Public

Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

COUNCIL

14 February 2024

Report of the Director of Finance & ICT

Capital Programme Approvals, Treasury Management and Capital Strategies for 2024-25

1 Divisions Affected

1.1 County-wide.

2 Purpose of the Report

2.1 To obtain approval for proposals relating to the Capital Starts Programme and the Treasury Management, Investment and Capital Strategies.

2.2 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 2024-25 and the Revenue Budget Report 2024-25.

3 Information and Analysis

Capital Programme

3.1 In line with previous years, the proposed new Capital Starts Programme has been evaluated and it is recommended to proceed with new borrowing of £31.248m for new projects commencing over the three years 2024-25 to 2026-27. New borrowing of £14.991m will be required in 2024-25, £8.816m in 2025-26 and £7.441m in 2026-27. The detailed proposals are set out in Appendix Two of this Report.

3.2 A detailed list of the Planned Asset Maintenance Programme of £6.000m for 2024-25 to 2026-27, which includes £3.000m of planned maintenance to be scheduled in 2025-26 and 2026-27, is set out in Appendix Three of this Report.

Treasury Management and Investment Strategies

3.3 The Treasury Management Strategy Report for 2024-25 (Appendix Four) sets out the Council's management of its cash flow, borrowing and investments and the management of its associated risks.

3.4 The Investment Strategy Report for 2024-25 (Appendix Five) deals with the management of the Council's balances and reserves, managing the balance between risk and return.

Capital Strategy and Capital Financing

3.5 The Capital Strategy for 2024-25 (Appendix Six) provides a high-level overview of how capital expenditure and capital financing contribute to the provision of local public services.

3.6 The Minimum Revenue Provision Statement for 2024-25 (Appendix Seven) sets out how the amount to be put aside to repay debt used to finance capital expenditure is to be calculated.

3.7 Historically the Council has funded all costs relating to the disposal of assets from revenue budgets. The 2003 Capital Finance Regulations for authorities in England and Wales, allows the costs of, or costs incidental to, a disposal of an interest in land to be financed from the capital receipt (provided that for non-housing land these costs do not exceed 4% of the capital receipt arising from the disposal). It is intended that from 1 April 2024, eligible disposal costs relating to land will be funded from the associated capital receipt (once realised), in accordance with the Capital Finance Regulations 2003 and the CIPFA practitioners guidance for capital finance in local government.

3.8 The Council and Derby City Council are engaged in a project to develop a New Waste Treatment Facility (NWTF) in Sinfin, Derby, to deal with waste that residents in Derby and Derbyshire do not recycle. As part of the settlement agreed by Cabinet in July 2023, Cabinet approved a payment of £56.930m which reflected the Council's share of the 'estimated fair value' (EFV) of the plant. This payment is a necessary cost attributable to bringing the waste treatment facility into use, and therefore it is proposed that this expenditure is capitalised in 2023-24.

3.9 At the time of the settlement the funding had been set aside in Earmarked Reserves. In order to support the budget management of the Council, it is now proposed that this expenditure is capitalised in 2023-24. This will mean that the expenditure is funded from borrowing, which will result in an increase in the forecast Capital Financing Costs in future years.

4 Consultation

4.1 No consultation is required.

5 Alternative Options Considered

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

6 Implications

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

7 Background Papers

7.1 Not applicable.

8 Appendices

8.1 Appendix One – Implications.

8.2 Appendix Two – New Capital Starts Programme for 2024-25.

8.3 Appendix Three – Planned Maintenance Programme for 2024-25.

8.4 Appendix Four – Treasury Management Strategy Report for 2024-25.

8.5 Appendix Five – Investment Strategy Report for 2024-25.

8.6 Appendix Six – Capital Strategy for 2024-25.

8.7 Appendix Seven - Minimum Revenue Provision Statement for 2024-25.

9 Recommendations

That Council:

9.1 Approves the new Capital Starts Programme 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.

9.2 Approves the detailed Planned Asset Maintenance Programme for 2024-25 as set out in Appendix Three.

9.3 Adopts the Treasury Management Strategy for 2024-25 set out in Appendix Four.

9.4 Adopts the Investment Strategy for 2024-25 set out in Appendix Five.

9.5 Adopts the Capital Strategy for 2024-25 set out in Appendix Six.

9.6 Adopts the Minimum Revenue Provision Statement for 2024-25 set out in Appendix Seven.

9.7 Adopts the application of financing up to 4% of disposal costs associated with land from capital receipts as set out in paragraph 3.7.

10 Reasons for Recommendations

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

10.2 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.

10.3 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 Cabinet has recommended 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.

10.4 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 which has been reported to Cabinet and Cabinet has recommended to Council that it adopts it.

10.5 The CIPFA Code requires that a Capital Strategy is prepared and reported to Cabinet. This report documents the proposed Capital Strategy which has been reported to Cabinet and Cabinet has recommended to Council that it adopts it.

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

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Implications

Financial

1.1 The proposed new Capital Starts Programme has been evaluated and it is recommended to proceed with new borrowing of £31.248m for new projects commencing over the three years 2024-25 to 2026-27. New borrowing of £14.991m will be required in 2024-25, £8.816m in 2025-26 and £7.441m in 2026-27. The detailed proposals are set out in Appendix Two of this Report. A detailed list of the Planned Asset Maintenance Programme of £6.000m for 2024-25 to 2026-27, which includes £3.000m of planned maintenance to be scheduled in 2025-26 and 2026-27, is set out in Appendix Three of this Report.

1.2 It is proposed that in 2023-24, the £56.930m paid in July 2023 in respect of the Derby and Derbyshire Waste Treatment Centre will be capitalised. This proposal has been reflected in the forecast Capital Financing Requirement and net costs of Capital financing within the Capital Strategy and Five Year Financial Plan (FYFP).

1.3 The Treasury Management Strategy Report for 2024-25 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 2024-25 at Appendix Five deals with the management of the Council's balances and reserves, managing the balance between risk and return.

1.4 The Capital Strategy for 2024-25 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. The Minimum Revenue Provision Statement for 2024-25 at Appendix Seven sets out how the amount to be put aside to repay debt used to finance capital expenditure is to be calculated.

1.5 Section 4 of the report proposes the adoption of the application of financing up to 4% of disposal costs associated with land from Capital Receipts in accordance with the Capital Finance Regulations. This will have the impact of reducing the costs that need to be financed from revenue budgets, but will also reduce the level of Capital Receipts available to fund capital investment.

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

Capital Programme 2024-25

1.1 The proposed new starts programme for 2024-25, along with funding streams, as shown in Table 1, has been evaluated and it is recommended to proceed with new borrowing of £31.248m for new projects commencing over the three years 2024-25 to 2026-27. New borrowing of £14.991m will be required in 2024-25, £8.816m in 2025-26 and £7.441m in 2026-27. 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, grants from other sources, 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 The Council has been 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 provides the potential to increase capital receipts and assist with the funding of future Capital programmes. 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 has to be earmarked to fund the replacement. It is expected that future programmes will be able to utilise more available capital receipts to release both the burden on borrowing and revenue reserves through reduced debt charges.

1.6 To assist with the above approach of maximising Capital receipts, it is proposed that the Council adopts the 4% Capital receipt rule as set out in the 2003 Capital Finance Regulations for authorities in England and Wales, which allows the costs of or costs incidental to a disposal of an interest in land (provided that for non-housing disposal these do not exceed 4% of the Capital receipt arising from the disposal) to assist in meeting revenue costs incurred in generating Capital receipts from Capital asset disposals.

1.7 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. Due to the current interest rate environment, the cost of borrowing is significantly higher than it has been in recent years, and the Council no longer holds levels of cash backed reserves that would enable 'internal' borrowing to fund capital investment. Any capital investment funded from borrowing will therefore result in revenue budget pressures for future years. However, the Council still needs to ensure that it meets its statutory obligations which will in turn assist in delivering on the Council Plan.

