Pecyn Dogfennau Cyhoeddus

Penallta House,
Tredomen Park,
Ystrad Mynach,
Hengoed CF82 7PG

Tŷ Penallta,
Parc Tredomen,
Ystrad Mynach,
Hengoed CF82 7PG

CAERPHILLY COUNTY BOROUGH COUNCIL
CYNGOR BWRDEISTREF SIROL CAERFFILI

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Am unrhyw ymholiad yn ymwneud â'r agenda hwn cysylltwch â Emma Sullivan
(Rhif Ffôn: 01443 864420 Ebost: sullie@caerphilly.gov.uk)

Dyddiad: Dydd Mercher, 13 Chwefror 2019

Bydd y cyfarfod hwn yn cael ei ffilmio a'i we-ddarlledu, ac ar gael i'w weld yn fyw ac mewn ffurf archif drwy wefan y Cyngor, ag eithrio trafodaeth yn ymwneud ag eitemau cyfrinachol neu eithriadau. Felly bydd delweddau /sain yr unigolion sy'n arsylwi neu siarad/roi tystiolaeth yng nghyfarfodydd Llawn y Cyngor ar gael yn gyhoeddusi bawb weld drwy'r we-ddarllediad ar wefan y Cyngor www.caerffili.gov.uk.

Mae croeso i chi siarad Cymraeg yn y cyfarfod, mae angen rhybudd cyfnod lleiafswm o 3 diwrnod gwaith os ydych yn dymuno gwneud hynny. Bydd cyfieithu ar y pryd yn cael ei ddarparu os gofynnir amdano.

Mae pob cyfarfod pwyllgor ar agor i'r Wasg a'r Cyhoedd, gofynnir i arsylwyr a chyfranogwyr i ymddwyn gyda pharch ac ystyriaeth at eraill. Nodwch bydd methu a gwneud hyn yn arwain at rywun yn gofyn i chi adael y cyfarfod ac efallai byddwch yn cael eich hebrwng o'r eiddo.

Annwyl Syr/Fadam,

Cyfarfod Arbennig o **Cyngor** yn cael ei gynnal yn **Siambr y Cyngor - Tŷ Penallta, Tredomen, Ystrad Mynach** ar **Dydd Iau, 21ain Chwefror, 2019** am **5.00 pm** i ystyried materion a gynhwysir yn yr agenda canlynol.

Yr eiddoch yn gywir,

Christina Harrhy
PRIF WEITHREDWR DROS DRO

A G E N D A

Tudalennau

1 I dderbyn ymddiheuriadau am absenoldeb.

2 Datganiadau o Ddiddordeb.

Atgoffi'r Cynghorwyr a Swyddogion o'u cyfrifoldeb personol i ddatgan unrhyw fuddiannau personol a/neu niweidiol mewn perthynas ag unrhyw eitem o fusnes ar yr agenda hwn yn unol â Deddf Llywodraeth Leol 2000, Cyfansoddiad y Cyngor a'r Cod Ymddygiad ar gyfer Cynghorwyr a Swyddogion.

I dderbyn ac ystyried yr adroddiadau canlynol o gyfarfod Cabinet a gynhaliwyd ar 13eg Chwefror 2019.

I dderbyn ac ystyried yr adroddiad(au) canlynol:-

Cylchrediad:

Pob Aelod a Swyddog Priodol

SUT FYDDWN YN DEFNYDDIO EICH GWYBODAETH

Bydd yr unigolion hynny sy'n mynychu cyfarfodydd pwyllgor i siarad/roi tystiolaeth yn cael eu henwi yng nghofnodion y cyfarfod hynny, weithiau bydd hyn yn cynnwys eu man gweithio neu fusnes a'r barnau a fynegir. Bydd cofnodion o'r cyfarfod gan gynnwys manylion y siaradwyr ar gael i'r cyhoedd ar wefan y Cyngor ar www.caerffili.gov.uk. ac eithrio am drafodaethau sy'n ymwneud ag eitemau cyfrinachol neu eithriedig.

Mae gennych nifer o hawliau mewn perthynas â'r wybodaeth, gan gynnwys yr hawl i gael mynediad at wybodaeth sydd gennym amdanoch a'r hawl i gwyno os ydych yn anhapus gyda'r modd y mae eich gwybodaeth yn cael ei brosesu. Am wybodaeth bellach ar sut rydym yn prosesu eich gwybodaeth a'ch hawliau, ewch i'r Hysbysiad Preifatrwydd Cyfarfodydd Pwyllgor Llawn ar ein gwefan http://www.caerffili.gov.uk/Pwyllgor/Preifatrwydd neu cysylltwch â Gwasanaethau Cyfreithiol drwy e-bostio griffd2@caerffili.gov.uk neu ffoniwch 01443 863028.

SPECIAL COUNCIL – 21ST FEBRUARY 2019

SUBJECT: **BUDGET PROPOSALS FOR 2019/20 AND MEDIUM TERM FINANCIAL PLAN 2019/20 TO 2023/2024**

REPORT BY: **CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES**

1.1 The attached report is due to be considered by Cabinet on 13th February 2019. The recommendations of Cabinet will be reported verbally to Council.

1.2 Members will be asked to consider the recommendations of Cabinet.

Author: R. Barrett, Committee Services Officer

Appendices:
Appendix Report to Cabinet 13th February 2019 – Agenda Item 4

CABINET - 13TH FEBRUARY 2019

SUBJECT: **BUDGET PROPOSALS FOR 2019/20 AND MEDIUM TERM FINANCIAL PLAN 2019/20 TO 2023/2024**

REPORT BY: **DIRECTOR OF EDUCATION & CORPORATE SERVICES**

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1. PURPOSE OF REPORT

1.1 To seek cabinet endorsement of the 2019/20 budget proposals contained within this report prior to final determination at Council on the 21st February 2019.

1.2 To receive and note an updated Medium –Term Financial Plan (MTFP) covering the five year period 2019/20 to 2023/24.

2. SUMMARY

2.1 Cabinet on the 14th November 2018 received a report providing details of draft budget proposals based on the Welsh Government (WG) Provisional 2019/20 Local Government Financial Settlement.

2.2 The cabinet report of the 14th November 2018 also provided details of draft savings proposals along with a higher than forecast council tax rise, that provided a set of proposals to cover a savings target of £15.6m for 2019/20 to enable the Authority to set a balanced budget.

2.3 This report provides an updated position based on the Final 2019/20 Local Government Financial Settlement announced by WG on the 19th December 2018.

2.4 This report details those savings that after assessing consultation responses and considering changes contained in the Final settlement cabinet propose should be removed for the 2019/20 financial year.

2.5 This report presents a balanced budget for consideration and approval at Council on the 21st February 2019.

3. LINKS TO STRATEGY

3.1 The budget setting process encompasses all the resources used by the Council to deliver services and meet priorities.

3.2 Effective financial planning and the setting of a balanced budget support the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.

- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

4. THE REPORT

4.1 Headline Issues in the 2019/20 Provisional Settlement

4.1.1 Published on the 9th October 2018, the key points of the WG Provisional 2019/20 Local Government Financial Settlement were the following: -

- An overall net cash decrease of 0.3% in the Aggregate External Finance (Revenue Support Grant (RSG) and Redistributed Non-Domestic Rates) on an all-Wales basis compared to 2018/19. This included additional funding for Free School Meals of £7m, Social Care of £20m and Teachers Pay of £13.7m. These are all cost pressures that need to be funded.
- The headline All Wales average Aggregate External Finance (AEF) reduction included a range across authorities. This is due to the funding formula. There was a range from a 1% decrease to a 0.4% increase for 2019/20.
- For Caerphilly CBC there was a cash decrease of £560k which was a 0.21% reduction in the AEF compared to the 2018/19 financial year.
- WG did not provide an all-Wales indicative percentage reduction/increase in AEF for the 2020/21 financial year.
- The Capital allocations available to Caerphilly CBC in the RSG and from the General Capital Grant was decreased by £23k from the 2018/19 financial year.

4.1.2 The Final 2019/20 Local Government Financial Settlement announced on the 19th December 2018 showed:-

- an overall cash increase in CCBC's AEF compared to the Provisional Financial Settlement of the equivalent of £1.9m of cash funding. This set against the original cash reduction in AEF of £560k, gives £1.37m of funding towards all of the Authority's pay, non-pay and growth pressures for 2019/20
- after adjusting for the transfer in of new responsibilities, along with other RSG transfers in/out the available funds reduce to £549k.

Table 1 – Adjusted Cash Position for Caerphilly CBC

	£m
2018/19 Aggregate External Finance	267.240
2019/20 Aggregate External Finance	268.614
Cash Increase in Final Settlement	**1.374**
Funding in Settlement for New Responsibilities	(0.380)
Transfers In/Out of the Settlement	(0.445)
EFFECTIVE CASH INCREASE	**0.549**

4.2 Updated 2019/20 Budget Proposals

4.2.1 The proposals contained within this report will deliver a balanced budget for 2019/20, along with some savings in advance, on the basis that Council Tax is increased by 6.95%. Table 2 provides a summary: -

Table 2 – Summary

Paragraph	Description	£m	£m
4.2.3 – 4.2.10	Whole-Authority cost pressures	14.992	
4.2.12 – 4.2.18	Inescapable service pressures	4.156	
4.1.2	Increase in WG funding		1.374
4.3.1	Savings proposals 2019/20		13.921
4.3.4 – 4.3.5	Savings in advance	0.475	
4.5.1 – 4.5.2	Council Tax uplift (6.95%)		4.678
	Council Tax Surplus adjustment		(0.350)
	TOTAL	**19.623**	**19.623**

4.2.2 Cabinet should note that the budget proposals include growth for Schools in 2019/20 to cover all pay related, non-pay and demographic growth pressures. There is no longer a requirement in the Final Settlement to protect Schools. Appendix 2 proposes a savings target for schools of £2.1m. This in effect equates to a real terms cut of circa 2%. However, this needs to be considered alongside the need to deliver savings of £13.4m for 2019/20.Schools spend is approximately 30% of net available budgetary spend. Hence the £2.1m savings proposal i.e. 15% of the total savings required, does provide relative protection to schools from the full extent of savings required to deliver a balanced budget.

4.2.3 The whole Authority cost pressures totalling £14.992m are set out in Table 3 below -

Table 3 – Whole Authority Cost Pressures

	£m
Pay – APT&C and Teachers	5.331
Foundation Living Wage	0.065
Employer pension contributions – APT&C, Teachers and Fire Service	4.416
Non-pay inflation at 2.4%	3.526
School service pressures(including schools new pay and grading)	1.031
Transfers In / New Responsibilities	0.623
TOTAL	**14.992**

4.2.4 **Pay – 2.2% APT&C and 3.5% Teachers** - The pay award for the 2019/20 financial year has been fully funded as a growth pressure for both APT&C staff and Teachers. The increased costs are split in Appendix 6 between Schools and General Fund. A grant will be made available from WG to fund the increase in Teachers pay from 1st September 2018 to 31st March 2019,this grant funding has then been transferred into the RSG for 2019/20.

4.2.5 **Foundation Living Wage** – Caerphilly CBC is a Living Wage Foundation employer so a sum is included in the budget proposals to allow for annual increases in the Foundation Living Wage hourly rate compared to the National Living Wage hourly rate that is now factored into the new Pay and Grading’s growth detailed below in para 4.2.17.

4.2.6 **Employer pension contributions(APT&C staff)**– Following the outcome of the most recent triennial valuation of the Pension Fund, Caerphilly CBC is required to increase its pension contribution by £1,007k (1.0%) for the 2019/20 financial year.

4.2.7 **Employer pension contributions (Teachers and Fire Service) –** A significant additional growth pressure has presented itself in the last six months in respect of increased employer pension contributions for Teachers (£3,205k) and the Fire Service (£204k). These are 'unfunded' schemes, the Authority has no choice but to pay over the increase in employers costs in accordance with the rate as determined by Central Government. There may be a 'one off' payment made by Treasury to cover these 2019/20 costs, albeit that this has not been confirmed. Furthermore there is no certainty(if there is any 'one-off' funding) that this funding will cover the actual costs for 2019/20. The overall total increased costs in respect of these employer pension contribution increases will then roll into 2020/21 and be considered for funding by Central Government as part of the comprehensive spending review in 2019. It must be emphasised that there is much uncertainty around the funding of this significant growth pressure both for 2019/20 and on-going. If 'one off funding' is made available to the Authority after the Budget has been set, a further report will be presented to a future Council meeting giving Council the opportunity to determine how that 'one off funding' is allocated. It must be emphasised that this Authority can set a balanced budget without this 'one off' funding, and 'one-off' funding should not be used to reinstate permanent savings proposals.

4.2.8 **Non-pay inflation at 2.4%** - The Consumer Prices Index (CPI) inflation rate was 2.4% in August 2018, in September it fell to 2.2%. The situation will remain under review prior to final budget proposals, but members are reminded that this area was not fully funded for 2018/19. There are also potential emerging pressures in respect of energy prices and the impact of any Brexit arrangements.

4.2.9 **Schools Service Pressures** – this includes funding for mainstream pupil demographic growth, along with growth in respect of an increase in pupil numbers at Trinity Fields school. Formula funding growth is also required in the main for premises related costs. The increase in pupil numbers at Trinity Fields will lead to an increase in the costs associated with Home to School transport costs for those pupils. Finally for schools there is also an amount of £230k for growth for the new Pay and Grading's structure in respect of school based staff.

4.2.10 **Other Passported Grants/Transfers In and Out** –There is a transfer in of £302k that represents anticipated growth in free school meal numbers as a consequence of changes to eligibility criteria as a result of the introduction of Universal Credit. There is a reduction of £202k primarily relating to PFI funding that was anticipated. The Final settlement provided funds for extra responsibilities in respect of increasing capital limits for Residential care(£380k) and discretionary business rate relief(£143k)

4.2.11 It is incumbent upon Council to set a realistic budget each year. Table 4 provides details of the 2019/20 inescapable service commitments/pressures that have been identified and require consideration in respect of funding: -

Table 4 – Inescapable Service Pressures and Other Service Commitments

	£M
CTRS Additional Liability	0.958
Social Services cost pressures	1.500
City Deal partnership revenue contribution & Debt charges Levies	0.067 0.026
EOTAS	0.800
Dry Recycling	0.400
New pay and Grading's Structure	0.405
TOTAL	**4.156**

4.2.12 **CTRS Additional Liability** – the Authority is required to fund a Council Tax Reduction Scheme (CTRS).This replaced Council Tax Benefit a few years ago. The CTRS is a means tested benefit that assists in full or part towards a resident's council tax bills.

4.2.13 **Social Services cost pressures** - Cabinet will recall that the 2018/19 budget included additional funding of £1.5m for Social Services cost pressures. This has been necessary to fund increases in fees for external care providers due in the main to the introduction of the National Living Wage, and additional costs arising from increasing demand for services in both Adult and Children's Services. It is proposed that a further sum of £1.5m should be allocated in the 2019/20 budget to meet ongoing financial pressures for Social Services.

4.2.14 **City Deal partnership revenue contribution and City Deal Debt Charges** – There is a small increase required for 2019/20 in respect of the revenue contribution of £6k for the City Deal Partnership. The City Deal includes a borrowing requirement of £120m for the ten partner Local Authorities. An additional £61k is required for 2019/20 to meet the current anticipated cost for Caerphilly CBC's share of potential borrowing that may be undertaken during the 2019/20 financial year.

4.2.15 **Education Other Than At School (EOTAS)** – Members will be aware of a continuing overspend in respect of costs relating to EOTAS. These have been regularly reported to Education for Life Scrutiny as part of Budget Monitoring arrangements. The spend has been reviewed and is unlikely to reduce in the short term without a thorough review of service areas that comprise EOTAS. Hence growth has been proposed of £800k to deal with the on-going pressures.

4.2.16 **Dry Recycling increased costs -** Members will again be aware of the increased costs relating to dry recycling reprocessing. These have been previously reported to Cabinet and Scrutiny. It was hoped that the costs associated with the contracts to reprocess dry recycling tonnage would reduce. An earmarked reserve ,previously approved by Council, was utilised while contracts were renegotiated and the market monitored. Unfortunately this area continues to be a growth pressure, hence growth is proposed of £800k spread evenly across 2019/20 and 2020/21. This has been possible due to the fact that there is an estimated £400k of previously agreed earmarked reserve available for 2019/20.

4.2.17 **New Pay and Grading Structure** - The Council as part of National Terms and conditions for APT&C staff will be required to use a new range of salary scale points from April 2019. This will mean that some grades of staff will see an increase in their salaries. The increases are predominately in the lower grade ranges. It is estimated that growth is required of £230k for schools and £405k for other services to accommodate these changes. There will be a separate report presented to Cabinet/Council on these new proposals

4.2.18 **Private Finance Initiative (PFI) review** – A review of the Council's PFI contracts is currently being undertaken. These contracts relate to Fleur de Lys (Ysgol Gyfun Cwm Rhymni) and Pengam (Lewis Boys) Secondary Schools, and Sirhowy Enterprise Way (SEW). To assist with this review the services of a company called Local Partnerships have been commissioned. This organisation has a proven track record in relation to supporting public sector bodies through reviews of operational PFI contracts and was recommended by WG. Officers anticipate that an options appraisal in respect of these contracts will be presented to Policy and Resources Scrutiny committee prior to consideration by cabinet in the Summer 2019. In the meantime this is very much work in progress, hence the estimated growth required has been moved to the 2020/21 financial year when it will be dealt with in the report to Cabinet.

4.3 2019/20 Savings Proposals

4.3.1 Savings proposals have been identified for the 2019/20 financial year totalling £13.921m as summarised in Table 5: -

Table 5 – Savings Proposals 2019/20

Description	2019/20 Saving £m
Savings proposals with no public impact	4.557
Savings proposals with a public impact: - • Low impact • Medium impact • High impact	 5.344 3.502 0.518
TOTAL	**13.921**

4.3.2 The updated 2019/20 savings proposal include total proposed savings of £13.921m. These comprise £10.649m of permanent savings and £3.272m of temporary savings. The changes from the draft position are summarised in Table 6 below;

Table 6 - Changes to 2019-20 Draft Savings Proposals

	£m	£m
2019-20 draft savings proposals (Cabinet 14th Nov 2018)		14.660
Savings to be deferred following consultation process:		
Partial reinstatement of Temporary RCCO Waste Vehicles	(0.090)	
Partial reinstatement of Community Safety Wardens (9 FTE's to 6 FTE's)	(0.247)	
Meals Direct (deferred pending wider review of the Catering Service)	(0.141)	
Defer the introduction of charges for rat treatments	(0.020)	
Defer the closure of 2 Civic Amenity sites pending outcome of waste review	(0.098)	
Community Centres – Defer withdrawal of funding for 2 Centres not in CCBC ownership (see Note 1 below).	(0.013)	
Community Centres - Defer reduction of 1 hour Caretaker support across all Centres (see Note 1 below).	(0.018)	
Community Centres - Defer reduction of all Caretaker support across all Centres from October 2019 (see Note 1 below).	(0.079)	
Community Centres – Defer the closure of Tirphil, Phillipstown and Channel View Community Centres (see Note 1 below).	(0.018)	
Match Funding for Community Schemes - Bargoed Ice Rink and Senghenydd Splash Pad to be funded for 2019/20 only (see Note 1 below).	(0.015)	
		(0.739)
Total		**13.921**

Note 1

The proposed savings in respect of Community Centres, the Bargoed Ice Rink and the Senghenydd Splash Pad will be deferred for 2019/20 only. This allows a period of time for the Community Centres and the groups involved with the events to find alternative funding or consider alternative delivery models that do not involve funding by CCBC. Failure to secure additional funds (outside of CCBC) may result in the closure of Centres and the cessation of the events from April 2020.

4.3.3 A summary of the updated savings proposals are included in Appendix 2 and Appendix 3.

4.3.4 The proposed savings in Appendix 2 of £10.649m along with the proposed temporary savings in Appendix 3 of £3.272m, with a proposed Council Tax increase of 6.95% will allow for savings in advance of £475k and provide a balanced budget position for 2019/20.

4.3.5 The savings in advance of £475k presents an opportunity to create a 'one off' revenue contribution to capital. It is proposed that the £475k is allocated for Band B match funding for the 21st century schools programme. This will lead to £1.4m of spend on the programme.

4.3.6 The Head of Finance and S151 officer's advice to Council in the light of the significant savings required in future years as detailed in the revised MTFP, would be to take as many savings as possible to generate savings in advance.

4.4 General Fund Balances

4.4.1 Details of the projected movement on General Fund balances are provided in Appendix 4.

4.4.2 As previously agreed by Council the Council Tax surplus each year is channelled through the General Fund to support the base budget in the following financial year

4.4.3 A total of £1.8m has been transferred from the General Fund during the 2018/19 financial year in accordance with previous approvals. These are shown in Appendix 4.

