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CAERPHILLY COUNTY BOROUGH COUNCIL
CYNGOR BWRDEISTREF SIROL CAERFFILI

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For all enquiries relating to this agenda please contact Sharon Hughes
(Tel: 01443 864281 Email: hughesj@caerphilly.gov.uk)

Date: 14th January 2022

Dear Sir/Madam,

A meeting of the **Policy and Resources Scrutiny Committee** will be held via Microsoft Teams on **Thursday, 20th January, 2022** at **5.30 pm** to consider the matters contained in the following agenda. Councillors and the public wishing to speak on any item can do so by making a request to the Chair. You are also welcome to use Welsh at the meeting, both these requests require a minimum notice period of 3 working days.

This meeting will be recorded and made available to view via the Council's website, except for discussions involving confidential or exempt items. Therefore the images/audio of those individuals speaking will be publicly available to all via the recording on the Council website at www.caerphilly.gov.uk

Yours faithfully,

Christina Harrhy
CHIEF EXECUTIVE

A G E N D A

Pages

1 To receive apologies for absence.

2 Declarations of Interest.

Councillors and Officers are reminded of their responsibility to declare any personal and/or prejudicial interest(s) in respect of any business on this agenda in accordance with the Local Government Act 2000, the Council's Constitution and the Code of Conduct for both Councillors and Officers.

To approve and sign the following minutes: -

3 Policy and Resources Scrutiny Committee held on 9th November 2021.

1 - 6

4 Consideration of any matter referred to this Committee in accordance with the call-in procedure.

5 Policy and Resources Scrutiny Committee Forward Work Programme.

7 - 18

6 To receive and consider the following Cabinet Reports*: -

1. Commercial and Investment Strategy 12-Month Progress Update – 10th November 2021;
2. Homeless Project Plan (Joint Scrutiny Committee) – 10th November 2021;
3. Team Caerphilly – Better Together Transformation Strategy – 6 Month Update – 24th November 2021;
4. Business Rate Relief – WG Funding – 24th November 2021;
5. Council Tax Base 2022-2023 – 8th December 2021;
6. Implementation of a Hybrid Meeting Solution – 8th December 2021.

**If a member of the Scrutiny Committee wishes for any of the above Cabinet reports to be brought forward for review at the meeting please contact Sharon Hughes, 01443 864281, by 10.00 a.m. on Wednesday 19th January 2022.*

To receive and consider the following Scrutiny reports:-

7 2021/22 Capital Expenditure Monitoring Report (Period 7).

19 - 24

8 Treasury Management Annual Strategy, Capital Finance Prudential Indicators and Minimum Revenue Provision Policy for 2022/23.

25 - 58

9 Capital Strategy Report 2022/2023.

59 - 66

Circulation:

Councillors M.A. Adams, Mrs E.M. Aldworth, C.J. Cuss, Mrs C. Forehead, Miss E. Forehead, L. Harding, G. Johnston, G. Kirby (Chair), C.P. Mann, B. Miles (Vice Chair), S. Morgan, R. Saralis, Mrs M.E. Sargent, G. Simmonds, J. Taylor and L.G. Whittle

And Appropriate Officers

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POLICY AND RESOURCES SCRUTINY COMMITTEE

MINUTES OF THE DIGITAL MEETING HELD VIA MICROSOFT TEAMS ON TUESDAY, 9TH NOVEMBER 2021 AT 5.30 P.M.

PRESENT:

Councillor G. Kirby – Chair

Councillors:

Councillors: M. A. Adams, Mrs E. M. Aldworth, C. Cuss, Miss E. Forehead, L. Harding, G. Johnston, C. P. Mann, S. Morgan, and L. G. Whittle.

Cabinet Members: Councillor C. Gordon (Corporate Services) and Councillor Mrs E. Stenner (Performance, Economy and Enterprise).

Together with:

R. Edmunds (Corporate Director for Education and Corporate Services), S. Harris (Head of Financial Services & S151 Officer), L. Lucas (Head of Customer and Digital Services), L. Donovan (Head of People Services), R. Tranter (Head of Legal Services and Monitoring Officer), G. Jenkins (Assistant Director - Head of Children's Services), R. Hartshorn (Head of Public Protection, Community & Leisure Services), M. Lloyd (Head of Infrastructure), K. Peters (Corporate Policy Manager), S. Richards (Head of Education Planning and Strategy), C. Adams (Highway Engineering Group Manager), D. Roberts (Interim Finance Manager), C. Forbes-Thompson (Scrutiny Manager), S. Hughes (Committee Services Officer) and J. Lloyd (Committee Services Officer).

RECORDING ARRANGEMENTS

The Chairperson reminded those present that the meeting was being recorded and would be made available to view via the Council's website, except for discussions involving confidential or exempt items. Click here to view.

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Mrs C. Forehead, B. Miles (Vice Chair), R. Saralis, Mrs M. E. Sargent, G. Simmonds, and J. Taylor.

2. DECLARATIONS OF INTEREST

There were no declarations of interest received at the commencement or during the course of the meeting.

3. MINUTES – 28TH SEPTEMBER 2021

RESOLVED that the minutes of the Policy and Resources Scrutiny Committee held on 28th September 2021 (minute nos. 1 – 11) be approved as a correct record and signed by the Chair.

4. CALL-IN PROCEDURE

There had been no matters referred to the Scrutiny Committee in accordance with the call-in procedure.

5. POLICY AND RESOURCES SCRUTINY COMMITTEE FORWARD WORK PROGRAMME

The Scrutiny Manager presented the report which outlined the reports planned for the period November 2021 to February 2022 and included all reports that were identified at the Policy and Resources Scrutiny Committee meeting held on 28th September 2021. Members were also reminded of the Joint Scrutiny meeting for all Scrutiny Committees, which had been planned for 24th January 2022. Members were asked to consider the Forward Work Programme, alongside the Cabinet Forward Work Programme, prior to publication on the Council's website.

A Member noted the lateness of the Joint Scrutiny Committee meeting in January 2022, in relation to the budget reports. Members were advised that the settlement from Welsh Government would not be received until 21st December 2021, with proposals being finalised for Cabinet on 19th January 2022.

A Member also noted the small font size of the appendices to the report and members were advised that this would be referred to Committee Services. Members were also advised that documents could be enlarged on their screens for better viewing.

Following consideration of the report, it was moved and seconded that the recommendations be approved. By way of Microsoft Forms voting this was unanimously agreed.

RESOLVED that the Policy and Resources Scrutiny Committee Forward Work Programme be published on the Council's website

6. CABINET REPORTS

There had been no requests for any of the Cabinet reports to be brought forward for discussion at the meeting.

REPORTS OF OFFICERS

Consideration was given to the following reports.

7. TEAM CAERPHILLY – BETTER TOGETHER TRANSFORMATION STRATEGY 6-MONTH UPDATE.

The Cabinet Member for Performance, Economy and Enterprise introduced the report to update members on the progress under the Team Caerphilly – Better Together Transformation Strategy. Members were advised that a six-monthly Members seminar had also been arranged for 13th December 2021.

Members were advised that the report provides an update on actions to deliver the strategy to date. It includes a summary of progress against the strategic actions, including the well-being and place-shaping framework. Members were referred to the recommendation in the report, for members to note the content of the report and make any comment on the progress against the strategy prior to the update being provided to Cabinet.

The Corporate Policy Manager provided a presentation to Members and referred to the 10 ongoing corporate reviews. These included walk-in services, remote contact, frontline services, support services, information insight and intelligence, flexible working, sustainable financial planning, workforce development, volunteering/partnerships and decision making.