1.8 The Council will receive estimated Government grants of just over £68m to address key issues in highways and maintenance and develop integrated transport 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.

1.9 Grant funding is available, as in previous years, to provide financial assistance for disabled people requiring major adaptations to their accommodation, together with funding being provided for major improvements to directly provided care units.

1.10 Again, 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 of £6.000m has been submitted as part of a long-term strategy to target the Council's backlog maintenance. A detailed list of the Planned Maintenance Programme for 2024-25 to 2026-27, which includes £3.000m of planned maintenance to be scheduled in 2025-26 and 2026-27, is set out in Appendix Three of this Report.

1.11 This year's programme also includes a significant bid to provide a solution for the sustainable future of County Hall. This strategic bid is expected to be part funded by borrowing, grants and possibly Capital receipts.

1.12 The Council 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.

Table 1A: Capital Programme Bids 2024-25

New Projects	**2024-25**	**2025-26**	**2026-27**	**Total**
	£m	**£m**	**£m**	**£m**
Adult Social Care & Health				
Disabled Facilities Grant Adaptations	7.898	0.000	0.000	**7.898**
Major Improvements to directly provided Care Units	2.000	0.000	0.000	**2.000**
Children's Services				
Basic Need (allocation for 2024-25 and 2025-26)	3.000	2.023	0.000	**5.023**
Devolved Formula Capital	1.610	0.000	0.000	**1.610**
School Condition	8.000	1.444	0.000	**9.444**
SEND – High Needs	2.000	4.000	0.848	**6.848**
Corporate Services and Transformation				
Fire Risk Mitigation	0.700	0.300	0.000	**1.000**
Planned Asset Maintenance Programme	3.000	2.000	1.000	**6.000**
ICT Services Hardware & Infrastructure	5.950	0.000	0.000	**5.950**
County Hall Redevelopment	0.397	15.075	5.025	**20.497**
5 Year Disposal Programme	0.380	0.000	0.000	**0.380**
Demolition	0.250	0.000	0.000	**0.250**
Place				
Local Transport Plan (LTP)	27.371	0.000	0.000	**27.371**
Countryside Service Structural Assets Management	0.405	0.405	0.406	**1.216**
Countryside Service Waterbodies Management	0.625	0.125	0.000	**0.750**
Shipley Lake Statutory Reservoir Improvements	1.300	0.000	0.000	**1.300**
Highways Depot Asset Improvement	0.811	0.811	0.810	**2.432**
Contingency				
Contingency	0.200	0.200	0.200	**0.600**
TOTAL	**65.897**	**26.383**	**8.289**	**100.569**

Table 1B: Capital Programme Bids Financing

Funding Streams	Grant	Capital Receipts	Borrowing	Total
	£m	£m	£m	£m
Adult Social Care & Health				
Disabled Facilities Grant Adaptations	7.898	0.000	0.000	**7.898**
Major Improvements to directly provided Care Units	0.000	0.000	2.000	**2.000**
Children's Services				
Basic Need (allocation for 2024-25 and 2025-26)	5.023	0.000	0.000	**5.023**
Devolved Formula Capital	1.610	0.000	0.000	**1.610**
School Condition	9.444	0.000	0.000	**9.444**
SEND – High Needs	6.848	0.000	0.000	**6.848**
Corporate Services and Transformation				
Fire Risk Mitigation	0.000	0.000	1.000	**1.000**
Planned Asset Maintenance Programme	0.000	0.000	6.000	**6.000**
ICT Services Hardware & Infrastructure	0.000	0.000	5.950	**5.950**
County Hall Redevelopment	10.100	0.397	10.000	**20.497**
5 Year Disposal Programme	0.000	0.380	0.000	**0.380**
Demolition	0.000	0.250	0.000	**0.250**
Place				
Local Transport Plan (LTP)	27.371	0.000	0.000	**27.371**
Countryside Service Structural Assets Management	0.000	0.000	1.216	**1.216**
Countryside Service Waterbodies Management	0.000	0.000	0.750	**0.750**
Shipley Lake Statutory Reservoir Improvements	0.000	0.000	1.300	**1.300**
Highways Depot Asset Improvement	0.000	0.000	2.432	**2.432**
Contingency				
Contingency	0.000	0.000	0.600	**0.600**
TOTAL	**68.294**	**1.027**	**31.248**	**100.569**

2 Summary of Individual Schemes

2.1 Adult Social Care and Health

Disabled Facilities Grant £7.898m
Disabled people requiring major adaptations to their accommodation can 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 Test of Resources only looks at an applicant's income and does not take account of their outgoings or personal circumstances. There are three possible outcomes for applicants: a grant to cover the cost of the work (up to a maximum of £30,000), a grant to cover part of the work with the requirement that the applicant meets the remaining costs, or the grant application is deemed ineligible as the applicant is assessed to be able to meet all the costs of the work.

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

Major Improvements to Directly Provided Care Units £2.000m
With Cabinet approval, the Directorate has undertaken a review of options for care provided from Council owned buildings, including care homes for older people and day centres for people with a learning disability. Further reviews are planned in relation to Learning Disability residential care and short breaks units and day centres for older people. Planned building works take account of the decisions made and to be made where possible.

2.2 Childrens Services

Basic Need £5.023m
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.

Devolved Formula Capital £1.610m
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.

School Condition Allowance £9.444m
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.

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 by the SEND Board.

2.3 Corporate Services and Transformation

Fire Risk Mitigation £1.000m
To fund the continuation of a planned programme of fire risk mitigation works in Council premises, including schools, where the Council has a duty of care to its employees to ensure they have safe environments to work in.
Under The Regulatory Reform (Fire Safety) Order 2005 the Council is required to undertake fire risk assessments on its building portfolio. These consist of operational assessments by establishment managers and technical assessments by property professionals in Corporate Property. Technical assessments consider the building components, the means of escape, the suitability of compartmentation, warning systems and equipment, etc. Assessments are carried out against an established programme, agreed with the Derbyshire Fire & Rescue Service, to identify and improve the building form/fabric to a suitable standard. The Council's ongoing survey programme has identified the need for further funding to address these works.

Planned Asset Maintenance Programme £6.000m
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 Asset Maintenance Programme being funded from borrowing will reduce the burden placed upon the Corporate Maintenance Budget, which covers reactive maintenance and repairs which previously funded the Planned Asset Maintenance Programme.

The limited funding available from the corporate maintenance budget for the Planned Asset Maintenance Programme was only able to fund the highest priority work. Meanwhile, the reactive day to day maintenance was limited to emergency only repairs as the budget was insufficient to meet demand. The introduction of 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 Asset 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 Asset 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 Asset 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.

The Planned Asset Maintenance Programme of £6.000m includes £3.000m of planned asset maintenance to be scheduled in 2025-26 and 2026-27.

ICT Hardware and Software £5.950m
This bid identifies the additional need for capital to support ICT infrastructure projects, to ensure the Council’s ICT infrastructure continues to support and meet its needs. The bid reflects several elements:

ICT Desktop Hardware Replacement £1.500m
Replacement ICT Desktop Hardware £0.750m
Replacement of PCs, laptops, tablets and mobile telephones that will reach the end of life this year. The normal proactive replacement programme aims to replace 1,500 units per year (approximately one-fifth of the estate (i.e. a 5-year replacement regime))
Transition to a 3-year Hardware replacement £0.750m
To support the transition to a 3-year hardware replacement regime, a one-off cost this year to change to replacing laptops/desktops/tablets after the end of their 3-year warranty. Younger hardware better meets staff needs and saves the cost of out-of-warranty replacements.

Network Equipment £2.000m
The Council has a county-wide network that connects sites back to County Hall so that they can use network services. A business case was produced in 2021 to support the Council migrating to a software-defined network, which was rolled out to Adult Care Homes and Children's Homes across the county. This money is required to replace the rest of the Council's network equipment, increasing flexibility and lowering ongoing costs.