4.4.4 Cabinet will note that projected underspends for 2018/19 will result in £1.6m being transferred into General Fund balances.

4.4.5 The Councils Section 151 officer is advising that in light of the worsening financial outlook, that General Fund balances are retained at a higher level than in previous years. This position can be reviewed when the provisional settlement is announced for 2020/21 in October 2019.

4.5 Council Tax Implications 2019/20

4.5.1 The draft budget proposals within this report include a proposed increase of 6.95% in Council Tax for the 2019/20 financial year. This will increase the Caerphilly CBC Band D precept from £1,057.70 to £1131.21 i.e. an annual increase of £73.51 or weekly increase of £1.41.

4.5.2 The proposed increase of 6.95% for 2019/20 will result in the following totals for the Caerphilly CBC element of the Council Tax (the Police & Crime Commissioner and Town/Community Council precepts would be added to these totals when confirmed at a later date): -

Table 7 – 2019/20 Council Tax (CCBC Element) at 6.95% Increase

Band	Council Tax (CCBC Element) £	Weekly Increase £
A	754.14	0.94
B	879.83	1.10
C	1005.52	1.26
D	1131.21	1.41
E	1382.59	1.73
F	1633.97	2.04
G	1885.35	2.36
H	2262.42	2.83
I	2639.49	3.30

4.6 Capital Programme 2019/20 to 2021/22

4.6.1 The proposed Capital Programme for the three-year period 2019/20 to 2021/22 is detailed in Appendix 5 of this report and summarised in Table 8.

Table 8 – Summary of Capital Programme 2019/20 to 2021/22

	2019/20	2020/21	2021/22
	£m	**£m**	**£m**
Capital Programme proposals	14.530	11.124	9,649
WG funding available	(7.943)	(7.943)	(7,943)
Capital funding gap	**6.587**	**3.181**	**1,706**
Funded by: -			
Surplus/(Deficit) b/fwd	0	0	0
Capital Underspends from previous years	0.326	0.306	0
One-Off funding from MRP Policy Review	1.700	1.640	1.578
RCCO budget (Miscellaneous Finance)	0.128	0.128	0.128
Additional General Capital Grant (Final Settlement) -18-19	2.794	0	0
Additional General Capital Grant (Final Settlement)	1.639	1.107	0
Total Additional Funding	**6.587**	**3.181**	**1.706**
Surplus/(Deficit) carried forward	**0**	**0**	**0**

4.6.2 Members are advised that the Final settlement for 2019/20 identified additional capital grant for 2018/19 of £2.794m,2019/20 of £1.639m and 2020/21 of £1.107m.

4.6.3 Cabinet considered on the 30th January 2019 a Use of Reserves report presented by the Head of Finance and S151 Officer. Following consideration of that report Cabinet proposed that unallocated reserves of £16m could be released and used for capital expenditure. Of this £16m it was proposed by cabinet that £5m be allocated towards the Band B 21st Century schools programme where £27m of match funding is required. A further proposal was made to allocate a further £1.2m to the Regeneration Project Board(£300k had been previously agreed by Cabinet). The remaining £9.8m to be earmarked for future capital schemes.

4.6.4 Further reports will need to be prepared and presented to Cabinet in respect of options to allocate the additional capital grant(referred to in paragraph 4.6.2) along with the £9.8m of unallocated capital earmarked reserves.

4.7 Financial Outlook for Future Years and the Medium Term Financial Strategy

4.7.1 The revised Medium-Term Financial Plan has been updated and detailed in Appendix 6. There is currently no indicative allocation for 2020/21 provided by WG. Hence it has been assumed that the AEF will reduce by 0.5% for the following 4 years after 2019/20. The revised MTFP assumptions now require savings to be achieved of £44m from 2020/21 to 2023/24,with £15.7m required for 2020/21.

4.7.2 In looking to develop proposals to address the significant financial challenges going forward it is widely accepted that the Council cannot continue as it is. There is a need to examine the way in which we use our resources to deliver services required by our communities across the county borough.

4.7.3 The Corporate Management Team is currently working with the Cabinet to establish a vision for ‘Caerphilly 2022’ and this will form the basis of a report to Cabinet at the end of March 2019 and then Council in April. The report will set out details of a programme to examine how services are prioritised, how they can become more business efficient through a series of service reviews, exploring opportunities for greater customer focus, digital delivery, alternative delivery models, and commercial opportunities; whilst looking at preventative measures that will encourage early intervention that will ultimately allow the demand for certain services to be better controlled.

5. WELL-BEING OF FUTURE GENERATIONS

5.1 Effective financial planning is a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

6. EQUALITIES IMPLICATIONS

6.1 An equalities impact assessment (EIA) has been completed for all of the 2019/20 savings proposals that have a public impact. This is to ensure that decisions that affect different individuals and groups are assessed at an appropriate and relevant level and at the correct stage in the process. These EIA’s are available on the council’s website..

6.2 Consultation with residents, when done in accordance with the Council’s Public Engagement Strategy and the Equalities Consultation and Monitoring Guidance, also ensures that every resident, regardless of circumstances, has the opportunity to have their views heard and considered in the Council’s decision-making process.

7. FINANCIAL IMPLICATIONS

7.1 As detailed throughout the report.

8. PERSONNEL IMPLICATIONS

8.1 Where staff reductions are required as a consequence of savings proposals the Council will firstly try to achieve this through ‘natural wastage’ and not filling vacancies. However, where this is not possible then every opportunity will be taken to find alternative employment through the Council’s redeployment policy. The Council will also utilise other policies as appropriate e.g. voluntary severance.

8.2 Expressions of interest recently received from employees to leave the employment of the Council via the workforce flexibilities policies have been and will continue to be considered to determine whether they can assist service areas to achieve savings and to avoid compulsory redundancy situations. Any requests supported will require robust business cases confirming the savings and impact on service delivery. Any savings that are achieved from this workforce planning exercise, that occur after the budget has been set, will be reported as part of the budget monitoring exercises to the relevant Scrutiny meetings. These savings can then be taken for 2020/21.

9. CONSULTATIONS

9.1 Following Cabinet endorsement of the draft 2019/20 budget proposal on 14th November 2018 a period of extensive consultation has been undertaken over a period of eight weeks, Appendix 7 provides a summary of the feedback from the consultation process. The full detail is available on the Council’s website.

9.2 As part of the consultation process Special Scrutiny Committees were held during December 2018 to focus on the savings proposals. The Special scrutiny reports presented to these meetings along with the minutes of these meetings are available on the Councils website.

9.3 Feedback from the consultation process has been used and taken into consideration when finalising the proposed increase in council tax for 2019/20 and savings that are being proposed that could be deferred for 2019/20.

10. RECOMMENDATIONS

10.1 Prior to consideration and determination at Council on 21st February 2019.Cabinet is asked: -

10.1.1 To support the proposal that the grants transferred/passported into the Financial Settlement and the funding for new responsibilities are passed directly to those services that they relate to see para 4.2.10.

10.1.2 To endorse the proposed savings for 2019/20 totaling £13.921m as set out in para 4.3.1 and 4.3.2 and Appendix 2 and Appendix 3 of this report.

10.1.3 To endorse the Revenue Budget proposals for 2019/20 of £337.745m as set out in this report and summarised in Appendix 1.

10.1.4 To support the proposal to allocate £5m to 21st Century schools match funding, see paragraph 4.6.3.

10.1.5 To support the proposal to allocate £1.2m to the Regeneration Project Board, see paragraph 4.6.3.

10.1.6 To support the proposal to allocate the £475k savings in advance to the 21st Century schools Band B programme, see paragraph 4.3.5.

10.1.7 To endorse the proposed Capital Programme for the period 2019/20 to 2021/22, see Appendix 5.

10.1.8 To note the Updated Medium-Term-Financial Plan detailed in Appendix 6 of this report and the indicative savings requirement of £44m for the following 4 financial years (2020/21 to 2023/2024)

10.1.9 To support the proposal to increase Council Tax by 6.95% for the 2019/20 financial year to ensure that a balanced budget is achieved (Council Tax Band D being set at £1131.21).

11. REASONS FOR THE RECOMMENDATIONS

11.1 Council is required annually to approve proposals to set a balanced budget and agree a Council Tax rate.

11.2 Council is required to put in place a sound and prudent financial framework to support service delivery.

12. STATUTORY POWER

12.1 The Local Government Acts 1998 and 2003.

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Consultees:	Corporate Management Team Steve Harris, Interim Head of Business Improvement Services Lynne Donovan, Head of People Services Rob Tranter, Head of Legal Services and Monitoring Officer Andrew Southcombe ,Finance Manager, Corporate Finance Cllr Dave Poole, Leader Cllr Barbara Jones, Deputy Leader & Cabinet Member for Finance, Performance and Governance

Background Papers:
WG Provisional 2019/20 Local Government Financial Settlement (9th October 2018)
WG Final 2019/20 Local Government Financial Settlement (19th December 2018)
Medium-Term Financial Strategy 2019/20 to 2023/24

Appendices:
Appendix 1 Net Revenue Budget 2019/20
Appendix 2 2019/20 Permanent savings Proposals
Appendix 3 2019/20 Temporary Savings Proposals
Appendix 4 Movements on General Fund
Appendix 5 Capital Programme 2019/20 to 2021/22
Appendix 6 Updated Medium Term Financial Plan 2019/20 to 2023/2024
Appendix 7 Budget Consultation Feedback 2019/20

APPENDIX 1

NET REVENUE BUDGET 2019/20

		£'000	**£'000**
Base Budget 2018-19			**332,043**
2019-20 Transfers In			
	0	302	
			302
2019-20 Transfers Out			0
Other passported grants			
Private Finance Initiative (Asset Financing)		-202	
			-202
New Responsibilities			
Increased Capital Limit for Residential Care		380	
Targeted Business Relief		143	
			523
Whole Authority Cost Pressures			
Pay Inflation		5,331	
Living Wage (assumed increase of 20p per hour)		65	
Non-pay inflation at 2.4 %		3,526	
Superannuation Increase (LGPS 1 %, Teachers 7.12%)		4,212	
Fire Service Levy		204	
Schools Service Pressures		391	
Trinity Fields Demographic Growth		290	
Trinity Fields Transport Costs (Democratic Growth)		120	
Schools New Pay and Grading Structure		230	
			14,369
Inescapable Service Pressures			
Social Services Cost Pressures		1,500	
EOTAS		800	
Dry Recycling		400	
City Deal - Partnership Revenue		6	
City Deal - Debt Charges		61	
General Fund New Pay and Grading Structure		405	
Council Tax Reduction Scheme		958	
Levies Net Additional Contribution		26	
			4,156
Savings In Advance			475
Savings Proposals 2018-19			-13,921
Proposed Expenditure			**337,745**
Funding			
WG Support			-268,614
Council Tax (6.95 %)			-68,081
Council Tax Surplus			-1,050
Total Funding			**-337,745**

Appendix 2

2019-20 Permanent Savings Proposals

Proposed Saving	£000's	Comments	Public Impact
EDUCATION & LIFELONG LEARNING			
Planning and Strategy			
Full-year impact of closure of Cwmcarn High School	221	Closure of Cwmcarn High in October 2018. Balance of lump sum funding. £200k reduction in 2018/19, £221k is the balance following closure. Pupil related funding remains within the formula.	Nil
Reduction in Local Management of Schools (LMS) Contingency budget to reflect actual spend	40	Reduce budget based on prior years spend. If a formula issue arises in year will need to consider the use of LMS Contingency balances - subject to formal approval for use of balances.	Low
Outdoor Education - support for FSM pupils attending courses (fund through grants instead)	17	Removal of full budget - was set up many years ago to support FSM pupils in accessing outdoor education activities. In 2017-18 only 8 (out of 86) schools accessed this funding and all but 1 have an SRB.Consequently the impact will not be felt across all schools in the Authority. Other schools are using PDG funding and where the impact is linked to those in danger of an exclusion this will be picked up as part of the SRB Review.	Low
1/3rd Reduction in the School Meal Admin. Utility & Telephone Budget	10	Schools collecting significant levels of Catering income for Auth.& not funded for Catering utility costs on site. Significant staff time commitment within Schools to support this process. £10k relates to saving on telephone lines in most schools for Catering - as now using mobiles. Budget split - £252k Admin. Reimb. To Primary Schools; £162k Utilities Reimb. to Primary Schools; £10k Reimb. to Primary Schools.	Nil
5% Efficiency target P&S Mgt & Support Services	29	Opportunities with regards to additional income generation – most notably linked to grant funding	Nil
	317		
Learning, Education and Inclusion			
Rising 3's - budget realignment	50	Budget Realignment / Vacancy Management	Nil
Reduction in School Improvement Initiatives budget	243	Proposal to remove the funding set aside to support schools in difficulty from a school improvement perspective. These situations are normally linked to inspection outcomes and more recently to national categorisation. As a result of a decreasing number of schools in higher risk categories this level of reduction is achievable at this time. There would need to be an understanding that should "emergency" funds be required, there is a potential to access funding from reserves (subject to the appropriate approval for use of balances).	Medium
Visually Impaired Service - 4.4% reduction in contribution	17	Service hosted by Torfaen CBC. The Authority will need to progress with the Lead Authority..	Medium
Education Achievement Service (EAS) - 2% reduction in contribution	48	Budget Realignment / Vacancy Management	Nil
Education Improvement Grant (EIG) - Reduction in match-funding contribution	27	Budget Realignment / Vacancy Management	Nil
14-19 Transport Initiative - budget realignment	10	Budget Realignment / Vacancy Management	Nil
Early Years (Central Team) - budget realignment	20	Budget Realignment / Vacancy Management	Nil
Education Welfare Service - vacancy management	46	Saving will be in place for 2019/20. Follows a re-modelling of the Service from September 2018 - EWO's compliment of 11.24 FTE's reduced to 8.45 FTE's but with a new Administrative Post to support the Team. The new model is designed to increase the flexibility of staff in the Team to support schools and to not be rigidly fixed to designated schools. Posts already vacant.	Low
Reduction in Music Service	50	Workforce requests received in the recent "letters". Need to review & work this through to establish the position going forward in respect of staff reductions.	Low
	511		
Lifelong Learning			
Community Education (Youth Service) - premises, vacant posts etc.	100	Budget Realignment / Vacancy Management	Nil
Community Education (Adult Service) - budget realignment	50	Budget Realignment / Vacancy Management	Nil
Libraries - Reduction in premises costs, staff and books	85	Current resources budget is £355k. Reduction of £85k in Book Fund. Proposals include : Top slicing sections of the book fund to mitigate the impact of the reduction on key customer categories including children, older residents & learners; Remove 50% of the allocated funding for DVD's with the remaining allocation ring-fenced for popular customer interest areas such as children's titles; Significantly increase the proportion of paperback titles to increase the efficiency in resource spend and number of titles available; Increase use of South Wales Books4U scheme; Review free request service with the intention of reintroducing charges for rare non fiction titles which are not cost effective to elect to buy.	Medium
Libraries - Reduction in premises costs, staff and books	15	Budget Realignment / Vacancy Management	Nil
Library Service (Additional £30k to the £100k = £130k)	30	Budget Realignment / Vacancy Management	Nil
GAVO (Youth Service) - Remove contribution as service can be provided by CCBC	25	Removal of full contribution to GAVO - relating to Holiday Scheme Co-Ordinator. Implications for GAVO as this funding links to a post. No implications for public as the advice will continue to be provided through the Youth Service. [Function is to provide advice & support to any groups considering the provision of school holiday period-specific activity for children & young people between the age of 8 to 18 years].	Medium
Review of Staffing model in Libraries	50	Need to reference recent workforce requests in respect of the letter.	Low
	355		
Schools - MTFP shortfall	**2,126**	Schools will be required under their delegated powers to balance their own individual budgets, hence they will be required to identify their savings to cover the £2.1m. School budgets are typically 80 % staff related hence there will be a reduction in staff in schools	Medium
TOTAL Education and Lifelong Learning	**3,309**		

COMMUNITIES			
Regeneration and Planning			
Reduction in Community Regeneration Fund	50	Impact on Voluntary Organisations	Low
Business Support & Funding - vacancy management	25	Budget Realignment / Vacancy Management	Nil
Business Support & Funding - budget realignment	10	Budget Realignment / Vacancy Management	Nil
Cwmcarn Visitor Centre - increase in income	10	Budget Realignment / Vacancy Management	Nil
Events & Marketing - budget realignment	10	Budget Realignment / Vacancy Management	Nil
Blackwood Miners Institute - budget realignment	20	Budget Realignment / Vacancy Management	Nil
Realignment of staffing budgets at the Winding House	67	To reduce opening hours and staff resource	Low
Urban Renewal - budget realignment	4	Budget Realignment / Vacancy Management	Nil
Reduction in Town Centre budget	5	Reduction in works in Town Centres	Low
Planning Division - vacancy management	42	Budget Realignment / Vacancy Management	Nil
Staffing restructure in Regeneration and Planning	125	Mainly Vacant Posts	Nil
2% efficiency target for Arts Development budget	3	Budget Realignment / Vacancy Management	Nil
Reduction in Events Budgets	47	Reduction in some Events in Town Centres	Low
Total Regeneration and Planning	**418**		
Infrastructure			
Introduction of bus station departure charges	100	Impact on providers but could result in increase in public charges. Proposed increase 35p per departure	Low
32% reduction in Carriageway Resurfacing RCCO (capital budget = £750k)	53	Deterioration in road quality, increased risk insurance claims	Medium
7% reduction in Carriageway Surface Dressing budget	60	Deterioration in road quality, increased risk insurance claims	Medium
4% reduction in Highways Reactive Maintenance budget through use of Technology (Jetpatcher)	55	New technology providing efficiency	Nil
7% reduction in Highways Structures budget	36	Deterioration in infrastructure	Low
14% reduction in Traffic Management Maintenance budget	5	Reduction in maintenance and budget efficiency	Low
2% reduction in Street Lighting Non-Routine Maintenance budget	9	Reduction in maintenance as a result of new LED technology	Nil
8% reduction in other Highways Maintenance budgets	66	Deterioration in infrastructure	Medium
Reduction in other miscellaneous Highway/Land Drainage budgets	21	Increased flood risk	Medium
Reduction in Risca Canal budget	10	offset by capital enhancement	Low
Gulley Cleansing - 1 jetter to be funded from SLA agreement with Another Authority	64	MTCBC SLA Agreement if agreed	Nil
Deletion of Community Response Team budget - retirements/non-essential work	100	Service removed - minor maintenance works	Nil
Public Transport - review of contracts with highest subsidy per passenger	68	Reduction/termination of some bus routes	Medium
Vacancy management (part of wider £200k restructure proposal)	34	Budget Realignment / Vacancy Management	Nil
Highways Operations additional income	6	More focussed pursuit of highway recharges	Nil
Lunchtime School Crossing Patrols	36	Removal of Lunch Patrol	High
9% reduction in Traffic Signal Routine Maintenance budget	11	Contract Efficiency	Nil
Reduction in Accident Studies due to contract review	10	Contract Efficiency	Nil
Increase in road closure fee income	30	Charge to contractors for all closures with no further event subsidies	Nil
Passenger Transport - increase in income	3	Increase in replacement bus pass cards - Change in price (new charge £10 per replacment of lost card)	Low
Increase in Car Park charges	40	First increase in 8 Years and possible charging on Sunday, proposed increase 20p per tariff	Low
Introduction of a charge for residential parking permits	30	Introducing an annual charge in accordance with policy. Recommending £15.00 per permit.	Low
Integrated Transport Unit	50	Better utilisation of authority fleet when external contracts are due for renewal	Nil
Staffing restructure in Infrastructure Division	166	Budget Realignment / Vacancy Management	Nil
Total Infrastructure	**1,063**		
Public Protection			
Provision of Meals Direct Service to Section 117 clients only (Deferred Saving)	**0**	**Cease meals on wheels service except for clients eligible under Section 117 aftercare, currently just 1 individual. Part year saving to allow for implementation.**	**High**
Increase price of secondary school meals by 10p from April 2019 (£2.25 to £2.35)	50	Price increase	Low
Increase price of primary school meals by 10p from April 2019 (£2.00 to £2.10)	54	Price increase	Low
Increase price of civic meals by 5%	3	Price increase E.g. • carvery set menu would raise from £4.70 to £4.95 • daily special choice would raise from £4.10 to £4.30 • sandwich would raise from £2.45 to £2.60	Low
Increased catering income from Secondary Schools - budget realignment	20	Budget Realignment / Vacancy Management	Nil
Cessation of the Community Safety Warden Service	**108**	**Reconfiguration of Service**	**High**
Increase in fee for retrieving stray dogs from Pound	3	Price increase to £75 from £44.	Low
Introduction of charges for rat treatments (Deferred Saving)	**0**	**New Charge - £20 (plus VAT) per treatment reducing to £10 (plus VAT) for those on means tested benefits.**	**Low**
Environmental Health - budget realignment	15	Budget Realignment / Vacancy Management	Nil
Registrars - increase in ceremony fees	10	Increase in fees which range from 7.5% to 20% depending on day of the week and the venue.	Low
Trading Standards - vacancy management	40	Delete Fair Trading Officer post	Low
CCTV - reduction in line rental costs	40	Budget Realignment / Vacancy Management	Nil
Reduction in CCTV overtime budget	8	Budget Realignment / Vacancy Management	Nil
5% efficiency target for Health Division budgets	12	Budget Realignment / Vacancy Management	Nil
5% efficiency target for Pollution budgets & Emergency Planning budgets	26	Delete 0.5 fte Environmental Health Officer post	Medium
Total Public Protection	**389**		

