Nottingham City Council Capital Strategy - 2022/23-2026/27

1. Introduction

1.1 Purpose of the Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which 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 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 ensures that:

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

for Money and does not meet the definition of a debt to yield or commercial investment.

- 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 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 its 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.

The Council's Non-Statutory Review (NSR) and the Together for Nottingham Plan

During 2020/21 following a Public Interest Report (PIR) published on Council's by its external auditors (published 11 August 2020), a NSR was commissioned by the [then] MHCLG in October 2020 led by Max Caller CBE to provide assurance of the Council's financial position.

The key findings of the NSR in relation to capital expenditure and financing included recommendations on the governance and control of the capital programme, reducing high level of borrowing and the management of assets and their disposal.

The Council has developed the *Together for Nottingham Plan* in response to the findings of the NSR and is working with the Improvement and Assurance 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 supports the Council in achieving this. Implementation of the Plan is a key priority of the Council and the Capital Strategy forms a key component part.

Key continuing 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).
- Compliance with the Council's Debt Reduction Policy to reduce Council debt to a sustainable level.
- A maturing of the capital prioritisation process and the separation of spending and funding decisions.
- Providing a strengthened Governance and Control Framework and ensuring that this is put into practice across the Council.

The *Together for Nottingham Plan* was approved at Full Council on 10 January 2022, updating the previous Recovery and Improvement Plan and can be found at:

https://committee.nottinghamcity.gov.uk/documents/s130208/Nottingham%20Economic%20Recovery%20and%20Renewal%20Plan.pdf

The implementation of this strategy will assist in the Council meeting its *Together for Nottingham* 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 or classified as a commercial investment.
- 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:

a. Formulating the capital programme with clear criteria to ensure that capital investment continues to be directed towards meeting corporate objectives.

b. Approving and amending the capital programme and for scrutinising decisions relating to capital planning.

c. 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 the 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:

d. Continue to ensure it has the skills, and expertise needed.

e. Further strengthen the corporate programme management function.

f. Streamline governance, monitoring and reporting processes.

g. 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:

h. the use of alternative models for the delivery of capital investment

i. the incurring of other long-term liabilities

j. capital investment which generates return on the basis it does not meet the debt for yield criteria.

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 lessons 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 and is defined expenditure in its financial statements as:

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.

Nottingham City Council – Financial Statements 2020/21

As detailed in the Council’s Accounting Policies the Section 151 officer has the discretion to capitalise (i.e. recognise) all capital expenditure but has set its policy de minimis levels in the Council's Financial Statements as 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 represents 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. Itis 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:

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

2.3 Property Asset - Strategy

It is recognised that there is a need for a more sustainable and long term strategic approach to the management of the Council's property assets. Following an independent review of how the Council manages its property assets, recommendations are being taken forward to move towards a Corporate Landlord approach. This will result in a more joined up corporate approach to asset and property management.

A Corporate Asset Management Plan is being produced - the key components of which, relevant to the Capital Strategy, are:

a. regular review of the portfolio to identify assets that can be released with the capital receipts used to support capital programme expenditure.
b. lower the operating costs of the property portfolio through release of poorly performing or surplus assets
c. support the provision of integrated access to public services through joint working with partners to create multi-agency service facilities
d. 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

e. minimise future liabilities to the Council by reducing the backlog maintenance and/or lowering its overall carbon footprint by releasing buildings which are poorly performing in terms of CO_2 emissions or maintenance unless they are service critical; to improve their sustainability
f. challenge utilisation and use of the portfolio, including buildings let on concessionary terms to occupiers.

A comprehensive review of the Council's commercial property assets overseen by the Asset Rationalisation Board, is also being undertaken.

The prioritisation of capital investment will reflect the requirements of the Corporate Asset Management Plan and this will be overseen by the Capital Board.

