Nottingham City Council Capital Strategy - 2021/22-2025/26

1. Introduction

1.1 Purpose of the Capital Strategy

This capital strategy forms the foundation of the Council's long-term planning and delivery of its capital investment. It sets the parameters for the capital programme, which will be updated each year and will help to ensure that capital resources are used efficiently to achieve the best possible outcomes within constrained budgets.

Local authorities continue to operate in an extremely challenging financial environment with reduced levels of Government funding since 2010, the effects of Covid-19 and the uncertainties of Brexit. The severe impacts of the Covid-19 pandemic on the City in 2020/21 will continue to have a financial impact for the medium term and the Council will need to consider how its business and services will operate in the future. How capital resources are acquired, deployed, and managed is a key part of the Council's strategic response.

The Prudential Code for Capital Finance in Local Authorities ('the Code') sets a framework to ensure that the capital expenditure plans of local authorities are affordable, prudent, and sustainable. The Code, which is published by the Chartered Institute of Public Finance and Accountancy (CIPFA), has legislative backing. As part of the prudential approach the Code requires authorities to have in place a capital strategy. It says:

> '*In order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy that sets 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.'*

In addition to the Code, CIPFA has published 'Capital Strategies and Programming', which considers in more detail the practical issues involved in capital planning and delivery. This strategy has been prepared considering the guidance in both these publications.

The approval and implementation of this strategy will ensure that:

- Capital investment is targeted towards supporting the Council's corporate objectives.
- Capital investment complements revenue spend on services.
- the stewardship of assets is properly considered in capital planning.
- capital investment is prudent, sustainable, affordable and provides value for

money.

- Members and senior officers have a common understanding of the long-term context in which investment decisions are made and all the financial risks to which the Council is exposed.
- capital projects are delivered on time and within budget.
- There is improved transparency at programme level along with a clear process for member engagement.
- The Council is seen as an exemplar of good practice in its capital planning.

1.2 Local Context

Capital Ambition

Nottingham City Council has taken bold capital investment decisions over the last decade to improve its neighbourhoods and city centre environment, improve housing stock, build new libraries, a leisure centre and invest in public spaces. Nottingham has also invested in commercial properties in order to generate ongoing revenue returns. But the governance of the programme and particularly the borrowing implication of investments has not been as transparent as it needs to be, leaving the City with a high cost of servicing this debt and a high level of financial risk.

Following the election of a new political leadership in 2019, the Council has embarked on a series of significant changes to strengthen both the governance and financial stability of the Council. This has included establishing the Companies Governance Executive Sub-Committee and launching a Strategic Review of Robin Hood Energy which has resulted in a decision to transfer customers to an existing energy supplier and to progress the orderly winding up of the company.

Rapid Non-Statutory Review (NSR) into Nottingham City Council

Following issuance of the Auditor's PIR, a rapid, non-statutory review at the Council was conducted. The purpose of the review was to provide assurance on the financial position of the Council, its governance arrangements and the commercial and investment issues identified by the Council's External Auditors.

Key findings of the report include the need for longer term financial planning horizon to ensure the Council achieves financial sustainability over a 2–3-year recovery phase and other matters in relation to governance for the Council and its group companies. Additionally, the report findings identified several risks and themes in relation to the management of assets, the governance and control of the capital programme and the high level of borrowing.

The Capital Programme principles have been reviewed and amended and a voluntary debt reduction policy put in place to support the reduction of debt servicing costs and ultimately to reduce the Council's debt.

Recovery and Improvement Plan 2021 - 2025

The Council has developed a Recovery and Improvement Plan in response to the findings of the NSR and will be working with the Improvement Board, chaired by Sir Tony Redmond, to deliver it.

The report acknowledged that a well-managed capital programme, is a critical contributor to the overall financial recovery of the City Council and recommends a review of the capital programme which will look to stabilise the current programme and put it on a sustainable footing for the longer term. Development of an effective Capital Strategy and a strengthened governance and control framework will support the Council in achieving this. Implementation of the Plan will be a key priority of the Council and the Capital Strategy will be an important document to support the delivery of the plan.

Key activities include: -

- A full review of the capital programme to remove de-prioritised schemes and add in future liabilities (for example around EnviroEnergy and the former Broadmarsh Shopping Centre).
- Revised Debt Management Strategy align with Capital strategy with an aim paying down debt over time.
- Creating a revised Capital Strategy incorporating a prioritisation process.
- Delivering a strengthened Governance and Control Framework and ensuring that this is put into practice across the Council.

The Recovery and Improvement Plan was approved at Council on 25 January 2021 and can be found at:
https://committee.nottinghamcity.gov.uk/documents/s114407/Enc.%203%20for%20Nottingham%20City%20Council%20Recovery%20and%20Improvement%20Plan.pdf

The implementation of this strategy will assist in the Council meeting its Recovery and Improvement Plan by ensuring:

- Capital investment is strictly prioritised and meets the Council’s objectives within a set funding envelope.
- Investment meets the CIPFA criteria of being prudent, sustainable, affordable and value for money.
- The Council is appropriately responding to the recommendations raised in the non-statutory review.
- The Capital Programme does not include any schemes that meet HM Treasury’s definition of debt to yield.
- Capital projects are delivered within budget and in a timely manner.
- Members and Senior Officers have a common understanding of the financial context the Council is operating in and the capital principles underpinning capital decisions within the Council.

1.3 Executive Summary

The capital strategy forms the foundation for the long-term planning of capital investment based on clear capital investment principles, sound asset management and effective resource planning.

The Council will deliver its capital programme through effective and coherent processes for:

- formulating the capital programme with clear criteria to ensure that capital investment continues to be directed towards meeting corporate objectives.
- approving and amending the capital programme and for scrutinising decisions relating to capital planning.
- Managing its resources holistically to support spending priorities with regard to long term sustainability.

The annual cycle for formulating a rolling multi-year capital programme will be overseen by a new Capital Board. Executive Board will recommend the programme for approval each year in line with the Medium Term Financial Strategy (MTFS) approvals process. To successfully deliver the programme, the Council will:

- continue to ensure it has the skills, and expertise needed.
- further strengthen the corporate programme management function.
- streamline governance, monitoring and reporting processes.
- ensure the sound financial position is maintained through sustainable deployment of resources.

The Council will maintain a measured approach to risk, particularly in relation to:

- the use of alternative models for the delivery of capital investment
- the incurring of other long-term liabilities
- capital investment for commercial return.

Such proposals will, as far as practicable, be subject to the same evaluation process as for capital schemes.

Projects will be managed via a clear gateway process to progress through various stages starting with an outline project brief and finishing with a lesson learned report, with on- going cycle of review outcome testing.

2. Aims & Objectives of the Capital Investment

2.1 Definition of capital expenditure

Capital expenditure is spending on assets that will provide a benefit beyond the current financial year. The Council defines both capital and revenue expenditure in its financial statements as follows:

Capital Expenditure (Capital Investment)
Expenditure on the acquisition or enhancement of property, plant and equipment that has a long-term value to the Council. This includes grants or advances paid to third parties to assist them in acquiring or enhancing their own property, plant, and equipment.

Revenue Expenditure
Expenditure on day-to-day running costs such as salaries, heating, printing and stationery and debt charges. Revenue items will either be expended immediately, like salaries, or within one year of purchase.'

Nottingham City Council – Financial Statements 2019/20

As detailed in the Councils Accounting Policies the Council has the discretion to capitalise (i.e. recognise) all capital expenditure but has set de minimis levels as set out in the Council's Financial Statements - typically expenditure below £10k.

The Council has no authority to capitalise revenue expenditure without the express approval of the Secretary of State.

2.2 The Importance of asset planning

Capital expenditure is about investment in assets and therefore it is important that decisions should be based on sound asset planning principles. It is only by understanding the Council's asset requirements that efficient decisions can be made about prioritising both capital investment and a comprehensive disposal strategy. It is critical that asset plans and the capital programme are aligned to enable effective decision making.

Effective asset planning should assist the Council is realising its objectives and meeting its statutory duties. This is constrained by the financial context the Council is currently operating within with available capital and revenue resources reduced.