Core/Data Centre Equipment £2.450m
Data Centre Blades £0.500m - The blade servers in the Council's Data Centre are approaching end-of-life. This will ensure they continue to be maintained whilst a data centre/cloud strategy is implemented.
Back-up Solution £0.500m - The Council's back-up system will need to be replaced in 2024-25. The cloud assessment and data centre/cloud strategy will inform these requirements.
Storage Solution £0.600m - The Council's main data storage solution is becoming difficult to manage and maintain, and now requires replacement. The cloud assessment and data centre/cloud strategy will inform these requirements.
Uninterrupted Power Supply £0.150m - The Council's Uninterrupted Power Supply (UPS) located in the data centre and in County Hall will require replacement in 2025 to continue to protect the Council against power cuts, power surges or voltage drops. The cloud assessment and data centre/cloud strategy will inform these requirements.
Internal Load Balancers £0.500m – The Council's load balancers are used to increase capacity (concurrent users), balance traffic and improve the reliability of applications, ensuring systems continue to perform efficiently and effectively. This project will replace the load balancers in line with the recommendations from the cloud assessment and data centre/cloud strategy.
Telephony £0.200m - Supporting the Council's telephony replacement migration to the cloud; portal, licences, training and hardware.

Cloud Strategy - The Council has recently completed a cloud assessment to determine the future cloud strategy. Funds will be required to support the outcome of this assessment, and a separate proposal will be brought forward for approval during 2024-25.

County Hall Redevelopment £20.497m
The County Hall Redevelopment is a strategic project for the Council. A Strategic Outline Business Case was approved by Cabinet in November 2022 and an Outline Business Case was approved by Cabinet in January 2024. The vision for County Hall includes conversion of the principal listed buildings into a hotel, spa, conference facility and performance venue, together with residential accommodation and facilities for new businesses. A key component of the vision is a low carbon, efficient building, providing new offices for the Council, with scope to share space with public sector partners or commercial tenants.

The direct benefits to the Council will include significantly reduced operating costs, the provision of a modern, flexible workplace to support users, the potential generation of a capital receipt, and a major reduction in the Council's carbon emissions. Wider benefits include a major boost to the local economy, support for local businesses, the creation of new jobs, and new residential accommodation to meet local demand. The community will benefit from having access to spaces such as a renovated Winter Garden for events, leisure facilities and new landscaped gardens.

It will be a condition of any sale agreement that the listed buildings are enhanced and protected, and that the landscaped grounds are recreated. The soft market testing exercise has already generated serious interest from hotel operators and specialists in the conversion of listed buildings. More expressions of interest are expected as our advisors continue to target potential investors, developers and operators.

The Council's commitment to the project, evidenced by the commissioning of a business case, has provided confidence to the market that the Council is committed to this strategic project.

Further technical, legal and financial support is required to prepare and take the opportunity to the market. This will include a planning pre-application, development of the design for the new offices, environmental and biodiversity due diligence of the site, assessment of the impact on local roads, and the preparation of a full technical pack for potential bidders and draft contract documents.

Five Year Disposal Programme £0.380m
This funding is to instruct property agents and solicitors required to deliver capital receipts for the forecasted Five year Disposal Programme.

Demolition £0.250m
Funding is required to enable demolition work to continue at identified and agreed sites so that the sites can be sold on the open market for an enhanced capital value. In some instances, a strategic decision about the future use of a site may take many months to determine due to the need to commission option appraisals and feasibility assessments, so the demolition of any obsolete buildings on sites helps to reduce running costs whilst the strategic decisions are made.

The current Corporate Revenue Demolition Budget is now fully spent and/or committed, meaning that no further demolition work can take place or be commissioned. There is also an identified pipeline of demolition work amounting to £0.850m which currently has no funding and further demolition work will be identified as the accelerated asset rationalisation programme is implemented.

2.4 Place

Local Transport Plan £27.371m
The County's highway infrastructure has a direct impact on the lives of all Derbyshire residents, as well as those who visit or work within the County. It is essential to the economic prosperity of Derbyshire, providing access to work, health, education and leisure services and is seen by residents as the most important service that the Council provides for the people of Derbyshire, but is the least well regarded and generates the highest number of customer enquiries. The value of the Council's Highways assets currently stands at approximately £8 billion, including 3,280 miles of road and associated bridges, retaining walls, street lighting, footways and other infrastructure assets. The Highways Service is responsible for maintaining a safe and reliable network for all its users, including pedestrians, cyclists and bus passengers.

The Council receives annual Capital funding from the Department for Transport (DfT) through its Local Transport Capital Block Funding Grant. The size of the annual formulae funding has been fixed for the past three years at £27.371m and will remain the same for 2024-25. This funding is allocated across the County's assets to meet infrastructure needs and elected members' and customers suggestions, using a priority matrix. This includes the wide array of footway resurfacing, structures, reactive capital improvements, drainage investigations, highway improvements, road safety, rights of way, cycle routes and greenways, resurfacing schemes, surface dressing, micro-asphalting, landslips, traffic signals, public transport infrastructure, flood prevention, drainage and street lighting schemes.

Countryside Services Structural Assets Management £1.216m
The Countryside Service has over 300 assets on the Council's structural assets register. These structures are an integral part of sites and allow residents and visitors of Derbyshire to access the vast array of trails, country parks and nature reserves and are hugely important in the Council meeting its policy objectives. The last round of inspections, in 2021, identified 22 structures in very poor condition, 52 in poor condition and the remaining 80 in good condition. The 22 structures in very poor condition have been risk-assessed and prioritised for structural repair and the most urgent structural repair is for the railway bridge on the Field, Shipley Country Park. This project aims to repair the highest risk structure immediately, establish a program of work for the other structures in very poor and poor condition and begin preventive work on the remaining structures still in good condition. In addition, working with the Structures Team in Highways, the Countryside Service will establish a programme of inspection for the remaining 147 structures that are currently not inspected, with further capital bids as required for any identified urgent structural work.

Countryside Service Waterbodies Management £0.750m
Funding for works to complete Measures in the Interest of Safety (MIOS) to Osbornes Pond, Shipley Country Park and structural leak repairs to the Railway Aqueduct, Cromford Canal, to comply with statutory duties under the reservoirs Act (1975) and Navigation Authority duties in relation to the Cromford Canal.

Shipley Lake Statutory Reservoir Improvements £1.300m
A project to complete reservoir improvement works at Shipley Lake, Pit Lane, Heanor as identified in the Section 10 Reservoir Inspection Report dated 30 June 2022. These works are statutory in nature and are required under the Reservoirs Act (1975). They must be completed within the indicated timescales, or the Council could face prosecution by the Environment Agency, the regulatory body in England.

Highways Depot Asset Improvement £2.432m
The Council has five highway depots strategically located throughout the County: Willington, Ambergate, Darley Dale, Stonegravels and Chapel-en-le-Frith. The Council's depots provide essential hubs from which the Highways Service is planned, monitored and work carried out.

These buildings range in their construction type, from prefabricated cabins to stone buildings, all in a variety of differing sizes and states of condition. Maintenance liability for the depot plots historically has been unclear, and consistent funding streams and programmes of work have not been implemented. Planned maintenance work to the fabric of the main depot buildings, outbuildings, yards, fences etc has not been undertaken for around 20 years, with only emergency works carried out as required, leading to significant deterioration to the overall condition of the depots.

A business case has been compiled to examine the options and review the condition report data - this has informed this Capital Bid. Work is also currently taking place on the Council's Depot Rationalisation Project, concerning the long-term strategy for highways depots within the County. The report will outline a five-year phased approach to rationalising the existing depots, including options around renovation, redevelopment, and complete relocation of some facilities. The Depot maintenance and Refurbishment Business Case is focused on ensuring that the current facilities are fit for purpose and safe for use in the period leading up to implementation of the Depot Rationalisation Project, should this be progressed.