Property Asset – Disposal

The Council maintains an Asset Rationalisation Programme (ARP) which is governed by the Asset Rationalisation Board. The aim of the programme is to review the Council's operational and non-operational assets, identifying any assetsfor potential disposal. The work of this Board is an integral input into the remit of the Capital Board.

Any available capital receipts generated from the ARP will be pooled and used to meet the Council's current commitments including debt reduction and the repayment of reserves. Capital receipts will not generally be hypothecated against individual projects and only then, with the express consent of the Section 151 officer. Further details can be found in section 5.1.

The investment property portfolio is also being reviewed with a view to liquidating those assets that do not provide the required return or carry an unacceptable current or future risk to the Council

The Council's has a disposals policy which provides the framework for asset disposals and confirms the Council policy to dispose of assets at best consideration (usually market value) to maximise the capital receipts. It will also consider other forms of asset management (such as the transfer some heritage buildings to trusts to achieve a service objective) but a robust and comprehensive options appraisal is required 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 forms a key component of the 30 Year Plan to ensure that stock is managed and maintained in an effective and 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 as set out in the Council Plan. 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 refreshed Strategic Council Plan 2021-2023, which is founded on a number of key objectives a summary is provided below:

- Increase the number of social, affordable homes and homes for homeless by 1,000.
- Help local people into good quality employment.
- The fit out of a new Central Library, with a particular focus on the offer to children and young people.
- Becoming the first carbon neutral city in the country, aiming to reach this target by 2028. This involved the creation of Nottingham's 2028 Carbon Neutral Charter.
- Make Nottingham a safer city by reducing crime and anti-social behaviour.
- Achieve a sustainable financial plan which supports the achievement of the Council's objectives in each year for the period 2022/23 to 2025/26.

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.

A copy of the Council plan can be found on the following link:

https://www.nottinghamcity.gov.uk/media/3371718/strategic_councill_plan_2021.pdf

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)
- Changing external economic forecasts
- The consequences of events such as the Grenfell fire.

The Council must manage its Capital Programme with a high 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 Council's 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:

a. Current approved (or committed) schemes will be supported in line with prioritisation criteria subject to sufficient resources being identified to enable them to proceed or complete up to the approved level of expenditure**.**

b. New schemes funded by borrowing will not be considered as a result of the Voluntary Debt Reduction Policy and the parameters as detailed in section 5.1. The Voluntary Debt Reduction Policy is set out in **Appendix B**. New schemes with prudential borrowing will only be considered once the Council's debt is considered to be at a sustainable level.

c. All new schemes will be subject to a strict objective prioritisation process, which will include a robust business case including whole life costing.

d. All new schemes must align to the new PWLB criteria (i.e. not debt for yield) irrelevant of the schemes funding envelope.

e. 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).

   Outside these criteria, the express agreement of the Section 151 Officer is required in order to link a capital scheme (all or part) to a specific capital receipt.

f. 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).

g. Revenue implications of schemes are fully reflected in the MTFP and affordable within services.

h. The capital budget approved by Full Council is a key control total and no further schemes (other than those fully funded by external resources with a manageable revenue impact), will be included in the programme unless an existing scheme(s) is removed or deferred.

i. 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 (if applicable), further approval will be required including a revised business case.

3. Governance and Control

3.1 Capital Investment Delivery

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

a. Continue the robust governance framework.

b. Maintain the process for formulating, approving, amending, and monitoring the Capital Programme.

c. Prioritise and challenge individual projects prior to inclusion in the Capital Programme.

d. Ensure officers and Councillors have the appropriate knowledge and skills to deliver the Programme.

e. Managing risks and mitigating where possible.

f. Consideration of alternative delivery options.

3.2 Capital Programme Board

The Council has established a Capital Board with robust processes for developing a rolling multi-year capital programme, operating on an annual cycle with clear timescales, clear information requirements and clear evaluation criteria. This approach ensures that capital resources are directed towards supporting schemes that best meet corporate objectives and that capital projects are deliverable.

