Nottingham City Council Capital Strategy – 2023/24-2026/27

1. Introduction

1.1 Purpose of the Capital Strategy

The CIPFA 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 lasting effects of Covid-19, ongoing uncertainties of Brexit and a sustained period of high inflation. The severe impacts of all of these upon the City will continue to have a financial impact for the short and 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 and priorities
- Capital investment complements revenue spend on services.
- Stewardship of assets is properly considered in capital planning.
- Capital investment is prudent, sustainable, affordable within the context of the Council's overall finances, 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 and the management of projects at a programme level.

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 debt-related implications of these 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 Non Statutory Review (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 District Heating and the former Broadmarsh Shopping Centre) and temporarily decommission certain schemes until such time as available capital resources can be secured and made available.
- Compliance with the Council's Voluntary Debt Reduction policy (VDR) 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 consistently 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.

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:

- Formulating the capital programme with clear criteria to ensure that capitalinvestment continues to be directed towards meeting corporate objectives and priorities.
- 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 is overseen by the Capital Board. Executive Board will recommend the programme for approval each year in line with the MediumTerm Financial Plan (MTFP) approvals process. To successfully deliver the programme, the Council will:

- Continue to ensure it has the skills, and expertise needed.
- Continue to identify opportunities to further strengthen the corporate programme management function.
- Standardise and enhance governance, monitoring and reporting processes.
- Ensure the sound financial position is maintained throughsustainable deployment of resources.

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

- The use of alternative models (e.g. Private Sector) for the delivery of capital investment.
- Continued application of the VDR policy with no new debt proposed except for existing commitments.
- Caution in incurring other long-term liabilities.
- Capital investment which generates a financial return on the basis it does not fall foul of the debt for yield criteria.
- Capital receipts that are currently unsecured.
- The future use of capital receipts flexibilities to fund operational activities that would normally be considered revenue and leading to securing revenue savings.

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

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 an on-going cycle of review and 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 for Levelling Up, Housing and Communities.

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. It is critical that asset plans and the capital programme are aligned to enable effective decision making.

Effective asset planning should assist the Council in realising its objectives and meeting its statutory duties. This is constrained by the financial and economic context the Council iscurrently 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
- Heritage Assets

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 refreshed - the key components of which, relevant to the Capital Strategy, are:

- regular review of the portfolio to identify assets that can be released with the capital receipts used to support the debt reduction policy or 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 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
- challenge utilisation and use of the portfolio, including buildings let on concessionary terms to occupiers.

An initial comprehensive review of the Council's commercial property assets overseen by the Asset Rationalisation Board, has been undertaken with the relevant properties being approved for disposal.

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 assets for 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, transformational spend under its capital receipts flexibility policy 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 has been externally reviewed with a report detailing the Council's actions being presented at January 2023 Executive Board, the actions include liquidating 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, social 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 with a new Strategic Plan currently being developed for 2023-2027, the refreshed Council Plan 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.

Following ratification of the new Strategic Plan the key objectives will be updated accordingly.

The Council's objectives reflect an on-going commitment to the 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 and unexpected factors while still delivering its statutory duties / council policies and 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 future capital programme. The prioritisation process will complement this work.

2.5 Capital Investment Principles

The capital strategy requires that all projects are fully accounted for and funded, assisting the ongoing 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 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**.**
- 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 A**. New schemes with prudential borrowing will only be considered once the Council's debt is considered to be at a sustainable level.
- All new schemes will be subject to a strict objective prioritisation process, which will include a robust business case including whole life costing.
- All new schemes must align to the new PWLB criteria (i.e. not debt for yield) irrelevant of the schemes funding envelope.
- 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).
    - The use of capital receipts to finance transformational spend as set out in the Council's Capital Receipts Flexibility Policies with separate policies included for both 2022/23 and 2023/24 onwards (**Appendix B**).

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.

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

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:

- Continue the robust governance framework.
- Prioritise and challenge individual projects prior to inclusion in the Capital Programme.
- Maintain the process for formulating, approving, and amending the Capital Programme.
- Enhance and strengthen the financial monitoring throughout the year with project managers to provide assurance as to the robustness of the forecasts and profiling
- 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 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 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 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 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.

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
  - Proposed projects are required to be identifiable within the departments business plans
  - 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 recommendation to Council 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:

i. Schemes entirely funded by external grant and with £nil General Fund revenue impact

ii. Approved projects that are essential to comply with legal or statutory duties in the current financial year (e.g. Health and Safety or Legislation)

iii. Transformation commitments in accordance with any Capitalisation Directive to meet revenue requirements as set out in the MTFP.

iv. Approved projects that are essential to comply with legal or statutory duties in future financial years (e.g. Health and Safety or Legislation)

v. Schemes that support key Council Priorities

vi. Other commitments outside the Capital Programme

vii. 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.