Failure to maintain the depot buildings will lead to defects worsening and could result in the sections of the depots being condemned under the Health and Safety at Work Act. The Council has a legal responsibility to ensure that the workplaces are safe for use and fit for purpose. If the depot buildings are not fit for purpose, it is likely that the services currently provided from them will be negatively impacted. The degradation of the buildings will also affect the long-term value of the asset.

Securing this funding will allow the Place Department to create a prioritised three-year programme of works to undertake the urgent (to prevent closure or serious risk), essential (required within 2 years), desirable (required within 5 years) and long-term (outside of a 5-year period) defect remediation works. This will:

- Enable the continued use of the facilities and meet our statutory obligations.
- Improve efficiency of existing assets and overall condition of the depots to a desirable standard.
- Treat urgent and developing defects, addressing them proactively before they escalate and negatively impact the service.
- Ensure delivery of the highways service for the foreseeable future leading up to the potential implementation of the 'DCC Depot Rationalisation Project' recommendations.

2.5 Contingency

Contingency £0.600m
The contingency sum is for unforeseen additional costs/essential works which may arise during the year.

2.6 Other Recommendations

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

Public

Appendix Three

Planned Asset Maintenance Programme

2024-25

UPRN	Site	Works	Budget
1470-01-01	Whitwell Community Centre & Library	Replacement up-grade existing CI heating pipe work & radiators	£60,000
195-01-01	Chesterfield Small Business Centre	Electrical rewire and associated upgrades	£25,000
1875-01-01	Long Eaton Library	Building structural stabilisation works.	£150,000
1875-01-01	Long Eaton Library	Boiler replacement upgrade & associated controls	£70,000
2174-01-01	17 Salisbury Drive Swadlincote	Structural retaining wall consolidation	£40,000
2478-01-01	Brimington Road Workshop	Full rewire & new Fire Alarm system	£275,000
2613-01-01	Glossop Adult Education Centre	Replacement up-grade existing CI heating pipe work & radiators	£115,000
2642-01-01	County Hall (South Block Complex)	Rewire Upgrade including new LED lighting Joiner's shop.	£75,000
2642-1-02	County Hall (North Block Complex)	Dry Rot eradication works main staircase.	£90,000
4190-02-01	Fairfield |Children's Centre	Render existing spalling brickwork including new Thermal wall upgrade.	£95,000
1621-01-01	Grange HOP	Kitchen ventilation system / canopy upgrade o interlock with Gas supply.	£50,000
1621-01-01	Grange HOP	Kitchen internal refurbishment including wall / floor tiles.	£70,000
1894-01-01	Melbourne Library	Main library floor replacement including new insulation.	£60,000
2694-01-01	Shipley Country Park Visitors Centre	Complete heating system upgrade replacement including boiler.	£35,000

UPRN	Site	Works	Budget
2813-03-	High Peak Trail Visitors Centre	Major water tank replacement adjacent to centre.	£100,000
3190-01-01	High Peak & Dales Support Centre	New aluminium door & window curtain walling system.	£150,000
3190-04-01	High Peak Social Care Area Office	Complete rewire and relight including new data network.	£135,000
3524-01-01	Cotmanhay Children’s Centre	Structural stabilisation works.	£100,000
4118-01-01	Derbyshire Records Office	New flat roof recover including cut to falls & thermal insulation upgrade.	£35,000
1098-01-01	Newbold Library	New flat roof recover including cut to falls & thermal insulation upgrade.	£35,000
1621-01-01	The Grange Family Support Centre	Ceiling replacement including new insulation & LED lighting.	£40,000
1697-01-00	Parkwood Day Centre	Structural retaining wall consolidation.	£85,000
1715-01-01	Victoria Street Family Support Centre	Complete rewire including distribution board upgrade.	£130,000
1809-01-01	Willington Depot	Complete rewire including distribution board upgrade.	£30,000
319-01-01	Buxton Library	New double-glazed windows / doors.	£600,000
3461-01-01	Swadlincote Learning Centre	Structural retaining wall consolidation.	£15,000
3535-01-01	Shand House	New external Galvanised spiral staircases.	£70,000

UPRN	Site	Works	Budget
4348-01-01	Waingroves Community Centre	Heating system replacement/upgrade.	£75,000
PMP Contingency 2024-25			£190,000
Other Planned Maintenance To Be Scheduled in 2025-26 and 2026-27			£3,000,000
		TOTAL	**£6,000,000**

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 impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, are major influences on the Council's Treasury Management Strategy for 2024-25.

2.2 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023.

2.3 The November 2023 quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth, with the potential for a mild contraction due to ongoing weak economic activity. The outlook for Consumer Price Index (CPI) inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

2.4 Office for National Statistics (ONS) figures showed CPI inflation was 4.6% in October 2023 and 3.9% in November 2023. Looking ahead, using the interest rate path implied by financial markets, the BoE expects CPI inflation to continue to fall slowly, but taking until early 2025 to reach the 2% target.

2.5 ONS figures showed the UK economy was flat between April and June 2023 and fell by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

2.6 The labour market appears to be loosening, but only very slowly. The unemployment rate remained at 4.2% between August and October 2023. Earnings growth remained strong, with regular pay (excluding bonuses) up 7.3% over the period. Adjusted for inflation, regular pay growth was 1.4%. Looking forward, the MPR forecast the unemployment rate to be around 4.25% in the second half of 2023, but then to rise steadily to around 5% in late 2025/early 2026.

2.7 Having increased its key interest rate to a target range of 5.25 to 5.5% in August 2023, the US Federal Reserve appears to have concluded its cycle of increasing interest rates. It is likely this level represents the peak in US rates as indicated in its December 2023 meeting.

2.8 In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 4.00%, 4.50% and 4.75% respectively.

Credit outlook

2.9 Credit Default Swap (CDS) prices were volatile during 2023, spiking in March 2023 on the back of banking sector concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in the second quarter of 2023, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, led in the second half of the year to CDS prices increasing steadily again.

2.10 Moody’s revised its outlook on the UK Sovereign to stable, from negative, to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody’s also affirmed the Aa3 rating in recognition of the UK’s economic resilience and strong institutional framework. Following its rating action on the UK Sovereign, Moody’s revised the outlook on five UK banks to stable, from negative, and then followed this by the same action on five rated local authorities. However, within the same update, the long-term ratings of those five local authorities were downgraded.

2.11 There remain competing tensions in the banking sector, on one side from higher interest rates, boosting net income and profitability, and on the other side a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets. 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

2.12 Although UK inflation and wage growth remain elevated, the Council's Treasury Management Adviser, Arlingclose, forecasts that BoE Bank Rate has peaked at 5.25% and that the BoE's Monetary Policy Committee (MPC) will start to reduce rates in 2024, to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose forecasts rate cuts from September 2024, to a low of around 3% by June 2026.

2.13 Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for BoE Bank Rate. Yields are forecast to remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

2.14 A more detailed economic and interest rate forecast provided by Arlingclose is included at Appendix A to this Treasury Management Strategy Report 2024-25.

2.15 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 5.25% (Base Rate), and that new long-term loans will be borrowed at an average rate of 4.97% based upon the PWLB Certainty Rate for a 40-year maturity loan.

3 Local Context

3.1 On 31 December 2023, the Council held £477.674m of borrowing and £268.091m of investments. This is set out in further detail at Appendix B to this Treasury Management Strategy Report 2024-25. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.23 Actual £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
General Fund CFR	594.275	700.655	766.812	805.029	830.336
Less: Other debt liabilities*	-55.187	-50.132	-52.373	-45.754	-38.920
Loans CFR	**539.088**	**650.523**	**714.439**	**759.275**	**791.416**
Less: Long Term External borrowing**	-265.579	-264.174	-256.429	-251.429	-242.736
Less: Short Term External borrowing **	-224.500	-148.500	-45.000	-5.000	0.000
Internal borrowing	**49.009**	**237.849**	**413.010**	**502.846**	**548.680**
Less: Usable reserves***	-376.841	-229.174	-197.103	-181.418	-178.769
Less: Working capital	-51.675	-51.675	-51.675	-51.675	-51.675
New Borrowing (or Treasury investments)	**-379.507**	**-43.000**	**164.232**	**269.753**	**318.236**

* 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 recent strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Council has an increasing CFR due to the capital programme but minimal investments. The Council will therefore require additional borrowing of up to £318m by March 2027 according to its CFR forecasts.