This Board provides 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 thensubject 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 Capital Programme Board is chaired by the Leader of the Council and the S151 Officer chairs the Capital Programme Officer Group. This group is 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 is 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 willin turn be supported by officer groups covering the following thematic areas.

a. Capital Programme Financial Monitoring
b. Capital Programme Management and Benefits Realisation
c. Asset Management and Disposal
d. 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 thento 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.

- **January –** Draft Capital Programme and Capital Strategy endorsed by the Capital Board.

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

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

- **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.

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 approach 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 generally 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 the strict prioritisation criteria.

Capital schemes will be strictly prioritised based on the following:

a. Schemes entirely funded by external grant and with £nil revenue impact
b. Approved Projects that enable compliance with legal or statutory duties (e.g. Health and Safety)
c. Planned Projects that enable compliance with legal or statutory duties (e.g. Health and Safety)

d. Legal or Statutory Schemes in the following financial year
e. Transformation commitments in accordance with the Capitalisation Directive
f. Replenishment of Reserves temporarily used for prior capital decisions (until this is fully repaid)
g. Schemes that support key Council Priorities
h. Repayment of debt where the Council has borrowed in lieu of secured funding (until this is fully repaid)
i. Other commitments outside the Capital Programme
j. Other schemes

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 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 thosearising 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 bythe 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.

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:

a. 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.

b. 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.

c. 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 requests, 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.

d. 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.

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 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 has introduced new, robust governance processes and has

a. standardised the formats of reports, while allowing the detail provided to vary depending on the size and complexity of different projects
b. avoided duplication of effort in providing the information more than once
c. ensuring corporate documents are well thought through and written in plain English
d. ensuring that the scheme of delegation, financial regulations and procurement rules are consistent with each other and are clearly communicated across the organisation
e. ensuring there is good communication between delivery teams and those responsible for determining and administering the approvals process
f. ensuring 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 As defined in the prudential code capital expenditure can broadly be categories into two categories types

a. **Service Delivery Investments,** held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure), and

b. **Investment for Commercial return,** held primarily for financial return with no treasury management or direct service purpose.

In the current financial circumstances, the Council recognises that achieving its 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 service delivery schemes where this is most likely to be the case are:

c. invest to save schemes where there is uncertainty about the exact level of savings that will be achieved

d. 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:

e. make the consideration of risk a key part of the remit of the Capital Programme Board

f. require business cases to set out potential risks in an appropriate level of detail depending on the size and complexity of the proposal

g. 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

h. require risk registers to be maintained for approved projects and for these to be used to actively manage risks

i. ensure that relevant staff receive training in how to manage risk, e.g. as part of a recognised project management course

j. 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:

a. Service Investments – investments held clearly and explicitly for the provision of operational services, including regeneration, such investments include:
b. loans to external organisations that are delivering the Council's strategic objectives
c. shareholding in companies that support service provision
d. Commercial Investment – investments undertaken primarily for financial reasons including:
    - commercial loans to companies and other organisations
    - holding property for a financial return
    - The principles within this Capital Strategy prohibit the Council from including any schemes that meet the Commercial Investment definition within its Capital Strategy.

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. The Council also hold shares in companies that support service provision.

The most significant service investments that the Council has undertaken to date are loans to 3rd parties to support the delivery of objectives that align to the council plan, these comprise of capital and revenue loans totalling **£124.4m** at 31 March 2021. Between the 1 April and the 31 December 2021 a further **£1.4m** of Revenue and Capital loans have issued and **£4.2m** have been repaid, therefore the value of service investments at the 31 December is **£121.6m**. The forecast interest receivable from the loans for 2022/23 is **£3.3m** and the average rate on these loans is **3.64%**.

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 2021 is **£193.4m** and will be revalued at 31 March 2022 as part of the Councils 2022/23 Financial Accounts. These investments have been funded by **£5.7m** of the Councils own resources and **£225.8m** of Unsupported Borrowing (net of MRP).