All projects will be required to be subject to a full Project Assurance Group review including the various gateway stage outlined in **Appendix C**. Criteria will be strictly applied.

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 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:

- 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 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.
- 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 applyto 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 and forecasting. 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 at least quarterly to the 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

- standardised the formats of reports, while allowing the detail provided to vary depending on the size and complexity of different projects
- avoided duplication of effort in providing the information more than once
- ensuring corporate documents are well thought through and written in plain English
- ensuring that the scheme of delegation, financial regulations and procurement rules are consistent with each other and are clearly communicated across the organisation
- ensuring there is good communication between delivery teams and those responsible for determining and administering the approvals process
- 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 categorised into two types

- **Service Delivery Investments,** held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure), and
- **Investment for Commercial return,** held primarily for financial return with no treasury management or direct service purpose. These types of investments are now strictly prohibited as would breach the debt to yield rules.

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:

- 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 the Council's future ability to access PWLB funds. 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, such investments include:
- loans to external organisations that are delivering the Council's strategic objectives
- shareholding in companies that support service provision
- 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. The Council is continuously reviewing its investments to identify opportunities of divestment with a view to accelerate the reduction of the Councils debt exposure and achieve its VDR policy.

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 **£119.2m** at 31 December 2022. Details of these Service Investments are detailed in **Table 1**.

Table 1: Register of Service Investments Grouped by Entity at Qtr3			
Equity	**31 March 22 Balance £m**	**Principle Repayments to P9 £m**	**Qtr3 Position £m**
Shares / Equity Held			
Blueprint	8.852	(1.462)	7.390
Thomas Bow	6.671	(6.671)	-
Nottingham City Transport	4.532	-	4.532
Other Investments Under £1m	0.550	-	0.550
Total Shares / Equity Held @ Qtr3	**20.605**	**(8.133)**	**12.472**
Loans			
Robin Hood Energy	30.087	-	30.087
Nottingham City Homes	26.789	(0.208)	26.581
Nottingham College	19.046	(0.948)	18.098
Nottingham City Homes Enterprises Limited	18.824	(0.084)	18.740
Nottingham Ice Centre	7.384	-	7.384
Tramlink Nottingham	6.590	-	6.590
Nottingham City Homes Registered Provider	4.004	(0.018)	3.986
Blueprint	2.055	-	2.055
Nottingham Cricket Club	2.062	-	2.062
Bridge Estate	1.983	(0.180)	1.803
Nottingham Castle Trust	1.859	-	1.859
Total Loans @ Qtr3	**120.683**	**(1.438)**	**119.245**

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 capital value of the commercial investments currently held by the Council as at 31 March 2022 is **£190.2m** and will be revalued at 31 March 2023 as part of the Councils 2023/24 Financial Accounts. These investments have been funded by **£5.7m** of the Councils own resources and **£217.0m** of Unsupported Borrowing (net of MRP).

The forecast net revenue to the general fund for 2022/23 from the above investments is estimated to be **(£4.1m)**. The average yield generated from the Commercial Investments is **1.76%** (based on net income and purchase price).

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 **£233.5m** (excluding MRP payments to 31st March 22), leaves the Council open to Property Market downturn including increased voids / tenant lease breaking and any other risks including the ongoing impact and recovery from Covid-19. The pandemic and the current economic and fiscal outlook will continue to have a significant impact on the level of risk and the expected returns for 2022/23 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. The risk around the commercial investment sinking fund is incorporated in the Council's MTFS.

A register of the commercial investments is contained within **Table 2** below, this also confirms that the Council has disposed of one of its commercial investments during 2022/23 at a value of **£4.5m**.