Community and Leisure Services			
Sport & Leisure - changes in VAT for leisure pricing	50	Some clubs may have to pay more for the service	Low
Sport & Leisure - reduction in sport & leisure tutor budgets (budget realignment)	75	Budget Realignment / Vacancy Management	Nil
Sport & Leisure - reduction in Smart Rewards budget	15	Budget Realignment / Vacancy Management	Nil
Sport & Leisure - reduction in Supplies budget including uniforms and smartcards	8	Budget Realignment / Vacancy Management	Nil
Sport & Leisure - reduction in Caerphilly Adventures budget	12	Budget Realignment / Vacancy Management	Nil
Fleet Management - cease use of external diagnostic services and provide in-house	10	Budget Realignment / Vacancy Management	Nil
Building Cleaning - increase in income	15	Budget Realignment / Vacancy Management	Nil
Building Cleaning - budget realignment	31	Budget Realignment / Vacancy Management	Nil
Community Centres - withdrawal of funding for 2 Centres (Rudry & Glan y Nant) not in CCBC ownership (Deferred Saving)	**0**	**Reduces subsidy to user centre ownership. Glan-y-Nant and Rudry**	**Low**
Community Centres - reduction of 1 hour Caretaker support across all Centres (Deferred Saving)	**0**	**additional charge from community centres committees**	**Low**
Community Centres - reduction of all Caretaker support across all Centres from October (Deferred Saving)	**0**	**additional charge from community centres committees needed to fund the caretakers salary. Part Year from 1st October 2019**	**High**
Community Centres - closure of 4 Centres (Tirphil, Phillipstown, Channel View & Lower Rhymney* (*already closed)) Deferred Saving - Tirphil, Phillipstown, Channel View	**5**	**Loss of community centre to users**	Medium
Parks & Countryside- Bowling Green rationalisation programme	10	Ongoing phased removal of the grants to bowls clubs as previously agreed by Cabinet	Nil
Parks & Countryside - review of Pavilion Attendant provision	30	Reduction of pavilion attendant hours.	Nil
Parks & Countryside - reduction in Community Asset budget	54	Cessation of minor infrastructure maintenance and upgrades; examples of works include the installation of knee rails, gates and barriers etc.	Low
Parks & Countryside - vacancy management	18	Budget Realignment / Vacancy Management	Nil
Parks & Countryside - reduction in machinery budget	20	Reduced budget to invest in new machinery.	Low
Parks & Countryside - reduction in playground maintenance budget	10	Reduced ability to replace play equipment and ultimately could lead to the closure / removal of facilities.	Low
Parks & Countryside - staffing restructure	44	Reduction in Area Parks staff	Low
Parks & Countryside - removal of one application of the weed spraying contract	32	Reduced service	Low
Green Spaces/Cemeteries - staff restructure	100	Potential redundancy of staff	Low
Green Spaces/Cemeteries - reduction in Cemeteries maintenance budget	25	Budget Realignment / Vacancy Management	Nil
Green Spaces/Cemeteries - reduction in War Memorial maintenance budget	15	Budget Realignment / Vacancy Management	Nil
Green Spaces/Cemeteries - reduction in Allotments budget	3	Budget Realignment / Vacancy Management	Nil
Green Spaces/Cemeteries - increase in Cemeteries income (budget realignment)	40	Budget Realignment / Vacancy Management	Nil
Waste Management - Cleansing staffing reductions	166	filling the vacant posts will increase standard of street cleanliness and would improve resilience of service'	Medium
Waste Management - introduction of new scheme of charging for bulky waste collections	50	New charge of a charge of £16 for 1 to 3 items (for all items other than fixtures and fittings).	Low
Waste Management - rationalisation of farm round waste collection service	53	reduced service	Low
Waste Management - reduction in mechanical sweeping	193	Reduced service	Medium
Waste Management - closure of 2 Civic Amenity Sites (Deferred Saving)	**0**	**2 CA sites are Penallta and Aberbargoed**	**Medium**
Waste Management - staffing restructure	34	Budget Realignment / Vacancy Management	Low
Waste Management - reduction in Proactives Initiatives budget	50	Budget Realignment / Vacancy Management	Low
Waste Management - Civic Amenity Sites to shut an additional day (assumes 4 remain open)	38	Reduced service	Medium
Waste Management - development of an electronic Commercial Waste System	5	Budget Realignment / Vacancy Management	Nil
Waste Management - closure of all 5 Public Conveniences	74	Closure in all towns (Twyn to stay open as managed within TIC)	High
Waste Management - reduction in the level of weekend cleansing	34	Reduces service	Medium
Waste Management - off-hire one Supervisor van	6	Budget Realignment / Vacancy Management	Nil
Further reduction in Parks and Playing Fields budgets	30	Budget Realignment / Vacancy Management	Nil
Total Community and Leisure Services	**1,354**		
Corporate Property			
Ty Duffryn - standing charges and lease income	394	New lease agreed with Third Party Operators	Nil
Enterprise House - termination of lease	67	Staff moving to Tredomen	Nil
Reduction in Corporate Property DDA budget	50	Reduced Budget availability	Nil
Energy savings from LED lights in Ty Penallta	20	Budget Realignment / Vacancy Management	Nil
Reduction in cleaning of Corporate Buildings	15	Budget Realignment / Vacancy Management	Nil
Total Corporate Property	**546**		
Total Communities	**3,770**		

SOCIAL SERVICES & HOUSING			
Children's Services			
4C's rebate - joint commissioning of children's placements	35	Realignment of budget with no public impact	Nil
Review of admin support	186	Details to be confirmed but could be back office restructure with little or no public impact	Low
Review of Barnardo's contract	189	Potential reduction in Family Support Services	Medium
Families First - deletion of admin post	23	Deletion of vacant back office post with no public impact	Nil
Customer Services restructure	20	Back office restructure with no public impact	Nil
Total Children's Services	**453**		
Adult Services			
Review of staffing budgets in Adult Services	550	Details to be confirmed but could be back office restructure with little or no public impact	Low
Review of non Residential Charging Policy	100	Propose changes to the current non residential charging policy to ensure equity for all service users to include: charging for support element of domiciliary care, charging for day opportunities in a community setting, and charging for day opportunities provided by the independent and third sector.	Low
Retender of Shared Care Respite Contract currently held by Action for Children	50		Low
Review of Day Services to achieve a budget reduction of 6%	300	All of these savings could be achieved through a re-design of services including closure of a day base Twyn Carn) with little impact on service users. E.g. Service users could receive a similar service but in a different location. Promotion of independence to enable people to meet their own outcomes.	Low
Implications of Social Services & Wellbeing Act 2014	150		Low
Review of external day care	205		Low
Cap inflationary uplifts on external contracts	3	Minor reductions could be achieved through efficiencies within the provider organisation	Nil
Domiciliary Care client income - budget realignment	25	Realignment of budget with no public impact	Nil
Non renewal of Mental Health Carers Support contract	34	Full year effect of not renewing the contract that ends on 31/03/19. Consultation currently ongoing	Low
Income generation - Ty Hapus	25	Will offer for use by other local authorities and ABUHB	Nil
Cease contribution to SEWIC	15	Regional agreement has been reached to cease a back office function with no public impact	Nil
Extra Care - budget realignment	20	Realignment of budget with no public impact	Nil
Adult Services	**1,477**		
Service Strategy and Business Support			
Dissolution of South East Wales IT Consortium	22	Full year effect of termination of a regional arrangement for back office IT Support in 2018/19. This support is now provided through the Regional WCCIS Service.	Nil
5% efficiency target for Office Expenses	9	Back Office efficiencies	Nil
Total Service Strategy and Business Support	**31**		
Housing Services			
Private Housing - staffing restructure	34	Budget Realignment / Vacancy Management	Nil
Removal of Homeless Prevention Fund budget - to be funded through growth in RSG	46	Nil effect	Nil
Revise staff apportionments between General Fund and HRA	50	Budget Realignment / Vacancy Management	Nil
Llamau grant reduction	3	Reduced service already being provided	Nil
Total Housing Services	**133**		
Total Social Services & Housing	**2,094**		
CORPORATE SERVICES			
Corporate Finance			
Housing Benefits - vacant post	27	Could increase performance if post filled	Low
Environment Finance - vacant post	24	Budget Realignment / Vacancy Management	Nil
Environment Finance - restructure	33	Budget Realignment / Vacancy Management	Nil
Housing Benefits - New Burdens funding	42	Could increase performance if post filled	Low
Additional grant and fees and charges income	67	Budget Realignment / Vacancy Management	Nil
Total Corporate Finance	**193**		
Procurement and Customer Services			
Customer Services - management/team leader restructure	108	Front line service but no impact on service delivery due to revised working practices.	Low
Customer Services - potential retirement	26	Front line service but no impact on service delivery due to revised working practices.	Low
Total Procurement and Customer Services	**134**		
Corporate Policy			
Reduction in voluntary sector Service Level Agreements (SLAs)	42	Directly impact Voluntary Sector SLA payments.	Medium
Reduction in Technical Assistance budget	5	Reduction in budget which is used to provide technical advice and guidance to Voluntary sector to allow them to access external grant programmes.	Low
Reduction in Well-being budget	10	Reduction in budget used to support well-being activities.	Low
Deletion of former Outcome Agreement budget	40	Budget Realignment / Vacancy Management	Nil
Equalities Team - reduction in publicity and promotion budgets	4	Budget Realignment / Vacancy Management	Nil
Reduction in Welsh Language Translation budget	10	Budget Realignment / Vacancy Management	Nil
Cease the use of Ffynnon	12	New ways of working	Nil
Service Review	67	Budget Realignment / Vacancy Management	Nil
Total Corporate Policy	**190**		
Information Technology			
Staff restructure / workforce planning	150	Staffing Restructure	Nil
Reduction in PSBA charges	132	Budget Realignment / Vacancy Management	Nil
Reduction in telephony costs and line rentals	35	Budget Realignment / Vacancy Management	Nil
Staffing restructure in Central Services	33	Vacant Posts	Nil
Reduce to a single van (mailroom)	4	Budget Realignment / Vacancy Management	Nil
Agenda distribution - cessation of delivery of papers to Members	5	Budget Realignment / Vacancy Management	Nil
Total Information Technology	**358**		

Human Resources and Communications			
Human Resources - restructure	120	Vacant posts	Nil
Total Human Resources and Communications	**120**		
Health and Safety			
Health & Safety - restructure	83	Vacant posts	Nil
Total Health and Safety	**83**		
MISCELLANEOUS FINANCE			
Pension contributions former Authorities - budget realignment	50	Budget Realignment / Vacancy Management	Nil
External Audit fees - budget realignment	50	Budget Realignment / Vacancy Management	Nil
Welsh language - budget realignment	53	Budget Realignment / Vacancy Management	Nil
NNDR on empty properties	131	Budget Realignment / Vacancy Management	Nil
Rent Allowances, War Widow Concessions - budget realignment	10	Budget Realignment / Vacancy Management	Nil
Reduction in Careline budget	20	Budget Realignment / Vacancy Management	Nil
Reduction in Carbon Management Scheme budget	25	Budget Realignment / Vacancy Management	Nil
PV Panels income	15	Budget Realignment / Vacancy Management	Nil
Class 1A NI Contributions (Tusker)	40	Budget Realignment / Vacancy Management	Nil
Reduction in miscellaneous items budget	4	Budget Realignment / Vacancy Management	Nil
Communities Match Funding Pot (Deferred Saving)	**0**	**Could impact on Communities to organise these 2 events. Community council/sponsorship funding would be needed to continue with the events.**	**Low**
Total MISCELLANEOUS FINANCE	**398**		
Total Corporate Services and Miscellaneous Finance	**1,476**		
Total 2019-20 Proposed Savings	**10,649**		

Appendix 3

2019-20 Temporary Savings Proposals

Proposed Saving	£000's	Comments	Public Impact
EDUCATION & LIFELONG LEARNING			
LMS Contingency - 23% Reduction	45	Current budget is £193k, this will reduce to £153k prior to this £45k proposed reduction. This leaves just £108k to deal with in year formula issues. Consequently if an issue arises will need to consider the use of LMS Contingency balances - subject to formal approval.	Medium
TOTAL Education and Lifelong Learning	**45**		
COMMUNITIES			
Regeneration and Planning			
Community Regeneration Community Projects - 53% Reduction	35	Impact on ability to fund small projects that do not have specific funding	Low
Business Grants - 50% Reduction	25	Reduced funding for Businesses.	Low
Community Regeneration Fund - 100% Reduction	50	Impact on Voluntary Organisations. This is the remaining budget.	Low
Total Regeneration and Planning	**110**		
Infrastructure			
Winter Maintenance - 54% Reduction	500	Alternative funding via winter maintenance reserve	Nil
Public Rights of way -50% Reduction	31	Deterioration in Public Rights of Way	Low
Maintenance of Land - 50 % Reduction	15	Deterioration in maintenance of land	Low
Temporary reduction in Carriageway Resurfacing RCCO	110	Alternative funding sort WG	Low
Temporary reduction in Carriageway Surface Dressing	800	Alternative funding sort WG	Low
Temporary reduction in Structures Maintenance budget	40	Alternative funding sort WG	Low
Temporary reduction in Highways Reactive Maintenance budget	43	Alternative funding sort WG	Low
Temporary reduction in Risca Canal Maintenance budget	40	Reliant on capital project	Low
Total Infrastructure	**1,579**		
Community and Leisure Services			
RCCO Waste Vehicles - 77% Reduction	**300**	**Risk to vehicle availability/reliability**	**Low**
Total Community and Leisure Services	**300**		
Corporate Property			
Property Maintenanace - 20% Reduction	309	Reduced funding available for discretionary work.	Low
Total Corporate Property	**309**		
Total Communities	**2,298**		

SOCIAL SERVICES & HOUSING			
Reduce Growth provision	300	Would only meet existing need but does not allow for any demographic increases from August 2018 or for any fee increases in excess of inflation.	High
Total Social Services & Housing	**300**		
CORPORATE SERVICES			
Information Technology			
PC Refresh -100% Reduction	129	Replacement PC and MFP capacity Budget £132k	Nil
Total Information Technology	129		
Miscelleneous Finance			
Deferred Borrowing - 4.4% Reduction	500	Reduces opportunity to use as a one off underspend on capital schemes.	Low
Total MISCELLANEOUS FINANCE	**500**		
Total Corporate Services and Miscellaneous Finance	**629**		
Total 2019-20 Temporary Savings Proposals	**3,272**		

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APPENDIX 4

MOVEMENT ON GENERAL FUND

	£'000	£'000
Opening Balance 01/04/2018		**13,200**
2017-18 Council Tax Surplus to support 2018-19 Budget		**-1,400**
Take From General Fund Agreed by Council		
MTFP Savings Delivery Fund	-1,800	
		-1,800
Projected Take to General Fund from 2018-19 Underspends :-		
Education and Corporate Services	158	
Social Services & Housing	494	
Communities	0	
Miscelleneous Finance	1,008	
		1,660
Estimated 2018-19 Council Tax Surplus		**1,400**
Approved Transfers to General Fund from Earmarked Reserves	0	
		0
Proposed Transfer to Capital Earmarked Reserve		**0**
2018-19 Council Tax Surplus to support 2019-20 Budget		**-1,400**
Projected Balance 31/03/2019		**11,660**

APPENDIX 5

Capital Programme 2019/20 to 2021/22

Scheme	2019/20 £000's	Indicative 2020/21 £000's	2021/22 £000's
Education and Lifelong Learning			
Health & Safety Regulations Works	296	296	290
Basic Needs Accomodation	221	221	220
School Security	62	62	62
Asset Management	591	591	590
School Boiler Replacement Programme	253	253	253
Total Education & Lifelong Learning	**1,423**	**1,423**	**1,415**
Communities			
Sport Pitches	30	30	30
Total Community & Leisure Services	**30**	**30**	**30**
Environmental Schemes	228	228	0
Total Countryside	**228**	**228**	**0**
Voluntary Sector Capital Grants	98	98	80
Total Economic Development	**98**	**98**	**80**
Infrastructure Retaining Walls	314	314	314
Street Lighting	50	50	50
Land Purchase-Future Schemes	41	41	40
Major Highway Reconstruction	739	739	739
Bridge Strengthening	441	441	441
Land Drainage- Corporate	123	123	123
Land Drainage - Non Corporate	123	123	123
Vehicle Restraint Systems	148	148	148
Corporate Maintenance - Tips Mines Spoils	246	246	246
Monmouth & Brecon Canal.	208	208	200
Footway Reconstruction	148	148	148
Total Engineers	**2,581**	**2,581**	**2,572**
Commercial And Industrial Grants	50	50	40
Town Centres	20	20	18
Navigation Colliery Site Regeneration	19	0	0
Total Urban Renewal	**89**	**70**	**58**
CCTV Replacement	74	74	74
Kitchen Refurbishments	419	419	419
Total Public Protection	**493**	**493**	**493**
Total Communities	**3,519**	**3,500**	**3,233**

Social Services & Housing			
Condition Surveys	345	344	340
Total Social Services	**345**	**344**	**340**
Disabled Facility Grants	1,133	1,133	1,130
Home Imp Grants/Miscellaneous	246	246	240
Home Repair Grant	788	788	780
Total Private Housing	**2,167**	**2,167**	**2,150**
Total Social Services & Housing	**2,512**	**2,511**	**2,490**
Corporate Services			
IT Hardware & Software	230	230	220
Total ICT	**230**	**230**	**220**
Corporate Asset Management	690	690	690
Total Property	**690**	**690**	**690**
Total Corporate Services	**920**	**920**	**910**
Capital Earmarked Reserve	1,723	1,663	1,601
Unallocated General Capital Grant	4,433	1,107	0
Total Capital Programme	**14,530**	**11,124**	**9,649**

APPENDIX 6

Updated Medium Term Financial Plan 2019/20 to 2023/2024

Description	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
AEF (0.51 % ,-0.50 %,-0.50%, -0.50%,-0.5%)	1,374	(1,343)	(1,336)	(1,329)	(1,323)
Less:					
New Responsibilities - Increase in Capital Limits for Residential Care	380	0	0	0	0
Transfer In - Free Schools Meals	302	0	0	0	0
Transfer In - WG specific funding discretionary rate relief.	143	0	0	0	0
Net Welsh Government Funding available	**549**	**(1,343)**	**(1,336)**	**(1,329)**	**(1,323)**
Council Tax (6.95 % then 4.52 % each year)	4,678	3,077	3,216	3,362	3,514
Council Tax Surplus adjustment	(350)	0	0	0	0
Net Council Tax Funding Available	**4,328**	**3,077**	**3,216**	**3,362**	**3,514**
Total Funding to support budget	**4,877**	**1,734**	**1,880**	**2,033**	**2,191**
Schools					
Teachers Pay (3.5 %, then 2% each year)	2,431	1,502	1,572	1,603	1,635
Living Wage	16	16	16	16	16
Teachers Employers Pension Contributions (7.12 %)	2,984	2,272	0	0	0
APT&C Pay (2.2% ,2%, 2% 2%)	271	262	269	278	287
APT&C Employers Pension Contributions (1 %, 1%, 1%, 1%)	126	133	137	141	145
New Pay and Grading Structure	230	0	0	0	0
Non-Pay Inflation (2.4%)	454	439	423	432	441
Schools Service Pressures	391	181	301	364	274
Trinity Fields Demographic Growth	290	0	0	0	0
Trinity Fields Transport Costs (Democratic Growth)	120	0	0	0	0
Total Schools	**7,313**	**4,805**	**2,718**	**2,834**	**2,798**
General Fund Services					
Pay (2.2% ,2%, 2% 2%)	2,629	2,249	2,294	2,340	2,387
Living Wage	49	49	49	49	49
Employers Pension Contributions (1 %, 1%, 1%, 1%)	881	890	899	908	917
Teachers Employers Pension Contributions (7.21 %)	221	0	0	0	0
Non-Pay Inflation (2.4% 2.2 % 2.1%, 2.1%)	3,072	2,809	2,905	3,005	3,111
Fire Service Levy (Unfunded Pension Increase - Additional Contribution)	204	0	0	0	0
Reduction in PFI funding transferred into RSG	(202)	0	0	0	0
Total General Fund Services	**6,854**	**5,997**	**6,147**	**6,302**	**6,464**
Sub-Total	**14,167**	**10,802**	**8,865**	**9,136**	**9,262**
CTRS Additional Liability (6.95 % then 4.52% each year)	958	667	697	728	761
EOTAS	800	0	0	0	0
Dry Recycling	400	400	0	0	0
New Pay and Grading Structure	405	0	0	0	0
Social Services Cost Pressures Contingency	1,500	1,500	1,500	1,500	1,500
City Deal (Partnership Revenue Contribution)	6	7	6	8	8
City Deal (Debt Charges)	61	44	89	122	171
PFI Review	0	700	0	0	0
Levies net additional contributions	26	0	0	0	0
Sub-Total	**4,156**	**3,318**	**2,292**	**2,358**	**2,440**
Reinstatement of 2019-20 temporary budget reductions	**0**	**3,272**	**0**	**0**	
Annual Shortfall	**13,446**	**15,658**	**9,277**	**9,461**	**9,511**
Cumulative Shortfall	**13,446**	**29,104**	**38,381**	**47,842**	**57,353**

APPENDIX 7

Caerphilly County Borough Council Budget Consultation 2019/20 Summary Report

Introduction

In October 2018, Welsh Government announced its provisional budget settlement, which outlined how much money will go into public services across Wales for the next financial year (2019/20). Under the settlement, Caerphilly County Borough Council faced a funding reduction of 0.3%.

