023-24 (Appendix Six) 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.

7 Implications

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

8 Background Papers

8.1 Not applicable.

9 Appendices

9.1 Appendix One – Implications.

9.2 Appendix Two – New Capital Starts Programme for 2023-24.

9.3 Appendix Three – Planned Maintenance Programme for 2023-24.

9.4 Appendix Four – Treasury Management Strategy Report for 2023-24.

9.5 Appendix Five – Investment Strategy Report for 2023-24.

9.6 Appendix Six – Capital Strategy for 2023-24.

10 Recommendations

That Cabinet recommends to Council that it:

10.1 Approves the new Capital Starts Programme for 2023-24 set out in Appendix Two and approves the procurement and award of contracts which support the delivery of the Capital Programme. All contract awards will then be subject to approval by Executive Directors (via an Executive Director Report) under the relevant Departmental Scheme of Delegation.

10.2 Approves the detailed Planned Maintenance Programme for 2023-24 as set out in Appendix Three.

10.3 Adopts the Treasury Management Strategy for 2023-24 set out in Appendix Four.

10.4 Adopts the Investment Strategy for 2023-24 set out in Appendix Five.

10.5 Adopts the Capital Strategy for 2023-24 set out in Appendix Six.

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 (2021)*. 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 2021 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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Appendix One

Implications

Financial

1.1 The proposed new Capital Starts Programme for 2023-24 has been evaluated and it is recommended to proceed with new borrowing of £13.050m (excluding invest to save schemes). The detailed proposals are set out in Appendix Two of this Report. A detailed list of the Planned Maintenance Programme of £2.000m for 2023-24 is set out in Appendix Three of this Report. The Treasury Management Strategy Report for 2023-24 sets out the Council's management of its cash flow, borrowing and investments and the management of its associated risks at Appendix Four. The Investment Strategy Report for 2023-24 at Appendix Five deals with the management of the Council's balances and reserves, managing the balance between risk and return. The Capital Strategy for 2023-24 is at Appendix Six and provides a high-level overview of how capital expenditure and capital financing contribute to the provision of local public services.

Legal

2.1 By virtue of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 Cabinet and Council are responsible for formulating plans or strategies for the control of the Council's borrowing, investments or capital expenditure or for determining the Council's minimum revenue provision.

2.2 The Constitution makes it clear the 'budget' includes the allocation of financial resources to different services and projects, proposed contingency funds, the Council Tax base, setting the Council Tax and decisions relating to the control of the Council's borrowing requirement, the control of its capital expenditure and, if required, the setting of virement limits different to those in Financial Regulations.

2.3 The process by which the budget shall be developed and approved, including the strategies set out in this report, is detailed in the Budget and Policy Framework Procedure Rules at Appendix 7 to the Constitution.

2.4 The Director of Legal and Democratic Services will provide specific advice as required in relation to individual projects and strategies

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

Appendix Two

Capital Programme 2023-24

1.1 The proposed new starts programme for 2023-24, along with funding streams, as shown in Table 1, has been evaluated and it is recommended to proceed with new borrowing of £13.050m (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 The Council is continuing to follow the same approach as in previous years and substituting revenue contributions with borrowing and any available capital receipts. This assists the Council in preserving its revenue funds and enables it to provide flexibility in managing its budget reductions.

1.4 The Council is also maintaining its financing policy of prioritising funding sources by using available grant in preference to undertaking any borrowing. This assists the Council in ensuring that it maximises the use of its available resources.

1.5 Capital receipts are used to support the overall programme and are in the region of £2.000m-£3.000m per year. The Council is currently reviewing its approach to property and asset management through a process of 'asset challenge' by way of rationalisation and Modern Ways of Working, in alignment with both the Council Plan and the Council Service Plans. This should provide the potential to increase capital receipts and assist with future funding of the programme. However, 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 must be earmarked to fund the replacement. Subsequently it is expected that future programmes will be able to use more available capital receipts to release both the burden on borrowing and revenue reserves through reduced debt charges.

1.6 The Capital Programme remains affected by the downward pressure on the Council's finances, with the main limiting factor being the Council's ability to undertake capital expenditure and whether there is the revenue resource available to support, in full, the implications of capital expenditure, both borrowing costs i.e. servicing the debt, and running costs, after allowing for any support provided by Central Government, which is now mainly through capital grants. Consequently, borrowing this year is currently being kept to a minimum, not only due to the wider revenue implications but also due to increased interest rates which would place a larger burden on revenue through increased debt charges. However, the Council still needs to ensure that it meets its statutory obligations, which will in turn assist in delivering on the Council Plan.