Table 2: Register of Commercial Investments				
	Purchase Price **£m**	**Capital Value as at 31st March 22** **£m**	**Forecast (Income) / Deficit after Financing Costs** **£m**	**Yield on Return**
Disposed in 2022/23				
Granby Avenue	4.583	4.536		
Disposed in 2022/23 - Subtotal	**4.583**	**4.536**		
Project Connect	9.228	10.110	(0.410)	4.44%
Project 118	10.724	10.130	(0.204)	1.90%
2 Castlebridge	1.487	1.550	(0.006)	0.40%
Project Duke	14.486	9.290	(0.493)	3.40%
Project Minster	6.200	6.230	(0.184)	2.97%
Project Castle	5.838	5.100	(0.109)	1.87%
Heron House	3.223	2.950	0.003	(0.09%)
Flying Horse Walk	6.403	3.790	(0.138)	2.16%
Project Fothergill	10.615	8.900	0.432	(4.07%)
Project Boot	5.566	7.500	(0.172)	3.09%
Project Abbey	19.102	15.650	(1.000)	5.24%
Project Highland	11.105	10.010	(0.298)	2.68%
Project Albert	10.083	4.490	0.255	(2.53%)
Project Doncaster	23.641	13.460	0.008	(0.03%)
Project Mulberry	22.182	15.650	(0.275)	1.24%
Project Willow	9.926	9.810	(0.189)	1.90%
Project Green	14.160	12.270	(0.225)	1.59%
Project Donnington	11.793	8.950	(0.117)	0.99%
Project Brookfield	8.352	8.260	(0.182)	2.18%
Project Aston	5.504	6.090	(0.144)	2.62%
Other Commercial Investments under £5.0m	23.909	19.965	(0.657)	2.75%
Total Commercial Investments	**233.527**	**190.155**	**(4.105)**	**1.76%**

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 little chance of being approved.

The capital programmes set out below reflects the outcomes of the prioritisation process in financial year 2022/23:

Table 3: General Fund Capital Programme at Quarter 3

Department	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
General Fund						
Adult Social Care	2.343	3.035	3.235	3.385	3.385	**15.383**
Childrens Services	-	0.078	-	-	-	**0.078**
Education	3.373	1.547	-	-	-	**4.920**
Finance & Resources	0.913	1.503	0.770	0.570	0.570	**4.326**
Growth & City Development	10.402	21.472	6.775	0.150	0.329	**39.128**
Resident Services	139.623	18.641	3.453	2.425	1.975	**166.117**
Transport Programme	33.735	115.950	25.505	1.171	-	**176.361**
Capitalised Transformation	9.824	6.649	1.973	-	-	**18.446**
Planned Schemes	0.621	61.356	88.616	8.860	8.860	**168.313**
Total Programme	**200.834**	**230.231**	**130.327**	**16.561**	**15.119**	**593.072**
Funding						

Prudential Borrowing	(8.386)	(7.119)	-	-	-	**(15.505)**
Grants & Contributions	(165.310)	(195.223)	(122.878)	(13.594)	(12.574)	**(509.579)**
Revenue Resources	(0.007)	(7.349)	(2.850)	(1.574)	(1.313)	**(13.093)**
Capital Receipts	(27.131)	(20.540)	(4.599)	(1.393)	(1.232)	**(54.895)**
Total Funding	**(200.834)**	**(230.231)**	**(130.327)**	**(16.561)**	**(15.119)**	**(593.072)**

Table 4: Housing Revenue Account Capital Programme at Quarter 3

Programme Section	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Existing programme - Existing Stock						
Safe	3.305	4.024	2.558	2.007	1.425	**13.319**
Secure, Warm & Modern	14.603	18.874	20.932	23.374	23.333	**101.116**
Energy Efficiency & Tackling Fuel Poverty	11.550	13.001	4.836	-	-	**29.387**
Modernising Housing for Older People	0.869	1.327	0.788	-	-	**2.984**
Decent Neighbourhoods	2.724	4.665	4.657	4.651	4.158	**20.855**
Existing Stock Investment	3.130	3.538	2.800	2.900	2.900	**15.268**
Other Schemes	2.594	2.650	2.135	2.135	2.135	**11.649**
Building A Better Nottingham (New Stock)	18.865	22.722	6.643	0.361	-	**48.591**
Planned Schemes - Existing Stock	1.000	0.320	0.200	0.200	0.200	**1.920**
Planned Schemes - New Stock	-	12.530	10.010	1.550	-	**24.090**
Total Programme	**58.640**	**83.651**	**55.559**	**37.178**	**34.151**	**269.179**
Funding						
Prudential Borrowing	(10.786)	(11.567)	(3.903)	(0.217)	-	**(26.473)**
Grants & Contributions	(5.275)	(4.044)	(0.083)	-	-	**(9.402)**
Major Repairs Reserve	(32.466)	(42.522)	(38.433)	(35.032)	(33.916)	**(182.369)**
Revenue Resources	(0.897)	(7.518)	(6.006)	(0.930)	-	**(15.351)**
Capital Receipts – HRA	(1.858)	(3.899)	(0.473)	(0.235)	(0.235)	**(6.700)**
RTB (1-4-1) replacement capital receipts	(7.358)	(14.101)	(6.661)	(0.764)	-	**(28.884)**
Total Funding	**(58.640)**	**(83.651)**	**(55.559)**	**(37.178)**	**(34.151)**	**(269.179)**