A Member referred to the review of buildings and suggested that there should be a return to use of offices such as Ty Penallta and acknowledged that we must live with covid, he expressed concerns that the public will not support this approach. Members expressed concerns for new members of staff in relation to receiving support and training, without the benefit of working closely with more experienced officers. He was informed that Welsh Government advice is still to work from home if you can; officers are still working as normal albeit remotely. There are risk assessments in place regarding numbers and working arrangements. Recently, in response to representations from staff wishing to return to Ty Penallta, the permitted numbers have been increased from 100 to 200. However, there has been no increase in those attending the office, and it was suggested this reluctance may be because of increasing numbers of covid cases in the area. Reference was made to the staff survey which will be shared with Members at the forthcoming Members Seminar. Members were also advised that the reception at Ty Penallta is open on an appointment basis, but numbers are very low. A Member queried whether the reason for low uptake maybe that publicity may not have been picked up by the very people who may want to attend in person, because they do not access information online and are not aware. The Scrutiny Committee were assured that if people wish to attend in person, they can, but by appointment and in line with the risk assessment.

Reference was made to the walk-in services review and the use of libraries as part of the future proposals, these are key public buildings and maximising their use and securing their future is very important. Members would like to see libraries used to full effect and perhaps as agile working areas for officers and for staff meetings, this would be of benefit for staff, who may not be familiar with the county borough, giving them the opportunity to visit local areas. The Scrutiny Committee was assured that libraries were the starting point for the review, they have looked at pre-covid footfall and how buildings could be used to maximum effect. Members were advised that the libraries team are looking to access grant funding to deliver and expand on provision available at libraries. Discussion continued on the changes to footfall since they re-opened, Members were advised that there has been an increase in use of digital books and drop off services, which has attracted new users of the service, libraries are looking to encourage the public to return but in accordance with the risk assessments.

Members highlighted public concerns regarding paused services such as permits for amenity sites and wondered when they will be re-introduced. The Scrutiny Committee was advised that some services were paused to allow resources to be diverted into other service areas. This is being looked at and consideration on when they can be re-introduced is something that the Corporate Director for Communities is looking at.

Members highlighted some difficulties contacting people working remotely by telephone and whether the technology is sufficient. The Scrutiny Committee was advised that this is the reason for the remote contact review and includes a review of the telephony system. Some of the issues can hopefully be resolved through new technology but some of these issues are related to how some people are working and will need to be addressed through training to make them aware of the need to respond to telephone calls and ensure diverts are maintained.

The Scrutiny Committee commented that they were pleased to see the return on investments highlighted under sustainable financial planning and were assured that advice is sought from Arlingclose and that ethical investments are at the forefront of what is being done.

Members commented on the review of Internal Invoicing and were assured that the aim is to reduce and streamline the process, the Committee were advised that the internal invoicing is an historical legacy of CCT where services needed to evidence financial returns for services they provided internally.

The Scrutiny Committee were pleased to see that someone has taken up responsibility for the DEWIS programme and recognised the good news on income tax maximisation.

It was suggested that some Members may need to receive a reminder on how to access the Community Empowerment Fund and assistance in following the process.

The Scrutiny Committee was particularly concerned about the capacity of staff to deliver on the reviews, particularly when there are recruitment issues in some service areas and wondered whether the Workforce Development review should include retention and recruitment. Members were assured that one of the actions is being looked at by Heads of Service's looking at options such as bringing in young people, 'growing our own', workforce planning and how we can adapt to challenges in recruitment. It was acknowledged there are challenges in some areas which isn't only affecting Caerphilly. The Council is looking at its recruitment and selection process and seek to avoid competing with other local authorities and is a real challenge. The timescales for all the reviews are very complex with many interdependencies, therefore Members asked if in view of the capacity issues what the anticipated delivery times are. The Committee was advised that some Officers have made good progress, but others will take longer. It was suggested that the priority should be to concentrate on the corporate reviews and place shaping as a priority. Members stated that they would prefer to see 10 reviews done well than 20 half finished.

Members commented on the projects highlighted in the place shaping programme, and particular concerns that the remedial works required at the Sue Noake leisure centre playing fields, to allow the extension to Trinity Fields school, will not be resolved by Welsh Water and NRW. Comments were made that the likelihood of severe weather events increasing going forward is something that may have an impact on the sewerage system in this area and others. Members noted that this project is currently on pause whilst the issues are investigated by Dwr Cymru.

Overall, the Scrutiny Committee agreed that the projects in the report are something to be celebrated as good news.

Following consideration of the report, the Policy and Resources Scrutiny Committee noted the contents and made comments on the progress against the Strategy prior to the update being provided to Cabinet.

8. CORPORATE SERVICES AND MISCELLANEOUS FINANCE 2021/22 BUDGET MONITORING REPORT (PERIOD 5).

The Cabinet Member for Customer, Performance and Property Services introduced the report to inform Members of projected revenue expenditure for the Directorate of Corporate Services and Miscellaneous Finance for the 2021/22 financial year. Members were advised that the recommendation was to note the contents of the report.

A Member sought clarification on current job vacancies and recruitment issues. Members were advised that several staff have moved to other neighbouring authorities, which could include financial gain for the employee or the provision of agile working. Members were also advised that all staff who leave the authority are given an option of completing an 'exit questionnaire' or interview/discussion, with an aim to find out the reason for staff leaving the authority. Members were assured that successful recruitment of staff was ongoing and not all areas of the authority were affected.

The Chair wished to note the Members concerns regarding recruitment and referred Members to the Officer’s comments in relation to this.

Following consideration of the report, the Policy and Resources Scrutiny Committee noted the contents of the report.

The Chair thanked all Members and Officers for their contribution to the meeting.

The meeting closed at 7.23 pm

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 20th January 2022, they were signed by the Chair.

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CHAIR

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POLICY AND RESOURCES SCRUTINY COMMITTEE – 20TH JANUARY 2022

SUBJECT: **POLICY AND RESOURCES SCRUTINY COMMITTEE FORWARD WORK PROGRAMME**

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

1. PURPOSE OF REPORT

1.1 To report the Policy and Resources Scrutiny Committee Forward Work Programme.

2. SUMMARY

2.1 Forward Work Programmes are essential to ensure that Scrutiny Committee agendas reflect the strategic issues facing the Council and other priorities raised by Members, the public or stakeholder.

3. RECOMMENDATIONS

3.1 That Members consider any changes and agree the final forward work programme prior to publication.

4. REASONS FOR THE RECOMMENDATIONS

4.1 To improve the operation of scrutiny.

5. THE REPORT

5.1 The Policy and Resources Scrutiny Committee forward work programme includes all reports that were identified at the scrutiny committee meeting on Tuesday 9th November 2021. The work programme outlines the reports planned for the period January 2022 to February 2022.

5.2 The forward Work Programme is made up of reports identified by officers and members. Members are asked to consider the work programme alongside the cabinet work programme and suggest any changes before it is published on the council website. Scrutiny committee will review this work programme at every meeting going forward alongside any changes to the cabinet work programme or report requests.

5.3 The Policy and Resources Scrutiny Committee Forward Work Programme is attached at Appendix 1, which presents the current status as at 20th December 2021. The Cabinet Work Programme is attached at Appendix 2. A copy of the prioritisation flowchart is attached at appendix 3 to assist the scrutiny committee to determine what items should be added to the forward work programme.

5.4 **Conclusion**

The work programme is for consideration and amendment by the scrutiny committee prior to publication on the council website.