3.3 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 for the three years 2024-25 to 2026-27.

Liability benchmark

3.4 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.

3.5 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.

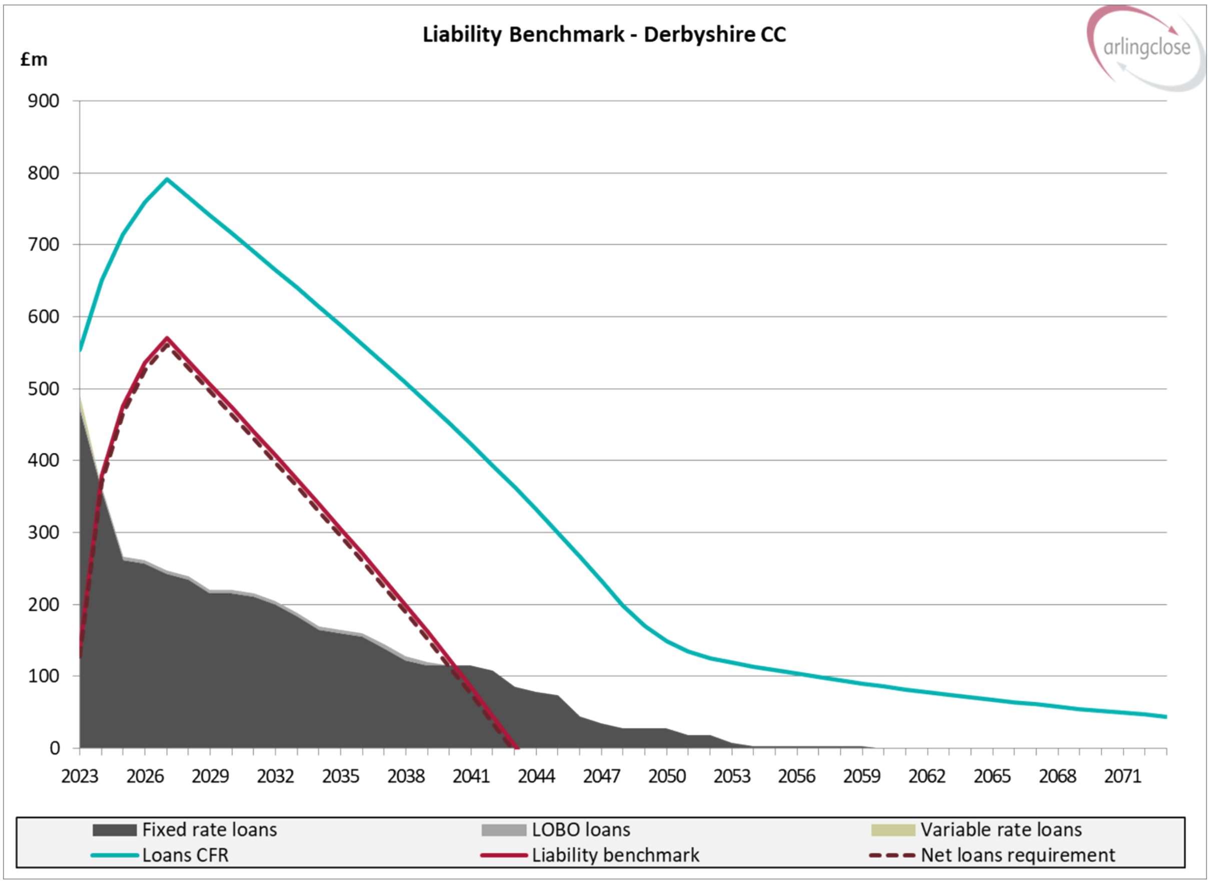
Table 2: Liability benchmark (Prudential indicator)

	31.3.23 Actual £m	**31.3.24 Estimate £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**
Loans CFR	539.088	650.523	714.439	759.275	791.416
Less: Useable reserves	-376.841	-229.174	-197.103	-181.418	-178.769
Less: Working Capital	-51.675	-51.675	-51.675	-51.675	-51.675
Plus: Minimum investments*	10.000	10.000	10.000	10.000	10.000
Liability benchmark	**120.572**	**379.674**	**475.661**	**536.182**	**570.972**

* Minimum liquidity allowance for professional status 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.

3.6 Following on from the medium-term forecasts in Table 1 above, the long-term liability benchmark assumes capital expenditure funded by additional borrowing of £164.232m in 2024-25, further additional borrowing of £105.521m in 2025-26 and further additional borrowing of £48.483m in 2026-27, with 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.

3.7 The graph below demonstrates the Council's additional borrowing requirement. This is the area between the grey shaded area (existing borrowing) and the red line (Liability Benchmark). This is somewhat lower than the blue line (Loans CFR) as the Council has Balance Sheet resources (reserves and working capital), that can be utilised if required.



4 Borrowing Strategy

4.1 The Council currently holds £477.674m of loans, a decrease of £12.405m on the previous year end, as part of its long-term strategy for funding previous years' Capital Programmes. Short-term borrowing in 2023-24 includes £56.930m for the Legal Settlement in respect of the Derby and Derbyshire Waste Treatment Centre at Sinfin. The Balance Sheet forecast in Table 1 shows that the Council expects to borrow up to £164.232m in 2024-25. The Council may, however, borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £843m (General Fund CFR in Table 1 £766.812m 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. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead.

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. 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 2024-25.

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 2024-25, 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).
- UK Infrastructure Bank Ltd.
- 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 (including Local Authorities)
- UK public and private sector pension funds (except Derbyshire Pension Fund).
- Capital market bond investors.
- Retail investors by a regulated peer to peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.
- D2N2 Local Economic Partnership.
- East Midlands Combined County Authority.

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.
- Similar asset-based finance.

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 does not hold any LOBO (Lender's Option Borrower's Option) loans. The Council repaid its remaining £5.000m LOBO loan on 16 October 2023.

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 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 £268.091m and £480.985m. This level of investment is expected to fall significantly in subsequent years as short-term external borrowing is repaid and internal reserves are utilised.

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 regularly reviewed and either sold to generate cash or held to diversify risk into different sectors and boost investment income. This diversification has generated over £18m in income and represents a continuation of the strategy first adopted in 2015-16.

5.4 The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. However, the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

5.5 **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

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

Approved counterparties

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

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

Sector	Time Limit	Counterparty Limit	Sector Limit
UK Government	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	£10m	£30m
Registered providers (Unsecured) *	3 years	£10m	£30m
Money market funds *	n/a	£30m	Unlimited
Strategic pooled funds	n/a	£30m	£100m
Real estate investment trusts	n/a	£10m	£30m
Other investments *	Individual Cabinet Approval		

5.8 The Council reduced its time limits for new investments to no longer than three years in 2023-24 as there was an increasing probability of needing to borrow from the PWLB in the near future. The Council wants to be absolutely clear that it is not borrowing to invest primarily for financial return in contravention of the TM Code.

5.9 **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.

5.10 **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).

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

5.12 ***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.

5.13 **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 three years.

5.14 **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.

5.15 **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 5.9 for arrangements relating to operational bank accounts.

5.16 **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.

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

5.18 **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.

5.19 **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.

5.20 **Non-Treasury investments:** These are included in the Investment Strategy (See Appendix Five).

Risk assessment and credit ratings

5.21 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.

5.22 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

5.23 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.

5.24 **Reputational aspects:** The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

5.25 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022 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)

5.26 The Council's Total Useable Reserves available to cover investment losses are forecast to be £229m at 31 March 2024 and £197m at 31 March 2025. 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.