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 thatdelivers 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))

Where Council resources are to be used to fund either revenue or capital spend, they will be further strictly prioritised as follows

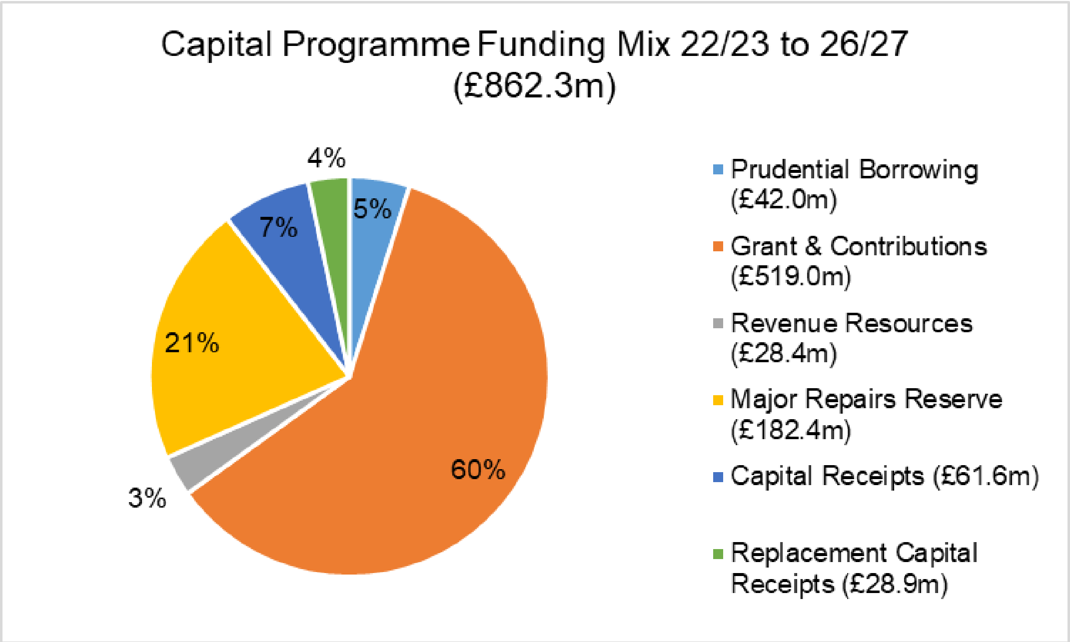
i) To meet the costs of transformation to the extent that these are not met from other sources – this is essential to deliver the transformation savings set out in the Medium Term Financial Plan and is set out in the approved Flexible use of Capital Receipts Strategy (Appendix B).

ii) To reduce or where possible eliminate the use of revenue resources to fund capital expenditure.

iii) To repay debt (internal or external) to reduce the burden of debt servicing costs on the Council to reduce debt servicing costs as a proportion of net revenue spending.

iv) To support new capital programme spending.

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 in accordance with government regulations. 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 extended to March 2025), general fund capital receipts may in specific circumstances be used to fund revenue expenditure e.g. transformation related costs that will realise reduction in ongoing expenditure through efficiency and/or demand reduction.

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 2022/23 **£33.2m** of General Fund capital receipts are secured (up to December 2022), a minimum of **£54.9m** is required to fund the Capital Programme over the MTFP period to March 27.

The Council has analysed forecasted. risk adjusted receipts to ensure the Capital Programme is fully funded. Any unfunded elements have been temporarily decommissioned from the programme until such time sufficient capital receipts allow their reinstatement to the Approved programme. The below table forecasted the capital receipt requirement against the risk adjusted forecasted receipt to show a funded capital receipt position and surplus receipts of **£3.2m**.

Table 5: Capital Receipt Forecast – General Fund

Year	Capital Programme Qtr3 £m	Transformation Requirement £m	Total Capital Requirement £m	(Surplus) / Deficit Receipts 1-Apr £m	Most Likely Risk Adjusted Receipts (less 4%) £m	31-Mar Position (Surplus) / Deficit £m
2022/23	17.307	9.824	**27.131**	(17.595)	(19.230)	**(9.694)**
2023/24	13.891	6.649	**20.540**	(9.694)	(13.802)	**(2.956)**
2024/25	2.626	1.973	**4.599**	(2.956)	(7.463)	**(5.820)**
2025/26	1.393	0.000	**1.393**	(5.820)	0.000	**(4.427)**

2026/27	1.232	0.000	**1.232**	(4.427)	0.000	**(3.195)**
Total	**36.449**	**18.446**	**54.895**	**(17.595)**	**(40.495)**	**(3.195)**

The indicative programme, including both General Fund and Public Sector Housing, for 2022/23 to 2026/27 currently shows that capital receipts will constitute **c£61.6m** or **7%** of the Council's total capital resources.