6. ASSUMPTIONS

6.1 No assumptions are necessary.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

7.1 As this report is for information only an Integrated Impact Assessment is not necessary.

8. FINANCIAL IMPLICATIONS

8.1 There are no specific financial implications arising as a result of this report.

9. PERSONNEL IMPLICATIONS

9.1 There are no specific personnel implications arising as a result of this report.

10. CONSULTATIONS

10.1 There are no consultation responses that have not been included in this report.

11. STATUTORY POWER

11.1 The Local Government Act 2000.

Author: Mark Jacques, Scrutiny Officer jacqum@carphilly.gov.uk

Consultees: Richard Edmunds, Corporate Director for Education and Corporate Services
Robert Tranter, Head of Legal Services/ Monitoring Officer
Lisa Lane, Head of Democratic Services and Deputy Monitoring Officer,

Legal Services
Councillor Gez Kirby, Chair Policy and Resources Scrutiny Committee
Councillor Brenda Miles, Vice Chair Policy and Resources Scrutiny Committee

Appendices:
Appendix 1 Policy and Resources Scrutiny Committee Forward Work Programme
Appendix 2 Cabinet Forward Work Programme
Appendix 3 Forward Work Programme Prioritisation Flowchart

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Forward Work Programme - Policy & Resources				APPENDIX 1
Date	Title	Key Issues	Author	Cabinet Member
20/01/22 17:30	2021/22 Capital Expenditure Monitoring Report (Period 7)	To inform the Scrutiny Committee of projected capital expenditure for the 2021/22 financial year.	Williams, Rhiann H.;	Cllr. Stenner, Eluned;
20/01/22 17:30	Treasury Management Annual Strategy, Capital Finance Prudential Indicators and Minimum Revenue Provision Policy for 2022/23.	Authority's Annual Strategy for Treasury Management, Capital Finance Prudential Indicators and Minimum Revenue Provision policy for the 2022/23 financial year.	Williams, Rhiann H.;	Cllr. Stenner, Eluned;
20/01/22 17:30	Capital Strategy Report 2022/23	To submit prior to its presentation to Council the Authority's Capital Strategy Report for the 2022/23 financial year	Williams, Rhiann H.;	Cllr. Stenner, Eluned;
20/01/22 17:30	Information Item - Corporate Services & Miscellaneous Finance 2021/22 Budget Monitoring Report (Period 7).	To inform Members of projected revenue expenditure for the Directorate of Corporate Services and Miscellaneous Finance for the 2021/22 financial year.	Roberts, David;	Cllr. Stenner, Eluned;
20/01/22 17:30	Information Item - Treasury Management and Capital Financing Prudential Indicators Quarter 2 Monitoring Report.	To present Members with details of Treasury Management activities and capital financing, together with the related Prudential Indicators for the period 1st April 2021 to 30th September 2021	Williams, Rhiann H.;	Cllr. Stenner, Eluned;
22/02/22 17:30	Update on Reserves.	To present the Scrutiny Committee with details of the usable reserves held by the Authority.	Harris, Stephen R;	Cllr. Stenner, Eluned;
22/02/22 17:30	Annual Report Against the Strategic Equality Plan 2020-2021	For Cabinet to consider and approve the Strategic Equality Plan Annual Report 2020-2021 prior to publication on the Council's website.	Cullinane, Anwen;	Cllr. Stenner, Eluned;
22/02/22 17:30	Corporate Services Directorate Performance Report – Six Month Update 2021		Edmunds, Richard (Ed);	Cllr. Gordon, Colin J;
22/02/22 17:30	Whole-Authority Revenue Budget Monitoring Report (Period 9)..	To provide details of projected whole-authority revenue budget expenditure for the 2021/22 financial year.	Harris, Stephen R;	Cllr. Stenner, Eluned;
22/02/22 17:30	Information Item - Welsh Language Strategy 2022-2027	For Cabinet to consider and approve the draft Five Year Promotional Strategy prior to the publication on the Council's website.	Cullinane, Anwen;	Cllr. Stenner, Eluned;
22/02/22 17:30	Information Item - Corporate services & Miscellaneous Finance 2021/22 budget monitoring report (period 9)	To inform members of projected revenue expenditure for the Directorate of Corporate Services and Miscellaneous Finance for the 2021/22 financial year	Roberts, David;	Cllr. Stenner, Eluned;
22/02/22 17:30	Information Item - 2021/22 Capital Expenditure Monitoring Report (Period 9).	To inform the Scrutiny Committee of projected capital expenditure for the 2021/22 financial year.	Williams, Rhiann H.;	Cllr. Stenner, Eluned;
22/02/22 17:30	Information Item - Treasury Management and Capital Financing Prudential Indicators Quarter 3 Monitoring Report.	To present Members with details of Treasury Management activities and capital financing, together with the related Prudential Indicators for the period 1st April 2021 to 31st December 2021.	Williams, Rhiann H.;	Cllr. Stenner, Eluned;

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Appendix 2 - Cabinet Forward Work Programme as at 12th January 2022

12/01/2022 10:30	Active Travel Network Map Review and Consultation	Review of the statutory consultation process/responses and approval of the ATNM prior to submission to WG.	Lloyd, Marcus; Campbell, Clive;	Cllr. Pritchard, James;
12/01/2022 10:30	Newbridge to Risca Regeneration Masterplan	To obtain approval to consult on the Draft Newbridge to Risca Corridor Masterplan, the 4th of the Masterplans aligned under the regeneration Strategy "A Foundation for Success", which sets out the regeneration aspiration for the area for the next five years and beyond.	Kyte, Rhian;	Cllr. Whitcombe, Andrew;
Special Cabinet 19/01/2022 10:30	Draft Budget Proposals for 2022/23	To present Cabinet with details of draft budget proposals for the 2022/23 financial year to allow for a period of consultation prior to final decision by Council on the 24th February 2022.	Harris, Stephen R;	Cllr. Stenner, Eluned;
26/01/2022 10:30	21st Century Schools – Band B - Phase 2: Consultation Report / Statutory Notice	For Members to consider the contents of 21st Century Schools consultation report prior to determination to proceed to Statutory Notice by Cabinet.	West, Andrea; Richards, Sue;	Cllr. Whiting, Ross;
26/01/2022 10:30	21st Century Schools and Colleges Band B programme – Ysgol Gymraeg Cwm Gwyddon	To consider an allocation of additional funding in respect of the 21st Century Schools and Colleges Band B new build Ysgol Gymraeg Cwm Gwyydon.	West, Andrea; Richards, Sue;	Cllr. Whiting, Ross;
26/01/2022 10:30	Approved Mental Health Professional market supplement	To seek approval to pay the market supplement for Approved Mental Health Social Workers in the Emergency Duty Team (EDT), this has been supported by the Partnership Board of the 5 Local authorities and is an extension to the previously agreed market supplement for social workers in the daytime.	Street, Dave;	Cllr. Cook, Shayne;
26/01/2022 10:30	Animal Welfare (Licensing of activities involving animals) (Wales) Regulations 2021	To seek cabinet approval to establish delegated authority for officers under the new Animal Welfare (Licensing of activities involving animals) (Wales) Regulations 2021.	Morgan, Jacqui;	Cllr. George, Nigel;

