Public

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DERBYSHIRE COUNTY COUNCIL

CABINET

23 January 2020

Report of the Director of Finance & ICT

CAPITAL PROGRAMME APPROVALS, TREASURY MANAGEMENT AND CAPITAL STRATEGY
(COUNCIL SERVICES)

1 Purpose of the Report

To obtain approval for proposals for submission to Council relating to the capital starts programme for 2020-21 and the Treasury Management, Investment and Capital Strategies.

2 Information and Analysis

In line with previous years, the proposed new Capital Starts Programme for 2020-21 has been evaluated and it is recommended to proceed with new borrowing of £35.420m (excluding invest to save schemes). The detailed proposals are set out in Appendix 1 of this report.

The Treasury Management Strategy Report for 2020-21 (Appendix 2) sets out the Council's management of its cash flow, borrowing and investments and the management of its associated risks.

The Investment Strategy Report for 2020-21 (Appendix 3) deals with the management of the Council's balances and reserves, managing the balance between risk and return.

The Capital Strategy (Appendix 4) for 2020-21 provides a high level overview of how capital expenditure and capital financing contribute to the provision of local public services.

3 Considerations

In preparing the report the relevance of the following factors has been considered: financial, legal, human resources, environmental, social value, property and transport.

4 Background Papers

Local Government Act 2003; Prudential Code 2017; Treasury Management in the Public Services; Capital Accounting Working Papers.

5 Key Decision

No.

6 Is it necessary to waive the call-in period?

No.

7 Officer's Recommendations

That Cabinet recommends to Council that it:

7.1 Approves the 2020-21 Capital Starts Programme set out in Appendix 1;

7.2 adopts the Treasury Management Policy set out in Appendix 2;

7.3 adopts the Investment Strategy set out in Appendix 3; and

7.4 adopts the Capital Strategy set out in Appendix 4.

PETER HANDFORD

Director of Finance & ICT

Appendix 1

CAPITAL PROGRAMME 2020-21

The proposed new starts programme for 2020-21, along with funding streams, as shown in Table 1, has been evaluated and it is recommended to proceed with new borrowing of £35.420m (excluding invest to save schemes). More details on each individual scheme are set out below.

Schemes are funded from a combination of Government grants, capital receipts, use of reserves and contributions from revenue budgets. Capital receipts are normally used to support the overall programme. In cases where a new project is directly dependent on the disposal of an existing asset, for example, the replacement of a school, then the receipt from the disposal of the 'old' asset can be earmarked to fund the replacement.

The Capital Programme remains affected by the downward pressure on the Council's finances. The main limiting factor on the Council's ability to undertake capital expenditure 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, which is now mainly through capital grants. Because of this, there has previously been a limit on new borrowing of no more than £15m. However, this year, due to the increasing pressures being placed on school places and infrastructure, borrowing has been increased to ensure that the Council meets its statutory obligations and in turn assists in delivering the Strategic plan.

The Council will receive estimated Government grants of just under £65m to address key issues in highways and maintenance, develop integrated transport schemes and address the most immediate condition problems in schools. Funding is requested to cover the funding gaps for a New Care Home and Extra Housing Scheme on the Bennerley site and to assist in the building of new schools in response to major housing developments.

There are bids to assist in delivering the Government's target of helping to alleviate historical flooding to properties and to ensure that the Council's Waterbodies, for example ponds, lakes, reservoirs and canals, are adequately maintained.

In line with the Council's ICT Strategy, a full capital replacement programme is being developed, to ensure that all capital related ICT hardware and software will be replaced over a five year cycle. This envisages borrowing £2m per year.

Table 1 Capital Programme Bids 2020-21

Funding Streams

	Grant	Capital receipts	Borrowing	Invest to Save	Total
	£m	£m	£m	£m	£m
Children's Services					
Basic Need	6.283				6.283
Children's Homes			0.250		0.250
Devolved Formula Capital	1.953				1.953
Glossopdale School Expansion	2.345		1.655		4.000
Newhall Junior School			2.000		2.000
Schools Access Initiative			0.400		0.400
Schools Condition Allowance	7.682				7.682
Capital Support for New Schools	2.000		4.000		6.000
Adult Care					
Disable Facilities Grant Adaptations	6.960		4.000		10.960
Bennerley Avenue Site	15.000		15.000		30.000
Communities, Commissioning and Policy					
Fire Risk Schemes			0.650		0.650
Kitchen Ventilation Schemes			0.500		0.500
Risk Management			0.130		0.130
SAP Hana				2.000	2.000
Replacement of ICT Hardware			2.000		2.000
Environment, Transport and Economy					
Derelict Land Reclamation	0.117		0.135		0.252
Local Transport Plan	22.098				22.098
Corporate Vehicle Replacement Programme				2.512	2.512
Elvaston Castle Defective Structures			0.500		0.500
Flood Alleviation Schemes	0.195				0.195
Waste Management Accounting System			0.200		0.200
Risks in Association with Water Bodies			1.000		1.000
Infrastructure Support		4.700	3.000		7.700
TOTAL	**64.633**	**4.700**	**35.420**	**4.512**	**109.265**

Summary of Individual Schemes

Childrens Services

Basic Need £6.283m

The Department for Education (DfE) grant allocation for Basic Need schemes is to provide additional school places in areas of population growth. Feasibility studies have been undertaken based on an analysis of pupil projections. A priority list of potential projects is being finalised.

Children’s Homes £0.250m

The Council is a Corporate Parent to children in care and is required to provide suitable and homely accommodation for children in the Council’s Children's Homes. The Homes are subject to inspection by Ofsted and should the accommodation not meet the quality standards there is a risk of the Homes failing inspection.