1.7 The Council will receive estimated Government grants of almost £287m to address key issues in highways and maintenance, develop integrated transport schemes and major regeneration schemes. It will address the most immediate building condition issues in schools and cover funding gaps to assist in providing additional school places 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. It will also assist in ensuring that those children requiring special educational needs and disabilities (SEND) can access the support they require, as determined by the SEND review.

1.8 Funding has also been made available, as in previous years, to provide financial assistance for disabled people requiring major adaptations to their accommodation, together with providing funding to replace digital assistive technology in client homes.

1.9 As in previous years, to address some of the backlog on other Council properties and reduce the burden on revenue funding of Capital works, a Corporate bid has been submitted again as part of a long-term strategy to targeting the Council's backlog.

1.10 This year's programme includes three bids to assist in addressing climate change. These include developing a solar farm and assessing energy usage within Corporate Property buildings and Derbyshire Schools. The Council is committed to achieving Net Zero for the corporate estate by 2032 or sooner and meeting its Carbon Zero target by 2050. The development of a solar farm will provide renewable energy, which will offset residual energy use elsewhere. These projects will move the estate closer to becoming Carbon Zero, reducing running costs and providing revenue savings.

Table 1: Capital Programme Bids 2023-24

Funding Streams	**Grant**	**Borrowing**	**Invest to Save**	**Total**
	£m	**£m**	**£m**	**£m**
Adult Social Care & Health				
Assistive Technology		1.250		1.250
Disabled Facilities Grant (DFG) Adaptations	7.800	2.750		10.550
Children's Services				

Basic Need (allocation for 2023-24/2024-25)	21.203			21.203
Carbon Reduction in Maintained Derbyshire Schools			4.000	4.000
Devolved Formula Capital	1.679			1.679
Gate Keeper's Lodge, Lea Green		0.500		0.500
Schools Access Initiative		0.800		0.800
School Condition	10.306			10.306
SEND – High Needs	6.848			6.848
Corporate Services and Transformation				
Carbon Reduction Projects within Corporate Buildings			6.000	6.000
Data Centre Refurbishment		1.500		1.500
Fire Mitigation		0.500		0.500
Kitchen Ventilation Schemes		0.500		0.500
Planned Maintenance Programme		2.000		2.000
Solar Farm			3.750	3.750
Place				
Chesterfield Staveley Regeneration Route	156.000			156.000
Household Waste Recycling Centre (HWRC) Asset and Infrastructure Improvements		2.000		2.000
Local Transport Plan	27.200			27.200
Replacement Countryside Service Base – Stockley Farm		0.750		0.750
South Derby Growth Zone	55.600			55.600
Contingency				
Contingency		0.500		0.500
TOTAL	**286.636**	**13.050**	**13.750**	**313.436**

2 Summary of Individual Schemes

2.1 Adult Social Care and Health

Assistive Technology £1.250m
The project is to replace analogue Assistive Technology equipment in clients' homes with digital hardware.

Disabled Facilities Grant £10.550m

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 identify 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 means test 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 their 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.

2.2 Childrens Services

Basic Need £21.203m
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.

Carbon Reduction in Maintained Schools £4.000m
There are 239 schools still under the control of the Council for maintenance. Given that the Council has a target of achieving Carbon Zero by 2050, it is critical to start to address the schools estate. This project will survey those schools in the lowest energy performance category and those using oil for their central heating and will deliver schemes that will start to convert the estate over to a position of Carbon Zero.

Devolved Formula Capital £1.679m
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.

Gate Keeper's Lodge at Lea Green £0.500m
There is an increasing demand for emergency placements for children on the edge of care or in a crisis. The Council is short of such places and on occasion resorts to the use of unregulated premises such as hotels. This is not in the best interest of the vulnerable young people, particularly as they are in crisis and vulnerable. The project in the Gate Keeper's Lodge at Lea Green will provide a dedicated facility under the control of the Council to provide places at short notice.

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 £10.306m
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 and 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 £6.848m
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.

2.3 Corporate Services and Transformation

Carbon Reduction Projects within Corporate Buildings £6.000m
The Council is committed to achieving Net Zero for the Corporate estate by 2032 or sooner. To achieve this, the Council needs to reduce the energy use associated with property. The proposed Capital Programme targets the first 34 buildings to receive priority improvement measures by:

- Microgeneration on Site – primarily by installing photo-voltaic panels.

- Active Energy Management – installing sensors which monitor operational energy use and communicate live data to Energy Managers.
- Retrofits – measures to install more energy efficient systems and upgrade thermal insulation.