Appendix 2 - Cabinet Forward Work Programme as at 12th January 2022

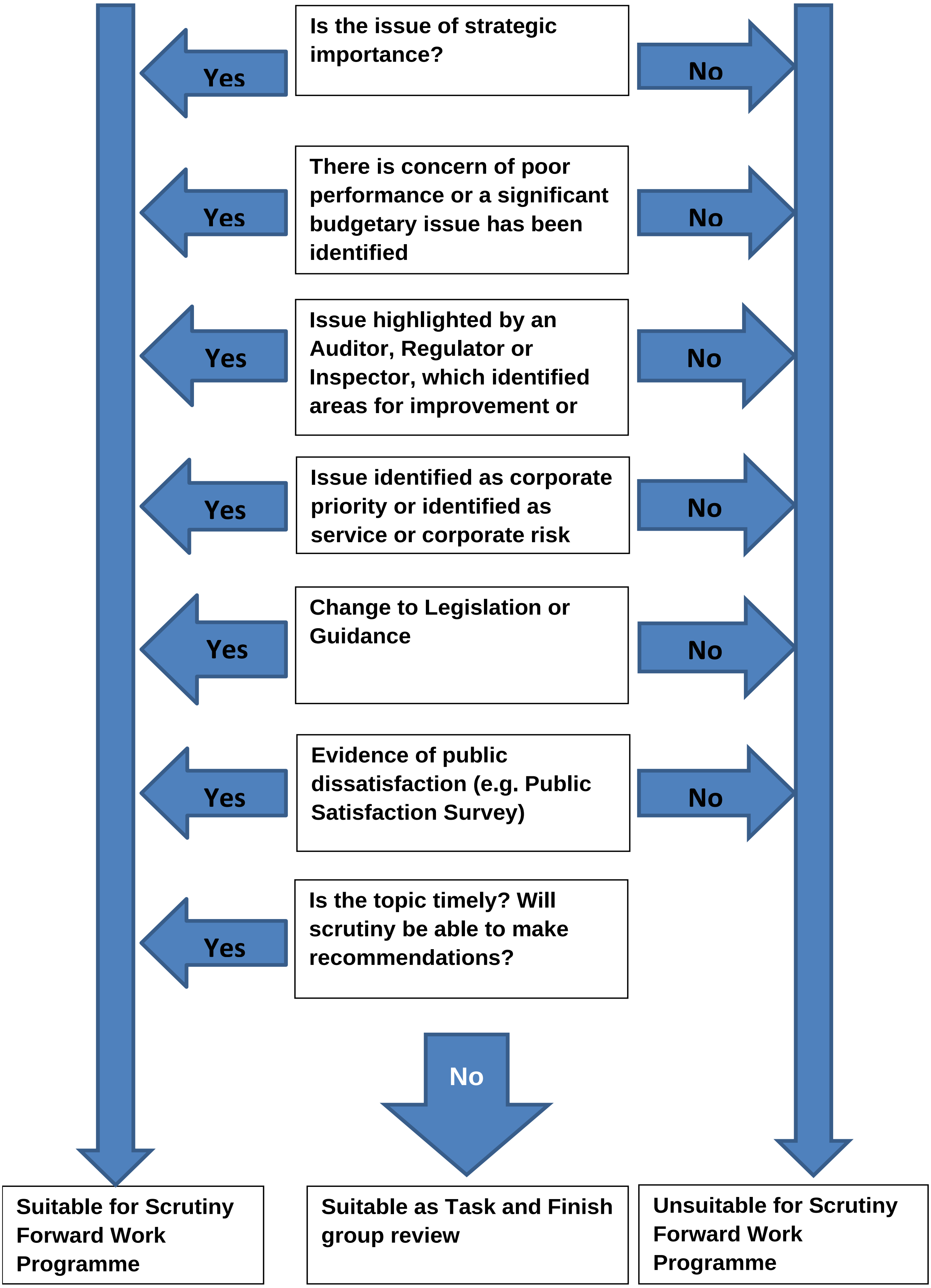
09/02/2022 10:30	HRA Charges (rent increase) report	Members to agree the level of rent increase for council tenants effective from April 2022.	Allen, Lesley;	Cllr. Cook, Shayne;
09/02/2022 10:30	Report from Task and Finish Group on Non-Residential Care Charges	To provide Cabinet with the findings and recommendations of the task and finish group established to review charges for non-residential care set by Caerphilly County Borough Council.	Jacques, Mark;	Cllr. Cook, Shayne;
09/02/2022 10:30	Pedestrian and Cycle Zones (School Streets)	To update Cabinet on the effectiveness and outcomes of the experimental pedestrian and cycle zone traffic regulation orders implemented outside three primary schools within the borough.	Lloyd, Marcus; Smith, Dean;	Cllr. Pritchard, James;
09/02/2022 10:30	Wyllie bends	To review highway improvement options for the B4251 Ynysddu to Wylie.	Lloyd, Marcus; Williams, Mark S;	Cllr. Pritchard, James;
23/02/2022 10:30	Oakdale Housing Development	For Cabinet to agree in principle the development of the site of the former Oakdale Comprehensive School by Caerphilly Homes.	Roberts-Waite, Jane;	Cllr. Cook, Shayne;
23/02/2022 10:30	Ty Darren site in Risca	For Cabinet to consider and agree in principle the proposed development of the former Ty Darren site in Risca, by Caerphilly Homes.	Roberts-Waite, Jane;	Cllr. Cook, Shayne;
23/02/2022 10:30	Welsh Government Lease Scheme Proposal	To discuss the WG lease scheme proposal in comparison to Caerphilly Keys and to seek a decision on which scheme we take forward for PRS option to assist in the discharge of statutory Homeless Duties.	Denman, Kerry;	Cllr. Cook, Shayne;

Appendix 2 - Cabinet Forward Work Programme as at 12th January 2022

23/02/2022 10:30	Budget Proposals for 2022/23	To present Cabinet with details of draft budget proposals for the 2022/23 financial year to allow for a period of consultation prior to final decision by Council on the 24th February 2022.	Harris, Stephen R;	Cllr. Stenner, Eluned;
09/03/2022 10:30	Gender Pay Gap	For Cabinet to consider and agree the Gender Pay Gap report which must to be published by 31st March.	Donovan, Lynne;	Cllr. Gordon, Colin J;
09/03/2022 10:30	Annual Report Against the Strategic Equality Plan 2020-2021	For Cabinet to consider and approve the Strategic Equality Plan Annual Report 2020-2021 prior to publication on the Council's website.	Cullinane, Anwen;	Cllr. Stenner, Eluned;
09/03/2022 10:30	Welsh Language Strategy 2022-2027	For Cabinet to consider and approve the draft Five Year Promotional Strategy prior to the publication on the Council's website.	Cullinane, Anwen;	Cllr. Stenner, Eluned;
23/03/2022 10:30	EAS Business Plan	The EAS is required to submit an annual overarching regional Business Plan on an annual basis. This report asks for members to consider the full contents of the draft EAS Business Plan as part of the regional consultation process.	Cole, Keri;	Cllr. Whiting, Ross;
23/03/2022 10:30	Regeneration Project Board - Project Proposals	To consider recommendations from the Regeneration Project Board in respect of the allocation of Development Funds to Strategic Regeneration Proposals that align with the Council's Regeneration Strategy; and the allocation of Licence to Innovate Funding to proposals that align with the Council's Commercial and Investment Strategy.	Kyte, Rhian;	Cllr. Stenner, Eluned;
23/03/2022 10:30	Coal Tips	To provide an update on the current coal tip condition status and inspection regimes that are in place for coal tips located within Caerphilly County Borough.	Lloyd, Marcus;	Cllr. Pritchard, James;

23/03/2022 10:30	HRA Business Plan	To update Cabinet on the latest Housing Business Plan position in advance of submitting the plan to Welsh Government by 31/3/22.	Allen, Lesley;	Cllr. Cook, Shayne;

Scrutiny Committee Forward Work Programme Prioritisation



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POLICY AND RESOURCES SCRUTINY COMMITTEE – 20TH JANUARY 2022

SUBJECT: **2021/22 CAPITAL EXPENDITURE MONITORING REPORT (PERIOD 7)**

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

1. PURPOSE OF REPORT

1.1 To inform members of the projected capital expenditure for the 2021/22 financial year.

2. SUMMARY

2.1 The report provides details of actual and projected capital expenditure based on information available as at month 7 of the 2021/22 financial year.