The Council's assets consist of:

- Property Assets (e.g. Operational / Investment and Community)
- Dwellings
- Infrastructure (e.g. roads)
- ICT Assets (hardware and software)
- Vehicles and other equipment

2.3 Property Asset - Strategy

The Council's approved Corporate Asset Management Plan (CAMP) confirms its commitment to provide good quality, sustainable and accessible accommodation for staff and citizens. However, the Council still owns operational assets that do not meet modern standards aims to dispose of these sites, providing alternative solutions for citizens colleagues (i.e. operational property rationalisation).

To maximise resources for maintaining operational assets, financial models will follow best practice and include whole life costing that is sufficient to fund future repair liabilities. The CAMP also provides the framework for which non-operational assets are managed.

The key components of the Property Asset Strategy, which are relevant to the capital strategy, are set out below:

- continual review of the portfolio to identify assets that can be released with the capital receipts used to support capital programme expenditure.
- lower the operating costs of the property portfolio through release of poorly performing or surplus assets
- support the provision of integrated access to public services through joint working with partners to create multi-agency service facilities
- identify and exploit the latent value of the estate with emphasis on site utilisation or where opportunities to generate income/ value from alternative uses can be realised
- minimise future liabilities to the Council by reducing the backlog maintenance or lowering its overall carbon footprint by releasing buildings which are poorly performing in terms of CO2 emissions or maintenance unless they are service critical; to improve their sustainability
- challenge utilisation and use of the portfolio, including buildings let on concessionary terms to occupiers.

The Property Asset Strategy will set out the requirement for a comprehensive review of property assets overseen by a new Strategic Property Board. The outcome of the review will be a key factor that is considered in capital planning. The Asset Management and Disposal Board is responsible for the Property Asset Strategy and for ensuring that it is complied with.

The prioritisation of capital investment will reflect the requirements of the Property Asset Strategy and this will be overseen by the Capital Board,

Property Asset – Disposal

The Council is undergoing an Asset Rationalisation Programme (ARP) which is currently governed by the Asset Rationalisation Board. The aim of the programme is to review the Councils Operational and non-operational assets, identifying any assets for potential disposal.

Any available capital receipt generated from the ARP will be used to offset the Council’s current **£53.1m** commitment, further details can be found in section 5.1. Investment property is also being reviewed with a view to liquidating those assets that do not provide the required return or carry represent a current or future risk to the Council

The Council's disposals policy is set out the Property Asset Strategy. Asset Management and Disposal board will be responsible for ensuring that assets that are surplus to requirements in accordance with the criteria set out in that policy are identified and presented to Capital Programme Officer Group.

Detailed processes will be set out in a disposal manual, which it is recommended should be developed as part of the plan of action.

The Council will dispose of assets at best value (usually market value) to maximise the capital receipts. It may wish to transfer some heritage buildings to trusts to achieve a service objective. A clear options appraisal would need to be undertaken to ensure best consideration.

Public Sector Housing - Dwelling Strategy

The condition of the Council's dwelling stock is contained within the Dwelling Asset Management Plan. This asset management plan contains all the maintenance elements with stock conditions updated periodically following stock surveys. The data produced by the Dwelling Asset Management Plan is then fed into the 30 Year Plan to ensure stock maintenance is managed in an affordable manner.

2.4 Capital Investment Objectives

The aim of capital investment is to ensure the Council has the assets required to meet corporate objectives. This includes fulfilling our statutory duties and pursuing priorities set out in the Council Plan in accordance with current Council policies. Capital investment must be responsive to economic, legislative and demographic changes.

The process for prioritising projects in accordance with the corporate objectives and the funding policy is described in Section 3.4. Ensuring that the evaluation criteria reflects those objectives is a key part of the prioritisation process.

Statutory duties

It is essential that the Council can fulfil its statutory duties as a unitary authority. This requires ongoing capital investment both to maintain existing assets and to meet changing needs. This statutory requirement is a key consideration in the prioritisation process.

Corporate Priorities / Plans

The Council Plan is a key driver in Council's service provision and its capital investment requirements. To reflect the Council's corporate priorities, the Capital Strategy is driven by the Council Plan 2019-2023, which is founded on the following five key objectives:

- Build or buy 1,000 Council or social homes for rent
- Create 15,000 new jobs for Nottingham people
- Build a new Central Library, making it the best children's library in the UK
- Cut crime, and reduce anti-social behaviour by a quarter

- Ensure Nottingham is the cleanest big city in England and keep neighbourhoods as clean as the city centre

These objectives reflect an on-going commitment to the City Council's core aim to "put citizens at the heart of everything we do". This is central to the Council's priorities, decision making and service delivery.

However, considering the Council's current position, the Council Plan and the affordability of these ambitions will be re-visited in early 2021 to ensure that these objective can be delivered affordably.

Other Council policies

The Council has also made a commitment to become the first carbon neutral city in the country, reaching this target by 2028. This has involved the creation of Nottingham's 2028 Carbon Neutral Charter.

External Requirements: Economic / Legislative, Demographic, and other changes

There any many other changes within the city that could create a need for the Council to invest capital in new or existing assets, examples are the need for school places, provision of affordable housing and transport infrastructure. This could include external factors such as

- Changes in legislation,
- Central Government initiatives (normally in the form of grant)
- Events, such as the Grenfell fire.

The Council must manage its Capital Programme with a degree of flexibility to enable it to react to external factors while still delivering its statutory duties / council policies in an affordable manner.

The overriding need to reduce the Councils borrowing requirement and debt will be critical in determining the size and scale of the capital programme. The prioritisation process will support this work.

2.5 Capital Investment Principles

The capital strategy requires that all projects are fully accounted for and funded, assisting the immediate requirement to review the existing programme for affordability and providing a framework for schemes going forward.

The principles of the strategy are as follows:

- Current approved (or committed) schemes will be supported subject to sufficient resources being identified to enable them to proceed or complete up to the approved level of expenditure.
- New schemes funded by borrowing will be severely limited by the criteria set out in the Voluntary Debt Reduction Policy. This is to reduce the Council's current unsustainable level of debt and will require a review of the existing capital schemes.

- All schemes will be subject to a strict objective prioritisation process, which will include a robust business case including whole life costing.
- All schemes must align to the new PWLB criteria (i.e. not debt for yield) irrelevant of the schemes funding envelope. Historic debt for yield schemes will be revisited in the light of emerging CIPFA/MHCLG guidance.
- Capital receipts are a central resource and not generally linked to specific schemes including assets identified for disposal as part of the Asset Rationalisation Programme. Permissible exceptions are:
  - School Sites ring-fenced by the Secretary of State for education purposes.
  - Sites identified as part of the Loxley House Acquisition.
  - Commitments of capital receipts from prior decisions (including repayment of outstanding debt).
- From 2020/21 only secured capital receipts will be considered in decisions to fund capital schemes (i.e. no capital receipt-funded scheme to commence until sufficient receipts are banked).
- Revenue implications of schemes are fully reflected in the MTFP and affordable within services in most circumstances.
- The capital budget approved by Full Council is a control total and no further schemes will be included in the programme unless existing schemes are removed or delayed - unless the schemes are fully funded by external resources.
- The Council will consider the removal of ring-fencing from certain grant allocations to assist in the achievement of the Council's priorities and objectives. All uncommitted non ring-fenced capital funding will be reviewed. Non ring-fenced grants received in support of the three areas below will be earmarked to fund these initiatives:
  - Transport grant funding
  - Education based grants
  - Disabled Facilities Grant
- If the financial models for approved schemes move adversely during the pre-contract stage by the lower of £1.000m or 20% (either cash or NPV), further approval will be required including a revised business case.
- The level of debt within the General Fund and Public Sector Housing Capital Programmes is within the parameters set out in section 5.1 and the Voluntary Debt Reduction Policy.

The Voluntary Debt Reduction Policy is set out in **Appendix B**.

3. Governance and Control

3.1 Capital Investment Delivery

To enable the delivery of capital investment in accordance with the Councils objectives the Council will:

- Establish a robust governance framework
- Establish a process for formulating, approving, amending, and monitoring the Capital Programme
- Establish a prioritisation process to enable individual projects to progress
- Ensure officers and Councillors have the appropriate knowledge and skills to deliver the Programme
- Managing risks and mitigating where possible
- Consideration of alternative delivery options

3.2 Capital Programme Board

The Council is establishing a Capital Board with a new corporate process for developing a rolling multi-year capital programme. This will operate on an annual cycle with clear timescales, clear information requirements and clear evaluation criteria. The purpose of the new approach is to ensure that capital resources are directed towards supporting schemes that best meet corporate objectives and that capital projects are deliverable.