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 conditionsof 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 2022/23 to 2026/27 shows that grants and contributions will constitute **£519.0m** or **60%** of the Council's total capital resources.

A corporate process for administering, monitoring grants and reporting into 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. Therefore, revenue funding is considered to be the funding of last resort.

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 2022/23 to 2027/28 shows that revenue contributions will constitute about **£28.4m** or **3%** 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 not undertaking new borrowings for the period of the MTFP and will indeed be paying down debt in accordance with a revised MRP Policy and the Voluntary Debt

Reduction Policy Statement. The debt policy is set out in **Appendix A**.

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 Covid19. Further analysis of the financial position is underway to determine the extent of any risks.

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

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 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:

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 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 6: 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.
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. Revenue resources are considered to be the funding of last resort due to the Council's MTFP position. Where possible alternative funding will be identified for schemes funded by revenue to mitigate the impact the Capital Programme has on the Council's MTFP. 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 A**). 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 in line with the prioritisation criteria. 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 would breach the debt to yield rules 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.

Appendix A 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 its 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 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).
  - Transformation activity spend that can be funded through the flexible use of capital receipts.
- 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

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 Minimum Revenue Provision (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 a best value consideration.

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

- 2023/24-2026/27 - ***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 council has achieved headroom against CFR and external debt targets (as shown below) Capital Programme has been reduced to existing commitments and no schemes added funded by borrowing.

The forecast prudential borrowing in the Capital Programme is required to remain within the approved budget of c**£42.0m** over the period 2023/24-2026/27 (General Fund **£15.5m**, HRA **£26.5m**)

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 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.

Summary of CFR and internal / external borrowing	Actual 31-Mar-22 £m	Forecast 31-Mar-23 £m	Forecast 31-Mar-24 £m	Forecast 31-Mar-25 £m	Forecast 31-Mar-26 £m	Forecast 31-Mar-27 £m
Capital Financing Requirement						
HRA	298.7	304.1	309.9	307.8	301.9	295.8
General Fund	1,075.5	1,028.2	989.6	938.5	889.1	841.0
CFR Total	**1,374.2**	**1,332.3**	**1,299.5**	**1,246.3**	**1,191.0**	**1,136.8**
Less PFI/Leases	(170.2)	(158.3)	(146.2)	(133.4)	(119.8)	(107.8)
Underlying Borrowing Requirement	**1,204.0**	**1,174.0**	**1,153.3**	**1,112.9**	**1,071.2**	**1,029.0**
External Borrowing	(900.9)	(888.0)	(864.0)	(843.5)	(824.6)	(798.2)

Internal Borrowing	(303.1)	(286.0)	(289.3)	(269.4)	(246.6)	(230.8)
Internal Borrowing (assumed PFI)	(170.2)	(158.3)	(146.2)	(133.4)	(119.8)	(107.8)
Total Borrowing	**(1,374.2)**	**(1,332.3)**	**(1,299.5)**	**(1,246.3)**	**(1,191.0)**	**(1,136.8)**
Initial VDR Policy Forecast						
Capital Financing Requirement	*1,434.2*	*1,390.6*	*1,337.3*	*1,272.5*		
External Borrowing	*(991.0)*	*(986.2)*	*(954.8)*	*(927.4)*		

A measurement of bringing the debt to a sustainable level is the Council's capital financing costs as a % of Net Revenue Budget, the below table shows the Council's position is significantly improving over the current MTFP.

General Fund MRP and Interest	**Actual 31-Mar-22 £m**	**Forecast 31-Mar-23 £m**	**Forecast 31-Mar-24 £m**	**Forecast 31-Mar-25 £m**	**Forecast 31-Mar-26 £m**	**Forecast 31-Mar-27 £m**
General Fund Proportion of External Debt	(602.2)	(587.3)	(564.9)	(550.8)	(532.5)	(513.9)
Annual MRP (exc. PFI)						
Supported borrowing	0.077	0.077	0.077	4.756	4.756	4.756
Unsupported Borrowing	31.015	31.565	30.926	30.998	31.117	31.303
Annual MRP (exc. PFI)	**31.092**	**31.642**	**31.003**	**35.754**	**35.873**	**36.059**
General Fund interest incurred (exc. PFI)	19.681	19.573	19.232	19.044	19.010	18.826
General Fund interest received	(4.934)	(7.926)	(7.926)	(4.900)	(4.900)	(4.900)
Total Capital Financing Cost	**45.839**	**43.289**	**42.309**	**49.898**	**49.983**	**49.985**
Net Revenue Budget	278.046	267.382	298.962	315.906	321.149	326.408
Capital Financing Costs as % Net Revenue Budget	**16.49%**	**16.19%**	**14.15%**	**15.80%**	**15.56%**	**15.31%**

The VDR was implemented as part of the Capital Strategy 2021/22, for comparative purposes at 31st March 2021 the financing cost was 17.63% of net revenue budget.