3. RECOMMENDATIONS

3.1 Members are asked to note the contents of this report.

4. REASONS FOR THE RECOMMENDATIONS

4.1 To ensure that members are advised of projected spend for the 2021/22 Capital Programme.

5. THE REPORT

5.1 The approved Capital Programme for the 2021/22 financial year totals £44.23m, consisting of £11.35m for the General Fund and £32.89m for the Housing Revenue Account (HRA). Appendix 1 provides details of the 2021/22 approved budget, the 2020/21 slippage carried forward and additional in-year funding for 2021/22 as at period 7.

5.2 Actual expenditure as at period 7 has been reviewed and budget holders have provided updates on anticipated spend for the remainder of the financial year. Schemes totalling £76.0m have been identified that are unlikely to be delivered in 2021/22. Consequently, these schemes will be carried forward as slippage into the 2022/23 financial year. Members will note from the table below that the majority of the slippage relates to Corporate Projects (36%); Education (14%); Private Housing (10%); Social Services (8%); and the HRA programme (21%).

Service Area	Scheme	£'000
Corporate Services	Various Corporate Services	56
Corporate Services	Place Shaping Agenda	27,018
Corporate Services	IT Hardware and Software	592
Corporate Services	Funding to be allocated	1,601
Education	Education Capital Maintenance Grant	3,781
Education	21st Century Schools	4,716
Education	Health and Safety Works	608
Education	Trinity Fields	647
Education	Various Schemes	695
Economy and Environment - Community & Leisure Services	Ty Duffryn Waste Transfer Station	769
Economy and Environment - Community & Leisure Services	Playground Reinstatement (S106)	343
Economy and Environment - Community & Leisure Services	Cemeteries	309
Economy and Environment-Community & Leisure Services	Various Schemes	366
Economy and Environment-Economic Regeneration	Cwm Ifor Solar Farm	455
Economy and Environment-Economic Regeneration	Pentrebane Street Redevelopment	171
Economy and Environment-Economic Regeneration	Various Economic Regeneration Schemes	340
Economy and Environment-Infrastructure	Caerphilly Basin Strategic Highway (S106)	477
Economy and Environment-Infrastructure	Various Historic Highways Liabilities	799
Economy and Environment-Infrastructure	Corporate Maintenance Tips, Mines & Spoils	1,062
Economy and Environment-Infrastructure	Various Infrastructure Schemes	442
Economy and Environment- Public Protection	Kitchen Refurbishments	152
Economy and Environment- Public Protection	Various Public Protection Schemes	115
Private Housing	Disabled Facility Grants	2,348
Private Housing	Home Improvement Loans	1,500
Private Housing	Miscellaneous & Renewal Area	991
Private Housing	Home Repair Grant	2,383
Property Services	Demolition Pontllanfraith School	833
Property Services	Penallta House Car Park Extension	130
Property Services	Former Meals On Wheels Pengam	140
Property Services	Other Property Schemes	214
Social Services	New Respite Facility	4,635
Social Services	ICF Grant	1,000

Social Services	Other Social Services Schemes	179
HRA	HRA	16,153
Total: -		**76,020**

5.3 Members are asked to note the following reasons for the cause of large capital budgets that are forecasted to slip into 2022/23 financial year:

- The £27.018m within Corporate Services is the balance available on the Council's 'Placeshaping Agenda' capital earmarked reserve.

- £4.716m of the Education slippage is in relation to the 21st Century Schools Band B projects. The first of these projects for a new Primary school at Cwm Gwyddon is currently at the tender award stage.

- £3.781m Education capital maintenance grant is in relation to additional Welsh Government (WG) grant monies that were awarded to the Council late in the financial year. Works have been identified but not undertaken in 2021/22 due to the impact of the works on school operational times and these works are likely to be undertaken in Summer 2022.

- £769k held against Ty Duffryn relates to funding that was initially set aside for a potential Waste Transfer Station. However, the capital scheme is no longer progressing and alternative use of this funding is being considered

- £799k is held in relation to Historic Highways Liabilities and Outstanding Claims.

- £1.062m is held against Corporate Maintenance Tips, Mines & Spoils. A scheme at Fochriw Tip is currently awaiting approval from WG.

- £1.5m slippage in relation to Private Housing is ringfenced to make Home Improvement Loans. £4.7m slippage of Private Housing Grants has been due to the fact that applications to the funds were put on hold in 2020-21 due to Covid-19. These funds are expected to be carried forward to deal with the backlog of applications in 2022-23. Other schemes within Private Housing have also been identified in order to utilise these slippage figures. A request to spend £352k on repairing walls in George Street was approved from the Miscellaneous and Renewal area slippage figure.

- £833k held against the demolition Pontllanfraith School – This budget is currently earmarked in the event of demolition being approved.

- £4.635m has been earmarked to provide a new respite facility.

5.4 The £16.153 m slippage on HRA is due to the delay in progressing the Post Asset Management Strategy (PAMS) programme. The HRA team have been focussed on completing the WHQS work which has taken longer to complete due to Covid-19 restrictions.

6. ASSUMPTIONS

6.1 The details set out in the report are based on actual expenditure between 1st April 2021 and 31st October 2021 and projected expenditure to 31st March 2022.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

7.1 This report is for information purposes, so the Council's Integrated Impact Assessment (IIA) process does not need to be applied.

8. FINANCIAL IMPLICATIONS

8.1 As detailed throughout the report.

9. PERSONNEL IMPLICATIONS

9.1 There are no personnel implications arising from this report.

10. CONSULTATIONS

10.1 There are no consultation responses that have not been reflected in this report.

11. STATUTORY POWER

11.1 Local Government Acts 1972 and 2003.

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Consultees:
R. Edmunds – Corporate Director of Education and Corporate Services
S. Harris – Head of Financial Services and S151 Officer
A. Southcombe – Finance Manager, Corporate Finance
Cllr E. Stenner – Cabinet Member for Performance, Economy & Enterprise

Appendices:

Appendix 1 – Period 7 2021/22 Financial Summary

Appendix 1

Capital Monitoring 2021/22 P7

Service Area	B/f Funding	Core Capital Budget 21-22	Additional In Year Funding	Service Transfers	Total Available Capital Budget	Expenditure to 31.10.2021	Projected Expenditure to 31.03.2021	Slippage
Corporate Services-General	1,089	1,821			2,910		661	2,249
Corporate Services-Placeshaping	30,231	1,503		(4,716)	27,018	-		27,018
Education & Lifelong Learning	7,431	1,422	2,083	5,363	16,299	2,021	5,852	10,447
Community and Leisure Services	1,862	230	943		3,035	502	1,248	1,787
Economic Regeneration	243	128	4,960		5,331	2,533	4,365	966
Infrastructure	5,444	2,572	1,481		9,497	1,567	6,717	2,780
Public Protection	370	493	639		1,502	675	1,235	267
Property Services	1,414	690	105		2,209	379	892	1,317
Social Services	3,262	340	4,414	(647)	7,369	743	1,555	5,814
Private Housing	5,530	2,150	309		7,989	463	767	7,222
General Fund Total	**56,876**	**11,349**	**14,934**	**-**	**83,159**	**8,883**	**23,292**	**59,867**
HRA	-	32,885			32,885	5,425	16,732	16,153
Total	**56,876**	**44,234**	**14,934**	**-**	**116,044**	**14,308**	**40,024**	**76,020**

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POLICY AND RESOURCES SCRUTINY COMMITTEE – 20TH JANUARY 2022

SUBJECT: **TREASURY MANAGEMENT ANNUAL STRATEGY, CAPITAL FINANCE PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY FOR 2022/2023**

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 on the 24th February 2022, 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 2022/2023.