A Capital Programme Board structure is currently being established and expected to be operational by February 2021. This Board will provide strategic oversight of the strengthened Governance and Control Framework. This will ensure that projects only commence once they have gone through the prioritisation process, and are then subject to a support, monitoring and assurance package to improve delivery. Controls will also extend to the management of benefits post-delivery to help inform ongoing performance and future investment decisions. The Board will also oversee the delivery of the actions and recommendation set out in the Recovery and Improvement Plan.

The Capital Programme Board will be chaired by the Leader of the Council and the S151 Officer will chair the Capital Programme Officer Group. This group will be supported by input from Corporate Directors who will oversee their departmental capital requirements via their departmental leadership teams and carrying out an initial sift of schemes to put forward into the prioritisation process. This will be done with knowledge of the prioritisation criteria set out in the following sections. Departments will also be required to have long term strategies for the capital requirements for their areas to help ensure that investment is only being proposed where it is needed and proposals are not put forward in areas where the longer term plan does not support this. Taking these measures together which will reduce the number of project proposals that are considered by the Capital Board.

The Capital Programme Officer Group supports the Capital Programme Board and will in turn be supported by officer groups covering the following thematic areas.

- Capital Programme Financial Monitoring
- Capital Programme Management and Benefits Realisation

- ➢ Asset Management and Disposal
- ➢ Capital Strategy and Programme Review

Capital Board may also delegate to the relevant programme board responsibility for further consideration of project proposals against a block allocation, particularly where capital resources are ring- fenced or it is considered desirable to treat them as ring-fenced. The capital programme high level terms of reference is set out in **Appendix A**.

3.3 Formulation and Approval of the Capital Programme

The annual cycle for the capital programme will align with the Medium-Term Financial Plan timelines and cumulate in a capital programme that is approved March Council.

An indicative annual cycle is set out below:

- ❖ **March** – Parameters for are agreed by Capital Board
  - ➢ Timetable for the cycle including deadlines for submissions
  - ➢ Indication of overall level of resources expected to be available to allocate
  - ➢ Standard information that must be submitted for each project proposal
  - ➢ Evaluation criteria that will be used to prioritise projects

- ❖ **April to Mid May** – Corporate Directors via their departmental leadership teams consider outline project briefs and shortlist those to be submitted into the prioritisation process

- ❖ **End of May** – Outline project briefs are reviewed and challenged by a team nominated by the Capital Programme Officer Group; further information / clarifications are requested as appropriate

- ❖ **June** – Prioritisation takes place against pre-agreed criteria by a subgroup of officers nominated by the Capital Programme Board. This group will recommend which projects should go forward to the next stage, which should be put on a reserve list and which rejected to the Capital Programme Officer Group and then to the Capital Programme Board.

- ❖ **July to October** – feasibility studies commissioned and initial business cases developed by project teams for projects that have been recommended to progress. Business Cases will follow Treasury Green Book principles using a five-case model. This will require them to include options appraisals, outline procurement strategies and affordability projections amongst other items.

- ❖ **July to October** – feasibility studies commissioned and initial business cases developed by project teams for projects that have been recommended to progress. Business Cases will follow Treasury Green Book principles using a five-case model. This will require them to include options appraisals, outline procurement strategies and affordability projections amongst other items

- **November –** Business cases are the subject to a gateway style assurance review.

- **December –** Capital Programme Officer Group and the Capital Programme Board receive recommendations from the reconvened prioritisation panel, which will have considered each scheme's progress since July and the recommendations of the gateway style review. Capital Programme Board to recommend to Executive Board which projects should be included in the capital programme

- **February** – Executive Board to approve the capital programme for the following and subsequent financial years.

- **March** – Council approve MTFS including Capital Programme. The first annual cycle will commence in March 2021 with an invitation to submit proposals for new projects to be included in the revised multi-year programme to be approved by Executive Board in February 2022.

- **April – May –** updates / reviews on the previous year's projects will be received by the group undertaking the initial prioritisation process. This will be done to assess the progress being made and the accuracy of previous of assumptions. This will create the potential for projects that have not progressed as expected to be slipped / removed should other higher-ranking priorities emerge in this round of prioritisation. Reflection on assumptions made by projects in previous years at this stage will also help to inform how confident the group carrying out prioritisation can be in future year scheme projections.

- **December** – A repeat of the above stage before the Capital Programme Board makes its final recommendations for the future capital programme.

In the meantime, requests for new project proposals to be progressed in advance of this cycle will be considered in accordance with the process set out below under the heading 'Amendments to the programme'. This system will also be used for ad hoc requests coming into the programme part way through the year. These requests should be the exception rather than the rule and would apply to schemes such as emergency health and safety works or where a funding opportunity has arisen at short notice.

The standard templates for this process, along with guidance notes and wider supporting information on project management will be kept on the intranet and regularly reviewed to ensure it is kept up to date. The link to this information is: http://intranet.nottinghamcity.gov.uk/major-projects/major-projects-centre-of-excellence/corporate-reporting/

3.4 Prioritisation, Appraisal and Evaluation of Project Proposals

The Council will use evaluation criteria to determine in principle whether a project should be prioritised. Given the financial context and the limited resources available, there will be little flexibility for schemes to progress or current uncommitted schemes to continue without meeting a strict prioritisation criteria.

Schemes will be strictly prioritised based on the following:

- ➢ Projects that enable compliance with legal or statutory duties (e.g. Health and Safety)
- ➢ Schemes that meet service objectives and are 100% funded by external resources
- ➢ Schemes attracting significant (majority) third party or match funding to the City
- ➢ Failure to provide would result in significant impact on service delivery
- ➢ Schemes that support the Council Plan and funding is available
- ➢ Invest to save – assist the delivery of budget decisions

Projects where the primary purpose is to generate a surplus will not be permitted under any circumstance. The judgement of the Section 151 officer is final in determining if a proposal breaches this criterion.

The Capital Board will review all schemes within the capital programme between March and June 2021 against the prioritisation criteria. This will set a baseline for the capital programme and will ensure that the capital programme is contained within the revised funding envelope.

The Officer Group will update its project gateway process for approval by April 2021. This will include a Gate 1 to filter project proposals and reduce the number that are submitted to Capital Board. This will avoid effort being wasted on developing low priority projects.

The criteria will be used to provide an indication of the contribution a proposed project is expected to make to meeting Council priorities. The criteria will be continually reviewed and amended as appropriate to reflect lessons learned from applying it in practice, as well as changing priorities and external factors.

At Gate 1 the relevant project board will also check that the proposal meets the definition of capital expenditure, is consistent with the Council's policy on capitalisation and has gone through a Gateway 0 by going through a Project Assurance Group review.

In addition to the evaluation criteria, Capital Programme Board, in evaluating project proposals, will consider:

- ➢ The whole life cost implications of the proposed scheme, including those arising from ongoing maintenance requirements, both capital and revenue

- How the investment will play a part in the managing the medium to long term demand for Council Services
- How the investment will be made to maximise the benefits for the Council across a range of its priorities and objectives
- Ability to deliver so that projects accepted into the programme can realistically be delivered in accordance with the timescales indicated by the phasing of the project within the multi-year programme.

3.5 Formal approval of the capital programme

The Capital Programme, Capital Strategy and the Treasury Management Strategy are intrinsic parts of a Medium Term Financial strategy. Executive Board is required to approve the rolling multi-year capital programme at the same meeting each year when it recommends the revenue budget to full Council for the following financial year. This will ensure that the revenue implications of the capital programme are reflected in the revenue budget.

For 2021/22 to 2025/26 this programme consists mainly of previously approved projects, which will take up a substantial proportion of the available resources. A revised programme, with projects prioritised under the first annual cycle will be approved in February 2022.

Where individual schemes are formally approved for acceptance into the capital programme, the capital budgets for the relevant financial years will also be deemed to have been approved. However, where a block allocation is approved as part of the programme, then a further decision may be required, in accordance with the scheme of delegation, to approve the capital budgets for individual schemes.

Amendments to the programme will require approval in accordance with the scheme of delegation. In exceptional circumstances a new scheme may need to be progressed outside the normal annual cycle and the decision to allow the scheme to be considered is delegated to the Capital Board.