Microgeneration of Energy on Site – by installing photo-voltaic (pv) panels this reduces the demand on grid. The estimated payback period for pv installations is approximately twelve years.

Active Energy Management requires the installation of remote monitoring kit to provide live energy consumption data, which will enable managers to identify improvement measures and eliminate waste. The estimated payback period is eight years assuming a 5% energy efficiency improvement.

Retrofits include the installation of more energy efficient lighting, improved controls on heating and lighting, or additional thermal insulation. Altogether the proposed measures will save the equivalent of 450 tonnes of carbon emissions.

The UK has a legal obligation to achieve Net Zero by 2050 although this legal obligation has not yet been directly cascaded to local authorities and others. Local authorities including the Council are aligned in terms of policy and objectives. The requirement to achieve Net Zero will become binding at some point and it would be relatively simple to extend the scope of the Regulations on Minimum Energy Efficiency Standards (MEES) which currently relate to leased out properties only, to require that these standards apply to all public buildings.

Data Centre Refurbishment £1.500m
The Council has two data centres based at County Hall, Matlock and Shand House, Darley Dale, which support most of the Council's ICT systems, including the major in-house computer, storage, network and corporate telephony system used throughout the Council. The main components of the data centres are the virtual servers that host over 250 of the Council's ICT systems, including the storage area network that securely stores the Council's data and provides connectivity for over 230 Council premises. Many of the components are reaching the end of their life and will require replacing over the next 24 months. Although the footprint of the data centres are likely to be smaller than they are now, as a result of a hybrid/cloud strategy, there is still the need for an on-premises data centre to host and support the delivery of services. As the Council's infrastructure is a key enabler to the delivery of Council services, transformation programmes and employees undertaking their day-day duties, this investment will assist in providing the performance and reliability required.

Fire Mitigation £0.500m
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 and 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 £0.500m
The Kitchen Ventilation Replacement Programme has been ongoing for a number of years and is to fund investment in kitchen ventilation systems in respect of both gas and electric kitchens across a range of the Council's Corporate and School buildings, across the County, to ensure statutory compliance in meeting The Gas Safety (installation & use) Regulations 1998 and reduce corporate risk for the Council.

Detailed surveys are required to inform and become the basis of a new priority-based strategy for ventilation and extraction systems across the County. It is envisaged that this will result in the replacement of out-of-date equipment across all sites and the introduction of additional equipment or an alternative delivery system to provide greater monitoring and safety controls at each site and provide greater resilience in performance of the systems.

This will require the appointment of a specialist contractor/consultant to undertake detailed surveys, a Design Engineer/Project Manager/Consultant to oversee the design, procurement and implementation of the project, and the upgrade/replacement of equipment across the County, resulting from the detailed surveys and recommendations.

An estimated cost of £0.500m has been determined for the proposed works based on the knowledge of Property professionals; however, detailed costs will be developed as part of the specialist report and the individual items of work.

Planned Maintenance Programme £2.000m
The Council's quinquennial (every five years) 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. The Planned Maintenance Programme being funded from borrowing will reduce the burden placed upon the Corporate Maintenance Budget, which covers reactive maintenance and repairs previously funded by the Planned Maintenance Programme.

The limited funding available from the corporate maintenance budget for the Planned Maintenance Programme was only able to fund the highest priority work. Meanwhile, 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 2021-22 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 apportioning of budget from the Corporate Maintenance Budget to fund the Planned Maintenance Programme reduced the Revenue Budget available, compounding the issue of the Council's maintenance liabilities as the Council lacked funding to undertake essential repairs and maintenance as well as priority work for life-expired building elements. The Planned Maintenance Programme funding from borrowing provides a long-term capital investment strategy for the Council's Corporate buildings, improving building suitability and condition, thus reducing the Council's maintenance liabilities and maintenance deficit.

A detailed list of the Planned Maintenance Programme of £2.000m for 2023-24 is set out in Appendix Three of this Report.

Solar Farm £3.750m
The Council is committed to achieving Net Zero for the Corporate estate by 2032 or sooner. The proposal is to develop Solar Farms to generate energy from renewables which will offset residual energy use elsewhere, including energy use associated with Corporate buildings. Fifteen sites for potential development as Solar Farms have been reviewed in 2022. Four sites have been identified as priority sites for development, however there are problems in securing the necessary grid connection for the other sites. This site at Williamthorpe Country Park has a guaranteed connection, and planning permission was secured in 2015. The proposed capital bid will allow the Council to progress the project and resubmit for planning approval. Subject to approvals it is then proposed to develop this site by April 2025. Dialogue with planners and the appointment of consultants is to commence in May 2023. Full planning approval is expected by December 2023, with the procurement approval process commencing in January 2024, and orders expected to be placed in August 2024. The estimated budget is based on a current quotation for the grid connection and estimated figures provided by the Association for Public Service Excellence (APSE).