5.27 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.

5.28 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

5.29 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.

5.30 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 impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates. 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% <u>rise</u> in interest rates (additional interest received on lending and paid on borrowing assuming that all maturities are renewed)	£0.108m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates (reduction in interest received on lending and paid on borrowing assuming that all maturities are renewed).	-£0.108m

Maturity structure of borrowing

6.5 This indicator is set to control the Council's exposure to refinancing risk. 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. 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%

Long term treasury management investments (See Investment Strategy in Appendix Five for non-treasury investments).

Principal sums invested for periods longer than a year

6.6 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 prudential limits on the long-term treasury management investments will be:

Table 10:

Price risk indicator	31/03/25	31/03/26	31/03/27	No Fixed Date *
Limit on principal invested beyond year end. * strategic pooled funds have no fixed maturity date	£100m	£50m	£0m	£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 2024-25 is £3.747m, based on an average investment portfolio of £2.8m of traditional investments at an interest rate of 5.25%, £70m nominal of strategic pooled funds at an interest rate of 4.57% and other dividends. The budget for long term external borrowing debt interest in 2024-25 is £11.967m, this includes £11.127m for the existing long-term debt portfolio of £254.174m at an average interest rate of 4.38%, together with short-term debt interest of £8.159m. 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 – Arlingclose (Treasury Management Advisors) Economic & Interest Rate Forecast – December 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the BoE's latest forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely Purchase Managers' Index (PMI) figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and Arlingclose expects unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. Arlingclose believes policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects have diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant policy loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium-term level for Bank rate.
- There is a heightened risk of geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. Arlingclose believes this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

Table 12:

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-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	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-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	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-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	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-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:

	31.03.23 Balance £m	New £m	Repaid £m	Change in Market Value £m	Movement £m	31.12 23 Balance £m	31.12.23 Average Rate %
External Borrowing:							
Public Works Loan Board	250.579	0	-6.405	0	-6.405	244.174	4.37
Local authorities (inc D2N2)	224.500	214.000	-215.000	0	-1.000	223.500	4.50
LOBO loans from banks	5.000	0	-5.000	0	-5.000	0	n/a
Other loans	10.000	0	0	0	0	10.000	4.69
Total External Borrowing	**490.079**	**214.000**	**-226.405**	**0**	**-12.405**	**477.674**	**4.44**
Other Long-Term Liabilities (PFI, Leases, Transferred Debt)	55.187	0	0	0	-0	55.187	n/a
Total Gross External Debt	**545.266**	**214.000**	**-226.405**	**0**	**-12.405**	**532.861**	**n/a**

Treasury Investments:							
Local Authorities & UK Govt	218.500	298.500	-394.000	0	-95.500	123.000	2.88
Banks (unsecured)	32.586	0	-22.335	0	-22.335	10.251	4.65
Registered Providers	10.000	0	0	0	0	10.000	1.65
Negotiable Instruments	23.004	42.917	-65.921	0	-23.004	0	n/a
Money Market Funds	0.000	255.000	-195.000	0	60.000	60.000	5.36
Total Deposits	**284.090**	**596.417**	**-677.256**	**0**	**-80.839**	**203.251**	**3.64**
Bonds	4.539	0	0	0.215	0.215	4.754	4.76
Equities UK	8.106	0	0	0.042	0.042	8.148	6.09
Equities Global	6.502	0	0	0.157	0.157	6.659	3.37
Multi Asset Funds	22.471	0	0	0.544	0.544	23.015	3.99
Property	23.013	0	0	-0.749	-0.749	22.264	4.90
Total Strategic Pooled Funds	**64.631**	**0**	**0**	**0.209**	**0.209**	**64.840**	**4.57**
Total Treasury Investments						**268.091**	**3.87**
Net Debt						**264.770**	

Non-Treasury Investment Strategy Report 2024-25

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.

1.3 The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

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 £10m and £192m during the 2024-25 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 2024-25 for Treasury Management investments are covered in the Treasury Management Strategy included at Appendix Four.

Service Investments: Loans

3.1 **Expected Repayment for 2024-25:** 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 advanced + £1.663m capitalised interest and fees at 31 March 2023: Local Regeneration Partners – to 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.

- £0.500m advanced + £0.014m accrued interest at 31 March 2023: Community Trusts – to Chesterfield Football Club Community Trust for sporting and community provision in the greater Chesterfield area. Expected repayment of £0.046m estimated for 2024-25.

3.2 **Security:** Each loan requires individual Cabinet or Council 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 2023 actual			**2024-25**
Category of borrower	**Balance owed £m**	**Loss allowance (paragraph 3.4) £m**	**Net figure in accounts £m**	**Approved Limit £m**
Local Regeneration Partners	13.053	-2.802	10.251	13.480
Local Community Trusts	0.514	-0.051	0.463	0.455
TOTAL	**13.567**	**-2.853**	**10.714**	**13.935**

3.3 Accounting standards require the Council to set aside loss allowance for loans, prudently reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. The loss allowance does not affect the Council's right/expectation to recover the total debt. 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 and directors' guarantees. The directors provide monthly management information, profit and loss and cashflow estimates. The risk of loss of £2.802m is based on £1.663m of capitalised interest which has been written off by the Council and £1.139m representing 10% of the capital advanced.

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 £0.051m on the loan amount outstanding of £0.514m at 31 March 2023.

Chesterfield Football Club also suffered from reduced income during Covid-19 restrictions, but now is business as usual.

3.5 **Proportionality:** As the Council's traditional investments reduce, the Council is increasingly dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan. Table 2 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan.

Table 2: Proportionality of Investments

	2022-23 Actual £m	2023-24 Forecast £m	2024-25 Budget £m	2025-26 Budget £m	2026-27 Budget £m
Investment income	0.521	0.975	0.046	0.046	0.046
Gross service expenditure	1,173.650	1,238.814	1,188.808	1,188.808	1,188.808
Proportion	0.04%	0.08%	0.01%	0.01%	0.01%

Capacity, Skills and Culture

4.1 **Statutory officers:** The Director of Finance & ICT, who is the Council's S151 Officer, holds semi-annual meetings with the Council's Treasury Management advisors to discuss the Council's Treasury Management Strategy. The Council's Treasury Management advisors can also provide advice and guidance on the Council's Non-Treasury Investment Strategy.

4.2 **Elected members:** The Council's elected members involved in the investments decision making process have received periodic training from the Council's S151 Officer, to ensure they have the appropriate capacity, skills and information to enable them to:

- To assess individual assessments in the context of the strategic objectives and risk profile of the local authority.
- To enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.

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 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:** Table 3 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 3: Total investment exposure

Total investment exposure	31.03.2023 Actual £m	31.03.2024 Forecast £m	31.03.2025 Forecast £m
Treasury management investments (excluding strategic pooled funds) *	314.090	88.422	10.000
Strategic pooled funds	64.631	64.840	0
Service investments: Loans	13.567	14.452	13.935
TOTAL INVESTMENTS	**392.288**	**167.714**	**23.935**
Commitments to lend	0.373	0	0
TOTAL EXPOSURE	**392.661**	**167.714**	**23.935**

*£10m minimum balance requirement for MIFID professional status.

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. The Council does not currently hold any investments funded from borrowing.

Table 4: Investments funded by borrowing

Investments funded by borrowing	31.03.2023 Actual £m	31.03.2024 Forecast £m	31.03.2025 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	2022-23 Actual %	2023-24 Forecast %	2024-25 Forecast %
Treasury management investments (excluding *)	2.09	3.95	4.15
*Strategic Pooled Funds	5.16	4.57	n/a
Service Investments: Loans	5.72	7.65	7.65
ALL INVESTMENTS	**2.72**	**4.52**	**6.28**

Table 5: Other investment indicators

Indicator	2022-23 Actual	2023-24 Forecast	2024-25 Forecast
Debt to net service expenditure ratio	1:1.29	1:1.69	1:2.15
Service Loans income to net service expenditure ratio	1:1217	1:717	1:558

Appendix Six

Capital Strategy 2024-25

1 INTRODUCTION

1.1 The Capital Strategy is intended to provide a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. Decisions made on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and local policy framework, as summarised in this report.