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. RECOMMENDATIONS

3.1 That the Policy and Resources Scrutiny Committee considers and comments upon the content of this report and Appendices, and the following recommendations prior to consideration by Council:-

3.1.1 That the strategy be 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

3.1.2 That the Prudential Indicators for Treasury Management be approved as per Appendix 5.

3.1.3 That the Prudential Indicators for Capital Financing be approved as per Appendices 6 & 7.

3.1.4 That Members adopt the MRP policy as set out in Appendix 8.

3.1.5 The continuation of the 2021/22 investment strategy and the lending to financial institutions and Corporates in accordance with the minimum credit rating criteria disclosed within this report.

3.1.6 That the Authority borrows £42.0m for the General Fund to support the 2022/23 capital programme and £17.7m for the HRA WHQS and Affordable Homes programme.

3.1.7 That the Authority continues to adopt the investment grade scale as a minimum credit rating criterion to assess the credit worthiness of suitable counterparties when placing investments.

3.1.8 That the Authority adopts the monetary and investment duration limits as set in Appendix 3 of the report.

4. REASONS FOR THE RECOMMENDATIONS

4.1 The Annual Strategy report is a requirement of the CIPFA "Code of Practice for Treasury Management in the Public Services".

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

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

5. THE TREASURY MANAGEMENT REPORT

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 December 21 to 0.25% to maintain the total Quantitative Easing programme at £895 billion.

5.1.3 The ongoing impact on the UK from coronavirus, together with higher inflation and the likelihood of higher interest rates will be major influences on the Authority's treasury management strategy for 2022-23.

5.1.4 Consumer price inflation was registered as 5.1% year on year in November 2021, continuing the trend of recent increases. The most recent labour market data for the three months to August 2021 showed the unemployment rate fell to 4.5% while the employment rate rose to 75.3%. Both measures were helped by the extension of the government's furlough scheme, but this ended in September 2021 and while this may put some pressure on the jobs market, it is not expected to be material, with the BoE forecasting unemployment will only increase modestly in Q4 2021 according to its November 2021 Monetary Policy Report but remain low overall.

5.1.5 GDP growth grew by 5.5% in the second quarter of 2021, compared to a fall of -1.6% quarter on quarter in the previous 3 months. Monthly GDP estimates have shown the economy is recovering with the economy now just 0.8% below it's pre-pandemic level. Looking ahead, the BoE's November Monetary Policy Report forecast economic growth will rise by 1.0% in Q4 2021 with the economy expected to get back to its pre-pandemic level in Q1 2022.GDP growth is now expected to be around 5% in 2022. GDP growth in the eurozone increased by 2.2% in Q3 following a gain of 2.1% in the second quarter. Headline inflation has been strong, with CPI registering 4.1% year on year in October. The fourth successive month of inflation.

5.1.6 The Authority's treasury management adviser Arlingclose is forecasting that the Bank Rate will rise in Q2 2022. The risk to this forecast is to the upside over the new few months, shifting to the downside in the medium term.

5.2 Interest Rate Prospects- Long-term

5.2.1 Gilt yields are expected to remain broadly at the current levels over the medium-term with the 5, 10 and 20 year gilt yields expected to average around 0.60%, 1.0% and 1.35% respectively. The risks around the gilt yield forecasts are judged to be broadly balanced in the near-term and to the downside over the remainder of the forecast horizon, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

5.2.2 Arlingclose interest rate forecasts are shown in ***Appendix 2***.

5.3 Credit Outlook

5.3.1 Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and have steadily edged down throughout the year to almost pre-pandemic levels. The improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

5.3.2 The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable.

5.3.3 Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

5.4 External Debt - Capital Borrowings and Borrowing Portfolio Strategy

5.4.1 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.

5.4.2 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.

5.4.3 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 £72m (as at 31st March 2021) 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.

5.4.4 It is anticipated that the borrowing requirement of £42.0m will need to be taken up in 2022/23 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 £17.7m in 2022/23, though some of the HRA borrowing may be deferred to future years subject to the Business Plan revisions.

5.4.5 Therefore, the total 2022/23 borrowing requirement will be £59.7m comprising of

- 2022/23 supported borrowing approvals - £4.8m
- 2021/22 supported borrowing approvals - £4.9m
- 2020/21 supported borrowing approvals - £4.9m
- 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 (Band A) - £3.4m
- HRA - £17.7m

The LGBI borrowing is funded by WG contributions to support the 21st Century Schools Band A 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.

5.4.6 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 2.80% for a 25-year period loan. However, other periods will be considered if the rates are favourable.

5.4.7 Current PWLB forecasts suggest interest rates are likely to rise during 2022/23. The use of internal borrowing to fund the 2022/23 capital programme or the decision to defer borrowing as set out in paragraph 5.4.4 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 £42.0m new debt finance will remain in place irrespective of the decision to borrow internally or externally.

5.4.8 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".

5.4.9 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)
- UK Infrastructure Bank
- 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

5.4.10 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

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

5.4.12 The Authority may arrange forward starting loans during 2022/23, 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.

5.4.13 **Municipal 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 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.

5.5 Authorised Limit for External Debt (The Authorised Limit)

5.5.1 As a consequence of 5.4.1 to 5.4.13 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.

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

5.6 The Operational Boundary

5.6.1 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 leases, private finance schemes and deferred purchase schemes.

5.6.2 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.

5.7 Interest Rate Exposure

5.7.1 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.

5.8 Maturity Structure of Borrowing

5.8.1 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.

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

5.8.3 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.

5.8.4 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.

5.8.5 The Authority has £30m of LOBO loans (Lender's Option Borrower's option). 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.

5.9 Gross Debt and the Capital Financing Requirement

5.9.1 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.

5.10 Debt Rescheduling

5.10.1 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.

5.11 Policy on Borrowing In advance of Need

5.11.1 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. The Authority will prepare a business case whenever there is need to borrow in advance of need.

5.12 Annual Investment Strategy

5.12.1 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 of receiving unsuitably low investment income.

5.12.2 **Current strategy (2021/22)** - 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. The Authority has also invested in pooled funds (property funds; equity funds; multi-asset funds) and for the purpose of enhancing returns. Pooled funds will be held for minimum of five years to offset any premature exit costs. A lesser period would be considered only if it is cost neutral to the Authority.

5.12.3 **The 2022/23 Investment Strategy** will continue with the lending approach as set out in the 2021/22 Strategy.

5.12.4 This Strategy (2022/23), 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 **0.25% (the base 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.

5.12.5 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.***

5.12.6 The Authority will continue to diversify into more secure and/or higher yielding asset classes during 2022/23 in order to mitigate the risk stemming from regulations associated with Bank Bail-In; political uncertainty; and the risk of zero or negative Bank Rate. 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 £60m will be made available for long-term investments.

5.12.7 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.

5.12.8 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

5.12.9 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.

5.12.10 Under the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2004 regulation 12(b), the acquisition of share or loan capital in any corporate body 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.

5.12.11 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.

5.12.12 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.

5.12.13 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.

5.12.14 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.

5.12.15 The Welsh Government has reservations regarding 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. As a result of a change in PWLB terms, PWLB loans are no longer available to local authorities planning on buying investment assets primarily for yield.