This coupled with inescapable pressures that the Council has to fund, means that the Council needed to find savings of over £15.6 million for the next year alone.

A series of draft budget proposals totalling almost £14.7 million were considered by Cabinet on 14th November 2018 alongside a proposed Council Tax rise of 6.95% to cover the remaining shortfall.

The views of residents and stakeholders views were sought on the draft proposals over a period of 6 weeks from **19th November 2018 to 11th January 2019**, with views expressed as part of this consultation to be fed back to and considered by elected Members prior to the final budget for 2018/19 being agreed at a special meeting of full Council in **February 2019**.

Annexes relating to this report can be found at https://www.caerphilly.gov.uk/thecaerphillyconversation

Methodology

An extensive period of engagement with residents and stakeholders began prior to and during a formal consultation on the draft savings proposals. The formal consultation period ran **between 19th November 2018 and 11th January 2019**. Key elements of the engagement were:

- Media and digital media campaign
- Awareness raising and engagement in the 5 main town centres
- Face to face drop in sessions held at venues across the county borough
- A survey distributed via the Council's newsletter "Newsline", made available on the Council's website and at all main Council buildings and libraries.
- Written communication with stakeholder groups (including Councillors, Town and Community Councils)
- Face to face "Viewpoint Panel" meeting held on 28th November 2018
- Additional face-to-face meetings with Trade Unions and other stakeholder groups
    - Voluntary Sector Liaison Committee meeting
    - Special Scrutiny Committee Meetings

The main elements of the engagement and consultation process are outlined below. Further details of each element of the public and stakeholder engagement can be found in the appendices.

Media and Digital Media Campaign

In the months prior to the launch of the consultation and throughout the consultation period, a range of web, media and social media activity was carried out to raise awareness of the financial situation facing the Council and to promote and encourage residents to take part and have their say in the consultation process.

A key element of the activity prior to and during the consultation period focussed on increasing understanding of the unprecedented financial situation and the reasons why the Council is faced with having to make such difficult financial decisions.

It highlighted areas such as the inescapable financial pressures that the Council must fund, the significant (but relatively small in the grand scheme) role that Council Tax has in funding council services and the rationale for the Council needing to ask residents to pay a little more, through Council Tax, for the services they receive.

Activities carried out as part of this work included:

- Video
- Web content
- Infographic/information leaflet
- Media releases
- Digital media including Facebook, Twitter and NewsOnline (see **Annex 7**)

These and a range of other communication channels were also used throughout the consultation period to remind and encourage residents to give their views.

Town Centre Engagement and Public Drop in sessions

During the first week of the consultation period (20th – 23rd November 2018), Cabinet members and supporting officers visited each of the 5 main town centres across the county borough - Bargoed, Blackwood, Caerphilly, Risca and Ystrad Mynach.

Located in areas of high footfall, the purpose of these visits was to raise awareness of the financial pressures facing the Council and to encourage residents to take part and inform them of how they could have their say on the proposed budget savings through providing details of the online survey and forthcoming face to face drop in sessions.

Face to face drop in sessions were held at 9 venues across the county borough between 26th November and 13th December 2018 as shown in **Table 1**.

Each of these drop-in sessions was attended by a member of the senior management team, staff from the Communications and Corporate Finance team and at least one Cabinet member. The sessions were publicised widely at the venues and at the main Council premises across the county borough. Local Councillors were asked to encourage attendance and regular reminders were sent out via social media. Residents were encouraged to come in and chat to officers and Cabinet members and to find out more about the proposals and provide feedback through completing a questionnaire. This approach allowed face to face interaction with individuals and encouraged debate and discussion.

In total **121 people** attended the drop in sessions across the nine venues with New Tredegar and Nelson seeing the greatest footfall. All who attended viewed the information and engaged in discussion with most taking away a copy of the survey to complete. The demographic composition of attendees was skewed towards the older age groups however, there was a good cross section of male and female attendees.

Table 1: Face to Face Session

Date and time	Venue	Attendees
26/11/18 (10am - 1pm)	Rhymney Library	7
27/11/18 (2pm – 5.45pm)	Bargoed Library	16
29/11/18 (2pm – 6pm)	Caerphilly Library	7
30/11/18 (10.30am – 1.30pm)	New Tredegar, Whiterose Centre	23
3/12/18 (10.30am – 2.30pm)	Risca Palace	14
6/12/18 (10am – 12.30pm)	Ystrad Mynach Library	11
11/12/18 (10.30am – 1.30pm)	Newbridge “Tabernacle”	8
12/12/18 (3pm – 6pm)	Nelson Library	20
13/12/18 (10.30am – 2.30pm)	Blackwood Library	15

Survey

A short open ended questionnaire was developed to seek views on the draft budget proposal. A copy of the questionnaire can be found in **Annex 1**.

The questionnaire asked respondents to give their views on the savings proposals outlined indicating whether they strongly agree or disagree with any of the cuts listed and to give reasons for their views. Respondents were also asked to provide any ideas they may have about how we can limit the impact of any of these proposals on our communities.

The questionnaire then asked respondents to identify whether they feel that budget cuts in a specific area will affect them as an individual (positively or negatively) because of their ethnic origin, gender, age, marital status, sexual orientation, disability, gender reassignment, religious beliefs or non-belief, use of Welsh language, BSL or other languages, nationality or responsibility for any dependents.

Looking forward to 2020 and beyond, the questionnaire then prompted respondents to suggest areas of spending that be reduced, removed or that service users could be charged for.

The survey and supporting consultation information (draft proposals and completed Equality Impact Assessments for each proposal) was included on the CCBC website for the duration of the consultation period (19th November 2018 to 11th January 2019) with a prominent front page banner and a link directly to the survey.

Details of draft budget proposals were highlighted on the front page of the December 2018 edition of the Council's newsletter "Newsline" with further information and the questionnaire included in a central pull out section of the publication. "Newsline" is delivered to every household within the county borough.

The survey was also shared with a wide range of key stakeholders and groups (as outlined in **Annex 2**) via e-mail and/or in printed format as appropriate.

"Viewpoint Panel" Meeting

On Wednesday 28th November 2018, 37 residents from across the county borough attended a meeting at 6pm in Penallta House. Groups represented included the Caerphilly County Borough Viewpoint Panel, Caerphilly Parent Network, Caerphilly 50+ Forum and the Welsh speaking community through Menter Iaith Caerffili. Of these, 23 were male and 14 were female.

In addition, 15 members of Caerphilly Youth Forum, aged 12 to 24, attended the meeting. Of these 3 were boys and 12 were girls.

Prior to the meeting, attendees were provided with details of the proposals and on arrival, were welcomed by Councillor David Poole, Leader of Caerphilly County Borough Council. After listening to a presentation by the Head of Corporate Finance in the Council Chamber, attendees were then split into smaller groups where they were invited to discuss the draft proposals in more detail.

The discussion sessions focussed on identifying how attendees felt the impact of the proposals could be limited for them as individuals and on their communities. The discussion then moved to identifying suggestions for areas of spending that could be reduced, removed, or that service users could be charged for looking forward to 2020. The discussion topics closely reflected the questionnaire included in the survey but allowed for a more in depth discussion and debate of the options identified.

One group was conducted through the medium of Welsh (this included 3 adults and 3 young people) and another group was led by the Youth Service to ensure that young people had an opportunity to have their say. Throughout the discussion, senior officers and Cabinet members were available to clarify the draft proposals and provide context where needed.

Additional Stakeholder Consultation

In addition to the written correspondence with stakeholders noted above, additional face to face discussions were held at the Voluntary Sector Liaison Committee on 5^{th} December (See **Annex 5**). Meetings were held with the trade unions and the following Special Scrutiny Committee Meetings were held:

- Special, **Policy and Resources** Scrutiny Committee - Monday, 3rd December, 2018
- Special, **Health Social Care and Wellbeing** Scrutiny Committee - Thursday, 6th December, 2018
- Special, **Education for Life** Scrutiny Committee - Monday, 17th December, 2018
- Special, **Regeneration and Environment** Scrutiny Committee - Tuesday, 18th December, 2018

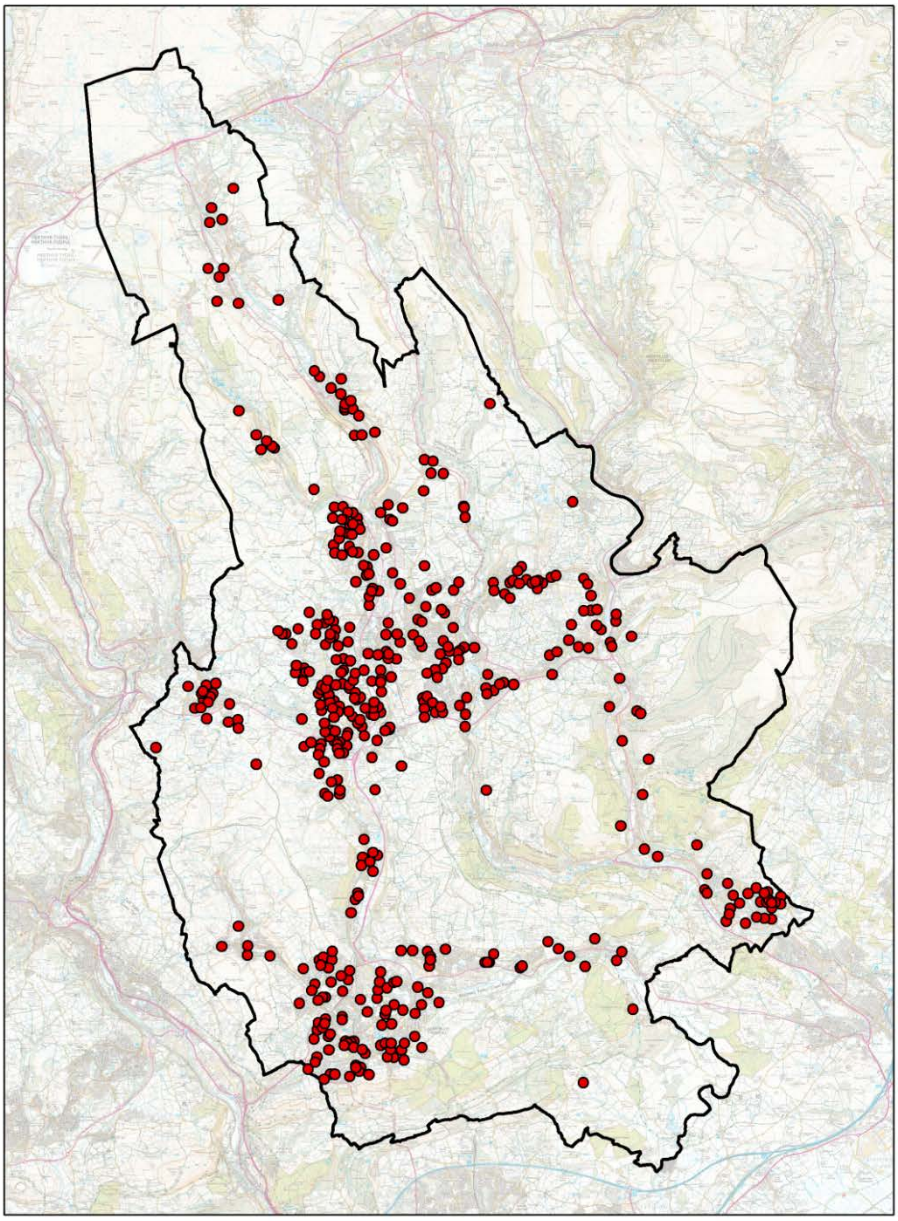
The details of these discussions are recorded outside of this report and are available on the Council's website www.caerphilly.gov.uk .

Responses

The total number of responses received to the survey was **708** (2 were completed in Welsh). 94% of respondents were residents of the county borough and as shown in **Map 1**, there was a good geographical distribution from across the area. 43% of respondents were male whilst 22% indicated that they have a disability. A full respondent profile can be found in **Annex 3.** A digest of comments received via the survey can be found in **Annex 4**.

Map 1: Postcode distribution of survey respondents (n=559)

MTFP 2019-20 Survey Responses by Postcode



A further 19 responses were received from residents via e-mail, letter and the Council's website. In addition, written responses were received from the following elected representatives/groups/organisations:

- Agape Church
- Barnardo's, Bargoed (re Phillipstown Community Centre)
- Bedwas, Trethomas and Machen Ward Labour Party
- Cllr K Etheridge
- Cllr R Gough
- Future Generations Commissioner

- Gelligaer Community Centre
- Gelligaer Community Council
- Gerald Jones MP
- Hefin David AM
- Llanbradach and Pwll-y-pant Community Council
- Nelson Community Council
- Pen-y-bryn Community Centre
- Rhymney Community Council
- Tir y Berth Village Hall Management Committee
- Voluntary Sector Liaison Committee (meeting on 5th December 2018)
- Stakeholder responses relating to subsidised bus services (extended period)

The full digest of the responses received is included in **Annex 5**.

A transcript of the Viewpoint Panel meeting discussion can be found in **Annex 6**.

A selection of social media response is included in **Annex 7**.

Responses received after the closing date have not been included in the analysis.

Petitions

A number of petitions have been received and will be presented and considered alongside the consultation findings:

1. Pen y Bryn Community Centre – Petition against CCBC proposed cut backs regarding payment of Caretaker wages.
2. Gelligaer Community Council – Petition in relation to the proposed cessation of the Community Safety Warden Service through the Borough in the CCBC Budget Consultation
3. Gelligaer Community Council – Petition in relation to the proposed closure of Penallta Civic Amenity Site CCBC Budget Consultation 2019/20
4. Cllr Lyndon Binding – Petition against the removal of funding for the Children's Splash Park
5. Cllr Eluned Stenner - Petition against the closure of Phillipstown Community Centre

Key Findings and Themes

A large number of comments received made reference to the ongoing investigation relating to senior officer pay. These comments have been noted and are included in the appendices to this report but do not fall within the remit of the consultation. A number of other issues were raised that fall outside control of the Council, namely:

- The number of Councillors and Councillor pay/expenses
- Prescription charges, free bus passes and Welsh language provision
- Town centre flowers and stand-alone firework displays

Key themes emerging from the survey were reflected in responses from other sources and as such, the key themes highlighted below reflect all consultation responses and not just those from the survey.

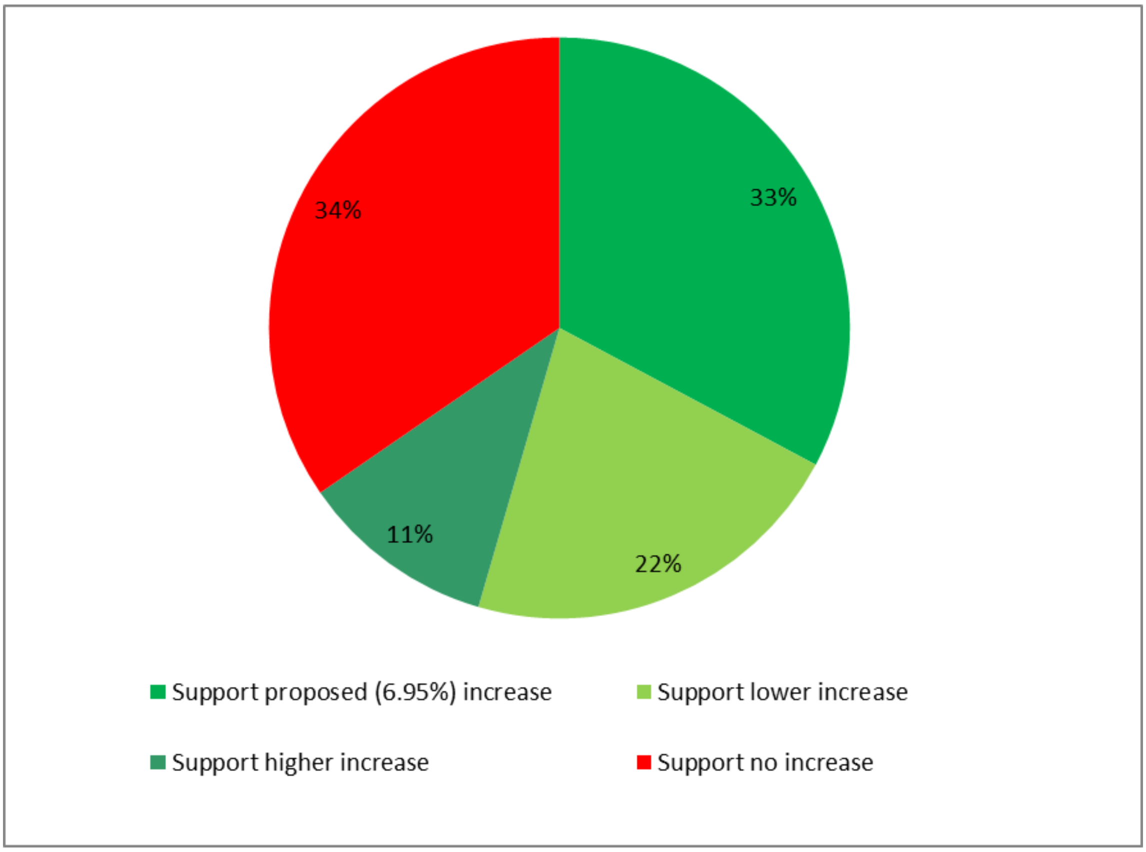
Council Tax Increase

In relation to the proposed increase in Council Tax, survey respondents were asked to choose from 4 options:

1. I support the proposed increase in Council tax (6.95%) which would mean an increase of £1.41 per week for a Band D property
2. I support a lower increase in Council Tax. (Every 1% reduction from the proposed 6.95% would mean having to find a further £496k of savings)
3. I support a greater increase in Council Tax. (Every 1% increase above the proposed 6.95% would means having to find £496k less savings)
4. I do not support an increase in Council Tax and understand that this would mean having to find further savings to balance the budget.

As highlighted in **Graph 1**, 34% of those who responded to the question were in favour of no increase in Council Tax. A similar proportion (33%) supported the proposed rise in Council Tax of 6.95%, whilst 11% indicated that they would be prepared to support an even greater increase.

Graph 1: Preference for Council Tax Increase (n= 668)



An analysis of the text responses highlighted some reasons behind preferences for the proposed Council Tax increases given. For those who did not support any increase in Council Tax, a key factor was the unfairness of a “pay more, get less” scenario where, despite an increase in Council Tax, fewer services can be provided. A number also made reference to the need to save money in other ways (increased efficiency and less waste, a reduction in senior management salaries).

Of those in support of an increase in Council Tax, some indicated that they did so reluctantly whilst others indicated that they understood the necessity for such increases. A key reason for supporting an increase was to help ensure that key services to support the most vulnerable in the community could be maintained.

Views on the savings proposals

Whilst some respondents felt that the proposals were balanced, there was strong disagreement with a number of key areas within the savings proposals:

- Provision of Meals Direct Service to Section 117 clients only (High Impact).

With little exception, there were strong feelings that this service should be retained and that the removal of this service would impact on a vulnerable sector of the community. It was felt by many that no appropriate alternative is available and that the service provides more than simply a hot meal to clients.

- Waste Management – Closure of 2 Civic Amenity sites at Penallta and Aberbargoed (Medium Impact).