Devolved Formula Capital (DFC) £1.953m

The Council receives an annual allocation of devolved capital from the DfE. This capital grant gives all schools money to invest in their buildings, grounds and ICT equipment in order to improve educational standards. DFC must only be used for capital purposes, such as funding new buildings and facilities, ICT equipment, capital repairs and refurbishment in accordance with priorities set by each school and in line with the asset management plan (AMP) for the school.

Glossopdale School Expansion £4.000m

Glossopdale School is a new school that was designed for 1200 pupils but the core facilities were built for 1440 in anticipation of further expansion relating to housing growth in the town. The housing growth has come forward faster than anticipated and the percentage of normal area pupils preferring to be educated at Glossopdale has increased by 12% between 2017 and 2019. In 2018 and 2019 the school was oversubscribed and with the pupils likely to be generated by the housing, this trend is due to continue. There is a strong desire for pupils to remain in the town and this has generated the need for the early expansion of the school.

Newhall Junior School £2.000m

Newhall Junior School is classed as a building at risk and is a high priority. The roof, which contains asbestos, requires replacement as a matter of urgency, however, given the presence of asbestos, the project is likely to involve the temporary re-location of the school whilst the work is carried out.

Schools Access Initiative £0.400m

This is a long standing initiative which helps the Council to comply with the Equality Act. The highly sensitive ongoing works ensure vulnerable children can access mainstream education.

School Condition Allowance £7.682m

This is DfE grant funding to cover the cost of upgrading and maintaining the condition of school accommodation to suit the needs of education in Derbyshire. School Condition Allowance allows for only the most serious condition-related issues to be addressed given that the Council has a backlog of school condition expenditure of £150 million. 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.

Capital Support for New Schools £6.000m

New schools established in response to major housing developments will open as academies. Whilst the developments are expected to fund the capital costs of the new schools, there can be shortfalls given the protracted timescales between the original agreement and the delivery of the housing. This funding will be used, if required, to supplement the Section 106 contributions to allow the schools to be delivered and meet the authority’s statutory duty to provide sufficient school places in the County.

Adult Care

Disabled Facilities Grant £10.960m

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

The DFG process is prescribed by legislation and regulations and requires that applicants are subject to a Test of Resources (means test). The Test of Resources only looks at an applicant’s income and does not take account of their outgoings or personal circumstances. There are three possible outcomes for applicants: a grant to cover the cost of the work (up to a maximum of £30,000), a grant to cover part of the work, grant application is deemed 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, is required to consider providing financial assistance where the applicant cannot meet some or all of the cost of the adaptation.

Bennerley Avenue Site £30.000m

On 11 September 2019 Cabinet approved the development of a new Care Home and Extra Care Housing Scheme on Bennerley Avenue, Cotmanhay including the use of a non-Derbyshire County Council Framework for the procurement of a construction contract. Detailed planning approval for the scheme is due to be determined early in 2020, with a tender to award a construction contract expected to be complete by April 2020 with completion of the whole scheme by Summer 2022. The home will replace the nearby Hazelwood Care Home. The home will have 40 beds with the capability of being extended to an 80 bed home in the future, should the need arise.

Commissioning, Communities and Policy

Fire Risk Schemes £0.650m

Under The Regulatory Reform (Fire Safety) Order 2005 the Council is required to undertake fire risk assessments on its building stock. 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 and so on. Assessments are carried out on an ongoing basis, agreed with the Fire Service, to identify and improve the building form/fabric to a suitable standard. The Council's ongoing survey programme has identified the need for further funding to address these works.

Kitchen Ventilation Schemes £0.500m

The Council is under a statutory duty to provide safe premises from which it can deliver its services and its employees can work. Part of this involves compliance with gas safety regulations and ensuring safe kitchens for staff and service users in schools, residential premises and other Council premises that have catering kitchens. This funding is required to enable the continuation of a planned programme of works to improve and upgrade gas ventilation systems in Council owned schools, residential premises and other premises that have catering kitchens and also to establish a contingency pot to fund emergency works where premises are in danger of imminent closure because of non-compliance with gas safety regulations.

Risk Management £0.130m

To provide funding that will actively reduce risk and to increase the understanding of risk across all departments within the Council and therefore provide a long term cost saving by reducing the risk of injury; improve staff absence following incidents; reduce the risk of damage to our properties; assist with risk related improvements that impact upon adult care and children's homes that impact upon their classification and support risk reduction methodologies that will minimise reputational damage to Derbyshire and therefore support visitor growth.

SAP Hana £2.000m

SAP ECC is the Council's core financial, HR and payroll system and is fundamental to the continued operations of the Council. The current version of SAP ECC was implemented in April 2010. SAP recently announced that it will withdraw support from some of its products in 2025, including the version of SAP used by the Council. Additionally, the infrastructure that supports SAP ECC requires replacement in 2022 to maintain the existing SAP ECC system. A new version of SAP ECC is available, known as SAP S/4 and is supported beyond 2035. This bid is to facilitate the upgrade to the S/4 in timely manner that coincides with the already required infrastructure upgrades in 2022 and meets the needs of the Council and ICT Strategy. SAP S/4 provides enhanced analytics, reporting and the opportunity to streamline business processes driving savings from across the Council.

Replacement of ICT Hardware £2.000m

The ICT Service maintains a five year plan which details the desktop equipment and other major ICT infrastructure components that need replacing. This includes users' laptops and PCs, components and utilities that support the Data Centre and Converged Infrastructure and Core VSS Network and Network Cabinet replacement to maintain a physically secure network.

Laptops and PCs are replaced on a five year cycle to ensure they are capable of running the latest software and meet the demands of service users. All other components are centralised and represent critical elements of the Council's ICT Infrastructure. The ICT infrastructure underpins the delivery of front line services through the direct provision of ICT, such as IT equipment and connectivity in libraries and the ICT backbone to support large systems for practitioners, such as the Adult Care and Children's Services case management system and the SAP platform that provides the Council's core financial systems.