2.4 Place

Chesterfield Staveley Regeneration Route £156.000m
The Chesterfield-Staveley Regeneration Route is a major intervention bringing about substantial housing and employment benefits alongside community and environmental improvements along the A619 corridor through Brimington and Staveley in Derbyshire.

Household Waste Recycling Centre (HWRC) Asset and Infrastructure Improvements £2.000m

This bid seeks funding to upgrade and improve the buildings, hardstanding and structures at the Household Waste Recycling Centres in Derbyshire. The sites receive over one million visitors each year. These facilities have not been upgraded for over fifteen years. A new contract to manage the sites commenced on 3 October 2022 for a minimum term of seven years. To avoid bidders speculating and over pricing these improvements to the detriment of the public purse, tenderers were only asked to submit site management prices excluding the asset and infrastructure improvements that are needed. At the start of the new contract in October 2022, detailed site condition surveys will be undertaken by the contractor. The Council will review and consider the improvements required and, using capital borrowing, ensure that monies are spent wisely and at more attractive borrowing rates than would have occurred if the contractor had undertaken the works.

Local Transport Plan £27.200m

The Local Transport Plan grant funds the Council's Highway Maintenance Capital Programme and is therefore fundamental to retaining highway assets in good condition. It also supports road safety schemes and those to encourage walking, cycling and public transport.

Replacement Countryside Service Base – Stockley Farm £0.750m

The Countryside Service currently operates from a Ranger post in the Constabulary Building in Clay Cross. The building is not fit-for-purpose as a Ranger post, suffering from damp and offering little to no welfare facilities such as a shower, separate personal welfare facilities, or drying space. The Service also has materials, equipment and vehicles stored at Stonegravels depot in Chesterfield and Brimington Cemetery Chapel of Rest at Brimington. Travel mileage/cost (and therefore emissions) and staff time needed to travel between all three locations present considerable efficiency deficits for the team. This building is required for other uses to deliver the Clay Cross Town Fund Deal project, of which the Council is a corporate partner. Current projections are that the Countryside Service needs to vacate its Ranger post in the Constabulary Building as early as summer 2023, in order for the Town Fund Deal project to progress as planned.

An opportunity for relocating the Countryside Service team in Clay Cross has recently arisen. The Service is shortly due to receive a farm cottage back into its operational asset portfolio at the end of a Farm Business Tenancy, and the geographical location of this cottage and its situation within an existing Countryside asset make it suitable for the potential creation of a new consolidated Ranger post. Considerable efficiency savings could be achieved for this Countryside team by basing all staff, vehicles, plant and materials in one single location. A feasibility study is shortly due to be commissioned by Concertus Derbyshire Ltd (CDL), to ascertain the suitability of the property to become a replacement Ranger post. A bid for funding support from the Feasibility Study funding pot will be made to support this work. Also, due to the timescales outlined above, it is necessary to make an indicative submission for capital borrowing investment for 2023-2024, which would be required to deliver a project to create a new Ranger post at the cottage and its associated outbuildings. This work would include Planning consent, design costs as well as any delivery works to convert the building. An initial bid of £0.750m, as outlined above, could be amended once the feasibility study has been completed by CDL.

A capital receipt for the Constabulary Building may be possible, should the building be sold to enable the Clay Cross Town Fund project to go ahead. Should the building not be required for the Town Fund project it is likely that the building would be sold on the open market and as such has been independently valued at £0.175m.

South Derbyshire Growth Zone £55.600m
The project comprises enabling infrastructure for the South Derby Growth Zone which sits within the Council's identified regeneration programme and supports up to 4,500 homes within the Infinity Garden Village, alongside employment opportunities. It enjoys the support of grant from the Levelling Up Fund.

2.5 Contingency

Contingency £0.500m
The contingency sum is for unforeseen additional costs/essential works which may arise during 2023-24.

2.6 Other Recommendations

That Cabinet recommends to Council that it approves the procurement and award of contracts which support the delivery of the Capital Programme. All contract awards will then be subject to approval by Executive Directors (via an Executive Director Report) under the relevant Departmental Scheme of Delegation.