3.6 Amendments to the Programme

There will be occasions where amendments to the Capital Programme will be required. These are likely to fall into two main categories:

- Variations to scheme costs / outcomes / risk / timelines – whilst it is essential that projects are scoped within a fully affordable cost envelope together with an appropriate contingency representing the assessed risks, variation on projects is likely to happen. These variations will be picked up through the monitoring of the programme (3.7) with formal amendments requiring approval as set out within the Council's Scheme of Delegation.
- Ad hoc additions to the capital programme – The capital programme should be capable of being planned within the cycle set out in Section 3.4.
- However, there may be a small number of exceptions to this, for example emergency health and safety work. These requests should be raised to the Capital Programme Officer Group as soon as they become known using the

appropriate template. The Capital Programme Officer Group will consider the request, including the implications for the wider capital programme, for example does it require match funding, is there sufficient funding in the programme to meet the request and or amendment to the programme are required.

- A recommendation will then be made to the Capital Programme Board as to how to proceed, including what action needs to be taken on other schemes to accommodate the request. If the Capital Programme Board endorses the request then the project will need to seek formal approval, develop its business case, and go through the standard approval and monitoring processes that apply to all schemes within the capital programme.

3.7 Monitoring of the Programme

The S151 Officer is responsible for ensuring that there is an effective system for capital monitoring. This will ensure that capital investment is delivered on time and within allocated resources, whilst meeting the objectives and outcomes. Capital programme monitoring will be undertaken monthly and reported to the Capital Board and Executive Board.

A review of the format of the monitoring will be undertaken by September 2021 to ensure that it delivers the required outcomes.

Schemes with a value greater than the Council's de minimis level are required to undertake a monthly monitoring return to the PMO to ensure that progress to milestones and project risks are recognised at a corporate level.

Monitoring templates are available on the Councils intranet.

3.8 Assurance Process

In order to have been accepted into the Capital Programme either through the annual cycle (3.3) or as a programme amendment (3.6) all projects will have needed to have completed an initial brief (Gateway 0) form, which will have been assessed by officers nominated by the Capital Programme Officer Group.

Thereafter the prioritisation process requires initial business cases to be reviewed in November by a group of officers not involved with the project (Gateway 1). The recommendations from this review are fed into the prioritisation process to inform decision making on which projects to proceed with and any actions / risks that need consideration for approved projects.

Once a scheme is approved for entry into the capital programme it will then be the subject of regular monitoring by the Council's Programme Management Office (PMO) who will report back on progress to the Capital Programme Officer Group (3.6). The PMO's regular dialogue with projects will also be used to spread relevant lessons learned between schemes to ensure that best practice is being adopted.

Further assurance reviews may also be required depending on the size and nature of the project. Projects may also require a review of their final business case if they are particularly complex (Gateway 2). A further assurance review should also be undertaken when a project undertakes procurement (Gateway 3) and is therefore near to delivery. Once a project is complete and in operation, a 'lessons learned' review should also be undertaken. For certain projects these will be facilitated by the PMO, but the lessons from all projects should be fed back to the PMO where they can be analysed for future application, reported, and disseminated as appropriate.

Recommendations arising from these Gateways and the outcomes of the Lessons Learned exercises will be reported back to the Capital Programme Officer Group and Capital Programme Board

Further information on the Assurance process can be found in **Appendix C**.

3.9 Facilitating Delivery

Robust processes for approving, monitoring and scrutiny of the capital programme are needed, but should be designed and administered in a way that facilitates, rather than hinders, project delivery. Monitoring and reporting requirements should be robust and comprehensive but not onerous in order that delivery teams can focus their efforts on the activities required to deliver projects.

To facilitate delivery, the Council will introduce new, robust governance processes and will

- standardise the formats of reports, while allowing the detail provided to vary depending on the size and complexity of different projects
- avoid duplication of effort in providing thme information more than once
- ensure corporate documents are well thought through and written in plain English
- ensure that the scheme of delegation, financial regulations and procurement rules are consistent with each other and are clearly communicated across the organisation
- ensure there is good communication between delivery teams and those responsible for determining and administering the approvals process
- ensure those responsible for determining and administering the approvals process have a good understanding of the specific requirements of capital projects and works contracts.

3.10 Knowledge and skills required to deliver Capital Programme

To ensure that capital projects are delivered efficiently meeting the Councils objectives and that the Capital and Treasury functions have the necessary skills. The Council ensures that its staff delivering the projects, the Capital and Treasury Management teams have their training needs assessed as part of the staff appraisal process with staff attending seminars / conferences and training courses where necessary.

The CIPFA Code requires the responsible officer to ensure that Councillors with responsibility for treasury management receive adequate training. This especially applies to Councillors responsible for scrutiny. Appropriate training is provided periodically to Councillors and other relevant staff that are charged with governance.

External advisers are engaged where required so that the Council can access specialist skills and resources whilst the responsibility for every decision always remains with the Council, ensuring that undue reliance is not placed upon our external advisers.

A project's readiness to deliver will be considered as part of its business case, which will be reviewed during the prioritisation process. Part of this review will consider whether the project team identified to deliver the scheme is appropriate in terms of their skills and experience.

4. Risk and Mitigation

4.1 Capital expenditure can broadly be categories into three types

- **Existing Assets Expenditure** on existing assets to ensure they meet the requirements of service delivery, are fit for purpose, meet health and safety guidance, and reduce future costs.
- **Specific projects or non-treasury investments** to meet strategic aims. Non treasury investment to meet service or Council obligations could include loans or equity towards capital expenditure incurred by external bodies, Council subsidiaries or joint ventures.
- **Expenditure on non-treasury investments** purely to maximise financial return on assets and generate revenue income. Examples of this are the purchase of commercial investment property, or to provide loans to others at commercial rates

In the current financial circumstances, the Council recognises that achieving these aims will require consideration of alternative delivery structures and of all forms of funding including the acceleration and use of capital receipts with a clear understanding how the affordability of such expenditure can be managed over the longer term supported by robust due diligence, business cases, risk management and monitoring.

The Council's policy is to minimise risk, but it recognises that there is a trade-off between risk and reward and that the potential reward may sometimes justify incurring a higher risk. The types of scheme where this is most likely to be the case are:

- invest to save schemes where there is uncertainty about the exact level of savings that will be achieved
- investment designed to stimulate regeneration and growth, including the provision of new infrastructure.

To ensure that risks are understood and that it has access to knowledge and skills commensurate with its risk appetite the Council will:

- make the consideration of risk a key part of the remit of the Capital Programme Board
- require business cases to set out potential risks in an appropriate level of detail depending on the size and complexity of the proposal
- where innovative schemes, alternative delivery models or commercial activities are proposed, require business cases to set out how the Council will source any specialist knowledge and skills that may be required
- require risk registers to be maintained for approved projects and for these to be used to actively manage risks
- ensure that relevant staff receive training in how to manage risk, e.g. as part of a recognised project management course
- where appropriate enable staff to develop knowledge of alternative delivery models through research and training.

4.2 Expenditure on Non treasury investment

In recent years, local authorities have exploited increased powers to engage in commercial activities although these are now being significantly curtailed to reflect the excessive risks that some authorities have entered and subsequent failures. Local authorities will now need to proceed with much more caution and Nottingham will need to significantly reduce its reliance on commercial activity to fund core spending.

Commercial activities that involve capital expenditure and the incurring of other long-term debt and liabilities are no longer permissible without risking access to the whole of the Council's access to PWLB. Existing debt-funded Commercial activities will be reviewed as guidance/regulation develops. This excludes investment of short-term cash surpluses as part of day-to-day treasury management activity and investments whose primary purpose is to achieve a service objective.

The Council holds service and commercial investments as follows:

- Service Investments – investments held clearly and explicitly for the provision of operational services, including regeneration
- Commercial Investment – investments undertaken primarily for financial reasons including:
  - holding shares in companies for a financial return
  - commercial loans to companies and other organisations

- holding property for a financial return.

4.3 Service Investments

Loans and Investments are assessed based on the delivery of the Council's strategic objectives and any benefits from the investment will be received by the Council and its residents in the short, medium, or long term.

Each Service Investment is scrutinised giving due regard to the formal approval. This scrutiny includes an appropriate level of due diligence reflecting the level of additional risk which ensures that the Council has the appropriate level of, security, liquidity, and yield.