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 online access to the CIPFA Treasury Forum and the CIPFA Technical Information Service.
- Relevant staff are 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 Spring 2022 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.

10.3.3 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 a 1.5% increase applied to the rental income (using 2021/22 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".

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 £4.84m in respect of the 2022/23 financial year, together with General Capital Grant funding of £3.02m.

10.4.3 For calculation purposes, it has been assumed that the supporting borrowing element of funding support and the capital grant received will remain static for 2023/24 and for 2024/25. HRA provisional values for the years 2023-2025 are based on the 2022/23 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. In the case of negative interest rates, monies may be held in the Authority's main bank account.

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 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. Pooled fund investments will be elected to be carried at 'Fair Value through Other Comprehensive Income (FVOCI).

13. ASSUMPTIONS

13.1 The details set out in the report are based on interest rate forecasts provided by the Authority's Treasury Management Adviser.

13.2 It is currently assumed that investment cash balances remain at £100m throughout 2022/23 in order to deliver the investment returns stated within this report.

13.3 It has been assumed that the Authority will fund a proportion of its capital programme through supported borrowing.

13.4 It has been assumed that the HRA's borrowing needs are based on the current Business Plan at the time of writing this report.

14. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

14.1 The Treasury Management strategy report is a requirement of the Local Government Act and provides a high-level framework in which the Council can operate. This does not impact on any individuals or any protected characteristic groups as defined in the Council's Strategic Equality Plan 2020-2024 and as a result an Integrated Impact Assessment is not required

15. FINANCIAL IMPLICATIONS

15.1 As detailed throughout the report.

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. STATUTORY POWER

18.1 Local Government Act 1972

Author: Rhiann Williams – Group Accountant -Treasury Management & Capital

Consultees: Stephen Harris – Head of Financial Service and S151 Officer
Andrew Southcombe – Finance Manager, Corporate Finance
Robert Tranter – Head of Legal Services & monitoring Officer
Cllr E. Stenner – Cabinet Member for Finance, Performance & Planning

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

Appendix 1

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 2021 and subject to change)

	Arlingclose (Central case)
2022/23 Q1	0.50%
2022/23 Q2	0.50%
2022/23 Q3	0.50%
2022/23 Q4	0.50%
2023/24	0.50%
2024/25	0.50%

PWLB (Forecasts as at December 2021 and subject to change- Source Arlingclose (Upside case)

	Q1 – 2022/23	**Q2 – 2022/23**	**Q3 – 2022/23**	**Q4 – 2022/23**
5 Year	1.75%	1.85%	1.95%	1.95%
10 Year	1.90%	1.90%	1.95%	2.00%
20 year	2.25%	2.35%	2.35%	2.40%
50 Year	1.85%	2.00%	2.10%	2.20%

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

Budget Period	**Investment Returns**	**Borrowing Rates (PWLB 50 Years)**
2022/23	0.25%	2.20%
2023/24	0.25%	2.20%
2024/25	0.25%	2.20%
2025/26	0.25%	2.20%
2026/27	0.25%	2.20%

Appendix 3 Credit Risk Policy

Bank Bail-In

Bail-in legislation has now been fully implemented in the European Union and major economies around the World. In addition, the largest UK banks have ring-fence their retail and investment banking functions into separate legal entities during 2018 and 2019. 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. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

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 (unless interest rates are negative) 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
REITS		£20m per fund				
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. Consideration will also be given to providing liquidity facilities, such as a revolving credit facility, subject to a detailed credit assessment of the Registered Provider.

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 long-term strategic **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. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

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 £60m 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 2022/23 of at least **0.25%.**

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; Bonds; Equity; Multi-Asset)	✗	✓
Real Estate Investment Trusts	✗	✓

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 Financial Services & 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 Financial Services, 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 can 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 Financial Services & S151 Officer, at short notice, for approval.

As a result, it is proposed that, if the Head of Financial Services & S151 Officer is unavailable, the decision be referred to the Finance Manager Corporate Finance. In the absence of both, 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 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.

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Appendix 5 Treasury Management Strategy Indicators 2022/23-2024/25

	Budget 2022-23	Budget 2023-24	Budget 2024-25
	£000	**£000**	**£000**
Authorised limit for external debt -			
Borrowing	478,730	482,862	484,469
Other long term liabilities	24,162	21,923	19,655
Total	**502,892**	**504,785**	**504,124**
Operational boundary for external debt -			
Borrowing	382,984	386,289	387,575
Other long term liabilities	24,162	21,923	19,655
Total	**407,146**	**408,212**	**407,230**
Capital Financing Requirement	417,763	429,770	437,053
Upper limits for interest rate exposure			
Principal outstanding on borrowing	382,984	386,289	387,575
Principal outstanding on investments	100,000	90,000	80,000
Net principal outstanding	**282,984**	**296,289**	**307,575**
Fixed rate limit – 100%	282,984	296,289	307,575
Variable rate limit – 30%	84,895	88,887	92,273
Upper limit for total invested for over 365 days	**60,000**	**60,000**	**60,000**

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 2022-23	Budget 2023-24	Budget 2024-25
	£000	**£000**	**£000**
Outstanding Borrowing	382,984	386,289	387,575
Other long term liabilities	24,162	21,923	19,655

Gross Debt	**407,146**	**408,212**	**407,230**
Less investments	100,000	90,000	80,000
Net Debt	**307,146**	**318,212**	**327,230**

Gross and The CFR	**Budget 2022-23**	**Budget 2023-24**	**Budget 2024-25**
	£000	**£000**	**£000**
Gross Debt	407,146	408,212	407,230
CFR	417,763	429,770	437,053

Appendix 6 - Prudential Indicators - Capital Finance

Ratio of Financing costs to net revenue stream	**Budget 2022-23**	**Budget 2023-24**	**Budget 2024-25**
General Fund	**£000**	**£000**	**£000**
Principal repayments	2,673	2,943	3,308
Interest costs	7,724	7,881	8,252
Debt Management costs	41	42	43
Rescheduling discount			
Investment income	(1,443)	(1,443)	(1,443)
Interest applied to internal balances	812	812	812
Total General Fund	**9,807**	**10,236**	**10,972**
Net revenue stream	**394,474**	**406,778**	**416,224**
Total as percentage of net revenue stream	**2.49%**	**2.52%**	**2.64%**
Housing Revenue Account			
Principal repayments	1,903	1,864	1,827
Interest costs	5,895	5,930	5,783
Rescheduling discount			
Debt Management costs	37	38	39
Total HRA	**7,834**	**7,833**	**7,649**
Net revenue stream	**50,227**	**51,713**	**54,285**
Total as percentage of net revenue stream	**15.60%**	**15.15%**	**14.09%**

Capital financing requirement [end of year position]	**Budget 2022-23**	**Budget 2023-24**	**Budget 2024-25**
	£000	**£000**	**£000**
Council Fund	273,566	283,921	294,185
Housing Revenue Account	144,197	145,849	142,868
Total Authority	**417,763**	**429,770**	**437,053**

Appendix 7 - Capital Expenditure and Funding

	Budget 2022-23	**Budget 2023-24**	**Budget 2024-25**

Expenditure	£000	£000	£000
Council Fund	10,021	10,021	9,668
Housing Revenue Account	43,290	26,912	17,304
Total	**53,311**	**36,933**	**26,972**
Funding			
Surplus/ (Deficit) Balance b/f	509	287	
Borrowing - Supported (GF)	4,829	4,829	4,829
General Capital Grant - WG	3,328	3,328	3,328
Internal Borrowing	-	-	-
RCCO Budget	128	128	128
Capital underspends frm previous years		-	-
General Fund working balances	-	-	-
One off funding- MRP Review	1,514	1,449	1,383
RCCO- (HRA)	22,886	15,008	10,000
Unsupported Borrowing HRA- WHQS			
Unsupported Borrowing HRA- Affordable Housing	13,100	4,600	
Major Repairs Allowance (HRA)	7,304	7,304	7,304
Total	**53,598**	**36,933**	**26,972**
Surplus C/f	**287**		

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Appendix 8 MRP 2022/23 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 2022/23 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 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. While this is not one of the options in the WG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

3 For schemes whereby capital receipts generated from the sale of assets created from the project are used to finance the capital expenditure on the project, this will be regarded as meeting the requirements of prudent provision and no MRP will be charged.