Appendix Three

Planned Maintenance Programme

2023-24

UPRN	Site	Works	Budget
1591-01-01	Ripley Library & Office	Heating system upgrade	£35,000
2778-01-07	Lea Green Centre	Pitched roof replacement including insulation	£100,000
2174-01-01	17 & 19 Salisbury Avenue	External cladding upgrade including soffits and fascias	£30,000
4108-01-03	Community House	Timber window/door replacement upgrade	£150,000
2800-01-01	112 &113 Nottingham Road Borrowash	New central heating system	£17,000
1862-01-01	New Mills Library	Complete rewire upgrade	£45,000
3683-01-01	Peak Lodge	New drainage & tarmac hardstanding replacement	£70,000
1715-01-01	Victoria Street Family Centre	Upgrade heating system/boiler	£35,000
2694-01-04	Shipley Country Park Visitors Centre – Derby Lodge	Complete rewire upgrade	£12,000
1867-01-01	Brimington Hostel	New suspended ceiling & lighting upgrade	£40,000
2301-01-01	The Elms	Renew fascias /soffits & rainwater goods	£30,000
1056-01-01	Queens Court Day Centre	New ventilation system installation	£25,000

2694-01	The Old Post House Family Centre	Pitched roof recover	£75,000
3374-01-14	Shipley Park Nottingham Lodge	Replacement septic tank and new pipework	£30,000
2778-01-01	Lea Green Centre	Phase 2 Pitched roof re-cover & insulation	£350,000
1715-01-01	Victoria Street Family Centre	New internal suspended ceiling / insulation LED lighting	£50,000
1233-02-01	Etwall Primary School House	Complete rewire upgrade	£12,500
1647-01-01	Whitestones HOP	Phase 1 En-suite bathroom replacement	£120,000
2865-01-01	Brimington Library	Window replacement upgrade	£80,000
3461-01-01	Swadlincote Learning Centre	Window replacement upgrade	£100,000
4109-01-01	Fairfield Community Centre	Cladding and roofing replacement	£250,000
3630-01-01	Ilkeston Adult Education Centre	Phase 3 Window/Door replacement upgrade	£80,000
3535-01-01	Shand House	Window/Door replacement upgrade	£25,000
3374-01-01	The Hunloke Centre	Window/Door replacement upgrade	£80,000
		Contingency	£158,500
		TOTAL	**£2,000,000**

Appendix Four

Treasury Management Strategy Report 2023-24

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 2021 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 Five).

2 External Context

Economic background

2.1 The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain Government policy, and a deteriorating economic outlook, are major influences on the Council's Treasury Management Strategy for 2023-24.

2.2 The Bank of England (BoE) increased its Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% increase in November 2022, which was the largest single rate increase since 1989 and the ninth successive rise since December 2021.

2.3 The November 2022 quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK, with Consumer Price Index (CPI) inflation remaining elevated at over 10% in the near-term. Whilst the projected peak of inflation is lower than in the August 2022 MPR, due in part to the Government's support package for household energy costs, inflation is expected to remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

2.4 The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics (ONS), and the BoE forecasts that Gross Domestic Product (GDP) will decline by 0.75% in the second half of the calendar year because of the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and in the first half of 2024.

2.5 CPI inflation peaked at 11.1% in October 2022 before falling to 10.7% in November 2022. Inflation is forecast to fall below the 2% target within two years.

2.6 The forecast peak in Bank Rate has been revised from a market implied 5.25% down to 4.50%, following BoE comments that it considered the original path to be too high, suggesting that the peak in interest rates will be lower.

2.7 The labour market remains tight, although the December 2022 figures show the unemployment rate rising by 0.1% to 3.7%. Employment increased by 0.2% to 75.6%, which is still lower than pre-pandemic levels. Earnings were up by a (non-pandemic) record of 6.1% for regular pay but after factoring in inflation this means that real regular pay contracted by -2.7%. Looking forward, the November 2022 MPR shows that the labour market is weakening in response to the deteriorating outlook for growth, leading to a forecast rise in unemployment rate of around 6.5% in 2025.

2.8 Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.00%, and by 0.50% in December 2022 to 4.25%-4.50%. This rapid pace of increases has seen interest rates increase from 0.25%-0.50% back in March 2022. The US annual inflation rate fell from 7.7% in October 2022 to 7.1% in November 2022. US GDP grew at 3.2% in the third quarter of 2022, following a 0.6% fall in the second quarter. A recession in the region is widely expected at some point during 2023.

2.9 Inflation has been rising consistently in the Euro Zone since the start of 2022, hitting an annual rate of 10.6% in October 2022, before falling to 10.1% in November 2022. Economic growth has been weakening, with an expansion of just 0.2% in the third quarter of 2022, down from 0.7% in the second quarter. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in November 2022 and by 0.5% in December 2022, the third and fourth major increases in a row, taking its main refinancing rate to 2.50% and deposit facility rate to 2.0%.