Particular concerns were raised about the impact on the cleanliness of local area and specifically to the impact on illegal fly tipping. The choice of the proposed sites, particularly the site at Penallta was questioned as these sites considered to be well located and well used by those residents who responded to the survey.

- Community Centres – reduction in all Caretaker support across all Centres from October 2019 (High Impact)

Whilst a number of respondents disagreed with the closure of specific Community Centres, there was more concern with the wide impact of removing funding for caretaker support across all centres. Community Centres are seen to be key in providing services to local communities and it was felt that their use should be encouraged.

Other areas of concern that were raised by a number of respondents were:

- Cessation of the Community Safety Warden Service – Removal of the Service (High)

There were some mixed views on the provision of community safety wardens. Whilst some strongly supported retaining these roles and were concerned about the impact on the safety of local community, a number felt that community safety should be the responsibility of the Police Service or indicated that they had never seen a Community Safety Warden in their area.

- Highways Maintenance – various budgets

Comments related to the possible increase in damage to vehicles and increased costs that could result from a poorly maintained road network in the longer term.

- Waste Management

Many felt that reduced levels of cleansing have already led to a decline in town centres and local communities and that this should not be reduced further. Introduction of rat treatment fees was not welcomed as it was felt this would discourage use of the service, exacerbate the problem and not bring in a large income.

- Closure of all 5 Public Conveniences – Closure in all towns (High)

Comments related to the need to maintain provision in town centres and at transport hubs as it was felt those who need them most would be discouraged from visiting local town centres. Alternative means of provision (e.g. using private businesses) was mentioned by a few respondents as was the need to consider this proposal in light of the Local Toilet Strategy.

- Social Services

A number of comments made reference to the need to protect the most vulnerable in society and felt that cuts to services within Social Services would have a big impact on certain sectors in our communities.

- In relation to cuts to the Voluntary Sector

Care should be taken to ensure that introducing alternative ways of providing services does not impact on the quality and level of service received. A number of comments suggested that there is a need to increase the use of voluntary sector providers to plug the gaps in services that can no longer be provided by the Council.

- Events

There were mixed views relating to events. Whilst some felt they encourage tourism, others felt them to be a poor use of resources.

- Transport

It was felt by some that removing bus routes and increasing charges for use of public transport could be counter productive at a time when residents are being encouraged to move away from using cars.

- Schools and Education

A reduction in funding for schools and education was considered, by a number of people, to be detrimental on young people and it was felt that these proposed cuts would have longer term implications for the community.

- Libraries

Libraries are considered by some to be a key service and full use should be made of library buildings, whilst others felt that some library services could be charged for and smaller branches could be shut.

Reduce Impact

Groups considered to be impacted more by the proposals were older people, younger people and those with disabilities. The cumulative impact of savings on these vulnerable sectors of the community was noted by a number of respondents.

It was also noted by some respondents that those in work but on low incomes may be disproportionately disadvantaged and that the cumulative impact would be felt by some geographical communities more than others.

Suggestions for reducing the impact of savings included suggestions to simply not remove some services at all, with particular reference to those services highlighted in the previous section, and finding ways of saving money elsewhere through improved efficiency and less waste.

A number of comments made reference to short term savings having wider and longer term impact on other services, which could in turn result in additional financial burden on the Council and impact on other services such as the health service and Police. For example, it was felt that the removal of the Meals Direct service could have implications for carers, other social services provision and the health service. Closure of Civic Amenity sites could have implications for fly tipping and increased pressure on cleansing services.

Looking forward to 2020 and beyond

Looking forward to 2020 and beyond, suggestions were sought for areas of spending that could be reduced, removed completely or that could be charged for.

Reduce spending on/Remove spending completely

There was a wide range of responses in relation to how the Council could reduce spending or suggestions for areas that spending could be completely removed with some suggesting that all non-essential services should be cut whilst others indicating that no services should be cut.

There were many comments relating to reducing waste and inefficiency – e.g. reducing corporate spending on catering, vehicles. A number suggested a review of management structures and looking and the costs associated with staffing.

Buildings – a number suggested that Council buildings should be rationalised to save money and that those buildings that remain are utilised fully and could be used as a source of income through hire and rental.

Charge for

Many of the comments under this section related to the generation of income through increased enforcement and penalty charges for litter, dog fouling, fly tipping and illegal car parking.

Where not already noted above, other areas that respondents felt could be charged for include:

- Staff meals
- Public Toilets
- Meals Direct
- Bulky Waste/Garden Waste (mixed views)

A greater increase in Council Tax was felt appropriate by some - rather than the introduction of numerous small charges elsewhere.

Gadewir y dudalen hon yn wag yn fwriadol

SPECIAL COUNCIL – 21ST FEBRUARY 2019

SUBJECT: **TREASURY MANAGEMENT ANNUAL STRATEGY, CAPITAL FINANCE PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY FOR 2019/2020**

REPORT BY: **CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES**

1.1 The attached report, which detailed the Council's Annual Strategy for Treasury Management, Capital Finance Prudential Indicators and the Minimum Revenue Provision Policy for 2019/2020, was considered by the Policy and Resources Scrutiny Committee on 15th January 2019. Members were asked to consider and comment on the report contents ahead of its presentation to the special meeting of Council on 21st February 2019.

1.2 In accordance with legislative requirements, Welsh Government guidance and Codes of Practice, the Council is required to approve a Treasury Management Strategy on an annual basis, which sets out its borrowing and investment strategies for the forthcoming year. The Council is also obliged to approve and publish a number of indicators relevant to Capital Finance and Treasury Management, and to prepare an Annual Minimum Revenue Provision Policy Statement. Further details were contained in the report and its appendices, and Members were asked to note a number of changes to the Council's borrowing and investment approach moving forward, including a move away from investment in DMOs due to the low interest rate.

1.3 The Scrutiny Committee discussed the proposed level of borrowing set out in the report (comprising £27.4m for the General Fund to support the 2019/20 capital programme and £44.2m for the HRA WHQS programme). Officers outlined how the Authority maximises internal borrowing wherever they can and advised the Committee that £14.29m of borrowing for the General Fund will be deferred into 2020/21 in order to generate a one off MTFP saving of £500k in 2019/20. Discussion also took place regarding the investment risks associated with seeking a higher rate of interest and Officers outlined how these can be mitigated and kept to a minimum.

1.4 Following consideration of the report and in noting the contents of the Strategy, the Policy and Resources Scrutiny Committee unanimously recommended to Council that:-

(i) the Annual Strategy for Treasury Management 2019/20 be approved;

(ii) the strategy be reviewed quarterly within the Treasury Management monitoring reports presented to the Policy and Resources Scrutiny Committee, and any changes recommended be referred to Cabinet, in the first instance, and to Council for a decision. The Authority will also prepare a half-yearly report on Treasury Management activities;

(iii) the setting of Prudential Indicators for Treasury Management for the financial years 2019/20 to 2021/22 as outlined in Appendix 5 of the report be approved;

(iv) the setting of Prudential Indicators for Capital Financing for the financial years 2019/20 to 2021/22 as outlined in Appendices 6 and 7 of the report be approved;

(v) the Minimum Revenue Provision policy be set for 2019/20 as per Appendix 8 of the report;

(vi) The continuation of the 2018/19 investment strategy and the lending to financial institutions and Corporates in accordance with the minimum credit rating criteria disclosed within the report be approved;

(vii) the Authority borrows £27.4m (albeit defer £14.29m into 2020/21) for the General Fund to support the 2019/20 capital programme and £44.2m for the HRA WHQS programme;

(viii) the Authority continues to adopt the investment grade scale as a minimum credit rating criteria as a means to assess the credit worthiness of suitable counterparties when placing investments;

(ix) the Authority adopts the monetary and investment duration limits as set in out in Appendix 3 of the report.

1.5 Members are asked to consider the recommendations.

Author: R. Barrett, Committee Services Officer, Ext. 4245

Appendices:
Appendix Report to Policy and Resources Scrutiny Committee on 15th January 2019 - Agenda Item 8

POLICY AND RESOURCES SCRUTINY COMMITTEE – 15TH JANUARY 2019

SUBJECT: **TREASURY MANAGEMENT ANNUAL STRATEGY, CAPITAL FINANCE PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY FOR 2019/2020**

REPORT BY: **CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES**

1. PURPOSE OF REPORT

1.1 To submit for consideration prior to its presentation to Council the Authority's Annual Strategy for Treasury Management.

1.2 To submit for consideration prior to its presentation to Council a dataset of Prudential Indicators relevant to Treasury Management and Capital Finance. The report also cross-references to the report by the Corporate Director of Education and Corporate Services on Revenue and Capital Budgets ["the budget report"] also considered in this meeting.

1.3 To submit for consideration prior to its presentation to Council the Minimum Revenue Provision (MRP) policy to be adopted by the Authority for 2019/2020.

2. SUMMARY

2.1 The revised (2017) "Code of Practice for Treasury Management in the Public Services" provides that an Annual Strategy be submitted to Members on or before the start of a financial year to outline the activities planned within the parameters of the Treasury Management Policy Statement and the Treasury Management Practices.

2.2 The Local Government Act 2003 (the '2003 Act') also requires the Authority to set out its Treasury Management Strategy for borrowing for the forthcoming year and to prepare an Annual Investment Strategy, which sets out the policies for managing its investments, giving priority to the security and liquidity of those investments.

2.3 Under Section 15 of the '2003 Act', the Welsh Government (WG) issued guidance on local government investments which is incorporated within the report. Definitions of Local Government investments are given in Appendix 1.

2.4 Under the provisions of the Local Government Act 2003, The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 and subsequent amendments [The Capital Regulations], and the CIPFA's "The Prudential Code for Capital Finance in Local Authorities" [the Code], the Authority is obliged to approve and publish a number of indicators relevant to Capital Finance and Treasury Management.

2.5 With effect from 1st April 2008, WG introduced the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 [the "Amendment Regulations"] which requires the Authority to prepare an Annual Minimum Revenue Provision Policy Statement. This report sets out what the Authority needs to do in order to comply with this requirement.

3. LINKS TO STRATEGY

3.1 The report has links to the strategic themes of the Authority, taking into account cross-cutting issues where relevant. It has specific links to the effective and efficient application and use of resources.

3.2 Prudent financial management contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015:-

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.
- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

4. THE REPORT

4.1 The format of the report is as follows:

Section 5 will deal with Treasury Management, supported by, and cross-referenced to Appendices 1 to 5 attached.
Section 6 discloses the Authority's policy on financial derivatives.
Section 7 and 8 deal with Treasury Management Adviser and training respectively.
Section 9 will consider the Prudential Indicator requirements for Capital Finance, cross-referenced to Appendices 6 to 7 attached.
Section 10 will consider the calculation of the Minimum Revenue Provision, cross-referenced to Appendix 8 attached.
Section 11 will deal with specific treasury management issues relating to the Authority.

5. TREASURY MANAGEMENT

5.1 Interest Rate Prospects - Short-term

5.1.1 The Authority uses Arlingclose Limited as its Treasury Management Adviser and part of their service is to assist the Authority to formulate a view on interest rates.

5.1.2 The Monetary Policy Committee [MPC] increased Bank Rate in August 2018 to 0.75%. Future increases are likely to be gradual.

5.1.3 The major external influence on the Authority's treasury management strategy for 2019/20 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the outcome of the 2016 referendum, but there are indications that uncertainty over the future is now supressing growth; weakening Sterling and rising inflation as cost of imported goods become expensive. Transitional arrangements will extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2019/20.

5.1.4 Consumer price inflation reached 2.3% in November 2018 as the post-referendum devaluation of sterling continued to feed through to imports as well as higher energy prices. Whilst these are expected to subside going forward, domestic pressures are projected to build over the forecast horizon with the balance of these effects likely to keep inflation above the Bank of England's target throughout most of their forecast horizon, meaning that strong real income growth is unlikely to materialise any time soon.

5.1.5 The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to gradually increase and remain at 1.25% by the end of 2019/20. The Bank of England's MPC have agreed that any future increase would be limited and gradual. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

5.2 Interest Rate Prospects- Long-term

5.2.1 Gilt yields have remained at low levels. There is an expectation of some upward movement from current levels based current interest rate projections, the strength of the US economy and the European Central Bank's forward guidance on higher rates. However, volatility arising from both economic and political events will continue to offer borrowing opportunities.

5.2.2 The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. The forecast for a central case is for Bank Rate is to rise twice in 2019. The risks are weighted to the downside. Arlingclose forecasts are shown in ***Appendix 2***.

5.3 External Debt - Capital Borrowings and Borrowing Portfolio Strategy

5.3.1 The Authority's primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

5.3.2 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

5.3.3 The difference between current long-term borrowing rates and short-term investment rates has resulted in a "cost of carry" scenario, indicating that it is more advantageous to use internal funding in lieu of borrowing. The cost of carry is likely to remain an issue until the Bank Rate and short term market rates increase in the future. The Authority, having adopted the policy of internal borrowing from the latter half of 2008/09, has an internal borrowing position of £32m (as at 31st March 2018) from which capital expenditure has been funded. Unless the policy is prudent, the Authority will no longer adopt the policy of internal borrowing. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

5.3.4 It is anticipated that the borrowing requirement of £27.4m will need to be taken up in 2019/20 for the General Fund to support the capital programme and provision has been made in the budget to fund this level of borrowing. Much of this borrowing has been deferred from previous financial years. The HRA will borrow £44.2m in 2019/20 to fund the WHQS capital programme.

5.3.5 Therefore the total 2019/20 borrowing requirement will be £71.6m comprising of:

- 2019/20 supported borrowing approvals - £4.9m
- 2018/19 supported borrowing approvals - £4.9m
- 2017/18 supported borrowing approvals - £5.0m
- 2016/17 supported borrowing approvals - £5.0m
- 21st Century Schools LGBI- £4.2m
- 21st Century Schools prudential borrowing - £3.4m
- HRA WHQS- £44.2m

The LGBI borrowing is funded by WG contributions to support the 21st Century Schools capital programme. The borrowing approvals relate to previous financial years whereby the borrowing had been deferred and subsequently these are now being rolled forward until the Authority raises such loans. Capital expenditure in the relevant financial year that would have been funded by the borrowing approvals was subsequently funded from internal borrowing. Retrospectively borrowing these approvals will replenish the internal borrowing.

5.3.6 Whilst PWLB interest rates have been included in Appendix 2, it is possible that loans may be taken from other sources if interest rates are more advantageous. It is suggested that the target rate for new borrowing be set at 4.50% for a 25 year period loan. However, other periods will be considered if the rates are advantageous.

5.3.7 Current PWLB forecasts suggest interest rates will remain volatile during 2019/20 and will be influenced by geopolitical tensions; global economic prospects and the outcome of the Brexit negotiations. The use of internal borrowing to fund the 2019/20 capital programme or the decision to defer borrowing as set out in paragraph 5.3.4 could expose the Authority to rising interest rates thus making it expensive to borrow at a later date. A budget to cover the cost of raising £27.4m new debt finance will remain in place irrespective of the decision to borrow internally or externally.

5.3.8 Any short-term funding would need to be in line with the ‘Upper Limit for Variable Rates’ as defined in the prudential indicators in Appendix 5 (30% of Net Debt Outstanding) within the CIPFA “Prudential Code for Capital Expenditure in Local Government”.

5.3.9 Officers, in conjunction with the Treasury Management Adviser, will continue to monitor both the prevailing rates and the market forecasts, responding to changes when necessary. The following borrowing sources will be considered by the Authority to fund short-term and long-term borrowing (and in no particular order):

- Internal reserves
- Public Works Loan Board (PWLB) {or its successor}
- Local Authorities
- European Investment Bank (NB the EIB will only lend up to 50% towards the funding of a specific project and needs to meet the EIB’s specific criteria. The project cost must also be at least €10m)
- Leasing
- Capital market bond investors
- Other commercial and not for profit sources
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- UK Municipal Bonds Agency and other special purpose companies created to enable local authority bond issues
- Any counterparty approved for investments

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

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

5.3.11 The Authority may borrow short-term loans (up to twelve months) to cover unexpected cashflow shortages.

5.3.12 The Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period as well as mitigate against the risk of rising borrowing interest rates.

5.3.13 **LGA Bond Agency:** The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet.

5.3.14 **MTFP Saving:** In October 2018, Welsh Government announced its provisional budget settlement, which broke down how much money will go into public services across Wales. Under the settlement, Caerphilly County Borough Council faces a funding reduction of 0.3%. This, coupled with inescapable pressures that the Authority has to fund, means that Caerphilly Council has to find savings in 2019/20 totalling almost £14.7m. In order to support this shortfall, the Authority will make a one off budgetary saving of £500k from its debt management budget in 2019/20. The impact of this budgetary saving means that £14.29m of new debt that is planned for 2019/20 will need to be deferred to 2020/21. As per paragraph 5.3.4 a total of £27.4m is planned for 2019/20 for the General Fund. Deferring £14.29m would mean a take up of new debt of £13.11m to fund the capital programme and replenish internal borrowing. The MTFP assumes that new debt will be raised at 3.50%.

5.4 Authorised Limit for External Debt (The Authorised Limit)

5.4.1 As a consequence of 5.3.1 to 5.3.14 above**,** the Authorised Limit will be the upper limit of the Authority's borrowing, based on a realistic assessment of risks. It will be established at a level that will allow the Authority to borrow sums, in excess of those needed for normal capital expenditure purposes in the event that an exceptional situation arises and would allow for take-up of supported borrowing. It is not a limit that the Authority would expect to borrow up to on a regular basis.

5.4.2 The limit will include borrowing and other long-term liabilities such as finance leases, private finance schemes and deferred purchase schemes.

5.5 The Operational Boundary

5.5.1 This is based on the maximum level of external debt anticipated to be outstanding at any time in each year. It will be consistent with the assumptions made in calculating the borrowing requirements of the capital programme, but will also include an estimate of any borrowing for short term purposes, such as temporary shortfalls in incomes or to support active treasury management which would seek to take advantage of beneficial interest rate movements. It also allows for other long-term liabilities such as finance leases, private finance schemes and deferred purchase schemes.

5.5.2 The Operational Boundary should be set at a level which allows some flexibility but should be sufficiently below the Authorised Limit so that any breach of the operational boundary provides an early warning indicator of a potential breach of the Authorised Limit, allowing corrective action to be taken.

5.6 Interest Rate Exposure

5.6.1 The Authority's borrowing policy makes use of both fixed and variable rate opportunities. Whilst fixed-rate borrowing and investment provides certainty with regard to future interest rate fluctuations, the flexibility gained by the use of variable interest rate instruments can aid performance. It allows the Treasury Manager to respond more quickly to changes in the market and to short term fluctuations in cash flow without incurring the penalties that would result from the recall of fixed rate investments.

5.7 Maturity Structure of Borrowing

5.7.1 Whilst the periods of loans are dictated by the interest rates prevalent at the time, it is important to be mindful of the maturity profile of outstanding debt. Large 'peaks' are to be avoided, as it is possible for substantial loans to reach maturity at times when prevailing interest rates are high, and conversely, when interest rates are low, windows of opportunity may be lost.

5.7.2 As a result, it is necessary to determine both an upper and lower limit for borrowings which will mature in any one year.

5.7.3 Over the course of the medium term financial plan and future years, a number of high interest rate PWLB loans will mature resulting in a saving to the Authority as the interest rate on replacement loans are likely to be lower in comparison.

5.7.4 Historically, the Authority has favoured PWLB loans with a twenty five year loan maturity profile, but in the current climate of low interest rates (including Bank Rate); the Authority will also consider shorter dated loans (including local authority borrowing) to fund capital expenditure. Periods in excess of 25 years should also be considered in the event interest rates become advantageous.

5.7.5 The Authority has £30m of LOBO loans (Lender's Option Borrower's option) of which £20m of these can be "called" within 2019/20. A LOBO is called at its contract review date when the Lender is able to amend the interest rate on the loan at which point the Borrower can accept the new terms or reject and repay the loan. Any LOBOs called will be discussed with the Treasury Management Adviser prior to acceptance of any revised terms. Depending on the advice received, the Authority will consider, in the event of a repayment, the use of its cash investments balances or raising new debt to repay the loan.

5.8 Gross Debt and the Capital Financing Requirement

5.8.1 A further requirement of the revised Prudential Code is to ensure that over the medium term debt will only be for a capital purpose, the Authority will ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

5.9 Debt Rescheduling

5.9.1 Due to the difference in the rates, it is unlikely that there will be many viable opportunities to reschedule loans (General Fund and the HRA) in the foreseeable future. However, should any such opportunities arise; any decision on debt rescheduling will be supported by the appropriate report detailing the options and potential savings from the Authority's Treasury Management Adviser.

5.10 Policy on Borrowing In advance of Need

5.10.1 Whilst the Authority is able to borrow in advance of need, it is a requirement of the Code that any instance of pre-funding must be supported by a clear business case setting out the reasons for such activity.