The ICT Service has identified a range of major infrastructure components that will need replacing over the next five years.

Economy, Transport and Environment

Derelict Land Reclamation £0.252m

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

Local Transport Plan £22.098m

The Local Transport Plan capital programme supports a number of Council plan priorities, but is fundamental to the maintenance of the highway, towards which the majorly of the available capital funding is dedicated. The programme also supports preparation and local contributions towards major projects including the A61 Growth Corridor, a programme of road safety and traffic management engineering schemes, and others to provide infrastructure encouraging the use of public transport, walking and cycling.

Corporate Vehicle Replacement Programme £2.512m

The Vehicle Replacement Programme is developed on the age factor and mechanical condition of each vehicle within the fleet. The average age of each vehicle to be replaced is ten years. The investment will assist in bringing the Council's vehicle fleet to a standard that minimises inefficient maintenance and operational costs with the benefits of making best use of their new technologies.

Due to the length of the lead time for ordering winter maintenance vehicles, approval is required in 2020-21 to be able to place orders in readiness for the 2021 winter season. For specialist vehicles such as gritters and snow ploughs the lead time for their manufacture can be twelve months.

Elvaston Castle Defective Structures £0.500m

These buildings and structures are in the midst of a busy country park and are Grade ll listed. The Council has an obligation to keep them in good repair. All require urgent work to comply with this requirement.

Some of the buildings are badly eroded and there are concerns about their stability, for example walls could collapse. As these areas are subject to high volumes of traffic, they could pose a danger to the public, with the potential for risk of injury. Work is required on the early 19th Century pump house, Castle Courtyard arch and the North and South Walls of the Old English Garden.

Flood Alleviation Schemes £0.195m

This scheme is to help reduce historical flooding to properties in Bonsall Village, Hogshaw Brook Catchment (Buxton), Eyam and Stoney Middleton and Oak Close Castle Gresley.

It will reduce the risk of flooding to fifteen residential properties and four commercial properties in Bonsall Village, 190 + properties in the Lightwood Road area of Buxton, 50 residential properties in Eyam and Stoney Middleton and nineteen residential properties in the Castle Gresley area.

It will also assist in delivering the Government's target (still to be determined from 2021 onwards) of further reducing flood risk to properties nationally. It is envisaged that the scheme is to be funded entirely from external Grant funding.

Waste Management Accounting System £0.200m

The County Council has legislative obligations to manage the treatment and disposal of household waste collected by the eight District and Borough Councils across Derbyshire. It achieves this through a number of contracts with external contractors.

The existing Waste Management System is fifteen years old and is based on a Microsoft Access database. Support for Microsoft Access 2010 will cease in October 2020, at which time security updates will no longer be available, leaving the system potentially vulnerable. Internally ICT Services are similarly unable to support the existing system.

ICT Services have reviewed the existing Waste Management System and determined that, should a new system be required to be provided in-house, a complete rewrite would be required and consume considerable resources.
It has been concluded that, due to the age of the existing Waste Management System, future maintenance and lack of in-house resources, a new accounting system needs to be procured in order to ensure the continued efficient management of financial accounts for current and future waste management contracts.

Risks in Association with Water Bodies £1.000m

The Countryside Service manages waterbodies on behalf of the Council, including ponds, lakes, reservoirs and canals. A number of the waterbodies are in a poor state, have no regular management of maintenance budget attributed to them and require repair or upgrade as a result of regulatory change or because of changes in landscape use and climate events not anticipated when constructed. In some cases assets have been 'inherited' by the Countryside Service without formal handover and confirmation of fitness for purpose, with no allocation made for their on-going maintenance costs. The water assets require an on-going inspection, maintenance and compliance regime. The Council is the Navigation Authority for the canals, and the Responsible Body for some of the impounded reservoirs, under specific legislation. The other ponds and water bodies are managed as assets in the same way as any other Countryside site, under a prioritisation structure relating to risk and other elements of site status.

Infrastructure Support £7.700m

This funding supports the immediate delivery of three important regeneration projects, through the provision of enabling transport infrastructure, addressing access and off-site impacts. In the absence of this direct financial support these projects would impact heavily on highways and transport capital programmes and the Council's ability to discharge statutory duties on road safety and maintenance and to address its own Climate and Carbon Reduction Manifesto.

Treasury Management Strategy Report 2020-21

1) Introduction

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.

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

Investments held for service purposes or for commercial profit are considered in the Investment Strategy.

2) External Context

Economic background: The UK's progress negotiating its exit from the European Union (EU), together with its future trading arrangements, will continue to be a major influence on the Council's Treasury Management Strategy for 2020-21.

UK Consumer Price Inflation (CPI) was 1.7% year on year in September 2019, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7%, from 1.5% in August 2019. The most recent labour market data for the three months to August 2019 showed the unemployment rate was 3.9%, whilst the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August 2019, as wages continued to rise steadily. In real terms, after adjusting for inflation, pay growth increased by 1.9%.

UK GDP growth rose by 0.3% in the third quarter of 2019, from a fall of 0.2% in the previous three months. The annual rate fell further below its trend rate, to 1.0%, from 1.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as EU exit-related uncertainties dissipate. It is expected that this will provide a boost to business investment, helping GDP reach a forecast 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The Bank of England maintained its Bank Rate at 0.75% in November 2019, following a 7-2 vote by the Monetary Policy Committee (MPC). Despite keeping rates on hold, MPC members did confirm that if EU exit uncertainty extends for longer than predicted, or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the MPC may now be less convinced of the need to increase rates, even if there is an EU exit deal.

Growth in Europe remains soft, driven by a weakening German economy, which saw GDP fall by -0.1% in Q2, with a technical recession expected in Q3 (two successive quarters of negative growth). Euro zone inflation was 0.8% year on year in September 2019, well below the European Central Bank's (ECB) target of 'below, but close to 2%', leading to the ECB holding the main interest rate at 0%, whilst cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November 2019.