Credit outlook

2.10 Credit default swap (CDS) prices have followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

2.11 CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.

2.12 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK Government as well as several local authorities and financial institutions, revising them downwards, from stable to negative.

2.13 There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, whilst higher interest rates provide a boost to net income and profitability.

2.14 However, the institutions on the counterparty list of the Council's Treasury Management Adviser (Arlingclose) remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast

2.15 The Council's Treasury Management Adviser, Arlingclose, forecasts that Bank Rate will continue to increase in 2023 as the BoE attempts to subdue inflation, which is significantly above its 2% target.

2.16 Whilst future interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. The Council's Treasury Management Adviser expects the Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the BoE forecasts and remain persistently higher.

2.17 Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

2.18 A more detailed economic and interest rate forecast provided by Arlingclose is included at Appendix A to this Treasury Management Strategy Report 2023-24.

2.19 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 3.50% (Base Rate), and that new long-term loans will be borrowed at an average rate of 4.70% based upon a 40 year maturity loan.

3 Local Context

3.1 On 31 December 2022, the Council held £486.079m of borrowing and £379.118m of investments. This is set out in further detail at Appendix B to this Treasury Management Strategy Report 2023-24. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.22 Actual £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
General Fund CFR	571.297	633.457	738.837	766.257	779.027
Less: Other debt liabilities*	-59.981	-55.187	-58.832	-54.572	-50.154
Loans CFR	**511.316**	**578.270**	**680.005**	**711.685**	**728.873**
Less: Long Term External borrowing**	-285.899	-265.579	-259.174	-256.429	-256.429
Less: Short Term External borrowing **	-127.500	-189.000	-38.000	0.000	0.000
Internal borrowing	**97.917**	**123.691**	**382.831**	**455.256**	**472.444**
Less: Usable reserves***	-388.006	-267.889	-221.366	-203.056	-188.435
Less: Working capital	-90.669	-90.669	-90.669	-90.669	-90.669
New Borrowing (or Treasury investments)	**-380.758**	**-234.867**	**70.796**	**161.531**	**193.340**

* Finance lease and PFI liabilities that form part of the Council's total debt.

** 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. As a result of the Council using its cash balances for internal borrowing and also using its cash-backed available reserves to support the Revenue Budget in recent years, the Council has a decreasing level of cash.

3.3 Whilst ever internal borrowing is possible, the benefits of continuing to do so will continue to be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to continue to rise. The Council will monitor this ‘cost of carry’ and breakeven analysis. However, there is the additional possibility that cash reserves will run low in the next twelve months and the Council will have to consider additional borrowing. Borrowing at long-term fixed rates would cause additional cost in the short-term but could keep future interest rates low if interest rates are forecast to continue to rise.

3.4 The Council has an increasing CFR as a result of its Capital Programme. As the Council continues to use internal borrowing to fund capital expenditure, investments are forecast to fall to £234.867m by 31 March 2023. The Council is forecast to use all these investments and require additional borrowing of £70.796m 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 2023-24.

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.

3.7 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Liability benchmark (Prudential indicator)

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Loans CFR	511.316	578.270	680.005	711.685	728.873
Less: Useable reserves	-388.006	-267.889	-221.366	-203.056	-188.435
Less Working Capital	-90.669	-90.669	-90.669	-90.669	-90.669
Plus: Minimum investments*	10.000	10.000	10.000	10.000	10.000
Liability benchmark	**42.641**	**229.712**	**377.970**	**427.960**	**459.769**

* 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.

3.8 Following on from the medium-term forecasts in Table 1 above, the long-term liability benchmark assumes capital expenditure funded by additional borrowing of £70.796m in 2023-24, £161.531m in 2024-25 and £193.340m in 2025-26 and a 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 £486.079m of loans, an increase of £72.680m on the previous year end, 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 significantly reduce its short-term borrowing in 2023-24. Short-term borrowing in 2022-23 includes £56.494m of temporary borrowing used to fund the Council's prepayment of Local Government Pension Scheme (LGPS) employer pension contributions in 2022-23. The Council is not prepaying LGPS employer pension contributions in 2023-24. Some of this reduction will have to be replaced by long-term borrowing, although further short-term borrowing is an option whilst long-term borrowing rates remain elevated. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £748m (General Fund CFR £680.005m 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, where available, or to borrow short-term loans instead, although because of changing interest rates this is much less advantageous than it was in 2022-23.

4.4 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 2023-24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.5 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.

4.6 Alternatively, the Council may arrange forward starting loans during 2023-24, 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.