The forecast net revenue to the general fund for 2021/22 from the above investments is estimated to be **(£7.0m)**. The average yield generated from the Commercial Investments is **3.02%** (based on net income and unsupported borrowing net of MRP and interest).

All Commercial Property 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 **£238.1m** (excluding MRP payments to 31st March 21), leaves the Council open to Property Market downturn including increased voids / tenant lease breaking and any other risks including the impact and recovery from Covid-19. The pandemic has had a significant impact on the level of risk and the expected returns for 2021/22 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. The risk around the commercial investment sinking fund is incorporated in the Council's MTFS.

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:

a. Approved Projects – Projects that have been formally approved and have a funding package that is deemed affordable

b. 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

As projects progress through the two 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.

The capital programmes set out below reflects the outcomes of the prioritisation process in financial year 2021/22:

Table 1: General Fund Capital Programme at Quarter 3

Scheme	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Approved Schemes							
Transport Schemes	30.196	76.810	14.045	0.710	0.000	0.000	**121.761**
Education	7.388	1.841	0.000	0.000	0.000	0.000	**9.229**
Other Services	37.255	63.671	30.463	8.813	8.882	8.437	**157.521**
Category 2 - Planned Schemes	0.088	11.569	13.482	7.687	7.444	6.144	**46.414**
Total Programme	**74.927**	**153.891**	**57.990**	**17.210**	**16.326**	**14.581**	**334.925**
Resources Available							
Prudential Borrowing	(13.003)	(22.698)	0.000	0.000	0.000	0.000	**(35.701)**
Grants & Contributions	(58.620)	(106.739)	(38.728)	(9.686)	(8.975)	(8.913)	**(231.661)**
Internal Funds / Revenue	(1.167)	(7.138)	(2.237)	(0.286)	(0.235)	0.000	**(11.063)**
Secured Capital Receipts	(2.137)	(14.107)	0.000	0.000	0.000	0.000	**(16.244)**
Unsecured Capital Receipts	0.000	(3.209)	(17.025)	(7.238)	(7.116)	(5.668)	**(40.256)**
Total Resources	**(74.927)**	**(153.891)**	**(57.990)**	**(17.210)**	**(16.326)**	**(14.581)**	**(334.925)**

Table 2: Public Sector Housing (PSH) Capital Programme at Quarter 3

Scheme	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Category 1 - Approved Schemes	44.050	68.168	54.264	44.642	31.099	29.882	**272.105**
Category 2 - Planned Schemes	0.000	2.835	0.000	0.000	0.000	0.000	**2.835**
Total Programme	**44.050**	**71.003**	**54.264**	**44.642**	**31.099**	**29.882**	**274.940**
Resources Available							
Prudential Borrowing	(8.003)	(12.115)	(7.404)	(6.923)	0.000	0.000	**(34.445)**
Grants & Contributions	(2.726)	(8.158)	(0.191)	(0.150)	0.000	0.000	**(11.225)**

Major Repairs Reserve	(27.816)	(40.885)	(37.563)	(33.061)	(31.064)	(29.847)	**(200.236)**
Revenue Resources	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
Capital Receipts - HRA	(0.294)	(1.670)	(2.503)	(0.703)	(0.035)	(0.035)	**(5.240)**
Replacement Capital Receipts	(5.211)	(8.175)	(6.603)	(3.805)	0.000	0.000	**(23.794)**
Total Resources	**(44.050)**	**(71.003)**	**(54.264)**	**(44.642)**	**(31.099)**	**(29.882)**	**(274.940)**