Financial Context

1.2 Local authorities continue to operate in a financially challenging environment. After many years of real terms reductions in levels of government funding, the Council is facing significant increases in the cost of delivering services across all areas. Price increases across supplies and services, rising construction and materials costs, and pay inflation during 2023-24 have resulted in in significant budget pressures in many areas. This has been compounded by the impact of the cost-of-living crisis on residents, growing demand for Adult Social Care and Children's Social Care, Special Educational Needs services and Home to School Transport.

1.3 This combination of rising costs and growing demand means that the financial sustainability of the Council is facing unprecedented pressures. The Council is considering how it operates its services, both in the short and medium term, which will impact on how capital resources are prioritised, deployed and managed.

Capital Expenditure and Financing

1.4 Capital expenditure is expenditure on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

1.5 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as the minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (capital receipts) may be used to replace debt finance.

Prudential Code

1.6 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.

1.7 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.

1.8 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.

1.9 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.

Capital Investment Programme

1.10 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 Strategy).
- 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 investment and financing.

2 OBJECTIVES OF THE STRATEGY

2.1 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.

2.2 The 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.

2.3 The capital strategy should support the key priorities laid out in the Council's Council Plan. Each capital proposal is required to clearly demonstrate how 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 CAPITAL PROGRAMME AND KEY PROJECTS

3.1 The Council has an existing Capital Investment Programme which has been approved by Full Council in previous years. Delivery of this programme is subject to quarterly monitoring and reported to Executive Cabinet. The existing approved Capital Programme and projected expenditure as at quarter 2 in 2023-24 was as follows:

Table 1 – Approved Capital Programme (At 30 September 2023)

Existing Capital Programme	Approved Budget	Total projected spend by 31 March 2024	Projected Spend in Future years	TOTAL planned spend	Net (Under) / Over
Department	**£m**	**£m**	**£m**	**£m**	**£m**
Adult Social Care & Health	91.854	88.919	1.687	90.606	**(1.248)**
Children's Services	189.486	142.308	39.705	182.013	**(7.473)**
Corporate Services and Transformation	46.075	36.778	11.960	48.738	**2.663**
Place	391.868	345.113	39.175	384.288	**(7.580)**
Total	**719.283**	**613.118**	**92.527**	**705.645**	**(13.638)**

3.2 Appendix Two of this report includes the proposed new Capital Starts for 2024-25 which, if approved, will be added to the Capital Programme.

Table 2A – Proposed New Capital Starts for 2024-25

New Projects	2024-25	2025-26	2026-27	Total
Department	**£m**	**£m**	**£m**	**£m**
Adult Social Care & Health	9.898	0.000	0.000	**9.898**
Children’s Services	14.61	7.467	0.848	**22.925**
Corporate Services and Transformation	10.677	17.375	6.025	**34.077**
Place	30.512	1.341	1.216	**33.069**
Contingency	0.200	0.200	0.200	**0.600**
Total	**65.897**	**26.383**	**8.289**	**100.569**

Table 2B – New Capital Starts Financing

New Capital Starts for 2024-25	Financing			
	Grant	Capital Receipts	Borrowing	Total
	£m	£m	£m	£m
Adult Social Care & Health	7.898	0.000	2.000	**9.898**
Children's Services	22.925	0.000	0.000	**22.925**
Corporate Services and Transformation	10.100	1.027	22.950	**34.077**
Place	27.371	0.000	5.698	**33.069**
Contingency	0.000	0.000	0.600	**0.600**
Total	**68.294**	**1.027**	**31.248**	**100.569**

Table 2C – Borrowing Profile for New Capital Starts

Borrowing Profile for New Capital Starts	Financing Year			
	2024-25	2025-26	2026-27	Total
Borrowing	**14.991**	**8.816**	**7.441**	**31.248**

3.3 Within the Council Plan are a number of key projects and priorities which are, or will, have an impact on the Council's Capital Programme in 2024-25 and beyond:

- Complete the delivery of a £120 million 3-year Local Transport Programme to provide well managed roads and highways and address road safety concerns.
- Submit a planning application and continue to progress proposals for the Chesterfield to Staveley Regeneration Route, which will create new homes and jobs for the area.
- Reduce the level of flood risk to the residents and businesses of Derbyshire through our planning role, the delivery of flood mitigation schemes and working with communities to develop flood resilience measures.

- Develop and deliver a strategic approach to sustainable travel and transport across the county, including the promotion of cycling and walking.
- Work with District and Borough Council and other partners to identify an average of 3 new sites each year that will increase the amount of age-appropriate accommodation and support for older people.
- Continue to deliver the Climate Change Strategy and Action Plan which sets out priorities to reduce the county's greenhouse gas emissions.
- Reduce greenhouse gas emissions from Council property, vehicles and street lighting to 12,310 tonnes CO2e by 2024 and net zero by 2032.
- Work with schools and other education providers to implement new strategies and support, to enable children and young people to achieve their educational potential and begin to catch up on learning they have missed due to COVID-19 restrictions.
- Implement the Asset Management Strategy and Property 2025 programme, reviewing and rationalising our land and building assets and ensuring an effective plan is in place for the management of those we retain.
- Implement actions from the review of Modern Ways of Working with a focus on the workstream exploring the future development of County Hall.
- Finalise and implement a new Digital Strategy for Derbyshire, including support for the roll out of gigabit technology.
- Work with partners towards the production of a Development Framework that provides a positive unified vision for the Derwent Valley Mills World Heritage Site, that highlights development possibilities, and identifies the infrastructure that is needed to release the site's potential.

3.4 In addition to this, the Council's Asset Management Strategy 2022-2025 identifies additional activities which may impact on the Council's Capital Programme:

- Continue to centralise all land and property assets, to ensure a consistent strategic approach to property decisions and building management and a single point of accountability for budgets and costs.
- Delivering the Property 2025 programme to review every asset and ensure that there is a plan in place for its effective management.
- Developed an Estate Management Strategy and Disposal Protocol which delivers the objectives of the Asset Management Strategy, the asset challenge process and the asset plans, ensuring that the Council only retains the buildings that it needs to deliver services.

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 to promote economic growth. These loans are treated as capital expenditure where the loan is enabling another body to buy or develop assets.

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 in Appendix Five.

7 GOVERNANCE ARRANGEMENTS

Capital Programme Approvals

7.1 The Council's constitution and financial regulations govern the capital programme as set out below:

- All capital expenditure must be carried out in accordance with the Financial Regulations and the Council's Constitution.
- The expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards.
- The Capital Programme approved by Full Council as part of the Council's annual budget report sets the capital funding availability for the Council.
- Prioritisation of funding and the schemes receiving entry into the Capital Programme.
- Each scheme must be under the control of a responsible person/ project manager.
- Any agreements (such as section 106) which contractually commit to procure capital schemes will need to follow the same approval process as other capital expenditure before it can be formally be incorporated into the Capital Programme.

Capital Programme Bodies

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

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

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

  Cabinet also receives the capital monitoring reports.

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

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

8 FUNDING STREAMS

8.1 The Council's Capital Programme is funded from a mix of sources including:

- **Prudential Borrowing**
  The introduction of the Prudential Code in 2004 allowed the Council to undertake borrowing to fund capital investment. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities. The Council must ensure that 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 borrowing has revenue implications for the Council in the form of financing costs (interest payable on loans and minimum revenue provision for the repayment of borrowing). In the context of growing cost and demand pressures on the revenue budget, any decisions to fund capital investment from borrowing must carefully consider the revenue budget implications for future years.