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

Sources of borrowing

4.8 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

4.9 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

4.10 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

4.11 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 2023-24 and with interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the Council will take the option to repay the LOBO loans at no cost, thus reducing refinancing risk in future years. Total borrowing via LOBO loans will be limited to £5.000m.

Short-term and variable rate loans

4.12 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

4.13 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. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

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 £350.303m and £444.695m. 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 where possible.

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 where possible 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. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy

5.3 As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income. This diversification has generated over £15m in income and will represent a continuation of the strategy first adopted in 2015-16.

5.4 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business models

5.5 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

5.6 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	3 years	Unlimited	n/a
Local Authorities & Other Gov't entities	3 years	£30m	Unlimited
Secured investments *	3 years	£30m	Unlimited
Banks (unsecured) *	13 months	£30m	Unlimited
Building societies (unsecured) *	13 months	£30m	£50m
Registered providers (Unsecured) *	3 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		

5.7 The Council is to reduce the time limits on maturing investments to no longer than 3 years, as there is an increasing probability that the Council will borrow from the PWLB in the near future. The Council wants to be clear that it is not borrowing to invest primarily for financial return in contravention of the TM Code.

5.8 **Operational bank accounts:** The Council may incur operational exposures, for example through 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.

5.9 **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).

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

5.11 ***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.

5.12 **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 3 years.

5.13 **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.

5.14 **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. Refer to paragraph 5.8 for arrangements relating to operational bank accounts.

5.15 **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.

5.16 **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.

5.17 **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.

5.18 **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.

5.19 **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.

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 (A-), 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 £267.889m at 31 March 2023 and £221.366m at 31 March 2024. 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	£1.477m
Upper limit on one-year revenue impact of a 1% fall in interest rates	-£1.508m

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%	0%

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	31/03/24	31/03/25	31/03/26
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 2023-24 is £4.663m, based on an average investment portfolio of £116m traditional investments at an interest rate of 1.50%, and £70m of strategic pooled funds with dividends averaging 4.00%. The budget for long term external borrowing debt interest in 2023-24 is £11.765m, based on an average long-term debt portfolio of £265.579m, at an average interest rate of 4.43%, together with short-term debt interest of £3.338m. 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 – 19 December 2022

Underlying assumptions:

- The influence of the Government's September 2022 mini-budget on rates and yields continues to decrease, following the revised approach which followed.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policy makers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and Purchase Managers' Index (PMI) data suggests that the economy entered a technical recession in the third quarter of 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power. Recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short-to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most Monetary Policy Committee (MPC) policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Base Rate will remain relatively high until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions, even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight and the Fed wants to see persistently higher policy rates, but the lagged effects of past interest rate hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy the European Central Bank (ECB) seems to harbour few doubts about the short-term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Forecast:

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Base Rate to peak at 4.25%, with further 25bps rises in February, March and May 2023.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy but will be reluctant to do so until wage growth eases. Arlingclose expects rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- Gilt yields face pressures to both sides from hawkish US/EuroZone central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high Government borrowing will provide further underlying support for yields.

Table 12:

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.00	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.50	3.40	3.40	3.40
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.43	3.60	3.80	3.80	3.80	3.70	3.60	3.50	3.40	3.30	3.30	3.30	3.30
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.47	3.50	3.60	3.60	3.60	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.86	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

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

Appendix B – Existing Investment and Debt Portfolio Position

Table 13:

	31 Dec 2022 Actual Portfolio £m	31 Dec 2022 Average Rate %
External Borrowing:		
Public Works Loan Board	250.579	4.50
Local authorities (including D2N2)	220.500	1.79
LOBO loans from banks	5.000	4.50
Other loans	10.000	4.69
Total External Borrowing	**486.079**	**3.24**
Other Long-Term Liabilities (PFI, Leases, Transferred Debt)	59.981	n/a
Total Gross External Debt	**546.060**	n/a
Treasury Investments:		
Local Authorities	199.500	0.90
Banks (unsecured)	96.821	3.10
Registered Providers (unsecured)	5.000	1.05
Money Market Funds	0.000	n/a
Total Deposits:	**301.321**	**1.61**
Bonds	4.396	4.02
Equities UK	7.853	7.80
Equities Global	6.342	3.25
Multi Asset Funds	22.350	2.89
Property	23.467	4.08
Total Strategic Pooled Funds	**64.408**	**4.03**
Total Treasury Investments	**365.729**	**2.04**
Net Debt	**180.331**	

Appendix Five

Investment Strategy Report 2023-24

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 £59m and £357m during the 2023-24 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 2023-24 for Treasury Management investments are covered in the Treasury Management Strategy included at Appendix Four.