In the US, the Federal Reserve began easing monetary policy again in 2019, as a pre-emptive strike against slowing global and US economic growth, on the back of the ongoing trade war with China. At its last meeting the Fed cut rates to range from 1.50-1.75%. Financial markets expect further loosening of monetary policy in 2020. US GDP annualised growth slowed in Q3 to 1.9%, from 2.0% in Q2.

Credit outlook: Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the EU was delayed three times in 2019 and whilst there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ring-fenced banks embedded in the market (the big four UK banking groups divided their retail and investment banking divisions into separate legal entities under ring-fencing legislation).

Looking forward, the potential for a "no-deal" EU exit and/or a global recession remain the major risks facing banks and building societies in 2020-21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast: The Council's Treasury Management Adviser, Arlingclose, is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly the need for greater clarity on EU exit and the continuing global economic slowdown. The Bank of England, having previously indicated that interest rates may need to rise if an EU exit agreement was reached, stated in its November 2019 Monetary Policy Report and in its Bank Rate decision (7-2 vote to hold rates), that the MPC now believes this is less likely, even in the event of a deal.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected, based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40%, respectively, over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new Treasury Management investments will be made at an average rate of 1% over 1 year, and that new long-term loans will be borrowed at an average rate of 3.21% based upon an average term of 18 years.

3) Local Context

On 31 December 2019, the Council held £318.974m of borrowing and £236.088m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.19 Actual £m	31.3.20 Estimate £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m
General Fund CFR	487.050	558.110	618.340	647.430	647.150
Less: Other debt liabilities *	-72.982	-68.874	-73.541	-68.174	-62.579
Loans CFR	**414.068**	**489.236**	**544.799**	**579.256**	**584.571**
Less: External borrowing **	-313.124	-277.474	-272.899	-272.899	-265.579
Internal borrowing	**100.944**	**211.762**	**271.900**	**306.357**	**318.992**
Less: Usable reserves	-338.293	-257.428	-211.531	-190.286	-176.195
Less: Working capital	-36.435	-36.435	-36.435	-36.435	-36.435
New borrowing (or Treasury investments)	**-273.784**	**-82.101**	**23.934**	**79.636**	**106.362**

* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt. As a result of the adoption of the new accounting standard IFRS 16 Leases, the liabilities relating to leases which were previously treated as operating leases will be recognised on the Council's balance sheet. An estimate has been made of the impact of this change and included in the balance sheet summary and forecast. This change increases the General Fund CFR and other debt liabilities by an equal amount, therefore Loans CFR is unaffected.

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

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

The Council has an increasing CFR because of its capital programme. Investments are forecast to fall to £80.000m as capital receipts are used to finance capital expenditure and reserves are used to finance the Revenue Budget.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2020-21.

4) Borrowing Strategy

The Council currently holds £390.674m of debt, an increase of £35.832m on the previous year, as part of its long term strategy for funding previous years' capital programmes and short term operational cash-flow management. The balance sheet forecast in Table 1 shows that the Council expects to borrow up to £106.035m in 2020-21. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £847.000m.

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

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs, by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2020-21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board (PWLB) but the government increased PWLB rates by 1% in October 2019, making it a relatively expensive option. The Council will now look to borrow any 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.

Alternatively, the Council may arrange forward starting loans during 2020-21, 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.

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

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

- PWLB and any successor body;
- any institution approved for investments (see below);
- any other bank or building society authorised to operate in the UK
- any other UK public sector body;
- UK public and private sector pension funds (except Derbyshire Pension Fund);
- capital market bond investors;
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues; and
- D2N2 Local Economic Partnership

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

- leasing;
- hire purchase;
- Private Finance Initiative;
- sale and leaseback.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be 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: The Council holds £5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £5m of these LOBOs have options during 2020-21, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £5m.

Short-term and variable rate loans: 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.

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

5) Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past twelve months, the Council's investment balance has ranged between £236.088m and £402.998m. A report is expected to be taken to the March 2020 Cabinet meeting seeking approval for the Council to pay three years of pension contributions to the Pension Fund in advance, rather than on a month by month basis. These balances may fall significantly in 2020-21 if approval is granted and the decision is taken to proceed but should result in a significant budget saving.

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

Negative interest rates: If the UK enters into a recession in 2020-21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

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

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

Business models: 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: The Council may invest its surplus funds with any of the counterparty types in Tables 2a and 2b below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2a: Approved investment counterparties and limits (County Fund)

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£30m 5 years	£30m 20 years	£30m 50 years	£10m 20 years	£10m 20 years
AA+	£30m 5 years	£30m 10 years	£30m 25 years	£10m 10 years	£10m 10 years
AA	£30m 4 years	£30m 5 years	£30m 15 years	£10m 5 years	£10m 10 years
AA-	£30m 3 years	£30m 4 years	£30m 10 years	£10m 4 years	£10m 10 years
A+	£30m 2 years	£30m 3 years	£30m 5 years	£10m 3 years	£10m 5 years
A	£30m 13 months	£30m 2 years	£30m 5 years	£10m 2 years	£10m 5 years
A-	£30m 6 months	£30m 13 months	£30m 5 years	£10m 13 months	£10m 5 years
Other Bodies (Non-Corporate)		Individual Cabinet Approval			
Strategic Pooled funds and real estate investment trusts (REIT)		£30m per fund or trust			
Money Market Funds		£30m per fund			

Table 2b: Approved investment counterparties and limits (Pension Fund)

The Pension Fund uses cash for liquidity rather than investment return, hence it has shorter duration and fewer counterparty options than the County Fund.