4.4 Commercial Investments

The most significant commercial Investments that the Council has undertaken to date are in relation to property acquisitions. The net value of the commercial investments as at 31 March 2020 is **£236.0m**. This investment has been funded by **£5.7m** of the Councils own resources and **£230.2m** of Unsupported Borrowing (net of MRP)

The forecast net revenue to the general fund for 2020/21 from the above investments is estimated to be **(£5.7m)**. The average yield generated from the Commercial Investments is **2.39%** (based on net income and unsupported borrowing net of MRP and interest).

All Commercial Investments are reviewed on an on-going basis. These reviews support good estate management principles and ensure that the Council's risk and returns are appropriately managed. The gross commercial investment made by the Council of **£239.4m** (excluding MRP payments to 31st March 20), leaves the Council open to Property Market downturn including increased voids / tenant lease breaking and any other risks including the impact of Covid-19. The pandemic has had a significant impact on the level of risk and the expected returns for 2020/21 and its effects are likely to be felt for several years. The Council is considering its investments strategy in the light of new CIPFA guidance.

A sinking fund is set aside for the commercial investments based on rental level received. This reserve is available to smooth out void periods (in-year deficits) if they cannot be absorbed elsewhere within Property Services. However, this is likely to be insufficient due to the impact of Covid-19.

Appendix D contains service and commercial investments split between capital and revenue.

Non-Treasury investments are analysed periodically to ensure that the fair value / carrying value of each investment is appropriate as required under the relevant Accounting Standard (Service Investments – IFRS9, Commercial Investments – IAS40).

5 Capital Funding and Financial Policies / Strategies

5.1 Funding the Capital Programme

Capital Programme Structure

The Council's Capital Programme consists of:

- Approved Projects – Projects that have been formally approved and have a funding package that is deemed affordable
- Planned Projects – Projects that have been agreed in principal and the Council is undergoing project feasibility and development to identify if the project's objectives can be achieved within an affordable funding envelope
- Potential Projects – Projects that are at the beginning of the scoping and development process and therefore are not included in the Council's borrowing forecasts

As projects progress through the above stages they will go through a gateway process to challenge the project team and provide assurance that the project is best use of public funds and will assist the Council in meeting its priorities.

Current Capital Programme

The Capital Programme is based on the resources that the Council has available with schemes prioritised as detailed in Section 3.

As part of the annual process of approving capital projects the Capital Board will identify resources available, this will help reduce officer time and council resources being wasted on schemes that have no chance of being approved.

Key requirements of the NSR and the Recovery and Improvement Plan were to undertake a review of the current capital programme to identify schemes which can be paused, delayed or stopped in order to achieve immediate saving and to ensure that debt levels were reduced. The programmes set out below reflects the outcomes of the review:

Table 1: General Fund Capital Programme at Quarter 3							
Scheme	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**Total £m**
Approved Schemes							
Transport Schemes	24.843	57.715	41.235	7.581	0.000	0.000	**131.374**
Education	4.407	1.964	0.000	0.000	0.000	0.000	**6.371**
Other Services	100.089	41.273	9.162	8.688	7.694	7.885	**174.791**
Category 2 - Planned Schemes	0.000	15.907	21.193	15.700	7.709	7.390	**67.899**
Total Programme	**129.339**	**116.859**	**71.590**	**31.969**	**15.403**	**15.275**	**380.435**
Resources Available							
Prudential Borrowing	(71.713)	(27.234)	0.000	0.000	0.000	0.000	**(98.947)**
Grants & Contributions	(46.686)	(78.337)	(56.273)	(20.449)	(8.839)	(8.836)	**(219.420)**
Internal Funds / Revenue	(1.999)	(6.123)	(0.275)	(0.275)	(0.221)	0.000	**(8.893)**
Secured Capital Receipts	(7.199)	0.000	0.000	0.000	0.000	0.000	**(7.199)**
Unsecured Capital Receipts	(1.742)	(5.165)	(15.042)	(11.245)	(6.343)	(6.439)	**(45.976)**
Total Resources	**(129.339)**	**(116.859)**	**(71.590)**	**(31.969)**	**(15.403)**	**(15.275)**	**(380.435)**
Pressure / (Available) Funding	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

Table 2: Public Sector Housing (PSH) Capital Programme at Quarter 3							
Scheme	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**Total £m**
Category 1 - Approved Schemes	45.309	58.065	65.823	41.849	31.149	30.977	**273.172**
Category 2 - Planned Schemes	1.310	6.917	2.000	1.000	1.000	0.000	**12.227**
Total Programme	**46.619**	**64.982**	**67.823**	**42.849**	**32.149**	**30.977**	**285.399**
Resources Available							
Prudential Borrowing	(15.442)	(15.056)	(12.244)	(6.864)	(1.822)	0.000	**(51.428)**
Grants & Contributions	(1.542)	(5.326)	(3.185)	(0.157)	0.000	0.000	**(10.210)**
Major Repairs Reserve	(22.325)	(37.249)	(43.350)	(32.105)	(29.633)	(30.942)	**(195.604)**
Revenue Resources	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
Capital Receipts - HRA	(1.151)	(0.850)	(2.874)	(0.690)	(0.035)	(0.035)	**(5.635)**
Replacement Capital Receipts	(6.159)	(6.501)	(6.170)	(3.033)	(0.659)	0.000	**(22.522)**
Total Resources	**(46.619)**	**(64.982)**	**(67.823)**	**(42.849)**	**(32.149)**	**(30.977)**	**(285.399)**
Pressure / (Available) Funding	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

Sources of funding

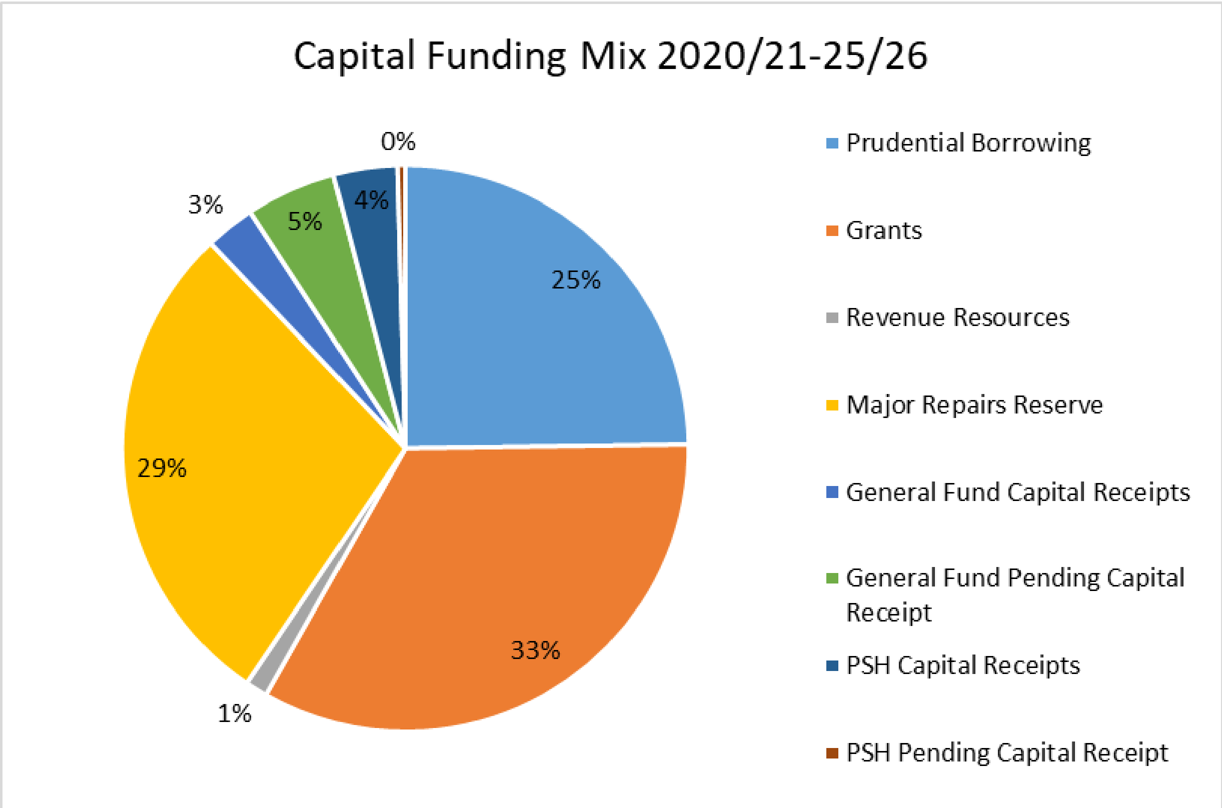
The Council's capital investment is governed by the 'Prudential Code for Capital Finance in Local Authorities' (Prudential Code). The Prudential Code provides the Council with a regulatory framework within which the Council has discretion over the funding of capital expenditure and the level of borrowing the Council wishes to undertake to deliver capital plans and programmes.