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 £0.593m estimated for 2023-24.

- £0.500m - Community Trusts – to Chesterfield Football Club Community Trust for sporting and community provision in the greater Chesterfield area. Contribution of £0.023m estimated for 2023-24.

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 2022 actual			2023-24
Category of borrower	**Balance owed £m**	**Loss allowance £m**	**Net figure in accounts £m**	**Approved Limit £m**
Local Regeneration Partners	12.547	-1.255	11.292	13.500
Local Community Trusts	0.500	-0.050	0.450	0.500
TOTAL	**13.047**	**-1.305**	**11.742**	**14.000**

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 – although the hotel sector had recovered post-lockdown, inflation has reduced disposable income which will adversely affect the hospitality sector. In 2021-22, the Council agreed to the directors' request to re-negotiate the terms of the loan. This included an amended split of fixed/variable interest rates, 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 £1.255m on the loan amount outstanding of £12.547m at 31 March 2022. 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 also suffered from reduced income during Covid-19 restrictions, but now back to business as usual.

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	**31.03.2022 Actual £m**	**31.03.2023 Forecast £m**	**31.03.2024 Forecast £m**
Treasury management investments (excluding *)	308.994	262.338	59.000
*Strategic pooled funds	71.764	64.408	64.408
Service investments: Loans	13.047	13.545	14.193
TOTAL INVESTMENTS	**393.805**	**340.291**	**137.601**
Commitments to lend	0.373	0.324	0
TOTAL EXPOSURE	**394.178**	**340.615**	**137.601**

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	**31.03.2022 Actual £m**	**31.03.2023 Forecast £m**	**31.03.2024 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	**2021-22 Actual %**	**2022-23 Forecast %**	**2023-24 Forecast %**
Treasury management investments (excluding *)	0.69	1.61	1.48
*Strategic Pooled Funds	4.29	4.03	4.03
Service Investments: Loans	2.86	4.55	4.97
ALL INVESTMENTS	**1.42**	**2.14**	**2.57**

Table 5: Other investment indicators

Indicator	2021-22 Actual	2022-23 Forecast	2023-24 Forecast
Debt to net service expenditure ratio	1:1.39	1:1.37	1:2.09
Service Loans income to net service expenditure ratio	1:1407	1:1181	1:879

Appendix Six

Capital Strategy 2023-24

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. High inflation rates are causing significant price increases in respect of goods and supplies, particularly in the construction industry. 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 focused 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 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 2023-24 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.

	2021-22 Actual £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Financing costs of CFR	44.130	46.330	51.924	59.014	65.664
Net Revenue stream inc DSG	985.056	998.452	1,036.400	1,069.051	1,068.776
Percentage	**4.48%**	**4.64%**	**5.01%**	**5.52%**	**6.14%**
Net Revenue stream excluding DSG	611.624	612.973	650.921	683.572	683.297
Percentage	**7.22%**	**7.56%**	**7.98%**	**8.63%**	**9.61%**

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 2023-24 does not, except in the short-term, exceed £738.837m (i.e. the estimated CFR for 2023-24).

	2021-22 Actual £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Capital Expenditure	**113.599**	**164.590**	**255.960**	**156.210**	**240.890**
Funding Sources:					
Borrowing	57.423	83.600	129.840	54.870	41.640
Capital receipts	3.172	4.880	7.350	0.750	0.250
Capital grants	52.641	76.110	115.770	100.590	199.000
Revenue	0.363	0.000	3.000	0.000	0.000
Total CFR at year end	**571.297**	**633.457**	**738.837**	**766.257**	**779.027**
Net movement in CFR	45.618	62.160	105.380	27.420	12.770
Minimum Revenue Provision	11.805	21.440	24.460	27.450	28.870
PFI & Leases in CFR	59.832	55.045	58.699	54.447	50.038
PFI & Leases in MRP	4.560	4.787	5.046	5.251	5.409

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 £413.399m, and the level of relevant liabilities (including finance lease liabilities), which was £59.981m, on the Balance Sheet at 31 March 2022.

10.20 The Authorised Limit for 2023-24 is to be £813m and the Operational Boundary is to be £776m.

Table 3 – Authorised Limit for External Debt

	2021-22 Actual £m	**2022-23 Estimate £m**	**2023-24 Estimate £m**	**2024-25 Estimate £m**
Authorised limit for external debt	**707**	**769**	**813**	**843**
Operational boundary for external debt	**675**	**734**	**776**	**805**
Borrowing	413	455	297	256
Other debt liabilities	60	55	59	55
Total	**473**	**510**	**356**	**311**

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.