5.11 Annual Investment Strategy

5.11.1 The CIPFA Code and the Welsh Government Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

5.11.2 **Current strategy (2018/19)** - At present the Authority lends to financial institutions, corporates and the UK Government using a range of financial instruments to diversify risk. These include unsecured corporate bonds; covered bonds (secured); fixed term deposits; certificate of deposits (CDs); T-Bills; the DMADF (DMO) money market funds and call accounts.

5.11.3 The 2019/20 Investment Strategy will continue with the lending approach as set out in the 2018/19 Strategy. Considerations will be given to pooled investments (property funds) and non-treasury investments for the purpose of enhancing returns.

5.11.4 This Strategy (2019/20), in line with the Welsh Government guidance, sets out the Authority's policies for (and in order of priority) the security, liquidity and yield of its investments. It will have regard to credit ratings and determine the periods for which funds may be prudently invested, whilst aiming to achieve, or better a target rate for investments of **0.50% (the DMO rate).** Creditworthiness approach, investment periods and the rationale for the target rate are explained in ***Appendix 3.*** The Authority's objective when investing cash is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.11.5 The strategy sets out which investments the Authority may use for the prudent management of its balances during the financial year within the areas of 'specified' and 'non-specified' investments, and provides the appropriate authorisation for the in-house investment team to manage such investments. These are listed in ***Appendix 4.***

5.11.6 The Authority will continue to diversify into more secure and/or higher yielding asset classes during 2019/20 in order to mitigate the risk stemming from regulations associated with Bank Bail-In. Short-term cash that is required for liquidity management will be deposited with local authorities (secured), Government securities (secured), money market funds (unsecured) and bank and building society investments (unsecured). Up to £50m will be made available for long-term investments.

5.11.7 In view of the ongoing volatility in the economy, and bank bail in risk, it is recommended that investments (both new and maturing) be placed with the most secure institutions as well as the most secure instruments (subject to liquidity requirements) as detailed in ***Appendix 3***. Currently this would be AAA rated covered bonds, the Government (Debt Management Account Facility and Treasury Bills and Gilts), other Local Authorities and Public Bodies, such as Police and Fire Authorities, Repos, Registered Landlords, AAA Money Market Funds, and highly credit rated banks (subject to the creditworthiness limits referred to in the appendix 3). In light of Statutory and regulatory changes adopted by the Bank of England and Regulators with respect to Bail-In, it is recommended that the Authority moves away from unsecured lending (where possible and subject to liquidity requirements) to secured investments.

5.11.8 With respect to Repo agreements, Repo/Reverse Repo is accepted as a form of securitised lending and should be based on the GMRA 2000 (Global Master Repo Agreement). Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral can be anyone or combination of the following securities:

- Index linked Gilts
- Conventional Gilts
- UK Treasury bills
- DBV (Delivery By Value)
- Corporate bonds

5.11.9 The Welsh Government maintains that the borrowing of monies for the purposes of investing or on-lending to benefit from differences in interest rates is unlawful. This Authority will not engage in such activity.

5.11.10 Under the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2004 regulation 12(b), the acquisition of share or loan capital in any body corporate would not be defined as capital expenditure as long as it is an investment for the purposes of the prudent management of the Authority's financial affairs. Due to the high risk of capital loss involved with such instruments, this Authority will not engage in such activity.

5.11.11 A loan or grant to another body for capital expenditure by that body is also deemed by the 2003 Regulations to be capital expenditure by the Authority. This Authority will only engage in such activity with the approval of Council.

5.11.12 In the event that any existing investment appears to be at risk of loss, the Authority will make proper revenue provision of an appropriate amount in accordance with the relevant Accounting Regulations.

5.11.13 At the end of the financial year, the Authority will prepare a report on its investment activity as part of its Annual Treasury Management Strategy Report. This report will be supported throughout the year by quarterly monitoring reports to the Policy & Resources Scrutiny Committee (the responsible body for scrutiny of Treasury Management activities as required by the Code), which will include a review of the current strategy. A report to Council will also be prepared on a half-yearly basis.

5.11.14 It is a fundamental requirement of the Code that officers engaged in Treasury Management follow all Treasury Management policies and procedures and all activities must comply with the Annual Strategy.

5.11.15 The Welsh Government has reservations with regard to borrowing in advance of need on the grounds that more money than is strictly necessary is likely to be put at risk in the investment market. As a result Officers must report any investment made as a result of borrowing in advance and must set out the maximum period for which the funds can be prudently committed. In the event that this Authority decides to take up such borrowing, it is suggested that any deposit made with these funds be limited to a maturity period of up to twelve months and pro-rata to coincide with the profiling of capital expenditure.

6. POLICY ON USE OF FINANCIAL DERIVATIVES

6.1 The Localism Act 2011 includes a general power of competence that removes the uncertain legal position over English local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). Although this change does not apply to Wales, the latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the Annual Treasury Management Strategy.

6.2 In the absence of any legislative power, the Authority's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures and options. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall risk management strategy.

7. NON-TREASURY INVESTMENTS

7.1 Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the WG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes. Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

8. TREASURY MANAGEMENT ADVISER

8.1 The Authority has appointed Arlingclose Limited as its external Treasury Management Adviser and receives a number of services including specific advice on investment, debt and capital finance issues; counterparty advice; economic forecasts and commentary; workshops, training and seminar events; and technical advice (including accountancy).

9. TREASURY MANAGEMENT TRAINING

9.1 The revised CIPFA Code, adopted by the Authority in January 2012, requires that Local Authorities must ensure that all staff and those Members with responsibility for Treasury Management receive the appropriate training. To this end the following will be observed:

- The contract for Treasury Consultancy Services includes requirements for Member and Officer training to be provided during any year.
- Officers will attend any courses/seminars that are appropriate especially where new regulations are to be discussed.
- Officers will update Members during the financial year by way of seminars/workshops/reports.
- Officers will utilise on line access to the CIPFA Treasury Forum and the CIPFA Technical Information Service.
- Relevant staff is encouraged to study professional qualifications from CIPFA; the Association of Corporate Treasurers; and other relevant organisations.

9.2 Officers will look to schedule Member training for autumn 2019. Further training will be undertaken as and when required.

10. PRUDENTIAL INDICATORS

10.1 Capital Financing Requirement

10.1.1 The Capital Financing Requirement (CFR) measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the authority does not associate borrowing with particular items or types of expenditure. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years.

10.1.2 The capital financing requirement is below the authorised borrowing limits in order to allow scope for short-term cash flow borrowing and provision for unforeseen contingencies.

10.1.3 The estimated values of Capital Financing Requirement for the period under review are shown in *Appendix 6* attached.

10.2 Prudential Indicators – "Prudence"

10.2.1 The proposed Prudential Indicators for Treasury Management Strategy are detailed in *Appendix 5*.

10.3 Prudential Indicators – "Affordability" [*Appendices 6 and 7*]

10.3.1 There is a requirement to analyse and report the capital financing costs, and express those costs as a percentage of the net revenue streams of the Authority.

10.3.2 The estimate of the incremental effect on council tax and housing rents for 2019/20 as a consequence of the proposed capital investment is shown in ***Appendix 6***. It should be noted that this is a notional, not an actual, figure.

10.3.3 The General Fund future revenue streams are based upon the content of "the Budget Report".

10.3.4 Future revenue streams for Housing Revenue Account (H.R.A.) have been projected on the basis of 3% inflation (1.5% inflation and 1.5% growth) applied to the rental income (using 2018/19 as a base), less an adjustment for estimated reduction in housing stock as a result of the "Right to Buy" sales.

10.4 Capital Expenditure and Funding

10.4.1 The summary Capital Expenditure and funding, as shown in ***Appendix 7*** of this report has been considered in "the Budget Report". The capital expenditure and funding detailed in Appendix 7 is subject to further change in the final report that will be presented to Full Council in light of General Fund working balances being made available to support the core capital programme.

10.4.2 The Revenue Support Grant (RSG) provided by the Welsh Government (WG) includes an element to off-set the costs of borrowing funds for capital purposes. WG has announced supported borrowings of £4.92m in respect of the 2019/20 financial year, together with General Capital Grant funding of £4.66m.

10.4.3 For calculation purposes, it has been assumed that those two elements of funding support will remain static for 2020/21 and for 2021/22. HRA provisional values for the years 2019-2022 are based on the 2019/20 allocation of the Major Repairs Allowance of £7.35m and assumed to continue at this level for future years.

11. MINIMUM REVENUE PROVISION (MRP)

11.1 In accordance with the Amendment Regulations, rather than applying a defined formula, the Authority is now only required to apply a charge that is 'prudent'. A "prudent" period of time for debt repayment is defined as one which reflects the period over which the associated capital expenditure provides benefits.

11.2 The Amendment Regulations also introduced an additional reporting requirement. Authorities are now required to submit to full Council, for approval, an Annual MRP Statement, setting out the policy to be adopted for the year following.

11.3 The Authority will continue to apply the revised MRP policy that was agreed by Members on 24th January 2017. MRP on supported borrowings will be charged at 2% over 50 years. MRP on unsupported borrowings will be charged at the PWLB annuity loan rate equivalent to the life of the asset. The MRP policy is detailed in Appendix 8.

12. OTHER LOCAL ISSUES

12.1 The Authority's Banker

12.1.1 The Authority will ensure that its day-to-day banking activity is undertaken with an investment grade bank. If the Authority's Bank is downgraded during the contract period (as specified under the Banking Services Contract) to non-investment grade, reasonable measures will need to be undertaken to mitigate the risk associated with further downgrades, and the risk of losing funds if the Bank was to default.

12.1.2 Reasonable measures will need to include (and not limited to) keeping balances to a minimum; hourly review of bank balances for the Group Accounts and subsequently transferring surplus balances to a Call Account; re-routing material income (maturing investments, grants) to a bank account held outside of the existing bank arrangement; and consideration of contingency banking arrangements with another bank should the risk be severe to the Authority's operational requirements. Cabinet will be kept informed if such risks arise.

12.2 Policy on Apportioning Interest to the HRA

12.2.1 On 1st April 2015 the HRA exited the subsidy mechanism by way of the HRA buyout process. As a result, the Authority will operate a single consolidated pool of debt that will hold all debt (new and old loans), and annually recharge the HRA the interest payable on all loans using the average rate of interest as a recharge rate.

12.3 Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

12.4 IFRS 9 Classification

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

13. WELL-BEING OF FUTURE GENERATIONS

13.1 The establishment of treasury management strategy is a key element of effective financial management and risk management of the Authority's cash balances, investments and the timely service of debt, which assists the achievement of the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015.

14. EQUALITIES IMPLICATIONS

14.1 An Equality Impact Assessment has been undertaken with respect to 2019/20 borrowing requirement. A one off budgetary saving of £500k will be generated from the debt management budget by way of deferring 2019/20 borrowing requirement to 2020/21 financial year. The budget is held by Corporate Finance and used to service new planned debt. New debt is raised to finance capital schemes. There will be no impact on service users or the capital programme.

15. FINANCIAL IMPLICATIONS

15.1 The Treasury Management Strategy for 2019/20 as outlined in this report, if approved by Members, is likely to generate estimated interest of £800k and this has been reflected in the budget report for 2019/20. Although the Authority has a new borrowing requirement of £27.60m in 2019/20 to fund the capital programme and replenish internal borrowing, £14.29m will be deferred into 2020/21 in order to generate a one off MTFP saving of £500k in 2019/20.

16. PERSONNEL IMPLICATIONS

16.1 There are no personnel implications.

17. CONSULTATION

17.1 No external consultation is required for the purposes of the report. However, advice has been sought from the Authority's current Treasury Management Adviser.

18. RECOMMENDATIONS

18.1 It is recommended that the Treasury Management Strategy report is considered and noted by the Policy and Resources Scrutiny Committee prior to Council approval. The key point's arising from the report is as follows:

18.1.2 The Scrutiny Committee are asked to recommend to Council that the strategy is reviewed quarterly within the Treasury Management monitoring reports presented to Policy & Resources Scrutiny Committee and any changes recommended be referred to Cabinet, in the first instance, and to Council for a decision. The Authority will also prepare a half-yearly report on Treasury Management activities.

18.1.3 The Scrutiny Committee are asked to recommend to Council that the setting of Prudential Indicators for Treasury Management for the financial years 2019/20 to 2021/22 as per Appendix 5 be approved.

18.1.4 The Scrutiny Committee are asked to recommend to Council that the setting of Prudential Indicators for Capital Financing for the financial years 2019/20 to 2021/22 as per Appendix 6 & 7 be approved.

18.1.5 The Scrutiny Committee are asked to recommend to Council that the MRP policy be set for 2019/20 as set out in Appendix 8.

18.1.6 The Scrutiny Committee are asked to recommend to Council that the continuation of the 2018/19 investment strategy and the lending to financial institutions and Corporates in accordance with the minimum credit rating criteria disclosed within this report.

18.1.7 The Scrutiny Committee are asked to recommend to Council that the Authority borrows £27.4m (albeit defer £14.29m into 2020/21) for the General Fund to support the 2019/20 capital programme and £44.2m for the HRA WHQS programme.

18.1.8 The Scrutiny Committee are asked to recommend to Council that the Authority continues to adopt the investment grade scale as a minimum credit rating criteria as a means to assess the credit worthiness of suitable counterparties when placing investments.

18.1.9 The Scrutiny Committee are asked to recommend to Council that the Authority adopts the monetary and investment duration limits as set in Appendix 3 of the report.

19. REASONS FOR THE RECOMMENDATIONS

19.1 The Annual Strategy report is a requirement of the CIPFA “Code of Practice for Treasury Management in the Public Services”.

19.2 The Investment Strategy is a requirement of the Local Government Act 2003.

19.3 To comply with the legislative framework and requirements as indicated in paragraphs 2.1 to 2.5.

20. STATUTORY POWER

20.1 Local Government Act 1972.

Author:	Nadeem Akhtar – Group Accountant –Treasury Management & Capital
Consultees:	Christina Harrhy - Interim Chief Executive Richard Edmunds – Corporate Director for Education & Corporate Services Nicole Scammell - Head of Corporate Finance & S151 Officer Stephen Harris – Interim Head of Business Improvement Services & Deputy S151 Officer Andrew Southcombe – Finance Manager, Corporate Finance Robert Tranter - Head of Legal Services & monitoring Officer Cllr Barbara Jones - Deputy Leader & Cabinet Member for Finance, Performance and Governance

Appendices:

Appendix 1	Local Government Investments – Definitions
Appendix 2	Interest Rates – Forecasts/Indicative
Appendix 3	Credit Policy, Investment Ratings, Periods and Targets
Appendix 4	Investments to be used and “in house” authorisations
Appendix 5	Treasury Management Strategy Indicators
Appendix 6	Prudential Indicators – Capital Finance
Appendix 7	Capital Expenditure and Funding
Appendix 8	MRP Policy

Local Government Treasury Management Definitions

- **Investment**

  In the context of a local authority cash deposit, an investment is a monetary asset deposited with a credible institution with the objective of providing income in the future. This is a transaction which relies upon the power in section 12 of the 2003 Act and is recorded in the balance sheet under the heading of investments within current assets or long-term investments.

- **Long-term Investment**

  This is any investment other than one which is contractually committed to be paid within 12 months of the date on which the investment was made.

- **Credit Rating Agency**

  An independent company that provides investors with assessments of an investment's risk and the three most prominent are.

  Standard and Poor's (S & P)
  Moody's Investors Service Limited (Moody's)
  Fitch Ratings Limited (Fitch)

- **Specified Investment**

  An investment is a specified investment if it satisfies the following conditions:

1. The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.

2. The investment is not a long-term investment (as defined above).

3. The investment is not considered to be capital expenditure.

4. One or both of the following conditions is both:

   - The investment is made with the UK Government or a local authority (as defined in section 23 of the 2003 Act) or local authorities in Scotland and Northern Ireland or a parish or community council.

   - The investment is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency

5. The principal sum to be repaid at maturity is the same as the initial sum invested other than investments in the UK Government.

- **Non-specified Investments**

  These are investments, which do not meet the conditions of specified investments.

Appendix 2 Interest Rate Forecasts

Bank Rate (Forecasts as at December 2018 and subject to change)

	Arlingclose (Central case)
2019/20 Q1	1.00%
Q2	1.00%
Q3	1.25%
Q4	1.25%
2020/21	1.25%
2021/22	1.25%

PWLB (Forecasts as at December 2018 and subject to change- Source Arlingclose (Central case)

	Q1 – 2019/20	**Q2 – 2019/20**	**Q3 – 2019/20**	**Q4 – 2019/20**
5 Year	1.35%	1.35%	1.50%	1.40%
10 Year	1.70%	1.80%	1.80%	1.75%
25 year	2.20%	2.20%	2.20%	2.20%
50 Year	2.00%	2.00%	2.00%	2.00%

For budget setting and financial planning, the following rates have been assumed.

Budget Period	**Investment Returns**	**Borrowing Rates (PWLB 50 Years)**
2019/20	1.00%	3.50%
2020/21	1.20%	4.50%
2021/22	1.40%	4.50%
2022/23	1.40%	5.00%
2023/24	1.50%	5.00%

Appendix 3 Credit Risk Policy

Bank Bail-In

Bail-in legislation has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. The impact of the structural change on the banks credit rating was minimal. Bail-In proposals, an approach where retail customers of a failing bank are protected under compensation schemes (up to a threshold) and losses are covered by investor's equity capital in the first instance, followed by junior debt and then senior unsecured debt and deposits.

A bail-in is likely, although not certain, to happen over the course of a weekend, with much of the preparatory work having been undertaken in advance as the bank continues to fail regulatory conditions. The announcement of a bail-in, including which creditors will be affected, will normally be made by the Bank of England on a Sunday evening before the Asian markets open. Apart from the affected creditors, the bank will open for business as normal on the Monday morning. Where a banking group comprises several UK bank companies, it is likely that all group banks will be bailed-in together. Separately capitalized subsidiaries in other countries might not be bailed-in; that will be a matter for the local regulator. Before a bail-in, the bank's ordinary shareholders will have their shares expropriated and they will therefore no longer be the bank's owners. Building societies, which are mutually owned by their customers, will be converted to banks before bail-in. Hybrid capital instruments that convert to equity in certain circumstances will also be converted. Creditors will then be bailed-in in this order:

- junior or subordinated bonds, in order of increasing seniority;
- senior unsecured bonds issued by the non-operating holding company (if any);
- senior unsecured bonds issued by the operating bank companies;
- **Unsecured deposits (money market funds, call accounts and fixed-term deposits with banks and building societies) and certificates of deposit (except interbank deposits of less than seven days original maturity); and**
- **Insured deposits that are larger than the FSCS £85,000 coverage limit.**

Subject to cashflow liquidity requirements, the Authority will manage bail-in risk by way of investing surplus cash in instruments that are considered to be exempt from bail-in and include (and in no particular order) the Government, Corporate bonds, Registered Providers (Housing Associations) and secured bank instruments (Repos, Covered Bonds and other collaterised instruments). These instruments are considered to have a medium to long-term investment horizon, and therefore it is likely that the Authority will hold investment instruments with financial institutions that will not be exempt from the bank bail-in process such as fixed term deposits, call accounts and money market funds. The Authority will look to limit such holdings for the purpose of managing liquidity.

Counterparty Criteria

The Authority considers, in order of priority, security, liquidity and yield when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Authority's assessment of counterparty credit risk. The intention of the strategy is to provide security of investment and minimisation of risk which will also enable diversification and thus avoidance of concentration risk.