Appendix B Flexible Use of Capital Receipt Policies 22/23 and 23/24

Nottingham City Council
Flexible Use of Capital Receipts Policy 2022-23

Purpose
This report provides background information with regards the statutory guidance on the flexible use of Capital Receipts and its application within this authority. During February 2018 the Secretary of State issued a direction under Section 16(2)(b) of the Local Government Act 2003 and guidance under section 15(1)(a) of the Local Government Act 2003. This direction gave local authorities the power to use in year capital receipts from the disposal of property, plant and equipment assets (excluding Right to Buy Receipts) to fund revenue projects that are designed to generate ongoing revenue savings and/or transformation activities (including redundancy) that reduce costs or service demand in future years. The current direction applies to all financial years that begin on 1 April 2022, 1 April 2023 and 1 April 2024.

Background
Capital receipts can only be used for specific purposes and these are set out in Regulation 23 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 made under Section 11 of the Local Government Act 2003. The main permitted purpose is to fund capital expenditure, and the use of capital receipts to support revenue expenditure is not allowed by the regulations.

The Secretary of State is empowered to issue Directions allowing expenditure incurred by local authorities to be treated as capital expenditure. Where such a direction is made, the specified expenditure can then be funded from capital receipts under the Regulations.
The Secretary of State for Communities and Local Government issued guidance in March 2016 giving local authorities greater freedoms with how capital receipts could be utilised.

These freedoms were subsequently extended in each of the following years up to and including 2024/25. This Direction allows for the following expenditure to be treated as capital: "expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners." Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

To take advantage of this freedom, the Council must act in accordance with the Statutory Guidance issued by the Secretary of State. This guidance requires the Council to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy. The strategy for each financial year is required to be approved at Executive Board and Full Council in February and March prior to the financial year beginning.

The 2022/23 policy has not been formally approved within the normal timescales, so is outside the process as defined by the Department for Levelling Up, Housing and Communities.

Flexible Use of Capital Receipts Strategy

Nottingham City Council intends to use capital receipts to fund qualifying expenditure in relation to costs incurred in following Improvement, Transformation & Reconfiguration projects over the period to 31st March 2025, such as business cases are being developed. **Table 1** below shows the forecasted requirement with 2022/23 which support delivery of **c61.3m** savings by 31 March 2026/27.

Table 1: Forecast Qualifying Expenditure by Financial Year (2022/23 Policy)				
	2022/23 £m	**2023/24 £m**	**2024/25 £m**	**Total £m**
Forecast Qualifying Expenditure	9.824	6.649	1.973	**18.446**

Any slippage or acceleration of expenditure between financial years is to be included in the year the expenditure is incurred until the end of the programme, whereby revenue funding will need to be identified within the Capital Programme unless the Capitalisation Directive is further extended.

The current directive expires 31st March 2025, if this is not extended again the Council will be required to identify appropriate funding for the planned expenditure in 2025/26 (i.e. from revenue resources).

Capital Receipt Position

Since the flexibility was introduced to 31st March 2022 the Council hasn't applied any capital receipts for transformation and savings.

Due to the Council's Voluntary Debt Reduction (VDR) Policy, Capital receipts are primarily used to fund capital priorities where external funding is not available. The 2022/23 requirement is shown in **Table 2** below:

Table 2: Capital Receipt Requirement						
Year	**Capital Programme Qtr3 £m**	**Transformation Requirement £m**	**Total Capital Requirement £m**	**(Surplus) / Deficit Receipts 1-Apr £m**	**Most Likely Risk Adjusted Receipts (less 4%) £m**	**31-Mar Position (Surplus) / Deficit £m**
2022/23	17.307	9.824	**27.131**	(17.595)	(19.230)	**(9.694)**

At the end of financial year 2022/23 the Council estimates to have **(£9.7m)** of capital receipts (based on risk adjusted position) available for the 2023/24.

If capital receipts generated are insufficient to meet these commitments other funding sources will need to be identified and /or expenditure reduced.