The strategy is intended to maximise the financial resources available for investment in service provision and improvement within the MTFO. At the same time, it seeks to ensure that each business case has a robust self-sustainable financial model that delivers the Council's objectives.

The funding available to Nottingham City Council consists of:

- Capital Receipts
- Government and contributions
- Revenue Resources
- Borrowing
- Other Long-Term Liabilities (i.e. Leasing / Private Finance Initiatives (PFI))

The Council's current forecast of resources to fund the capital programme over the 5-year programme are set out below:



Key funding risks and strategies are detailed below

Capital Receipts

Local authorities may use capital receipts to fund capital expenditure. Receipts from sales of council housing (HRA receipts) may only be used to fund HRA capital expenditure, but other receipts (general fund receipts) may be used to fund any general fund capital expenditure. In addition, under the government's flexible use of capital receipts policy (currently to March 2022), general fund capital receipts may in some circumstances be used to fund revenue expenditure e.g. transformation

The Council's land and property estate is managed through the CAMP and the Asset Rationalisation Programme, which identifies the Council's property requirements. Where appropriate, properties are declared surplus to requirements and the Council will look to dispose of the asset. The Council has identified **£94.9m** of surplus assets which will generate a capital receipt. This programme is currently being accelerated and extended and it is anticipated that further receipts can be identified.

In 2020/21 **£7.2m** of General Fund capital receipts are secured (up to December 2020), but a minimum of **£29.1m** is required to March 2023 based on the current programme with a further **£24.0m** of unsecured receipts required to March 2026. However, the Council has previously committed unsecured capital receipts of **£30.1m. £17.2m** is in relation to previous capital programme commitments and **£12.9m** outside the programme. The over committed receipt position is a significant risk to the Council as if there is receipt slippage then the Council may have insufficient resources to offset in year commitments.

The indicative programme, including both General Fund and Public Sector Housing, for 2020/21 to 2025/26 currently shows that capital receipts will constitute **c£81.3m** or **12.2%** of the Council's total capital resources, with a significant proportion relating to investment in social/affordable housing and housing for homeless people.

The Council may need to utilise the flexible use of capital receipts to fund transformation in the financial year 2021/22. Although the expenditure to be funded from this source is revenue expenditure, proposals for projects to receive this funding will be considered alongside capital project proposals to ensure that there is an integrated approach to determining priorities for the use of capital receipts and other capital funding.

The Capital Financing Policies have been amended so that no capital receipts can be committed until all the existing commitments have been resolved, this aligns with the recommendation made in the NSR.

Grants and Contributions

The Council receives capital grants from the government for various services. Any grant that the Council receives for housing (HRA grant) is ring-fenced. Grants have been an important source of funding for the Council's capital expenditure in recent years and it is expected that the following will continue:

- Ring-fenced grants and contributions (reserved for a particular purpose and have a restricted use).
- Non-ring-fenced grants and contributions (grant given with conditions which Projects are required to meet).
- Section 106 agreements (planning obligations generally subject to conditions of use).

An element of the non-ringfenced grant might be flexible, but there is a risk that if the grant is not spent as intended by the grant awarding body any future allocation maybe reduced (e.g. Transport Grants / Education Grants). As supported by the Councils Capital Principles.

Where there is a requirement to make an application to an external body for funding and commit Council resources as match funding for any part of any bid full consideration must be given if the match funding resources could be better utilised in delivering corporate objectives.

Section 106 contributions are ring-fenced to fund investment related to the specific development from which the contribution has been derived, but CIL contributions are pooled and may be used to fund investment related to any of the developments from which the contributions have been derived.

The indicative programme for 2020/21 to 2025/26 shows that grants and contributions will constitute **c£229.6m** or **34.5%** of the Council's total capital resources.

A corporate process to monitor such grants and reporting to the Capital Board will be established to ensure that appropriate use is made of specific grants.

Revenue Resources

In the current financial climate, and with increasing revenue pressures within Council finances, the extent to which this may be used to fund capital expenditure is significantly reduced. This is expected to remain the case for the foreseeable future.

In relation to the Housing Revenue Account there is a revenue available in the Major Repairs Reserve which is a specific reserve ring fenced for repairs and maintenance of the Council's housing stock.

The indicative programme for 2020/21 to 2025/26 shows that revenue contributions will constitute about **£8.9m** or **1.3%** of the Council's total capital resources.

Borrowing

The Council has the discretion to undertake borrowing on capital schemes (General Fund and Public Sector Housing) if the borrowing is deemed Value for Money and meets the following criteria as set out in the Prudential Code:

- Affordable
- Sustainable
- Prudent
- Proportionate for the size of the authority

Scheme affordability can be measured across several key indicators within the financial model including surplus cash position, surplus Net Present Value, early year deficits affordable and mitigated. Affordability can be considered at an individual project level or across the wider programme.

HM Treasury have published revised lending terms for the PWLB as from 26th November 2020, which makes PWLB unavailable for all authorities that have debt to yield schemes within their capital plans.

As a condition of accessing the PWLB, the Council will be required to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. This will include categorising spend based on the Section 151 Officers professional judgement as to the primary objective for the scheme. The supported categories are:

- Service spending
- Housing
- Regeneration
- Preventative action
- Treasury management

As detailed in the NSR, the Council have significantly relied on borrowing to fund capital expenditure in recent years leaving the Council with significant debt exposure. Therefore, to mitigate this risk going forwards the Council will seek to pay down debt, through the acceleration of capital receipts, in accordance with a revised MRP and the Voluntary Debt Reduction Policy Statement. The debt policy is set out in **Appendix B**.

Other long-term liabilities

The Council has the option to lease assets, however with the advent of unsupported borrowing, this source of financing has become less attractive. The Council's Vehicle Replacement Scheme demonstrates this development has been funded by borrowing for several years. There may however be instances where leasing could offer value for money and it will remain a consideration when options are being appraised.

PFI schemes are not shown within the Capital Programme as they are not financed by capital resources. However, the long-term affordability of the PFI schemes at the Council is being closely managed. The Nottingham Tram PFI is currently is currently forecasting a temporary deficit from 2033/34. This is mainly due to the reduction in Workplace Parking Levy income, which is used to fund the Tram model, due to Covid – 19.

There are certain schemes where the Council has an option to purchase at the end of the agreement, but no monies have been set aside. Therefore, a business case will need to be established to identify whether acquiring the site at agreement termination is value for money.

Under the Prudential Code authorities are required to treat other long-term liabilities as part of their debt, along with borrowing, and to apply the same robust decision-making processes to ensure that all debt is affordable, prudent, and sustainable. Furthermore, authorities are required to ensure that the financial risks are identified and quantified when decisions are taken to enter long-term liabilities.

Other long-term liabilities are relevant to the capital strategy not only because they come within the definition of debt, but also because the purpose of entering them is to deliver capital investment.

The Council keeps a register of loans and investments on its treasury management system. As part of the implementation of the financial reporting standard IRSF9 this will be extended to cover financial guarantees.

The Council recognises that there may be special risks associated with entering other long-term liabilities. It will require proposals to enter into other long-term liabilities to be subject to the same evaluation. This should ensure that:

- all the Council's debt is affordable, prudent and sustainable
- there is a common process for prioritising capital investment proposals
- the Council properly considers the risks associated with long-term liabilities and the cumulative impact on its overall level of debt.

The Chief Finance Officer keeps long-term liabilities under constant review.