Sources of funding

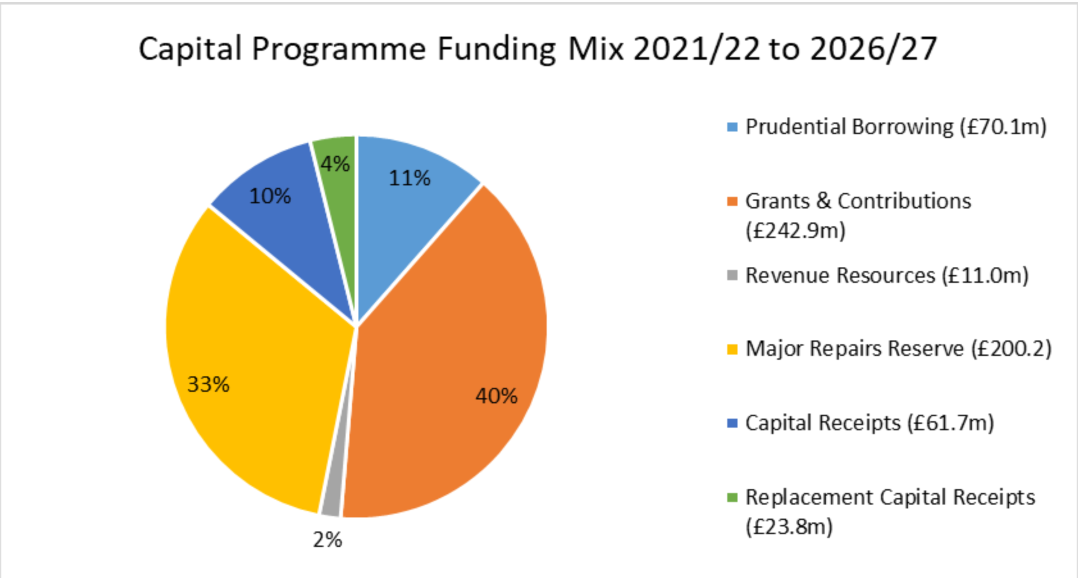
The Council's capital investment is governed by the 'Prudential Code for Capital Finance in Local Authorities' (Prudential Code). The Prudential Code provides the Council with a regulatory framework within which the Council has discretion over the funding of capital expenditure and the level of borrowing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

a. Capital Receipts
b. Government and contributions
c. Revenue Resources
d. Borrowing
e. 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 or to fund certain transformation related activities under the flexible use of capital receipts direction. 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, but extension expected), general fund capital receipts may in some circumstances be used to fund revenue expenditure e.g. transformation related costs.

The Council's land and property estate is managed through the Disposal Strategy 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. This programme is currently being accelerated and scope extended.

In 2021/22 **£20.8m** of General Fund capital receipts are secured (up to December 2021), a minimum of **£56.5m** is required to fund the Capital Programme to March 2027 (planned schemes make up **£14.4m** of the Capital Programme commitment).

However, the Council has committed to use currently unsecured capital receipts of **£63.8m** in relation to prior capital decisions**. £31.5m** is in relation to the replenishment of reserves and repayment of debt from previous capital decisions commitments, **£30.0m** set aside for Transformation Costs and **£2.3m** other commitments. The Capital Programme is underpinned by the principle that the Council commits to projects once the receipt has been secured and banked and the commitments from prior capital decisions is included within the capital prioritisation.

The indicative programme, including both General Fund and Public Sector Housing, for 2021/22 to 2026/27 currently shows that capital receipts will constitute **c£61.7m** or **10%** of the Council's total capital resources, with a significant proportion relating to investment in social/affordable housing and housing for homeless people.

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 withthe 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:

a. Ring-fenced grants and contributions (reserved for a particular purpose andhave a restricted use).

b. Non-ring-fenced grants and contributions (grant given with conditions which Projects are required to meet).
c. 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.

The indicative programme for 2021/22 to 2026/27 shows that grants and contributions will constitute **£242.9m** or **40%** of the Council's total capital resources.

A corporate process for monitoring grants and reporting finds to the Capital Board has been 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 2021/22 to 2026/27 shows that revenue contributions will constitute about **£11.0m** or **2%** of the Council's total capital resources.

Borrowing

Councils have 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:

a. Affordable
b. Sustainable

c. Prudent
d. 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.