Project Management

As part of the 2022/23 budget it is assumed a **£2.1m** of savings will be achieved as part of delivering a balanced budget. This saving increases to **£7.2m** in 2023/24 the medium term projections are set out in **Table 3** below (for schemes with expenditure in 2022/23). The savings programme has undergone reviews, where previously identified savings that are no longer deemed deliverable had been mitigated by new schemes for delivery. However, this does not result in any changes to the overall savings and efficiency envelope approved. The capital receipts outlined in this report support the project management capacity for the agreed savings programme and delivery of specific savings and efficiency programmes within it

This programme is forecasting to delivering the outlined savings for 2022/23. Any non-delivery is reported, to the Executive Board and alternative savings will need to be identified to offset any shortfall.

The emerging and current transformation projects contain a number of significant transformation pieces of work that will start to change the way in which the Council is organised and how it delivers its services. Each of these are expected to deliver better, more efficient services to the city and realise financial savings.

Medium Term Savings forecast
The transformation and improvement activities align to the requirements of the Non-Statutory Review and the 8 themes of developments required.

Transformation activity, which aligns to Theme 7, are costs associated with the delivery of programmes which yield financial benefits as set out in **Table 3** below.

The savings are based on current MTFP assumptions and are categorised as follows:

Table 3: Forecast savings from MTFP

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	TOTAL £m
Customer	(0.329)	(3.198)	(0.812)	-	-	**(4.339)**
Business Support	(0.340)	(0.340)	(0.690)	-	-	**(1.370)**
Procurement	(0.701)	(1.369)	(0.911)	(0.592)	-	**(3.573)**
Adults	(0.226)	(3.689)	(5.681)	(5.331)	(4.364)	**(19.291)**
Children's	(0.539)	(3.920)	(5.447)	(1.470)	(0.807)	**(12.183)**
Community	-	(0.705)	(0.163)	(0.300)	-	**(1.168)**
Estates/New Ways of Working	-	(2.013)	(0.075)	-	-	**(2.088)**
Homelessness	-	(0.522)	(5.569)	(3.266)	(7.949)	**(17.306)**
Finance & Resources - IT	-	(0.249)	-	-	-	**(0.249)**
TOTAL	**(2.135)**	**(16.005)**	**(19.348)**	**(10.959)**	**(13.120)**	**(61.567)**

Impact on Prudential Indicators
As part of this strategy the Council is required to give due regard to the impact on the Prudential Code and the Prudential Indicators. The capital receipts required to fund the qualifying transformation costs have not been included within the Council's current Capital Programme and as such the utilisation of receipts for capital receipts flexibility will not have a detrimental impact on the Council's prudential indicators, as set out in the Council's Treasury Management.

Nottingham City Council
Flexible Use of Capital Receipts Policy 2023-24

Purpose

This report provides background information with regards the statutory guidance on the flexible use of Capital Receipts and its application within this authority. During February 2018 the Secretary of State issued a direction under Section 16(2)(b) of the Local Government Act 2003 and guidance under section 15(1)(a) of the Local Government Act 2003. This direction gave local authorities the power to use in year capital receipts from the disposal of property, plant and equipment assets (excluding Right to Buy Receipts) to fund revenue projects that are designed to generate ongoing revenue savings and/or transformation activities (including redundancy) that reduce costs or service demand in future years. The current direction applies to all financial years that begin on 1 April 2022, 1 April 2023 and 1 April 2024.

Background

Capital receipts can only be used for specific purposes and these are set out in Regulation 23 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 made under Section 11 of the Local Government Act 2003. The main permitted purpose is to fund capital expenditure, and the use of capital receipts to support revenue expenditure is not allowed by the regulations.

The Secretary of State is empowered to issue Directions allowing expenditure incurred by local authorities to be treated as capital expenditure. Where such a direction is made, the specified expenditure can then be funded from capital receipts under the Regulations.
The Secretary of State for Communities and Local Government issued guidance in March 2016 giving local authorities greater freedoms with how capital receipts could be utilised.

These freedoms were subsequently extended in each of the following years up to and including 2024/25. This Direction allows for the following expenditure to be treated as capital: "expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners." Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

To take advantage of this freedom, the Council must act in accordance with the Statutory Guidance issued by the Secretary of State. This guidance requires the Council to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy, with the initial strategy being effective from April 2022 with future strategies included within the Capital Strategy and reported as appropriate.

Flexible Use of Capital Receipts Strategy

Nottingham City Council intends to use capital receipts to fund qualifying expenditure in relation to costs incurred in following Improvement, Transformation & Reconfiguration projects of **£6.6m** during 2023/24, with a further **£2.0m** included in the 2024/25 policy. The profile of this spend is set out in the **Table 1** below and will partially support delivery of **c£58m** savings by 31 March 2025/26.