5.2 Capital Financing Policies

The financing policies as detailed in the following table sets out how the Council ensures its investment decisions are consistent with its capital principles and the MTFP:

Table 3: Financing Policies	
Principle	**Detail**
Match Funding	If a scheme requires match funding to lever in external grant, any match will have to be identified from savings within the approved Capital Programme until debt has been reduced and the capital receipt pressure mitigated
Council Resources	Due to over commitment of capital resources (e.g. Capital Receipts, Revenue Resources), any additional scheme increasing this pressure will be required to make savings in the approved Capital Programme at least to the value of the resources required. **No further commitments in excess of the current Capital Programme**
Prudential Borrowing Level	A prudential borrowing cap and policy is in place for both the General Fund and Public Sector Housing (as detailed in the Voluntary Debt Reduction Policy – **Appendix B**), with schemes prioritised accordingly to remain within borrowing cap. Schemes currently in the Capital Programme can be substituted based on priority and impact on the MTFS.
Invest to Save, Invest for Service or Regeneration Objectives	➢ Increased income / cost reductions must exceed the financing costs (including sensitivity analysis for optimism bias) ➢ In most circumstances the first call on income is to repay financing costs where financing is from reserves ➢ Due to the uncertain nature of business rates these any potential benefit is excluded from financial models ➢ Financial model (including payback) is required to include the

	opportunity cost of using council resources.
Availability of Capital Receipt	The first call on any secured receipt is for any grant clawback provision or to repay any outstanding debt on that specific asset.
Project Underspend	Any resources available from project underspends are released into the Capital Programme to fund other capital commitments. Should the Project Sponsor of an underspending project wish to change the project via either enhancement or amended specification, further approval is required.
Debt to Yield	Any projects that breach the debt to yield parameters as set out by MHLCG are strictly prohibited, irrespective of the funding envelope.

5.3 Managing the Council's Debt Position & Debt Indicators

Treasury Management and the Repayment of Debt

The council's requirement to borrow is driven by prior year capital expenditure and future capital plans as outlined within the Capital Strategy. The method and timing of financing this borrowing requirement and managing the associated risks of these financing decisions are covered within Council's borrowing strategy. This includes strategies to manage the overall level of debt and to manage the timing and profile that debt is repaid so no one year has large amounts of debt to be refinanced/repaid and that the balance of debt outstanding is appropriate for the forecast CFR which reduces over the useful life of the assets financed by borrowing.

The Council's current and forecast debt positions and the borrowing strategy are reported and approved within the annual Treasury Management Strategy (TMS) received by Full Council prior to the financial year that it applies to. The TMS sets several Prudential Indicators as prescribed by the CIPFA Treasury Management Code of Practice. These include a projection of capital expenditure, external debt and use of internal borrowing and the council's overall borrowing requirement, which is known as the Capital Financing Requirement (CFR). The Prudential Indicators include the operational boundary and the authorised limit for external debt which is the statutory limit determined under Section 3(1) of the Local Government Act 2003: "A local authority shall determine and keep under review how much money it can afford to borrow".

The annual Treasury Management Strategy includes the policy for the repayment of debt known as Minimum Revenue Provision (MRP). The Council adopts the principle of making revenue provision for the repayment of debt over the useful life of the assets being created/purchased that were financed by borrowing.

Public Sector Housing

The Council's requirement to borrow for the Housing is driven by the HRA's capital expenditure plans as outlined within the Capital Strategy. The method and timing of financing this borrowing requirement is largely driven by the HRA 30-year business plan and a strategy of fully financing the HRA CFR with long term, fixed rate borrowing to provide cost certainty for the HRA.

Prudential Indicators

The Capital Expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. These are shown in **section 2** of the Treasury Management Strategy 2021/22.

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and the underlying need to borrowing. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. The CFR projections are shown below:

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement (£m)							
CFR – General Fund	1,089.445	1,119.085	1,101.154	1,053.515	1,000.481	941.006	885.114
CFR – HRA	292.530	304.360	314.049	319.050	319.865	315.466	309.200
Total CFR	**1,381.975**	**1,423.445**	**1,415.203**	**1,372.565**	**1,320.346**	**1,256.472**	**1,194.314**
Movement in CFR		**41.470**	**(8.243)**	**(42.638)**	**(52.219)**	**(63.874)**	**(62.158)**
Movement in CFR represented by (£m)							
Net financing need for the year (above)	59.952	87.155	42.290	12.244	6.864	1.822	0.000
Less MRP/VRP and other financing movements		45.685	50.533	54.882	59.083	65.696	62.158
Movement in CFR		**41.470**	**(8.243)**	**(42.638)**	**(52.219)**	**(63.874)**	**(62.158)**

The operational boundary for external debt

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

£m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Operational boundary	1,423.4	1,415.2	1,372.6	1,320.3	1,256.5	1,194.3

The authorised limit for external debt

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

£m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Authorised limit	1,453.4	1,445.2	1,402.6	1,350.3	1,286.5	1,224.3

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

a. Ratio of financing costs to net revenue stream

%	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
General Fund	16.66%	17.87%	18.17%	17.36%	17.13%
HRA	13.60%	14.14%	15.29%	15.10%	15.30%

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this report. The net revenue stream is shown as the total sum to be raised from government grants, business rates, council, and other taxes (General Fund) and rent income (HRA). From 1 April 2012, the General fund income figure includes ring-fenced NET (tram) government grant and revenue raised from the Workplace Parking Levy.

b. HRA ratios

The first of two local HRA indicators below show the ratio debt to revenue showing the sustainability of the debt load over the forecast period.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA debt £m	292.530	304.360	314.049	319.050	319.865
HRA debt cap £m (abolished)	319.784	319.784	319.784	319.784	319.784
HRA revenues £m	103.333	104.989	106.694	107.670	108.601
Ratio of debt to revenues %	**2.8**	**2.9**	**2.9**	**3.0**	**2.9**

The second indicator shows the HRA debt per dwelling based on the forecast debt level.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA debt £m	292.530	304.360	314.049	319.050	319.865
Number of HRA dwellings	25,388	25,280	25,181	25,049	24,906
Debt per dwelling £'s	**11,522**	**12,040**	**12,472**	**12,737**	**12,843**

6 Revenue implications of Capital Expenditure

6.1 Overview

The revenue implications of capital expenditure need to be considered both when:

- determining the overall size of the capital programme and how it is to be financed, particularly the amount of prudential borrowing that should be undertaken
- evaluating individual projects.

In addition, as part of the asset planning process the running costs of existing assets need to be considered to determine priorities for maintenance, enhancement, and replacement of assets and, accordingly, for the development of suitable capital investment proposals.

The key constraint on the Council's ability to fund capital expenditure is its ongoing revenue budget position. In considering how much capital investment it can afford, therefore, the Council will estimate the overall impact on future revenue budgets and exercise prudence to ensure that the level of capital investment is sustainable.

The Chief Finance Officer will advise members on the overall size and financing of capital expenditure as part of the report to Executive Board in February each year asking it to approve the rolling multi-year capital programme. Decisions on the revenue budget and the capital programme will be taken at the same time to ensure they are joined up.

When individual project proposals are being evaluated, it is essential that the revenue implications are fully understood so that the aggregate revenue effect of projects accepted into the capital programme matches what has been assumed in determining the overall size of the programme and its funding

6.2 Costs of prudential borrowing

Where the Council undertakes prudential borrowing, it incurs debt charges in the form of repayments of principal and interest payments, which depend on the terms of the loan. As part of its treasury management function the Council takes out loans on the best terms available to meet its overall prudential borrowing requirement rather than loans related to specific projects. A common interest rate, reflecting the overall cost of borrowing and standard repayment periods, depending on the type of asset, is therefore used to assess the financing costs of proposed projects.

6.3 Feasibility costs

The costs of developing a proposed capital project must be charged to revenue until it is assessed that there is a high degree of certainty that an economic benefit will flow from the new asset. All such costs are therefore chargeable to revenue where the project does not go ahead. Where the project does go ahead, any costs incurred in financial periods prior to the commencement of the project, for which the accounts have been closed, must also remain charged to revenue.

Such costs depend on the size and complexity of the proposed project and how far the proposal is developed before a decision is taken not to proceed. Increasing costs are committed at the following stages:

- engagement of a project manager
- engagement of specialist external advisers
- commissioning of feasibility study
- commissioning of further work in advance of the main procurement process, e.g. ground investigation, outline design, enabling works
- commencement of main procurement process
- entering a contract.