As detailed in the NSR, Nottingham City Council have over-relied on borrowing to fund capital expenditure in recent years leaving the Council with significant debt exposure when measured in terms of debt servicing costs as a proportion of net revenue expenditure. Therefore, to mitigate this risk going forwards the Council is paying down debt 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 and availability of other capital funding, this source of financing has become less attractive. The Council's Vehicle Replacement Scheme demonstrates this development and up to March 2022 has been funded by borrowing, from April this expenditure is to be funded from secured capital receipts. 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 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. Further analysis of the financial position is underway to determine the extent of any risks and more information will be available early in 2022/23.

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 risksare 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 isto 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 otherlong-term liabilities. It will require proposals to enter into other long-term liabilities to be subject to the same evaluation. This should ensure that:

a. all the Council's debt is affordable, prudent and sustainable
b. there is a common process for prioritising capital investment proposals
c. the Council properly considers the risks associated with long-term liabilitiesand 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 willhave 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 the current commitment of Council Resources (e.g. Capital Receipts, Revenue Resources), no further schemes will be included in the programme unless it can be managed within the approved control totals or an existing scheme is removed / deferred. The opportunity cost of using Council Resources is to be calculated and reported within the approval using the underlying borrowing rate at the time of the decision, if the capital investment is in the medium to long term then a forecast borrowing rate at the time the project commences will be used.
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 the borrowing cap. Schemes currently in the Capital Programme can besubstituted based on priority and impact on the MTFS.
Invest to Save, Invest for Service orRegeneration 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 financingcosts where financing is from reserves ➢ Due to the uncertain nature of business rates these any potentialbenefit 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 / Commercial Investment	Any projects that breach the debt to yield parameters as set out by MHLCG and/or classified as a commercial investment 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
Details of the Council's prudential indicators can be found within Section 5 of the Treasury Management Strategy 2022/23.

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 levelof 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).
- 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 withinservices, (affordability needs to be demonstrated using prudent assumptions taking account of optimism bias).
- 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 thenew 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.

Debt Policy

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:

- 2021/22 - ***To restrict new borrowing to no more than the level of the annual debt being repaid.*** (i.e. No new schemes financed by borrowing). The Capital Programme has been reduced to existing commitments and no schemes added funded by borrowing.

- 2022/23-2026/27 - ***Nil net new borrowing throughout the period***. No new schemes financed by borrowing to be added to the Capital Programme, unless the scheme is required to enable compliance with legal or statutory duties (e.g. Health and Safety). Whereby any borrowing will be capped by the forecast headroom as indicated below (including updates reported as necessary) within the CFR / external as shown below, this headroom will be restricted to measurement with the least headroom. This applies both to general fund and public sector housing debt with all borrowing meeting the criteria as set out in the Prudential Code, any decision regarding this is at the discretion of the S151 Officer.

The forecast prudential borrowing in the Capital Programme is required to remain within the approved control totals.

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:

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
MRP Repaid	49.737	52.549	60.922	65.135	60.080	58.812
GF new Borrowing	13.003	22.698	-	-	-	-
HRA new Borrowing	8.003	12.115	7.404	6.923	-	-

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

Debt Measurement	VDRP Original Forecast (Approved: Full Council March 2021) £m	Debt / VDRP Qtr3 Actual & Forecast £m	Movement (Under) / Over £m
CFR			
2020/21	1,443.5	1,411.6	**(31.9)**
2021/22	1,434.2	1,382.9	**(51.3)**
2022/23	1,390.6	1,365.1	**(25.5)**
2023/24	1,337.3	1,311.6	**(25.7)**
2024/25	1,272.5	1,253.4	**(19.1)**
External Debt			
2020/21	981.6	932.8	**(48.8)**
2021/22	991	900.9	**(90.1)**
2022/23	986.2	888.0	**(98.2)**
2023/24	954.8	864.0	**(90.8)**
2024/25	927.4	843.5	**(83.9)**

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