Table 1: Forecast Qualifying Expenditure by Financial Year (2023/24 Policy)			
	2023/24 £m	**2024/25 £m**	**Total £m**
Forecast Qualifying Expenditure	6.649	1.973	**8.622**

Any slippage or acceleration of expenditure between financial years is to be included in the year the expenditure is incurred until the end of the programme, whereby revenue funding will need to be identified within the Capital Programme unless the Capitalisation Directive is further extended.

The current directive expires 31st March 2025, if this is not extended again the Council will be required to identify appropriate funding for the planned expenditure in 2025/26 (i.e. from revenue resources).

Capital Receipt Position
Due to the Council's Voluntary Debt Reduction (VDR) Policy, Capital receipts are primarily used to fund capital priorities where external funding is not available. The Capital Programme MTFP requirement is shown in **Table 2** below:

Table 2: Capital Receipt Requirement						
Year	**Capital Programme Qtr3 £m**	**Transformation Requirement £m**	**Total Capital Requirement £m**	**(Surplus) / Deficit Receipts 1-Apr £m**	**Most Likely Risk Adjusted Receipts (less 4%) £m**	**31-Mar Position (Surplus) / Deficit £m**
2022/23	17.307	9.824	**27.131**	(17.595)	(19.230)	**(9.694)**
2023/24	13.891	6.649	**20.540**	(9.694)	(13.802)	**(2.956)**
2024/25	2.626	1.973	**4.599**	(2.956)	(7.463)	**(5.820)**
2025/26	1.393	0.000	**1.393**	(5.820)	0.000	**(4.427)**
2026/27	1.232	0.000	**1.232**	(4.427)	0.000	**(3.195)**
Total	**36.449**	**18.446**	**54.895**	**(17.595)**	**(40.495)**	**(3.195)**

If capital receipts generated are insufficient to meet these commitments other funding sources will need to be identified and / or expenditure reduced.

Project Management
As part of the 2023/24 budget it is assumed a **£15.8m** of savings will be achieved as part of delivering a balanced 2023/24 budget, forecast savings for future years are detailed in **Table 3**. The savings programme has undergone reviews, where previously identified savings that are no longer deemed deliverable had been mitigated by new schemes for delivery. However, this does not result in any changes to the overall savings and efficiency envelope approved. The capital receipts outlined in this report support the project management capacity for the agreed savings programme and delivery of specific savings and efficiency programmes within it

This programme is forecasting to delivering the outlined savings for 2023/24 and beyond. Any non-delivery is reported, to the Executive Board and alternative savings will need to be identified to offset any shortfall.

The emerging and current transformation projects contain a number of significant transformation pieces of work that will start to change the way in which the Council is organised and how it delivers its services. Each of these are expected to deliver better, more efficient services to the city and realise financial savings.

Medium Term Savings forecast
The transformation and improvement activities align to the requirements of the Non-Statutory Review and the 8 themes of developments required.

Transformation activity, which aligns to Theme 7, are costs associated with the delivery of programmes which yield financial benefits as set out in **Table 3** below.

The savings are based on 2022/23 and 2023/24 budget processes and are categorised as follows:

Table 3: Forecast savings from 2023/24 MTFP

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	TOTAL £m
Customer	(0.329)	(3.198)	(0.812)	-	-	**(4.339)**
Business Support	(0.340)	(0.340)	(0.690)	-	-	**(1.370)**
Procurement	(0.701)	(1.369)	(0.911)	(0.592)	-	**(3.573)**
Adults	(0.226)	(3.689)	(5.681)	(5.331)	(4.364)	**(19.291)**
Children's	(0.539)	(3.920)	(5.447)	(1.470)	(0.807)	**(12.183)**
Community	-	(0.705)	(0.163)	(0.300)	-	**(1.168)**
Estates/New Ways of Working	-	(2.013)	(0.075)	-	-	**(2.088)**
Homelessness	-	(0.522)	(5.569)	(3.266)	(7.949)	**(17.306)**
Finance & Resources - IT	-	(0.249)	-	-	-	**(0.249)**
TOTAL	**(2.135)**	**(16.005)**	**(19.348)**	**(10.959)**	**(13.120)**	**(61.567)**

Impact on Prudential Indicators
As part of this strategy the Council is required to give due regard to the impact on the Prudential Code and the Prudential Indicators. The capital receipts required to fund the qualifying transformation costs have not been included within the Council's current Capital Programme and as such the utilisation of receipts for capital receipts flexibility will not have a detrimental impact on the Council's prudential indicators, as set out in the Council's Treasury Management Strategy.

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	beneficial to do this earlier in the procurement process, for example to inform procurement routes, scopes, risk allocations etc.	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 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