- **External Grants**
  The largest form of capital funding comes through as external capital grant allocations from Central Government departments, such as the Department for Transport and Department for Education. Key sources of capital grant funding are the Local Transport Plan Grant for Highways, and Basic Need and School Condition grants for Children's Services.

- **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 growing demand and cost pressures on the Council's revenue budget has reduced options in this area. 'Invest to Save' options may be adopted where feasible if the capital

investment proposal can demonstrate ongoing revenue budget savings.

- **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.

Minimum Revenue Provision

8.3 Where the Council finances capital expenditure from borrowing, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). The amount of Minimum Revenue Provision required to be charged each year to the revenue budget is determine by the Minimum Revenue Provision Policy Statement, which is set out in Appendix Seven.

9 KEY STRATEGIES IMPACTING ON THE CAPITAL STRATEGY

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

(a) Property Asset Management Strategy

9.2 The aim of the Property Asset Management Strategy is to provide a framework for managing the corporate property portfolio, and ensure that the Council's estate is sustainable, efficient and fit for the purpose of delivering excellent 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.

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

- Asset Management Plan
- Property Maintenance Strategy
- Estate Management Strategy
- Development Strategy
- Facilities Management Strategy
- Disposals and Acquisition 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) Digital and ICT Strategies

9.5 The Council's Digital Strategy is in development in the context of a rapidly changing digital landscape. The Digital Strategy will define the Council's approach to systems and data use, to both drive and support service delivery in the future. The key objectives of the emerging Digital Strategy are as follows:

- To move to a modern cloud-based infrastructure with applications and data hosted in the cloud.
- An integrated application landscape to provide efficient interoperable systems and processes.
- Automate manual processes to provide additional capacity and deliver improved services to residents and the Council.
- Improve user experience by designing customer centric services.
- Utilise an Enterprise Architecture function to provide architectural governance, proactive end to end solutions and reduced complexity.
- Create a Business Information and Data Analytics function to harness to value of DCC's data and use it to provide evidence and insight for proactive decision making.

9.6 Alongside the Digital Strategy, the Council's ICT Strategy is also being developed. The ICT Strategy will define the ICT service necessary to deliver the Council's Digital Strategy, identify a Target Operating Model (TOM) for that service, identify the gap between the current 'as-is' operating model and the future 'to-be' operating model, and describe an implementation plan to transition to the future state.

9.7 Delivery of the Digital and ICT Strategies, and the future 'to-be' operating model may require future capital investment. Any future investment requirements will become clearer as the strategies and implementation plan are finalised.

(c) Highways Infrastructure Asset Management Strategy

9.8 Highway infrastructure is the largest and most visible asset the Council is responsible for. With a gross replacement cost of around £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.

9.9 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.

9.10 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)

9.11 The major source of capital funding for the network is from the Local Transport Plan (LTP) grant from central government which is approximately £27m per annum.

(d) Economic Growth Strategy

9.12 Enabling and delivering economic growth and regeneration is one of the Council's priorities, particularly in the context of recovery from the pandemic. The economic development and place shaping aspirations for the Council may require Capital Investment, either directly by the County Council or through District and Borough Councils.

(e) Carbon Reduction Strategy

9.13 In October 2021, Derbyshire County Council approved a Climate Change Strategy, with the aim of reducing emissions generation by the Council to net-zero by 2032 or sooner. Delivery of the Carbon Reduction targets may require capital investment.

(e) Workplace, Wellbeing and People Strategies

9.14 The Council recognises the importance of the promotion and the maintenance of the physical and mental health, safety and wellbeing of its workforce, and the workplace has a significant role to play in wellbeing. Implementing actions from the Modern Ways of Working review may deliver asset led transformation, such as the future development of County Hall, which will have implications for the Capital Strategy.

10 TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS

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. The Capital Strategy should be considered alongside the Treasury Management Strategy and Investment Strategy which are included as appendices four and five with this report.

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 Although capital expenditure is not charged directly to the revenue budget, the costs of financing capital expenditure need to be met from the annual revenue budget. These costs are known as financing costs and reflect:

- Interest payable on loans; and.
- Amounts set aside for repayments of amounts borrowed. This includes the Minimum Revenue Provision and repayments of amounts relating to PFI schemes and other finance lease liabilities.

Table 3 – 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.

	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Financing costs of CFR	50.810	56.634	65.060	70.015	72.069
Net Revenue stream inc DSG	1,022.401	1,030.784	1,087.833	1,103.959	1,120.309
Percentage	**4.97%**	**5.49%**	**5.98%**	**6.34%**	**6.43%**
Net Revenue stream excluding DSG	637.012	638.392	695.441	711.567	727.917
Percentage	**7.98%**	**8.87%**	**9.36%**	**9.84%**	**9.90%**

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 a revenue or capital resource 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.

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 2024-25 does not, except in the short-term, exceed £830.336m (i.e. the estimated CFR for 2026-27).

Table 4 – Estimates of Capital Expenditure and Capital Financing Requirement

	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Capital Expenditure	**100.308**	**229.150**	**206.430**	**182.030**	**117.070**
Funding Sources:					
Borrowing	44.414	129.860	92.660	67.470	55.260
Capital receipts	1.548	3.920	6.310	2.300	0.000
Capital grants	54.273	94.950	107.460	112.260	61.810
Revenue	0.073	0.420	0.000	0.000	0.000
Total CFR at year end	**594.275**	**700.655**	**766.812**	**805.029**	**830.336**
Net movement in CFR	22.978	106.380	66.157	38.217	25.307
Minimum Revenue Provision	21.436	23.480	26.503	29.253	29.953
PFI & Leases in CFR	55.045	49.999	52.247	45.638	38.814
PFI & Leases in MRP	4.785	5.046	6.223	6.225	6.284

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.

Operational Boundary for External Debt

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

Authorised Limit for External Debt

10.18 The Authorised Limit for external debt is a key prudential indicator as it is a control on the maximum level of borrowing. It represents a legal limit beyond which external debt cannot exceed, and 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 based on the forecast Capital Financing Requirement, which has regard to the forecast level of liabilities (including finance lease liabilities).

10.20 The Authorised Limit for 2024-25 is to be £843m and the Operational Boundary is to be £805m.

Table 5 – Authorised Limit for External Debt

	2022-23 Actual £m	**2023-24 Estimate £m**	**2024-25 Estimate £m**	**2025-26 Estimate £m**	**2026-27 Estimate £m**
Authorised limit for external debt	769	813	843	886	913
Operational boundary for external debt	734	776	805	845	872
Borrowing	490	413	301	256	243
Other debt liabilities	55	50	52	46	39
Total	**545**	**463**	**353**	**302**	**282**

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.

Minimum Revenue Provision Statement 2024-25

1.1 Where the Council finances Capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

1.2 The broad aim of the MHCLG Guidance is to ensure that Capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

1.3 The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The Council's approach to the Minimum Revenue Provision for 2024-25 is as follows:

- For Capital expenditure incurred before 1 April 2008, MRP will be determined as 2.5% of the Capital Financing Requirement in respect of that expenditure.
- For capital expenditure incurred after 31 March 2008, MRP will be determined as 2.5% of the Capital Financing Requirement, unless borrowing relates to any significant assets with a life of less than 20 years. In this case an annual amount based on the expected useful life of the individual assets will be used, determined on an asset by asset basis. MRP on Capital expenditure incurred after 31 March 2008 will start in the year after the expenditure is incurred.
- For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- For capital expenditure loans to third parties which are funded from borrowing, the Council will make nil MRP, unless situations ‘a’ or ‘b’ apply, but will instead apply the Capital Receipts arising from principal repayments to reduce the Capital financing requirement instead.
    - Situation (a): the loan is an investment for commercial purposes and no repayment was received in year;
    - Situation (b): an expected credit loss was recognised or increased in-year.

  In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP Policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. Sufficient MRP will be charged to ensure that the outstanding Capital Financing Requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by Government in its recent MRP consultation. The Council does not currently have any outstanding loans that were financed from borrowing.