4 MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

5 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.

6 The Authority has the option to make voluntary overpayments on MRP where possible to reduce the revenue charge in later years.

Capital expenditure incurred during 2022/23 that is financed by debt will not be subject to an MRP charge until 2023/24.

POLICY AND RESOURCES SCRUTINY COMMITTEE – 20TH JANUARY 2022

SUBJECT: **CAPITAL STRATEGY REPORT 2022/2023**

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

1. PURPOSE OF REPORT

1.1 To submit prior to its presentation to Council on the 24th February 2022, the Authority's Capital Strategy report for the 2022/23 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 Report for 2022/2023.

2. SUMMARY

2.1 The Capital Strategy 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 consistent with the financial strategy 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. RECOMMENDATIONS

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

4. REASONS FOR THE RECOMMENDATIONS

4.1 The Annual Capital Strategy report is a requirement of the CIPFA's Prudential Code.

4.2 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.

5. THE REPORT

5.1 Corporate Priorities

5.1.1 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.

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

Corporate Plan 2018-2023

5.2 Capital Expenditure and Financing

5.2.1 Capital expenditure is defined as costs incurred by the Authority in acquiring new property, plant, and equipment (PPE) that will be used for more than one year; or costs incurred by enhancing the 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.

5.2.2 In accordance with 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.

5.2.3 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

5.2.2, is charged to a revenue budget with the exception being the purchase of vehicles which are always capitalised.

5.2.4 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.

5.2.5 The Authority's three year core capital programme from 2022/23 is summarised below:

	2021/22 Approved Budget	2022/23 budget	2023/24 budget	2024/25 budget
	£000s	£000s	£000s	£000s
Council Fund	11,349	10,021	10,021	9,668
Housing Revenue Account	35,200	43,290	26,912	17,304
TOTAL	**46,549**	**53,311**	**36,933**	**26,972**

Table 1: Prudential Indicator: Estimates of Capital Expenditure

5.2.6 Further details of the 2022/23 – 2024/25 core capital programme and the funding of the programme can be found in the Budget Report.

5.2.7 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}).

5.2.8 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 building 400 affordable homes over the next 5 years, and the implementation of the Post Asset Management Programme which is designed to maintain the Council Housing Stock to the WHQS standard over the next 30 years.

5.2.9 **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.

5.2.10 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).

5.2.11 Debt (including leases) is a source of finance that can be 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.

5.2.12 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 the Treasury Management Annual Strategy.

5.3 Asset management

5.3.1 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.

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

Corporate Asset Management Strategy

5.3.3 As at 31st March 2021 the Authority's fixed assets (property, plant, and equipment) had a net book value of £1.170bn. The net book valuation is an accounting valuation, which does not translate to market value. Further details can be found in Note 22 to the Authority's 2020/21 Statement of Accounts:

Financial Accounts for the year ended 31 March 2021

5.3.4 **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. Repayments of capital grants, loans and investments also generate capital receipts.

5.4 Treasury Management

5.4.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) 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".

5.4.2 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.

5.4.3 Due to decisions taken in the past, the Authority currently has £313.7m nominal debt outstanding as at 31 March 2021, at an average interest rate of 4.36% and £124.9m nominal treasury investments at an average rate of 0.33%.

5.4.4 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.

5.5 Investments for Service Purposes

5.5.1 The Authority provides capital grants to local businesses and the voluntary sector for the purpose of economic regeneration (Caerphilly Enterprise Fund – 2021/22 capital budget of £98k). Such grants are awarded on application and criteria basis.

5.5.2 **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 Caerphilly Enterprise Fund grant applications are assessed by the Business Enterprise Renewal Team, the Cabinet Member for Performance, Economy and Enterprise and a Grant Officer from Finance. 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.

5.5.3 The decision to make a loan or to purchase share capital will be referred to the Head of Financial Services and S151 Officer, 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.

5.6 Commercial Activities

5.6.1 A number of local authorities in England are investing in commercial property, in order to generate enhanced treasury returns above the rate of inflation. The returns generated from this type of investment are supporting revenue budgets in an environment when central government revenue support funding in real terms has been declining year on year.

5.6.2 In the event of the Authority purchasing a commercial investment, the Authority may seek to finance the purchase through borrowing, (for debt to yield purchases the Authority will not be able to borrow from the PWLB). In any such case arising the Authority will prepare a detailed 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.

5.6.3 With financial return being the main objective, the Authority would accept higher risk on a 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.

5.6.4 In recognition of the risks stipulated in the above paragraph, the Authority will adopt a policy whereas any surplus generated over and above the amount required to support the base budget and frontline services will be ringfenced in an earmarked reserve to offset any fall in capital values or capital income; or fund any other associated cost. Periodic reviews will take place at least once a year to review this policy. The Head of Financial Services and S151 Officer would recommend changes to the policy, if appropriate, at any time by way of a report to Cabinet.

5.6.5 **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 Financial Services and S151 Officer and the Corporate Management Team to consider with further referral to Cabinet and Full Council for the final decision. Monitoring of the commercial investments (treasury management related) will be included within the treasury management monitoring reports (or other Council reports) that are presented to the Policy and Resources Committee. Non-treasury management commercial investments will be reported separately by the Head of Financial Services and S151 Officer.

5.6.6 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.

5.7 <u>Revenue Budget Implications</u>

5.7.1 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.

5.7.2 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 report for 2022/2023.

5.7.3 **Sustainability**: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years.

5.8 <u>Knowledge and Skills</u>

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

5.8.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The 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.

5.8.3 The Council will employ, where necessary, consultants and other professional experts to advise upon technical issues relating to non-treasury management commercial investments.

5.8.4 **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 Spring 2022. Further Member training will be undertaken as and when required.

6. ASSUMPTIONS

6.1 The details set out in the report are based on information collected from Heads of Service for the delivery of capital works.

6.2 It has been assumed that the Authority will fund a proportion of its capital programme through supported borrowing.

6.3 It has been assumed that the HRA’s borrowing needs are based on the current Business Plan at the time of writing this report.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

7.1 The Capital Strategy report is a requirement of the CIPFA's Prudential code and provides a high-level framework in which the Council can operate. This does not impact on any individuals or any protected characteristic groups as defined in the Council's Strategic Equality Plan 2020-2024 and as a result an Integrated Impact Assessment is not required".

8. FINANCIAL IMPLICATIONS

8.1 There are no financial implications arising from this report.

9. PERSONNEL IMPLICATIONS

9.1 There are no personnel implications.

10. CONSULTATION

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

11. STATUTORY POWER

11.1 Local Government Act 1972

Author: Rhiann Williams – Group Accountant -Treasury Management & Capital

Consultees: Stephen Harris – Head of Financial Services & S151 Officer
Andrew Southcombe – Finance Manager, Corporate Finance
Robert Tranter – Head of Legal Services & monitoring Officer
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