A report is expected to be taken to the March 2020 Cabinet meeting to seek approval for the Council paying pension contributions to the Pension Fund in advance. If approval is granted, these advanced pension contributions will substantially increase the cash balances of the Pension Fund, pending a suitable investment opportunity. It is therefore requested that the limits on Banks are increased from £10m to £30m and on Local Authorities are increased from £20m to £30m with effect from 1 April 2020.

Credit Rating	Banks Unsecured	Banks Secured	Government
UK Govt	n/a	n/a	£ Unlimited 13 months
AAA	£30m 13 months	£30m 13 months	£30m 13 months
AA+	£30m 13 months	£30m 13 months	£30m 13 months
AA	£30m 13 months	£30m 13 months	£30m 13 months
AA-	£30m 13 months	£30m 13 months	£30m 13 months
A+	£30m 13 months	£30m 13 months	£30m 13 months
A	£30m 13 months	£30m 13 months	£30m 13 months
A-	£30m 6 months	£30m 13 months	£30m 13 months
Money Market Funds (MMF)	£30m per fund		

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

County Fund: It is requested the existing additional overnight limit of £30m is maintained.

D2N2: It is requested the existing overnight limit of £10m is maintained.

Derbyshire Developments Ltd: It is requested the existing overnight limit of £0.1m is maintained.

Pension Fund: It is requested the existing additional overnight limit of £20m is increased to £30m.

Pension Fund Currency Accounts US$/€: It is requested that additional limits of US$1,000,000 and €1,000,000 are maintained for lower value currency receipts. Any receipts above these sums will be cleared to Nil by the following working day.

Pension Fund Custodian Accounts:

Northern Trust (In House Account): It is requested the existing limit of £30m is maintained.

Northern Trust (Wellington): It is requested the existing limit of 5% of assets under management (approximately £30m US$ equivalent) is maintained.

BNP Paribas: It is requested a limit of £1m for the previous custodian is retained for receipt of outstanding tax claim rebates.

BNY Mellon: It is requested a limit of £1m for the former custodian is retained for the receipt of outstanding tax claim rebates.

LGPS Central:

The Derbyshire Pension Fund joined the Local Government Pension Scheme (LGPS) Central Pool from 1 April 2018.

DCC Pension Fund re LGPS Central Trading Account: It is requested that a cash limit of 0.5% of assets under management (approximately £25m) is approved.

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. 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.

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

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency and means that they 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 to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, 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 may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Non-Corporates: Loans to unrated companies will only be made following appropriate due diligence which may include an external credit assessment prior to Cabinet approval.

Pooled funds: Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds 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.

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. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Risk assessment and credit ratings: 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; and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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

Other information on the security of investments: 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.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, 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 via the Debt Management Office or invested in Government Treasury Bills for example, or with other Local Authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment limits (County Fund): The Council's Total Useable Reserves available to cover investment losses are forecast to be £283.605m at 31 March 2020. 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 £30 million and capitalised interest. A group of banks under the same ownership will be treated as a single organisation for limit purposes. 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.

Investment limits (Pension Fund): The Pension Fund's cash balance is forecast to be £299.559m at 31 March 2020. 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, Northern Trust (custodian) or Lloyds Bank operational bank accounts as previously detailed) will be £30m and capitalised interest. A group of banks under the same ownership will be treated as a single organisation for limit purposes. 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.

Liquidity management: 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.

Table 3a: Investment limits (County Fund)

	Cash limit
UK Central Government	Unlimited
Other bodies with specific Cabinet approval	Individual Cabinet Approval
Any single organisation or group of organisations under the same ownership (except for the UK Central Government or organisations with specific Cabinet approval)	£30m each
Negotiable instruments held in a broker's nominee account	£100m per broker
Operational Bank Account	£30m additional
Any group of pooled funds under the same management	£30m per manager
Foreign countries	£30m per country
Registered providers and registered social landlords	£50m in total
Unsecured investments with building societies	£100m in total
Money market funds	£300m in total
Real estate investment trusts	£50m in total

Table 3b: Investment limits (Pension Fund)

	Cash limit
Any single organisation or group of organisations under the same ownership, except the UK Central Government	£30m each
UK Central Government	Unlimited
Operational Bank Account	£30m additional
Any group of pooled funds under the same management	£30m per manager
Negotiable instruments held in a broker's nominee account	£200m per broker
Foreign countries	£30m per country
Unsecured investments with building societies	£100m in total
Money market funds	£300m in total

6) Treasury Management Indicators

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

Security: 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 applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating: County Fund Pension Fund	 A A

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 three month period, without additional borrowing.

Liquidity risk indicator	Target
County Fund: Total cash available within 1 month	 £10m
Pension Fund: Total cash available within 1 month	 £60m

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.

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

The County Fund can use either Liquidity risk indicator as appropriate.

The Pension fund must use Liquidity risk indicator (Option 1) as it does not borrow.

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

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£-1.11m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.11m