The Authority also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. In accordance with the 2017 Treasury Management Code of Practice, the Authority will use the following key tools to assess credit risk:

- Published credit ratings of the financial institution and its sovereign rating;
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP;
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

The Authority is advised by Arlingclose Limited, who provides counterparty risk management services. Credit rating lists are obtained and monitored by Arlingclose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made;
- any existing investments that can be recalled or sold at no cost will be, and
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Due to the ongoing strengthening of bank regulations it is recommended that the Authority adopts the Investment Grade scale as the minimum credit rating criteria. This will enable greater flexibility when placing investments especially during periods of regulatory stress tests where the outcome can result in a downsized counterparty list as a result of the downgrading of credit ratings. Furthermore, the need to hold a diversified investment portfolio and the impact of bank bail-in regulations means that the Authority will need to adopt a more structured credit rating criteria matrix for specific instruments. **The table below details maximum monetary and investment duration limits.**

Maximum Monetary and Investment Duration Limits						
Credit Rating (Long-Term)	**Banks Unsecured**	**Banks Secured**	**Government**	**Local Authorities**	**Corporates**	**Registered Providers**
UK Govt	-	-	£ Unlimited 50 years	-	-	-
AAA	£20m 5 years	£20m 20 years	£20m 50 years	£20m 50 years	£10m 20 years	£10m 20 years
AA+	£10m 5 years	£20m 10 years	£20m 25 years	£10m 25 years	£10m 10 years	£10m 10 years
AA	£10m 4 years	£20m 5 years	£20m 15 years	£10m 15 years	£10m 5 years	£10m 10 years
AA-	£10m 3 years	£20m 4 years	£20m 10 years	£10m 10 years	£10m 4 years	£10m 10 years
A+	£10m 2 years	£20m 3 years	£10m 5 years	£10m 5 years	£10m 3 years	£10m 5 years
A	£10m 13 months	£20m 2 years	£10m 5 years	£10m 5 years	£10m 2 years	£10m 5 years
A-	£10m 6 months	£20m 13 months	£10m 5 years	£10m 5 years	£10m 13 months	£10m 5 years
BBB+	£10m 100 days	£10m 6 months	£10m 2 years	£10m 2 years	£10m 6 months	£10m 2 years
BBB	£5m next day only	£5m next day only	-	£5m next day only	-	£5m next day only
None Rated	£1m 6 months	-	£5m 25 years		-	£5m 5 years
Pooled funds		£20m per fund				

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks Unsecured: Call accounts, term deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank [Barclays Bank Plc] or the Debt

Management Office. The use of Banks unsecured instruments will be limited to aid the management of cashflow liquidity. In accordance with advice from the Authority's Treasury Management adviser, International banks will also be considered.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments. Investments placed in conjunction with a Repo Agreement will be classed as a secured investment.

Government: The Debt Management Office, Loans, bonds and bills issued or guaranteed by national governments and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years. Multilateral / Supranational institutions and State Agencies will also be classed as Government institutions as a number of sovereign states are key shareholders.

Local Authorities: Fixed term deposits / bills/ Bonds issued by local and regional authorities who include police and fire authorities. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Local authorities are not rated by credit rating agencies (though a handful of authorities have obtained a credit rating), but it is assumed that local authorities have the same credit rating as the UK Government (AA). Therefore a limit of £10m and duration of 15 years will be applied.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain the likelihood of receiving government support if needed.

Pooled Funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. **Money Market Funds** that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts to manage short-term liquidity, while **pooled funds** whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Investment periods

- **Short-term (up to 365 days)**

  At the time of writing, all short-term investments are managed in-house as a result of day-to-day cash flow management.

  For the purpose of flexibility to respond to day-to-day cash flow demands, the proposed minimum percentage of its overall investments that the Authority will hold in short-term investments is **40%**.

  Members are reminded that once a deposit has been made for a fixed period it can only be withdrawn (repaid early) by mutual consent albeit at a cost and subject to the underlying terms and conditions of the contract.

- **Long-term (one year and over)**

  The Authority will continue to invest in long-term investments. Excluding the UK Government, It is suggested that no more than £20m be placed with any one institution with duration as set out in the table above. The Authority will not have more than £50m deposited in long-term investments (the Upper Limit).

Target Rate

Forecasts of base rate can be quite diverse as illustrated by the table in ***Appendix 2***. In view of the uncertainty inherent in such predictions, it would be imprudent to set a target rate which may be difficult to achieve. In view of the foregoing, it is proposed to set a target rate of return for short-term deposits in 2019/20 of at least **0.50%.**

This rate reflects the forecast of Bank Rate and the relationship between that rate and the rate achievable from the DMADF. If deposits are made with other counterparties as detailed in Section (a) of this Appendix, it is possible that the above rate could be exceeded.

Appendix 4 - Specified and Non-Specified Investments

Investments are categorised as “Specified” or “Non-Specified” within the investment guidance issued by the Welsh Government.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

The Authority’s credit ratings criterion is set out in **Appendix 3** and will be consulted when using the investments set out below. Credit ratings are monitored on a daily basis and the Treasury Management Adviser will advise the Authority on rating changes and appropriate action to be taken.

The types of investments that will be used by the Authority and whether they are specified or non-specified are listed in the table below.

	Specified	Non-Specified
Government		
Debt Management Account Deposit Facility	✓	✗
Gilts (UK Government)	✓	✓
Treasury Bills (T-Bills- UK Government)	✓	✗
Bonds issued by AAA rated Multilateral Development Banks	✓	✓
Registered Providers (Housing Associations)		
Registered Providers (Housing Associations)	✓	✓
Corporates		
Corporate Bonds (including Floating Rate Notes and Commercial Paper)	✓	✓
Local Authorities		
Term deposits with other UK local authorities	✓	✓
Local Authority Bills / Bonds	✓	✓
Banks- Secured		
Repurchase Agreements (Repos)- Banks & Building Societies	✓	✓
Covered Bonds	✓	✓
Other Collaterised arrangements	✓	✓
Banks- Unsecured		
Term deposits with banks and building societies	✓	✗
Certificates of deposit with banks and building societies	✓	✗
AAA-Rated Money Market Funds	✓	✗
Authority's Banker	✓	✗
Pooled Funds (Variable Net Asset Valuation)		
Other Money Market and Collective Investment Schemes	✗	✓
Pooled Funds (Property)	✗	✓

Authorisation for the in-house team

A. Short-term Investments

Due to the nature of the in-house team's duties, in that they need to respond to cash-flow fluctuations by dealing on the money market generally between 8.00am and 10.00am each day, it is impractical for each decision to be referred to the most senior management levels.

As a result, it is proposed that day-to-day decisions remain the responsibility of the Group Accountant (Treasury Management & Capital) who is the *de facto* Treasury Manager. In the absence of the Group Accountant (Treasury Management & Capital), the responsibility will pass to any of the appropriate line managers.

It is proposed that all Treasury Management decisions that arise from the daily cashflow will be supported by the completion of a pro-forma which will evidence compliance with the strategy.

B. Long-term Investments

It is proposed that decisions regarding long-term investments be referred to the Head of Finance & S151 Officer (as Chief Financial Officer) after consultation with the Finance Manager for Corporate Finance.

C. General Authorisations

Whilst it is generally the intention to refer all decisions regarding long-term borrowing to the Head of Corporate Finance, there are times when to do so will risk the loss of a potentially advantageous deal, due to non-availability. This is particularly relevant to the raising of PWLB loans.

The Authority's Treasury Management Adviser continually monitors the movement of interest rates and is able to predict the changes in PWLB rates. On occasions it may be necessary to respond to advice from the Adviser to take up PWLB loans (whether as part of the current years funding requirement, or as part of a rescheduling exercise) before interest rates increase and make the necessary application to the PWLB before their cut-off time. In these circumstances, it is not always possible to have access to the Head of Corporate Finance, at short notice, for approval.

As a result, it is proposed that, in the event that the Head of Corporate Finance & S151 Officer is unavailable, the decision be referred, in the first instance, to the Interim Head of Business Improvement Services, Corporate Services & Deputy S151 Officer; then to Corporate Finance Manager. In the absence of all three, then the decision will be made by the Group Accountant (Treasury Management and Capital) provided that the reason for the transaction is appropriately documented, falls within the approved Annual Strategy and prudential indicators, and failure to act upon the advice given would result in additional interest charges.

In all of the foregoing, it must be remembered that any action taken, based on a view of interest rates, can only be assessed on the data available at the time.

Appendix 5 Treasury Management Strategy Indicators 2019/20-2021/22

	Budget 2019-20	Budget 2020-21	Budget 2021-22
	£000	£000	£000
Authorised limit for external debt -			
Borrowing	432,771	436,680	438,875
Other long term liabilities	30,653	28,480	26,388
Total	**463,424**	**465,160**	**465,262**
Operational boundary for external debt -			
Borrowing	346,217	349,344	351,100
Other long term liabilities	30,653	28,480	26,388
Total	**376,870**	**377,824**	**377,487**
Capital Financing Requirement	401,438	397,349	393,275
Upper limits for interest rate exposure			
Principal outstanding on borrowing	346,217	349,344	351,100
Principal outstanding on investments	75,000	75,000	75,000
Net principal outstanding	**271,217**	**274,344**	**276,100**
Fixed rate limit – 100%	271,217	274,344	276,100
Variable rate limit – 30%	81,365	82,303	82,830
Upper limit for total invested for over 365 days	**50,000**	**50,000**	**50,000**

Maturity structure of fixed rate borrowing	Upper Limit	Lower Limit
Under 12 months	**35%**	**0%**
Over 12 months and within 24 months	**40%**	**0%**
Over 2 years and within 5 years	**50%**	**0%**
Over 5 years and within 10 years	**75%**	**0%**
Over 10 years	**100%**	**0%**

Gross Debt and Net Debt	Budget 2019-20	Budget 2020-21	Budget 2021-22
	£000	£000	£000
Outstanding Borrowing	346,217	349,344	351,100
Other long term liabilities	30,653	28,480	26,388
Gross Debt	**376,870**	**377,824**	**377,487**
Less investments	75,000	75,000	75,000
Net Debt	**301,870**	**302,824**	**302,487**

Gross and The CFR	Budget 2019-20	Budget 2020-21	Budget 2021-22
	£000	£000	£000
Gross Debt	376,870	377,824	377,487
CFR	401,438	397,349	393,275

Appendix 6 - Prudential Indicators - Capital Finance

Ratio of Financing costs to net revenue stream	Budget 2019-20	Budget 2020-21	Budget 2021-22
General Fund	**£000**	**£000**	**£000**
Principal repayments	2,492	2,840	2,962
Interest costs	8,842	9,024	9,296
Debt Management costs	46	48	44
Rescheduling discount			
Investment income	-950	-1,000	-1,050
Interest applied to internal balances	735	763	792
Total General Fund	**11,165**	**11,675**	**12,043**
Net revenue stream	**336,695**	**339,638**	**342,720**
Total as percentage of net revenue stream	**3.32%**	**3.44%**	**3.51%**
Housing Revenue Account			
Principal repayments	2,555	2,940	2,859
Interest costs	6,563	6,451	6,262
Rescheduling discount			
Debt Management costs	43	34	32
Total HRA	**9,161**	**9,426**	**9,154**
Net revenue stream	**49,100**	**50,500**	**52,000**
Total as percentage of net revenue stream	**18.66%**	**18.66%**	**17.60%**

Capital financing requirement [end of year position]	Budget 2019-20	Budget 2020-21	Budget 2021-22
	£000	**£000**	**£000**
Council Fund	254,436	254,386	254,294
Housing Revenue Account	147,003	142,963	138,982
Total Authority	**401,438**	**397,349**	**393,275**

Appendix 7 - Capital Expenditure and Funding

	Budget 2019-20	Budget 2020-21	Budget 2021-22
Expenditure	**£000**	**£000**	**£000**
Council Fund	10,074	9,994	9,626
Housing Revenue Account	50,000	20,000	20,000
Total	**60,074**	**29,994**	**29,626**
Funding			
Surplus/ (Deficit) Balance b/f	-	-	-
Borrowings - Supported (GF)	4,923	4,923	4,923
General Capital Grant - WG	2,997	2,997	2,997
Internal Borrowing	-	-	-
RCCO Budget	128	128	128
Capital underspends frm previous years	326	306	-
General Fund working balances	-	-	-
One off funding- MRP Review	1,700	1,640	1,578
RCCO- (HRA)	19,750	12,650	12,650
Borrowings - Unsupported (HRA)	22,900	-	-
Major Repairs Allowance (HRA)	7,350	7,350	7,350
Total	**60,074**	**29,994**	**29,626**
Surplus C/f	**-**	**-**	**-**

Appendix 8 MRP 2019/20 Policy

The Minimum Revenue Provision (MRP) is an amount charged to the revenue account for the repayment of debt, which has been used to finance capital expenditure. The Local Government Act 2003 requires the Authority to have regard to the Welsh Government's Guidance on Minimum Revenue Provision (most recently issued in 2010).

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

The WG Guidance requires the Authority to approve an Annual MRP Statement each year. The Authority's MRP policy for 2019/20 is stated below.

Supported Borrowings

MRP on historic debt liability as at the 31st March 2007 and subsequent capital expenditure funded from supported borrowings will be charged to revenue over 50 years.

The MRP charge for supported borrowing will be based on an assumed annuity rate of 2%.

The annuity method results in a lower charge in earlier years and a higher charge in the later years, and takes into consideration the time value of money.

Unsupported Borrowings

The MRP charge for individual assets funded through unsupported borrowing will be based on the estimated life of each asset or 25 years where this cannot be determined.

The MRP charge for unsupported borrowing will be based on the average Public Works Loan Board (PWLB) interest rate for new annuity loans in the year that an asset becomes operational.

Advice on asset life (land and buildings) will be sought from the Council's property valuation team. The first MRP Charge will start in the year after the asset becomes operational.

MRP Charges Relating to Other Capital Expenditure

1 For assets acquired by finance leases or the Private Finance Initiative [and for the transferred debt from local authorities], MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

2 For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

3 The MRP charge for the HRA will be determined by using an interest rate of 2% on the opening capital financing requirement on a reducing balance basis.

Capital expenditure incurred during 2019/20 that is financed by debt will not be subject to a MRP charge until 2020/21.

SPECIAL COUNCIL – 21ST FEBRUARY 2019

SUBJECT: **CAPITAL STRATEGY REPORT 2019/20**

REPORT BY: **CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES**

1.1 The attached report was circulated to the Policy and Resources Scrutiny Committee as an information item ahead of its meeting on 15th January 2019. There were no comments arising from the Policy and Resources Scrutiny Committee.

1.2 Council are asked to consider the report recommendation.

Author: R. Barrett, Committee Services Officer, Ext. 4245

Appendices:
Appendix Report to the Policy and Resources Scrutiny Committee – For Information – Capital Strategy Report 2019/20

POLICY AND RESOURCES SCRUTINY COMMITTEE – FOR INFORMATION

SUBJECT: **CAPITAL STRATEGY REPORT 2019/20**

REPORT BY: **CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES**

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1. PURPOSE OF REPORT

1.1 To submit for consideration prior to its presentation to Council the Capital Strategy report for 2019/20 financial year in accordance with the Prudential Code that was introduced by the Local Government Act 2003.

1.2 The report cross-references to the report by the Corporate Director of Education and Corporate Services on Revenue and Capital Budgets ["the budget report"]; and the Treasury Management Annual Strategy, Capital Finance Prudential Indicators and Minimum Revenue Provision Policy for 2019/2020, also considered in this meeting.

2. SUMMARY

2.1 The Capital Strategy report is a new requirement for 2019/20 and outlines the principles and framework at the very high level that shape the Authority's capital investment proposals. The principal aim is to deliver an affordable programme of capital programme consistent with the financial strategy and that contributes to the achievement of the Council's priorities and objectives as set out in the Authority's Corporate Plan; consider associated risks; recognise financial constraints over the longer term; and represent value for money.

2.2 The Strategy defines at the highest level how the capital programme decision making identifies the issues and options that influence capital spending, and sets out how the resources and capital programme will be managed. In addition the Capital Strategy should comply with the Prudential Code for local authority capital investment introduced through the Local Government Act 2003. The key objectives of the Code are to ensure that capital investment plans are affordable, prudent and sustainable.

2.3 The Capital Strategy sets out the framework for capital investment decisions. The strategy for funding this investment is underpinned by the Prudential Code for Local Authority investment, which was introduced by The Local Government Act 2003. The Prudential Code has the following key objectives:

- That capital investment plans are affordable, prudent and sustainable;
- That treasury management decisions are taken in accordance with good professional practice;
- That local strategic planning, asset management and proper option appraisal are supported.

3. LINKS TO STRATEGY

3.1 The report has links to the strategic themes of the Authority, taking into account cross-cutting issues where relevant. It has specific links to the following documents:

a) Medium Term Financial Plan

The Capital Strategy is closely linked to the Medium Term Financial Plan (MTFP), primarily with respect to the affordability of the capital programme.

b) Treasury Management Strategy

The Treasury Management Strategy links to the Capital Strategy in determining the Authority's approach to borrowing and investments, including borrowing to fund capital expenditure. The Treasury Management Strategy is closely related to the Prudential Code and Prudential Indicators.

The Authority has an integrated Treasury Management Strategy, and has adopted the CIPFA Code of Practice for Treasury Management in Public Services. The Treasury Management Strategy deals with borrowing and investment arising as a consequence of all the financial transactions of the authority, not exclusively those arising from capital spending.

c) Statement of Accounts

Capital expenditure incurred during the year is reflected in the Balance Sheet of the Statement of Accounts ensuring stewardship of assets is demonstrated. The accurate monitoring and recording of capital expenditure ensures that this document is free from material error. The Statement of Accounts is externally audited at the end of each financial year to certify that it presents a true and fair view of the financial position of the Authority.

d) Regulatory Framework of Capital Spend

The Procurement Strategy, along with the Contract Standing Orders and Financial Regulations, looks at who can be used to supply goods and services to the Authority, and how these goods and services should best be obtained to secure value for money.

3.2 Prudent financial management contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015:-

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.
- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

4. THE REPORT

4.1 **Corporate Priorities**

4.1.1 Underlying the capital strategy is the recognition that the financial resources available to meet corporate and departmental priorities are constrained in the current economic climate. Therefore the Authority must rely more on internal resources and seek ways in which investment decisions can be no less than self-sustaining or generate positive returns both in terms of meeting corporate objectives and producing revenue savings.

4.1.2 The Authority's corporate priorities and well-being objectives are set out in its Corporate Plan, which is published on the Council's website:

https://www.caerphilly.gov.uk/CaerphillyDocs/Council-and-democracy/Corporate_Plan_2018-2023.aspx

4.2 Capital Expenditure and Financing

4.2.1 Capital expenditure is defined as costs incurred by the Authority in acquiring new property, plant and equipment (PPE); or costs incurred by enhancing existing PPE asset base. Capital expenditure can also be incurred in instances where the asset is owned by a third party but the Authority has provided the third party with a loan or grant. In such instances the expenditure is recorded as if incurred directly by the Authority.

4.2.2 In accordance accounting definitions, expenditure can be capitalised when it relates to:

- The acquisition or creation of a new fixed asset- capitalisation will depend on the creation of rights to future economic benefits controlled by the Authority;
- The enhancement of an existing fixed asset- capitalisation will depend on the works substantially increasing the value of the asset, extending its useful life or increasing its use in service provision.

4.2.3 The Authority has a de-minimus limit for capital expenditure of £10,000. Capital expenditure that is below this de-minimus limit, irrespective of meeting the definition set out in paragraph 4.2.2, is charged to a revenue budget.

4.2.4 The Authority's core capital programme is approved by Council annually as part of the Budget Report, and is funded from the General Capital Grant and Supported Borrowing Approvals. Both of these funding streams are confirmed annually by Welsh government as part of the Local Government Finance Settlement.

4.2.5 The Authority's three year core capital programme from 2019/20 is summarised below:

	2018/19 Approved Budget	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
	£000s	£000s	£000s	£000s
Council Fund	13,652	10,075	9,995	9,995
Housing Revenue Account	55,801	46,972	20,000	10,000
TOTAL	**69,453**	**57,047**	**29,995**	**19,995**

Table 1: Prudential Indicator: Estimates of Capital Expenditure

4.2.6 Further details of the 2019/20 – 2021/22 core capital programme and the funding of the programme can be found in the Budget Report.

4.2.7 In addition to the core capital budget that is approved by Full Council, the Authority's capital programme is also funded from slippage (previous years unspent capital budget that is carried forward); external grants and contributions; section 106 funding; and virement of revenue budgets (revenue contribution to capital outlay {RCCO}).

4.2.8 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not get subsidised, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and includes the renovation of existing council stock to a Welsh Housing Quality Standard by 2020.

4.2.9 **Governance:** the core capital budget is approved annually by Full Council as part of the revenue budget setting process. All other capital projects / capital works that do not form part of the core capital programme will require a cabinet report prior to commencement of the capital scheme. Capital projects / works that require to be funded by prudential borrowing will need a decision by full Council. The Cabinet report will need to include the following:

- A link to Corporate Priorities and how the capital project would seek to fulfil such priorities;
- Full option appraisal of the project to demonstrate value for money;
- That capital investment plans are affordable, prudent and sustainable;
- Where prudential borrowing is considered that treasury management decisions are taken in accordance with good professional practice;
- That local strategic planning and asset management plans are supported.

4.2.10 All capital expenditure must be financed, either from external sources (government grants and other contributions); the Authority's own resources (revenue contribution, reserves and capital receipts); or debt (borrowing {supported and unsupported}; leasing; and Private Finance Initiative).

4.2.11 Debt (including leases) is source of finance that is used to fund a capital scheme. However, debt is repayable over time. The Authority sets aside a Minimum Revenue Provision (MRP) every year for the repayment of existing debt. MRP forms part of the debt management budget and is monitored by Corporate Finance. As part of the annual Treasury Management Strategy, which is approved by Full Council in February (along with the Revenue Budget and the Capital Programme), a MRP statement is presented as an appendix to the Strategy annually, and sets out the MRP Policy that is to be adopted by the Authority at the start of the new financial year. The full MRP statement is set out in Appendix 8 of the Treasury Management Annual Strategy.