Appendix A – Capital Programme – High Level Terms of Reference

Capital Programme –High-level ToR

Appendix B Voluntary Debt Reduction Policy Statement

Nottingham City Council

Debt Reduction Policy Statement

Investment in the city's infrastructure is an important part of the Council's role but the Council also recognises that with limited resources, expenditure on servicing debt to fund capital investments is money not spent on providing day to day services to it's citizens. Its future priorities will be determined though an emphasis on the new 'strategic Council Plan which will reconcile its ambitions with the resources available to support those ambitions.

The City Council also recognises that its absolute level of external debt remains high in comparison with its peer group and is driven largely by past investment to enhance the city rather than current capital spending decisions.

Prudential Code

The Council is committed to the principles of the Prudential Code:

- Affordable
- Sustainable
- Prudent
- Proportionate for the size of the authority

Investment Strategy

The Council's capital strategy ensures that all the projects are accounted for in the allocation of any available resources over a medium term planning horizon. This will assist the immediate requirement to review the exiting programme on the grounds of affordability and provide a framework for schemes going forward. The principles of the strategy are as follows:

- Current approved (or committed) schemes will be supported subject to sufficient resources being identified to enable them to proceed or complete up to the approved level of expenditure.
- New schemes funded by borrowing will be severely limited by the criteria set out in the debt policy. This is to reduce the Council's current unsustainable level of debt and will require a review of the existing capital schemes.
- All schemes will be subject to a strict objective prioritisation process, which will include a robust business case including whole life costing.
- All schemes must align to the new PWLB criteria (i.e. not debt for yield) irrelevant of the schemes funding envelope. Historic debt for yield schemes will be revisited in the light of emerging CIPFA/MHCLG guidance.

- Capital receipts are a central resource and not generally linked to specific schemes including assets identified for disposal as part of the Asset Rationalisation Programme. Permissible exceptions are:
  - School Sites ring-fenced by the Secretary of State for education purposes.
  - Sites identified as part of the Loxley House Acquisition.
  - Commitments of capital receipts from prior decisions (including repayment of outstanding debt).
- From 2020/21 only secured capital receipts will be considered in decisions to fund capital schemes. (i.e. no capital receipt-funded scheme to commence until sufficient receipts are banked).
- Revenue implications of schemes must be fully reflected in the MTFP and affordable within services. (affordability needs to be demonstrated).
- The capital budget approved by Full Council is a control total and no further schemes will be included in the programme unless existing schemes are removed or delayed - unless the new schemes in question are fully funded by external resources.
- The Council will consider the removal of ring-fencing (*where permissible*) from certain grant allocations to assist in the achievement of the Council's priorities and objectives. All uncommitted non ring-fenced capital funding will form part of corporate capital resources. Non ring-fenced grants received in support of the three areas below will be earmarked to fund these initiatives:
  - Transport grant funding
  - Education based grants
  - Disabled Facilities Grant
- If the financial projections for approved schemes move adversely during the pre-contract stage by the lower of £1.0m or 20% (either cash or NPV), further approval will be required including a revised business case.

<u>Debt Policy</u>

The Council has the discretion to undertake borrowing on capital schemes (General Fund and Public Sector Housing) if the borrowing is deemed Value for Money and meets the criteria as set out in the Prudential Code and is affordable, sustainable, prudent and proportionate for the size of the authority.

HM Treasury have published revised lending terms for the PWLB as from 26th November 2020, which makes PWLB unavailable for all authorities that have debt to yield schemes within their capital plans.

The Council have relied significantly on borrowing to fund capital expenditure in recent years leaving the Council with significant debt exposure and a relatively high level of debt servicing costs in proportion to the scale of its revenue account. Therefore, to mitigate this risk going forwards, the Council will seek to reduce is MRP costs and pay down debt over time, through a strict prioritisation of spending decisions and the accelerated generation of capital receipts subject to maintaining best value.

The debt policy in respect of new capital expenditure is thus as follows:

- 2020/21 - ***To minimise spend and new borrowing subject to pre-existing capital commitments and expenditure already incurred within 2020/21***. The capital Programme has been reviewed and a number of schemes been removed or rephrased. This review concluded in February 2021 and **c14.7m** of General Fund schemes were de-committed and a further **£19.4m** of Public Sector Housing schemes were removed.

- 2021/22 - ***To restrict new borrowing to no more than the level of the annual debt being repaid.*** (i.e. New borrowing no greater than the MRP repaid). The Capital Programme has been reduced to existing commitments.

- 2022/23-2024/25 - ***Nil net new borrowing throughout the period***. This applies both to general fund and public sector housing debt.

Nothing in this policy shall prevent the council from exercising normal day to day management of its borrowings through Treasury Management activities and/or the use of internal borrowing.

Impacts of the Policy

The Council will exert control on debt, primarily through controlling the revenue impacts of borrowing (MRP) rather than through seeking to repay external debt. This is because external debt is often heavily weighted towards fixed rate debt with maturity period up to 60 years and where redemption would often carry significant penalties.

The forecast impact on budgeted borrowing levels would be:

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
MRP Repaid	-36.1	-40.4	-43.9	-48.1	-53.9
GF new Borrowing	91.7	27.2	0.0	0.0	0.0
HRA new Borrowing	15.4	15.1	12.2	6.9	1.8

The forecast impact on external debt is set out in the table below. The revised forecast external debt takes into account the revised debt policy together with activities associated with the normal Treasury Management activities.

	Current/ forecast external borrowing £m	Revised forecast External Borrowing £m	Decrease £m
1 April 2020	1,074.5		
2020/21 forecast closing	1.052.5	981.6	-70.9
Forecast 2021/22	1,056.2	991.0	-65.2
Forecast 2022/23	1,043.9	986.2	-57.7
Forecast 2023/24	1,012.6	954.8	-57.8
Forecast 2024/25	985.1	927.4	-57.8

Notes to table:

- *the previous strategy (2020/21) was approved by Full Council on 9 March 2020.*

Appendix C – Assurance Process

Gate	Required information	Outcome if project passes this gate	Indicative timing for annual cycle
0	**Outline project brief** including all the information required to determine whether the proposal meets the Council's evaluation criteria	Confirmation that the proposal may proceed following approval at the Capital Programme Board	Outline project brief submitted for evaluation in mid-May for review and consideration within the prioritisation process in June
1	Initial Business case on the standard template, following Treasury Green Book Five Case Principles	Confirmation that the project will be recommended for inclusion in the capital programme	Initial Business Cases subjected to assurance review in November with final prioritisation recommendations made to and then by the Capital Programme Board in December
2	**Final Business Case** In some cases, due to the complexity of a project or its timeframes, the Initial Business Case that got a scheme into the capital programme may have needed significant further work to reach a final business case stage. Where required this would again be on the standard template and follow Treasury Green Book principles based on a five-case model	At this point the project will already be in the Capital Programme, however it will still need approval to progress via DDM / Executive Board. The review should take place prior to this decision with the recommendations being made available to decision makers / Capital Programme Board	Not applicable – post cycle
3	**Tender evaluation report** with details of tenders received, the evaluation process and why it is recommended that the preferred tender should be accepted should be subject to an assurance review, unless it has been determined that it would be more	Contract may be awarded to the preferred tenderer	Report to be submitted to the relevant decision maker as soon as possible after tenders have been received. Outcome of the assurance review and recommendations made available to the Capital Programme Officer Group and Capital

	beneficial to do this earlier in the procurement process, for example to inform procurement routes, scopes, risk allocations etc.		Programme Board as appropriate.
Further Assurance Processes			
	Lessons learned report following post-project review (Note – lessons learned activity should take place throughout the project and new lessons learned should be flagged up within the monthly monitoring reports)	Confirmation that lessons learned report is satisfactory and no further information is required. Lessons learned are provided to the PMO who will analyse, report and disseminate them to the appropriate audiences and projects to ensure best practice continues to be developed and is adhered to.	Not applicable
	Monitoring Regular monitoring of projects on standard templates to be undertaken by the PMO to the timelines set out in this Capital Strategy.	Monitoring information tested and triangulated through ongoing dialogue with projects so progress can be assured. Reports up to the Capital Programme Officer Group and Capital Programme Board as required, generally expected to be on an exception basis.	Not applicable