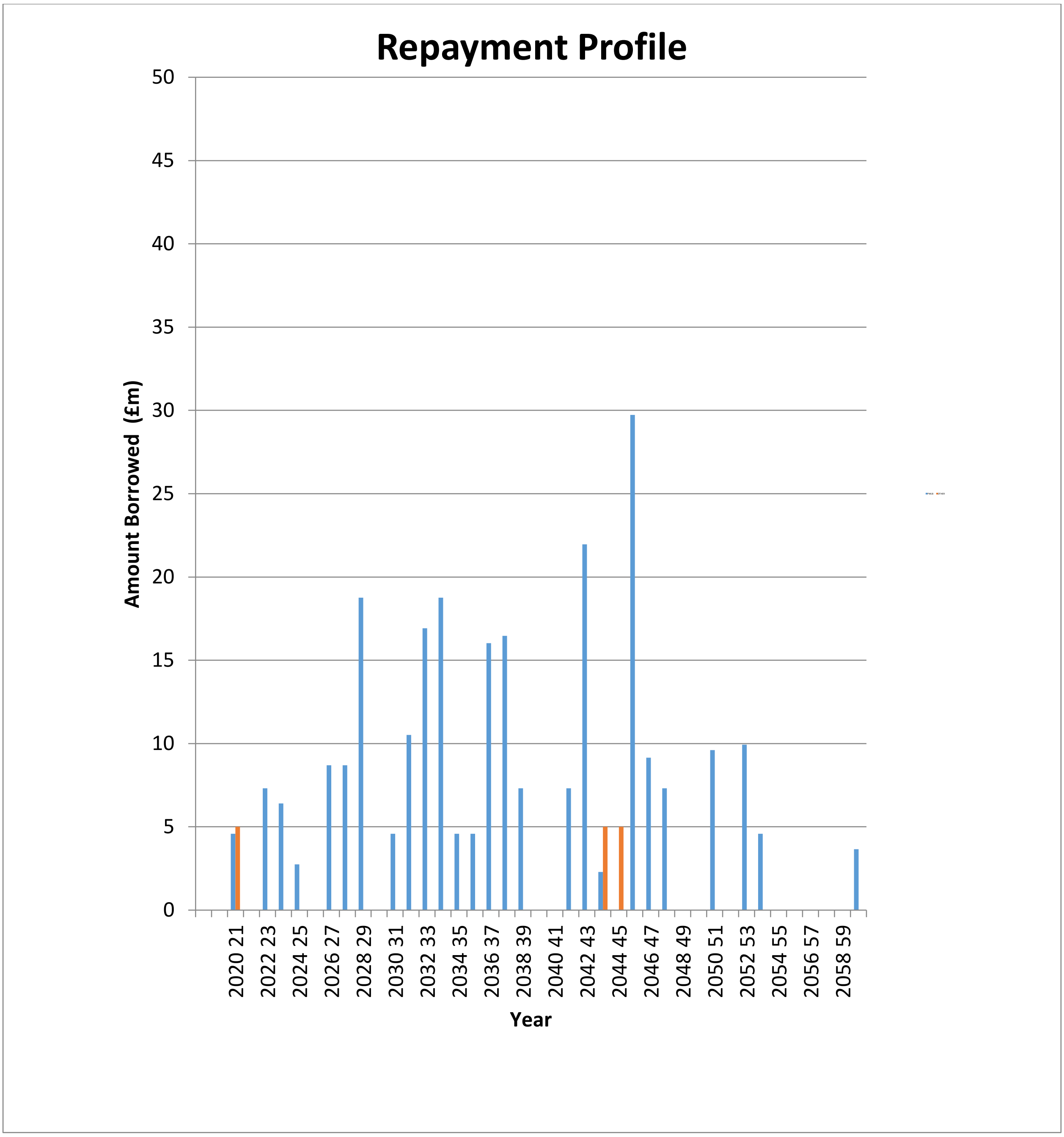
The impact of a change in interest rates is calculated on the assumption that the borrowing for Advanced Pension Contributions varies from current rates. The revenue impact of a 1% fall in rates assumes negative interest rates. The calculation is based on an average short-term borrowing balance of £111m.

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

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%

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. All LOBO option dates are potential repayment dates.

The Council's maturity repayment profile at 31 March 2020 is shown below. A good spread of maturities is desirable. The average redemption is £6.937m per year over the next 40 years. The maximum redemption is £29.738m in 2045-46. The average duration of all the Council's loans is approximately 18 years. Any new borrowing would be targeted for maturity in years with nil/low repayments.



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

Price risk indicator	**2019-20**	**2020-21**	**2021-22**
Limit on principal invested beyond each year end (including strategic pooled funds & non-treasury investments)	£150m	£125m	£100m

Related Matters

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

Financial Derivatives: 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).

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.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

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: 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 Director of Finance & ICT believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2020-21 is £2.800m, based on an average investment portfolio of £70m at an interest rate of 4%. The budget for debt interest paid in 2020-21 is £14.001m, based on an average debt portfolio of £388.474m at an average interest rate of 3.60%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance & ICT, having consulted the Cabinet Member for Council Services, 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.

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 Economic and Interest Rate Forecast January 2020

- The global economy is entering a period of slower growth in response to political issues. The UK economy continues to experience slower growth due to both EU exit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations are low.
- Some improvement in global economic data and a more positive outlook for US/China trade negotiations has prompted worst case economic scenario's to be pared back.
- The new Conservative UK government will progress with achieving EU exit on 31 January 2020. The more stable political environment will prompt a partial return in business and household confidence in the short term, but the subsequent limited EU exit transitionary period, which the government is seeking to enforce, will create additional economic uncertainty.
- UK economic growth has stalled in Q4 2019. Inflation is running below target at 1.5%. The inflationary consequences of the relatively tight labour market have yet to manifest, while slower global growth should reduce the prospect of externally driven pressure, although escalating geopolitical turmoil could continue to push up oil prices.
- The first few months of 2020 will indicate whether the economy benefits from restored confidence. The Government will undertake substantial fiscal easing in 2020-21, which should help support growth in the event of a downturn in private sector activity.
- The weak outlook for the UK economy and current low inflation have places pressure on the MPC to loosen monetary policy. Two MPC members voted for an immediate cut in the last two MPC meetings of 2019. The evolution of the economic data and political moves over the next few months will inform policy but upside risks to the Bank Rate are very limited.
- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.
- Central bank actions and escalating geopolitical risks will produce volatility in financial markets, including bond markets.

Forecast:

- Arlingclose has maintained their Bank Rate forecast at 0.75% for the foreseeable future. Substantial risks to this forecast remain, arising primarily from the government's policy around EU exit and the transitory period.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.