4.2.12 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The Authority's estimated CFR is set out in Appendix 6 of Treasury Management Annual Strategy.

4.3 Asset management

4.3.1 Asset management is about using assets (property, plant & equipment) to deliver value and achieve the organisation's business objectives. To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place.

4.3.2 The Authority's asset management strategy can be found on its website:

https://www.caerphilly.gov.uk/My-Council/Strategies,-plans-and-policies/Corporate-strategies,-plans-and-policies/Corporate-Asset-Management-Strategy

4.3.3 As at 31st March 2018 the Authority's fixed assets (property, plant and equipment) had a net book value of £1,317m. The net book valuation is an accounting valuation and which does not translate to market value. Further details can be found in Note 23 to the Authority's 2017/18 Statement of Accounts:

https://www.caerphilly.gov.uk/CaerphillyDocs/Council-and-democracy/StatementofAccounts-31-03-18.aspx

4.3.4 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on acquiring new assets; enhancing the existing asset base; or to repay debt.

4.3.5 Whilst the Authority is intending to dispose of land and building in the future, a change in the law means that any future sale proceeds will need to take in to affect a drainage assessment.

This has arisen as a result of the Welsh Minister for Environment signing off a Commencement Order that brings Schedule 3 of the Flood and Water Management Act 2010 into force in Wales.

4.3.6 From 7th January 2019, all proposed new developments in Wales must include Sustainable Drainage Systems (SuDS). These must comply with the Welsh Ministers' Standards and signed off by the SuDS Approving Body (SAB). The current voluntary standards will become mandatory at the same time. SuDS aim to manage rainfall in a way similar to natural processes, making use of the landscape and natural vegetation to control the flow and volume of surface water. SuDS can deliver multiple benefits including:

- flood risk reduction;
- improved water quality;
- opportunities for habitat creation;
- enhanced biodiversity;
- Supporting well-being through bringing people closer to green and blue community spaces.

4.3.7 Each site could have a different SuDS solution, which depends on the site specifics and topography. Each scheme would need to be considered by the authority at the planning stage and for the SuDS to be approved and adopted. Since the SuDS are site specific it is not possible to forecast a receipt with any degree of accuracy.

4.3.8 **Capital receipts:** As of 1st April 2018, Welsh Government issued a capitalisation directive that allows Welsh Authorities to use capital receipts to fund revenue expenditure incurred as a result of transforming service delivery; cutting back services to generate savings; or investing in economic growth projects that are designed to reduce revenue costs or pressures over time. The use of capital receipts to fund such expenditure is permitted until 31 March 2022.

4.3.9 A summary of the Capitalisation Directive issued by the Welsh Government that the Authority can adopt for the Flexible Use of Capital Receipts is detailed in Appendix 1. At present there are no plans to utilise the current capital receipts reserve to fund transformation expenditure.

4.3.10 **Governance:** If in the future the Authority decided to utilise the Capital Receipts Directive to fund revenue expenditure a Cabinet decision will be required. The cabinet report will need to demonstrate:

- A robust business case with a full option appraisal;
- Identification of actual capital receipts received that are uncommitted;
- An analysis of what the capital receipt could have been used for;
- Value for money.

4.4 <u>Treasury Management</u>

4.4.1 The Chartered Institute of Public Finance & Accountancy defines treasury management as "The management of the organisation's borrowing; investments and cash flows; its banking; money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

4.4.2 Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. Investment balances tend to be high at the start of the financial year as revenue income is received before it is spent, but reduce in the long-term as capital expenditure is incurred before being financed.

4.4.3 Due to decisions taken in the past, the Authority currently has £284.5m nominal debt outstanding as at 31 March 2018, at an average interest rate of 4.61% and £104.5m nominal treasury investments at an average rate of 0.75%.

4.4.4 The Annual Treasury Management Strategy is approved by Full Council every February, and sets out the Authority's Borrowing Strategy; Investment Strategy; and respective prudential indicators.

4.5 Investments for Service Purposes

4.5.1 The Authority provides capital grants to local businesses for the purpose of economic regeneration (Commercial and Industrial Grant- 2018/19 capital budget of £50k). Such grants are awarded on application and criteria basis. On a separate basis, Community Regeneration Fund (CRF) capital grants are also awarded to the voluntary sector (2018/19 capital budget of £99k). The CRF grants are awarded by a grants panel that meets at least three times a year.

4.5.2 **Governance:** Decisions to award local businesses and the voluntary sector capital grants are undertaken by the relevant service manager in consultation with the Head of Service. The Community Regeneration Fund grant applications are assessed by the Community Regeneration Fund Panel that includes the Cabinet Member for Regeneration. The final decision to award is undertaken by the Head of Regeneration and Planning. In either case the award decision is posted on the intranet.

4.5.3 The decision to make a loan or to purchase share capital will be referred to the Head of Finance, who will in turn make a recommendation to Cabinet and Full Council once an appraisal exercise has been undertaken. The decision to award will need to be funded from the capital programme and will be subject to a robust business case in the first instance.

4.6 **Commercial Activities**

4.6.1 A number of local authorities in England are investing in commercial property, either via a fund manager or direct purchase of property in order to generate enhanced treasury returns above the rate of inflation. The returns generated from this type of investments are supporting revenue budgets in an environment when central government revenue support funding is declining year on year.

4.6.2 At present the Authority does not invest in commercial property either directly (through property acquisitions) or indirectly (through a fund manager). Due to the uncertainty around austerity and Brexit, this type of investment is considered to be significantly risky. However, the Authority would like to keep its options open for future investment in property and other commercial investments.

4.6.3 In the event of the Authority purchasing a commercial investment, the Authority may seek to finance the purchase through prudential borrowing. In any such case the Authority will prepare a detail report for Council that includes a full option appraisal and risk assessment of the investment. The report will highlight the rationale for the commercial investment.

4.6.4 With financial return being the main objective, the Authority accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include a decline in the property market; volatility in the capital value of property; capital being tied up in the medium/ long-term horizon and active management of properties when purchased directly rather than purchasing the property through a fund manager. In order that commercial investments remain proportionate to the size of the authority, these are subject to an overall maximum investment limit of £20m.

4.6.5 In recognition of the risks stipulated in the above paragraph, the Authority will adopt a policy whereby 50% of the annual income generated will be ring fenced in an earmarked reserve to offset in any fall in capital values or capital income; or fund any other associated cost. The remaining 50% of the annual income generated will be made available to the Authority to support frontline services and enabling the Authority to achieve a balanced budget. Periodic reviews will take place at least once a year to review this policy. The Head of Corporate Finance would recommend changes to the policy, if appropriate, at any time by way of a report to Cabinet.

4.6.6 **Governance:** Treasury management decisions on commercial investments are made in accordance with the approved Treasury management Strategy. Non treasury investments will be referred to the Head of Finance and the Corporate Management Team to undertake, with further referral to Cabinet and Full Council for the final decision. Monitoring of the commercial investment will be included within the treasury management monitoring reports (or other Council reports) that are presented to the Policy and Resources Committee.

4.6.7 The Authority will seek expert independent and external advice whenever a commercial investment opportunity arises prior to investing. Legal advice will also be sought from within the Authority, and where necessary externally.

4.7 **Revenue Budget Implications**

4.7.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP repayments are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

4.7.2 Further details on the revenue implications of capital expenditure are set in Appendix 6 of the Treasury Management Annual Strategy, Capital Finance Prudential Indicators and Minimum Revenue Provision Policy for 2019/2020 report.

4.8 Knowledge and Skills

4.8.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

4.8.2 Where Council staff does not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

4.8.3 **Training:** Key relevant staff will undertake training as and when opportunities arise or whenever there are changes in regulations. The contract for Treasury Consultancy Services includes requirements for Member and Officer training to be provided during any year. Officers will look to schedule treasury management training for Members for autumn 2019. Further Member training will be undertaken as and when required.

5. WELL-BEING OF FUTURE GENERATIONS

5.1 The establishment of a capital strategy is a key element of effective financial management and risk management of the Authority's resources, which assists the achievement of the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015.

6. EQUALITIES IMPLICATIONS

6.1 An Equality Impact Assessment has been undertaken with respect to 2019/20 borrowing requirement. A one off budgetary saving of £500k will be generated from the debt management budget by way of deferring 2019/20 borrowing requirement to 2020/21 financial year. The budget is held by Corporate Finance and used to service new planned debt.

7. FINANCIAL IMPLICATIONS

7.1 There are no financial implications arising from this report.

8. PERSONNEL IMPLICATIONS

8.1 There are no direct personnel implications arising from this report.

9. CONSULTATIONS

9.1 No external consultation is required for the purposes of the report. However, advice has been sought from the Authority's current Treasury Management Adviser.

10. RECOMMENDATIONS

10.1 That the annual Capital Strategy Report be considered and noted by the Policy and Resources Scrutiny Committee prior to Council approval.

11. REASONS FOR THE RECOMMENDATIONS

11.1 The Annual Capital Strategy report is a requirement of the CIPFA's Prudential Code (2017 edition).

11.2 The Prudential Code was first introduced through the Local Government Act 2003. Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

12. STATUTORY POWER

12.1 Local Government Act 1972.

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Andrew Southcombe – Finance Manager, Corporate Finance
Robert Tranter – Head of Legal Services & Monitoring Officer
Corporate Management Team (CMT)
Cllr Barbara Jones- Deputy Leader and Cabinet Member for Finance, Performance and Governance

Background Papers:
Treasury Management Strategy 2019/20

Appendices:
Appendix 1: Flexible Use of Capital Receipts Policy

Appendix 1: Flexible Use of Capital Receipts Policy

Legislation

- The Local Government Act 2003 ("the Act"), section 15(1) requires a local authority "…to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify…". and section 24 of the Act states "In its application to Wales, …for any reference to the Secretary of State there were substituted a reference to the Welsh Ministers."

- In December 2017, the Secretary of State announced, the continuation of the capital receipts flexibility programme for a further three years, to give local authorities in England the continued freedom to use capital receipts from the sale of their own asset (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings. These powers have been exercised under sections 16(2)(b) and 20 of the Local Government Act 2003 (the Act). This will cover expenditure incurred from 1st April 2016 up to 31 March 2022, and relates to expenditure incurred as a result of service transformation that reduces costs and generate savings.

- In Further exercise of Welsh Minister's powers under section 20 of the Act, the continuation of the capital receipts flexibility programme will also be extended to Welsh local authorities within the meaning of section 9 of the Act and regulations made under that section (part 3 SI 2003/3239{W319}).

Application

- The direction makes it clear that local authorities cannot borrow to finance the revenue costs of service reform. Local authorities can only use capital receipts from the disposal of property plant and equipment assets received in the years in which this flexibility is offered.

- Capital receipts generated from the sale of Council houses Right to Buy scheme are excluded.

- Welsh Ministers believe that individual authorities and groups of authorities are best placed to decide which projects will be most effective for their areas. The key criterion to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings or reduce revenue costs or pressures over the longer term to an authority, or several authorities, and/or to another public body.

- The Capitalisation Directive for the Flexible Use of Capital receipts applies from 1st April 2016 to 31st March 2022.

Accountability & Transparency

- A disclosure note will be included in the Statement of Accounts in the relevant year detailing the individual projects that have been funded or part funded through capital receipts flexibility.

- As a minimum, the disclosure note should list each project that made use of the capital receipts flexibility, ensuring that it details the split of up-front funding for each project between capital receipts and other sources, and that on a project-by-project basis, setting out the expected savings and/or benefits of investment.

Qualifying Expenditure

- Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery in a way that reduces costs or demand for services in future years for the Authority or any of the delivery partners. This includes investment which supports economic growth projects which are also designed to reduce revenue costs or pressures over the longer term.

- The set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

Examples of Qualifying Expenditure

- There are a wide range of projects that could generate qualifying expenditure and the list below is not prescriptive. Examples of projects include:
  - Preparatory work necessary to support local authority mergers as part of the programme to reform local government in Wales;
  - Sharing back-office and administrative services with one or more other council or public sector body;
  - Investment in service reform feasibility work, e.g. setting up pilot schemes;
  - Collaboration between local authorities and central government to free up land for economic use;
  - Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
  - Sharing Chief Executives, management teams or staffing structures;
  - Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
  - Aggregating procurement on common goods and services where possible, either as part of local arrangements or using the National Procurement Service, Crown Commercial Services or other central purchasing bodies which operate in accordance with the Wales Procurement Policy Statement;
  - Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
  - Setting up alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others); and
  - Integrating public facing services across two or more public sector bodies (for example children's social care, trading standards) to generate savings or to transform service delivery.
  - Investment which supports economic growth projects which are also designed to reduce revenue costs or pressures over the longer term, across one or more local authorities and/or other public sector bodies.

Gadewir y dudalen hon yn wag yn fwriadol

SPECIAL COUNCIL – 21ST FEBRUARY 2019

SUBJECT: **APPOINTMENT OF DEPUTY ELECTORAL REGISTRATION OFFICER**

REPORT BY: **ELECTORAL REGISTRATION OFFICER**

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1. PURPOSE OF REPORT

1.1 To appoint a Deputy Electoral Registration Officer.

2. SUMMARY

2.1 The Council's appointed Electoral Registration Officer is the interim Chief Executive and the purpose of this report is to seek the appointment of the Head of Legal Services as Deputy Electoral Registration Officer.

2.2 There is no legal requirement to make the appointment. However, this report outlines the reasons why it is advised to make such an appointment.

3. LINKS TO STRATEGY

3.1 This matter deals with a statutory option of appointing a Deputy Electoral Registration Officer and supports the Wellbeing Goal 'A Wales of cohesive communities within the Well-being of Future Generations Act (Wales) 2015.

4. THE REPORT

4.1 Under section 8(2) of the Representation of the People Act 1983, the Council must appoint an Officer to the position of Electoral Registration Officer. This position is responsible for maintaining the Electoral Register for the county borough and undertaking the role of Acting Returning Officer at Parliamentary Elections.

4.2 The Interim Chief Executive is the Electoral Registration Officer and under section 52(2) of the Representation of the People Act 1983 the Council may appoint a Deputy Electoral Registration Officer who is able to perform and exercise any of the duties and powers of the Electoral Registration Officer.

4.3 One of the key roles of the Electoral Registration Officer is to hold a hearing in respect of any reviews of registration or any objections received for an application to be included on the Register of Electors. Reviews and objections can be made at any time during the life of the Register. The objections may be in relation to an existing elector as well as new applications.

4.4 For objections, the legislation provides that these hearings (which are quasi-judicial) must be held no earlier than the third day and no later than the seventh day after the notice of objection was received. If a hearing is not held within this timescale then the Council will be in breach of the legislation.

4.5 The Electoral Services Manager, who also has the authority to allow and disallow applications for registration, would be unable to act as he would have taken the original decision.

4.6 Since the Council does not currently have a Deputy Electoral Registration Officer then there is a risk the Council could be in breach of the legislation if the Electoral Registration Officer (Interim Chief Executive) is unavailable for a period when a hearing needs to take place. Therefore it is recommended that a permanent appointment is made to this post in order to remove that risk.

5. FINANCIAL IMPLICATIONS

5.1 There are no financial implications of this report.

6. PERSONNEL IMPLICATIONS

6.1 There are no personnel implications contained in this report.

7. WELL-BEING OF FUTURE GENERATIONS

7.1 This report contributes to the well-being goals as set out in links to strategy above. It supports the Wellbeing Goal 'A Wales of cohesive communities' within the Well-being of Future Generations Act (Wales) 2015.

8. EQUALITIES IMPLICATIONS

8.1 This report links to equality objective 5 (Inclusive engagement and participation) of the Council's EqIA process. The appointment recommended has no detrimental effect.

9. CONSULTATIONS

9.1 The consultees listed below have been consulted on this report and their views have been incorporated accordingly.

10. RECOMMENDATIONS

10.1 To appoint the Head of Legal Services as Deputy Electoral Registration Officer.

11. REASONS FOR THE RECOMMENDATIONS

11.1 To ensure registration hearings can be carried out within the statutory timescale.

12. STATUTORY POWER

12.1 Section 52(2) of the Representation of the People Act 1983.

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Consultees: Christina Harrhy - Interim Chief Executive / Electoral Registration Officer / Returning Officer
Cllr Barbara Jones - Cabinet Member Finance, Performance and Governance
Robert Tranter, Head of Legal Services / Monitoring Officer

COUNCIL – 21ST FEBRUARY 2019

SUBJECT: **STANDARDS COMMITTEE – APPOINTMENT OF INDEPENDENT MEMBERS**

REPORT BY: **HEAD OF LEGAL SERVICES & MONITORING OFFICER**

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1. PURPOSE OF REPORT

1.1 To appoint an independent member to the Standards Committee and to consider a recommendation for the appointment of two reserves.

2. SUMMARY

2.1 This report sets out the process undertaken to fill the vacancy that has arisen on the Council's Standards Committee.

2.2 The report recommends that Council accept the recommendations of the Appointments Panel in relation to the filling of the immediate vacancy and makes a second recommendation in relation to appointing two reserves to the Standards Committee when additional vacancies arise later in the year.

3. RECOMMENDATIONS

3.1 Council is asked to approve the following recommendations of the panel:-

(a) Mr Christopher Finn is appointed for a period of 6 years as independent member of the Standards Committee;

(b) To establish a reserve list of independent members being Mr Jonathan Card and Mrs Linda Davies and that they are appointed to the Standards Committee for 6 years when the two further vacancies for independent members of the Standards Committee become available in October 2019.

4. REASONS FOR THE RECOMMENDATIONS

4.1 In order to comply with statutory requirements about the establishment of a Standards Committee and to give effect to the recommendations of the panel.

5. THE REPORT

5.1 On the 14th February 2018 Mr Stone resigned as an independent member of the Standards Committee. The vacancy was advertised in the local press, through social media and the council's website.

5.2 In accordance with the relevant regulations, an Appointments Panel was established to consider all the applications received and to make a recommendation to Council. The Panel comprised of an elected member, Cllr Gale, the community member, Community Cllr Davies, Mrs Holdroyd, the Chair of the Standards Committee and the High Sheriff of Gwent, Mrs Linnard, who acted as the lay panel member.

5.3 The advertisement attracted four applications from individuals, all of whom met the criteria and were invited for interview. The interviews took place on 21st January, 2019.

5.4 Following the interviews, the panel considered that one of the candidates should be considered for immediate appointment and two of the candidates should be invited to be reserves for any further future vacancies on the Standards Committee. The panel agreed the following:-

(a) That Mr Christopher Finn be recommended for appointment to the immediate vacancy.

(b) That Mr Jonathan Card and Mrs Linda Davies be retained on a reserve list for any future vacancies.

5.5 While the panel can make recommendations to the council, it is a decision for the Council to appoint independent members to its Standards Committee.

5.6 Two further vacancies for independent members will arise in October this year, as the Chair, Mrs Holdroyd, and Mrs Evans must stand down having served 2 terms on the Standards Committee.

6. ASSUMPTIONS

6.1 The council must appoint a Standards Committee, with 5 of the 8 members being independent lay members.

7. LINKS TO RELEVANT COUNCIL POLICIES

7.1 The Local Government Act 2000 says that all principal councils must have a Standards Committee. Caerphilly's Standards Committee has 8 members including 5 independent members. The appointment of a lay member will ensure that the Standards Committee is constituted in accordance with the terms of reference which are set out in the Council's Constitution.

8. WELL-BEING OF FUTURE GENERATIONS

8.1 The Council is under a statutory duty to constitute a Standards Committee. The appointments comply with the following well-being goals:

- A resilient Wales
- A more equal Wales
- A Wales of cohesive communities

For more information about the Well-being of Future Generations (Wales) 2015 Act, the seven well-being goals and the five ways of working, please see the Corporate Policy Unit Portal **Guidance for Well-being of Future Generations** and/ or visit the **CCBC Well-being of Future Generations website** and/ or the **Public Services Board website.**

9. EQUALITIES IMPLICATIONS

9.1 None arising from the report. The process undertaken takes account of equality implications.

10. FINANCIAL IMPLICATIONS

10.1 A cost was incurred for the press advertisement. There is existing provision for allowances for independent members and therefore there are no additional financial implications for the council.

11. PERSONNEL IMPLICATIONS

11.1 There are none.

12. CONSULTATIONS

12.1 A draft of the report was shared with the Leader, the relevant cabinet member and the leaders of the other political groups, together with the interim Chief Executive.

13. STATUTORY POWER

13.1 Local Government Act 2000 and regulations made under the Act. This is a Council function.

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Consultation: The Leader, Cllr Poole, Cllr Barbara Jones, Cllr Mann, Cllr Etheridge, interim Chief Executive – Christina Harrhy