- Arlingclose expects gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.57**
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**0.88**
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment and Debt Portfolio Position

	31 Dec 2019 Actual Portfolio £m	31 Dec 2019 Average Rate %
External Borrowing:		
Public Works Loan Board	262.474	4.56
Local authorities	30.000	0.86
Loans from banks	15.000	4.63
Other loans (D2N2)	11.500	0.75
Total External Borrowing	**318.974**	**4.08**
Other long term liabilities		
PFI	63.710	
Finance Leases	5.009	
Transferred Debt	0.155	
Total Other Long Term Liabilities	**68.874**	
Total Gross External Debt	**387.848**	
Treasury Investments:		
Banks & building societies	66.398	1.12
Government (incl. local authorities)	78.510	1.32
Money Market Funds	10.000	0.73
Total Deposits:	**154.908**	**1.20**
Bonds	5.032	3.27
Equities UK	9.142	9.59
Equities Global	5.292	2.83
Multi Asset	25.690	3.36
Property	24.134	4.33
Total Strategic Pooled Funds	**69.290**	**4.58**
Total Treasury Investments	**224.198**	**2.24**
Net Debt	**163.650**	

Investment Strategy Report 2020-21

Introduction

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).

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

Treasury Management Investments

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 £80m and £213m during the 2020-21 financial year.

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

Further details: Full details of the Council's policies and its plan for 2020-21 for Treasury Management investments are covered in the Treasury Management Strategy, available here:

Service Investments: Loans

Contribution: The Council lends money to its subsidiaries, local regeneration partners, to stimulate local economic growth.

£0.500m - Derbyshire Developments Ltd – to provide local housing solutions for local people. Contribution of £0.025m per annum.

£11.390m - Buxton Crescent & Thermal Spa Co Ltd – to regenerate Buxton Crescent by redeveloping a derelict Grade I listed building at Buxton Crescent into a spa hotel. This will boost the economy and tourism in Buxton and the High Peak area. Contribution of £0.530k per annum when completed.

Security: 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:

Each loan requires individual Cabinet approval.

Table 1: Loans for service purposes in £ millions

Category of borrower	**31 March 2019 actual**			**2020-21**
	Balance owing £m	**Loss allowance £m**	**Net figure in accounts £m**	**Approved Limit £m**
Subsidiaries	0.500	0.034	0.466	0.500
Regeneration	7.408	0.496	6.912	11.390
TOTAL	**7.908**	**0.530**	**7.378**	**11.890**

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

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

Derbyshire Developments Ltd – the Council provided a working capital facility for start- up funding to enable recruitment of staff to identify surplus Council land that were potential sites for residential housing development. Derbyshire Developments Ltd is a wholly owned subsidiary of Derbyshire County Council. The Director of Finance & ICT and the Director of Property were both appointed as company directors to facilitate close financial control and robust project monitoring. The loan meets State Aid requirements.

Derbyshire Developments Ltd - The risk of loss based upon an Arlingclose non-rated corporate estimate of 6.7% on the current loan amount outstanding of £0.500m, is £0.034m.

Buxton Crescent & Thermal Spa Co Ltd – the Council agreed a development loan to renovate and refurbish the Grade 1 listed building at The Crescent Buxton into a 5* luxury hotel and spa. The development would regenerate Buxton Crescent and provide a welcome boost to the local economy and tourism.

Buxton Crescent & Thermal Spa Co Ltd submit a monthly utilisation request for funding based on works completed. The Council employs an expert to provide an independent view and to investigate and confirm the value of the works done. The expert's report is submitted to the Director of Property for approval and to authorise Technical Finance to make the loan payment. The loan meets Sate Aid requirements.

Buxton Crescent & Thermal Spa Co Ltd - The risk of loss based upon an Arlingclose non-rated corporate estimate of 6.7%, on the current loan amount outstanding of £7.408m, is £0.496m.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

Capacity, Skills and Culture

Elected members and statutory officers: Elected members receive periodic training from the Director of Finance & ICT on Treasury Management (including non-treasury investments).

The Director of Finance & ICT holds semi-annual meeting with the Council's Treasury Management advisors to discuss Treasury Management Strategy options.

Commercial deals: The Director of Finance & ICT and the Treasury Management Accountant are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

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

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.

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

Table 2: Total investment exposure

Total investment exposure	31.03.2019 Actual £m	31.03.2020 Forecast £m	31.03.2021 Forecast £m
Treasury management investments	273.782	160.176	95.976
Service investments: Loans	7.908	11.890	11.890
TOTAL INVESTMENTS	**281.690**	**172.066**	**107.866**
Commitments to lend	3.982	0.000	0.000
TOTAL EXPOSURE	**285.672**	**172.066**	**107.866**

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

Table 3: Investments funded by borrowing

Investments funded by borrowing	31.03.2019 Actual £m	31.03.2020 Forecast £m	31.03.2021 Forecast £m
TOTAL FUNDED BY BORROWING	**0.000**	**0.000**	**0.000**

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	2018-19 Actual %	2019-20 Forecast %	2020-21 Forecast %
Treasury management investments (excluding *)	1.10	1.15	1.00
*Strategic Pooled Funds	4.95	4.58	4.58
Service Investments: Loans	4.72	4.70	4.70
ALL INVESTMENTS	**2.15**	**2.73**	**3.74**

Table 5: Other investment indicators

Indicator	2018-19 Actual	2019-20 Forecast	2020-21 Forecast
Debt to net service expenditure ratio	1:1.61	1:1.82	1:1.85
Service Loans income to net service expenditure ratio	1:2146	1:982	1:903

Appendix 4

Capital Strategy

1 Purpose and Aims

The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2017. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal.

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.

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.

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.

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

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

2 Objectives of the Strategy

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

1. Work efficiently and effectively
2. Unlock economic growth and access to economic opportunities
3. Invest in employment and skill
4. Repair and improve the condition of Derbyshire roads
5. Improve accessibility in rural and vulnerable communities
6. Improve social care
7. Transform services for people with learning difficulties
8. Keeping children and adults safe
9. Be a good corporate parent for children in our care

10. Help children and young people get the best start
11. Encourage healthy lifestyles
12. Champion local communities
13. Support local library services
14. Protect local people and communities
15. Promote Derbyshire as a global cultural and tourist destination
16. Protect and enhance the natural environment

3 Key Projects

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

- Delivered the Information and Communications Technology Strategy 2018-23 to streamline service delivery and embed modern working practices
- Increased fibre enabled broadband coverage across Derbyshire for homes and business
- Invested in well maintained roads and highways infrastructure
- Supported the development of a network of electric vehicle charging points across the county
- Created an innovation park on the former Coalite site in Bolsover
- Developed, agreed and begun to implement the Older People's Housing, Accommodation and Support Strategy
- Ensure all Council run adult care homes have Quality of Care graded as good or outstanding

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

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

4 Approach to Capital Investment

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

- 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

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.

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

6 Loans

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

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.

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.

For further details, refer to the Investment Strategy above.

7 Governance Arrangements

Capital Programme Approvals

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

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

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

- **Prudential Borrowing**
  The introduction of the Prudential Code in 2004 allowed the Council to undertake unsupported borrowing itself. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities. The Council must ensure that unsupported borrowing is affordable, prudent and cost effective. This has provided the Council with the flexibility to raise capital funding as demand and business need

have dictated. This type of borrowing has revenue implications for the Council in the form of financing costs.

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

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

- **Revenue Funding**
  The Council can use revenue resources to fund capital projects on a direct basis and this funding avenue has been used in the past. However, the impact of austerity on the Council's revenue budget has reduced options in this area and therefore the preference is for Invest to Save options to be adopted where feasible.

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

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

9 Key strategies impacting on the Council's Capital Strategy

The three key strategies in place that will significantly influence the Council's Capital Programme over the medium term:

(a) Property Asset Management Framework

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

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

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

Property Policies and Protocols

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

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

(b) ICT Strategy

The Council recognises that ICT is a key enabler of service delivery. The strategy outlines how ICT will deliver new technologies to support the ambitions and outcomes of the Council Plan and Derbyshire's approach to becoming an Enterprising Council. In order to achieve this, a five year replacement capital programme will be developed, and initial requirements over this period are likely to be around £10m:

Summary of Strategy Deliverables

- Changing Service Models
- ICT Governance Structure
- Mobile and Agile Workforce
- Digital by Default
- Workforce ICT Competencies
- Corporate and Business systems
- ICT Infrastructure Delivery
- Responsible Data management

(c) Highways Infrastructure Asset Management Strategy

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

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.

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)

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

10 2020-21 Prudential Indicators for Capital Finance

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

Information and Advice

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.

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."

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

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.

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.

The costs of financing capital expenditure are:

- Interest payable to external lenders less interest earned on investments.

- Amounts set aside for repayments of amounts borrowed (including repayments of amounts relating to PFI schemes and other finance lease liabilities).

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

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

	2018-19 Actual £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
Financing costs of CFR	38.23	41.47	47.01	52.08	55.71
Net Revenue stream including DSG	912.29	873.23	924.11	929.16	943.31
Percentage	4.19%	4.75%	5.09%	5.60%	5.91%
Net Revenue stream excluding DSG	533.53	494.47	545.35	550.40	564.55
Percentage	7.17%	8.39%	8.62%	9.46%	9.87%

Prudence and Sustainability

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

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

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.

As part of the Prudential Code arrangements the authority needs to calculate the Capital Financing Requirement. This figure covers capital expenditure which has not yet been permanently financed through the revenue account.

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

Table 2 – Estimates of Capital Expenditure and Capital Financing Requirement

The relevant figures from the 2018-19 Accounts are as follows.

	2018-19 Actual £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
Capital Expenditure	**96.13**	**174.22**	**207.47**	**97.57**	**50.60**
Funding Sources:					
Borrowing	35.80	81.85	74.26	42.96	23.33
Capital receipts	5.42	17.14	6.51	8.55	0.00
Capital grants	54.91	54.86	118.95	43.68	25.26
Revenue	0.00	20.37	7.75	2.38	2.01
Total CFR at year end	**487.05**	**558.11**	**618.34**	**647.43**	**647.15**
Net movement in CFR	31.14	71.07	60.23	29.09	-0.28
Minimum Revenue Provision	4.66	10.79	14.03	13.87	23.61
PFI & Leases in CFR	75.45	71.70	67.75	63.59	59.20
PFI & Leases in MRP	3.75	3.95	4.16	4.39	4.64

As such there is a requirement to ensure that net debt (the sum of borrowing and other long-term liabilities, net of investments) in 2020-21 does not, except in the short term, exceed £618.340m (i.e. the estimated CFR for 2020-21).

External Debt

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 –have to be set for both borrowing and long term liabilities.

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

Authorised Limit – this higher measure, is the upper limit on the level of gross indebtedness which must not be breached without Council approval.

The Operational Boundary for external debt for the next three years is built up from the existing level of external borrowing, which was £313.124m and the level of relevant liabilities (including finance lease liabilities), which was £72.982m, on the Balance Sheet at 31 March 2019.

The Authorised Limit for 2020-21 is to be £847m and the Operational Boundary is to be £816m.

Table 3 – Authorised Limit for External Debt

	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m
Authorised limit for external debt	**655**	**847**	**824**
Operational boundary for external debt	**625**	**816**	**791**
Borrowing	**277**	**273**	**273**
PFI liabilities	**69**	**74**	**68**
Total	**346**	**347**	**341**

11 Knowledge and Skills

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 Treasury Management Advisers. 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.